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RESEARCH ARTICLE

Portugal's Challenging Relationship with China under Tense US/EU-China Relations

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ABSTRACT
Portugal has a longstanding relationship with China and has benefited from the economic opportunities arising from closer economic ties with Beijing, especially in the wake of the 2011 international bailout and external assistance programme. Lisbon wants to do as much business with China as possible. On the other hand, the United States (US) is Portugal's most important ally. Thus, Lisbon has found itself caught between conflicting great-power interests. Amid rising US-China tensions, Lisbon has become a battlefield for both states' geostrategic political ploys. Portugal needs to navigate complex partnerships as the European Union (EU) lacks a consistent foreign and security policy towards China. Lisbon needs to strike a balance between the unfailing commitment to the US and loyalty to the EU on the one hand, and the economic relationship with Beijing on the other.

KEYWORDS
Portugal; China; Chinese investment; United States; European Union

In the aftermath of World War II, Portuguese foreign policy acquired an Atlanticist orientation, namely by joining NATO (North Atlantic Treaty Organization) and displaying unswerving loyalty to the United States (US). Portugal is known for placing solidarity with the US as a pillar of its national security doctrine, while it is also a staunch supporter of the European Union (EU) – its natural area of belonging and a major source of its prosperity in the last decades.

However, Portuguese foreign policy is being shaken by the profound changes in the global distribution of power, especially in the wake of the 2007-2008 global financial crisis, which led cash-strapped Portugal to become – in *The Economist*'s (2018) words – China's "aircraft carrier into Europe". As a matter of fact, since 2011, Portugal has followed a 'multi-vector' foreign policy by pursuing different policy options that might run against its traditional allegiances. The rise of China has, in particular, driven a wedge between Washington and Lisbon. Once firm friends and allies, the two old partners have drifted apart under the Trump administration, even though Lisbon advocates its right "to speak with each of the other global actors […] to relate to everyone, and not just talk through others" (Meireles and Rodrigues 2021). In this new approach, Lisbon seems to be dealing pragmatically with China, despite criticism from the US and its EU partners (de Sá 2019).

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This article will map the development, in the wake of Portugal's financial crisis, of Lisbon's flourishing economic and political relationship with China, an advancement with potential consequences in terms of its relations with the EU and, especially, the US. How is Portugal seeking to balance between the US, a long-term strategic and economic partner, and China? Is the EU providing a strategic framework with which to address the relationship with China? The article also aims to explore why Portuguese authorities are willing to accommodate the costs of disturbing the partnership with the US and the EU for economic benefits from the relationship with China. Is the financial explanation the one that accounts for jeopardising those partnerships?

China-EU relations have emerged in the late 1990s as a relevant field of study. The literature has quickly expanded, in particular since the launch, in 2013, of the Belt and Road Initiative (BRI) (see Wang and Song 2016; Christiansen and Maher 2017; Farnell and Crookes 2016; Christiansen *et al.* 2019; Hooijmaaijers 2021). Recent scholarship on the evolving relationship between China, the EU and the US, such as the volume by Jing Men *et al.* (2020), as well as Thomas Christiansen *et al.* (2019) and Csaba Moldicz (2021), has generated a growing strand of International Relations (IR) and foreign policy analysis.

The expansion of the BRI project in Europe, namely in Central and Eastern Europe (CEE), in the framework of the 16 + 1 forum, has been the focus of quite an extensive literature (such as Cuirtin 2019; Song and Song 2020). As regards Southern Europe, the case of Greece (Vangeli 2017; Gontika 2022) has attracted particular academic interest. There is little scholarly work explicitly focused on Portugal-China relations in connection with the BRI (Duarte 2018; Ilhéu 2019; Rodrigues and Tavares da Silva 2020; Leandro and Duarte 2020; Tavares da Silva and Pereira 2020), although this topic has gradually attracted the attention of Portuguese sinologists. At the same time, there is no study that examines the development of the political and economic relationship between China and Portugal, taking into account how it is perceived in the EU and its implications for Portuguese-US relations. Thus, this article attempts to fill such a gap by appraising the profile and implications of the Portugal-China relationship against this context.

As for the time frame, the present study will focus mostly on the period from the Portuguese international bailout in 2011 to the present time. It will rely on a qualitative analysis of primary and secondary sources and specialised literature. Most of these sources are news articles and online sources, as the topic and events analysed are quite recent and, as mentioned, there is a dearth of academic literature on recent developments of Portuguese-Chinese relations.

The article is structured as follows. The first section provides the theoretical framework on small states in IR. The next section maps the evolving relationship between Portugal and China, mainly the investments and acquisitions made by Beijing in finance, insurance, banking and infrastructure. The third and fourth sections explain how Brussels has braced to develop a consistent approach to China and contextualise the areas of the Portugal-China relationship which have elicited wariness in the EU. The next section focuses on the diplomatic spat between Portugal and the US over the 5G network, while the sixth section addresses China's interest in other strategic assets, such as the Azores airbase and the Sines port, and the potential friction with Washington over those assets. The conclusion draws out the article's main findings.

Small states in the context of great-power relations

Small states[1] are often defined by their capacities and position within the international system. According to Robert O. Keohane, small states are those that are "system ineffectual", that is, they are unable to influence the international system; a small power is "a state whose leaders consider that it can never, acting alone or in a small group, make a significant impact on the system" (Keohane 1969, 296). Robert Steinmetz and Anders Wivel define them as "the weak part in an asymmetric relationship" and, additionally, states that are prisoners of a specific "power configuration and its institutional expression, no matter what their specific relation to it is" (Steinmetz and Wivel 2010, 7). In other words, they are unable to have an influence and to change the policymaking conditions in their geographic area; they are highly sensitive and have lesser autonomy with respect to their environment; they are more vulnerable to pressure, have a reduced ability to pursue a policy of their own and are subject to a tighter connection between domestic and external affairs (Wiberg 1987, 393; Vital 1971, 77; Goetschel 1998, 16). Robert Rothstein defines a small state as "a state which recognises that it cannot obtain security primarily by use of its own capabilities, and that it must rely fundamentally on the aid of other states, institutions, processes, or developments to do so" (Rothstein 1968, 29).

Small states are vulnerable to systemic-level conditions. Their politics are restrained by their limited material and military capabilities, and their modest diplomatic clout. In order to navigate the complexities of the international environment, small states survive by aligning with the most powerful states or by joining military alliances (Thorhallsson and Steinsson 2017). Due to their perceived weakness, they require external security guarantees. In other words, to meet their economic, political and security needs, it has been argued that small states seek "shelter" (Thorhallsson 2018): that is, an alliance relationship whereby small states ally with large states and join international or regional organisations. In the case of Portugal, this translates into commitment to the transatlantic alliance and, in the context of the EU and NATO, to strong European defence and security ties with the US. For small states, however, aligning to a great power potentially limits freedom of action in foreign policy, as they can be potentially constrained by the policy goals of the great power. Such is the case of Portugal in relation to the US. To be sure, sometimes small allied states can have substantial latitude in their foreign policy and get away with 'non-cooperative' behaviour, but less so in times of acute competition.

Portugal's evolving relationship with China

Portugal's is the European state with the longest relationship with China. Their shared history centres around Macau, a Portuguese settlement and colonial possession off China's southern coast from 1557. The transfer of Macau's sovereignty to China took place without bumps, in 1999, after 500 years of Portuguese presence (Mendes 2013). In 2005, the People's Republic of China (PRC) and Portugal established a comprehensive strategic partnership.

[1]The notion of 'small state' can refer to different types of states. Although briefly discussing it, the theoretical debate on how to define a small state is not the focal point of the arguments presented here.

The global financial crisis that began in 2008 had a devastating impact on the Portuguese economy, especially with the onset of the Euro crisis. The Chinese stepped up during the crisis and bought Portuguese sovereign bonds, at a time when international traders were unwilling to buy Portuguese government securities (Leandro and Duarte 2020). Chinese investment helped the Portuguese government reduce its sovereign debt by buying Portuguese debt in auctions or in the secondary markets while also contributing to attracting investors (Faget 2018). Portugal was one of the countries where Chinese capital inflows grew the most since 2000 (Casaburi 2017). In the Eurozone, Portugal has the second-highest level of Chinese investment per GDP (*China-Lusophone Brief* 2019; Tavares da Silva and Pereira 2020) and the sixth in the European Union as a whole (Casaburi 2017, 65). Moreover, in May 2019, Portugal became the first Eurozone country to issue public debt in China's Renminbi market – the so-called 'Panda bonds' (Wise 2019).

China invested and acquired significant stakes in strategic companies, including state companies, notably in energy, banking and insurance (*AFP* 2018b). Chinese FDI (Foreign Direct Investment) peaked at 196.29 million dollars in 2013 and then fluctuated, falling to 1.18 in 2020 (*Statista* 2021), in line with a drop in China's global outbound FDI. Perhaps the most contentious issue was the sale to state-owned China Three Gorges (CTG) of a 23 per cent stake in the leading Portuguese utility company, Energias de Portugal (EDP), the company that generates, supplies and distributes electrical power in Portugal and that has also expanded to the gas and renewable energy industries. CTG bought a 23 per cent share in EDP in 2011, and, the following year, a 25 per cent stake in Portugal's state-owned power grid operator REN. EDP's importance for CTG is not limited to Portugal, as EDP has stakes in water, wind and solar power plants across Europe, South America and the US. EDP's presence in countries like Brazil facilitated China's entry into those markets. Additional Chinese investments in energy include those in Galp Energia: in 2011, Sinopec, or China Petroleum & Chemical Corp., bought 30 per cent of the Brazilian unit of Galp Energia S.A., the largest Chinese outbound merger and acquisition in the energy sector that year (Aibing 2011).

The Portuguese government headed by António Costa vaunted the centuries-old relationship between the two countries and positioned itself as China's friend and strategic partner. As a testament to the close bilateral relationship, Chinese President Xi Jinping made a two-day state visit to Portugal in December 2018. During the visit, the two countries signed 17 bilateral cooperation memoranda of understanding (MoU). The memorandum on the Belt and Road Initiative (BRI) covers a wide range of sectors, including the implementation in Portugal of STARLab, a research laboratory for advanced technology in the fields of sea and space, the memorandum between MEO/Altice and Huawei on the development of 5G technology, the memorandum between EDP and China Three Gorges and another between State Grid and REN (Santo 2018).

China's increasing stake in the critical energy and transport infrastructures of some EU countries is causing concern both among EU governments and in Washington. US Ambassador to Portugal George Glass, nominated by President Donald Trump in 2017, voiced displeasure at the possibility of Portuguese strategic energy companies and facilities being transferred into Chinese hands (Hatton 2018). Glass's blunt statements caused quite a stir, although it is no secret that close and productive relations with the US are one of Portugal's foreign policy priorities and the country's foreign policy is largely subordinate to Washington. Regarding China's investments in Portugal, more recently, the Chinese launched a € 9 billion takeover bid to buy the remainder of EDP's stocks. US hedge fund Elliott Management Corp., one of EDP's major shareholders, led the opposition to the bid. Arguably, there were also concerns expressed by Washington: US authorities were wary of Chinese control due to EDP's role as the third-largest provider of clean energy in the US thanks to its sizeable wind energy business. US regulatory authorities objected to a communist country controlling such a large energy business in the US (de Sousa and Laxmidas 2019), with the US ambassador to Lisbon announcing that "under no circumstances" would the US approve the Chinese bid to take over EDP (*EURACTIV with AFP* 2019). Previously, the ambassador had gone even further by saying that it was a mistake for the country's largest electricity producer to be controlled by just one shareholder (Vinha 2018).

In what was undoubtedly a response to a press conference called in March 2019 by the US embassy over Huawei's involvement in Portuguese 5G development, Portuguese Prime Minister António Costa came out in support of Chinese investment in Portugal, warning EU member states not to take up a protectionist position similar to that of US President Donald Trump. Costa cautioned against misusing new security procedures for screening investors from third countries such as China. He defended China's investment policy, stating that Portugal's "experience with Chinese investment is very positive". The Chinese "show total respect for our laws and market rules", he added (Wise and Hall 2019).

EU's wariness of growing Chinese influence

There is a general perception in Europe that China's aggressive competitive practices and ambitious investments are a threat to European economic interests (Christiansen *et al.* 2019). Thanks to its investment strategy, China has increased its influence in Europe, especially in small EU countries such as Portugal and Greece, as well as in CEE EU countries, primarily through the 16 + 1/17 + 1 nation cooperation framework[2] (*Rasmussen Global* 2017). In the last decade, China's interests in Europe spanned from access to new technologies, high-tech assets, dual-use technology and strategic infrastructures to broader commercial access to the European market as well as third markets (including the US) via European corporate networks (Christiansen and Maher 2017, 124-5; Moldicz 2021). A major concern of leading European powers is that Chinese acquisitions of cutting-edge technological know-how may come at a loss of Europe's technological edge (Moldicz 2021) and promote the transfer of dual-use technologies to China. From the point of view of European interests, lack of reciprocity and hurdles to accessing the Chinese market are critical issues in commercial relations with Beijing.

Receptiveness to Chinese diplomacy and investment has been regarded with increased misgivings in Europe (Le Corre 2018a; 2018b), not only because of the dependence it potentially entails. Especially sharp criticism has been directed at the Chinese acquisition

[2]The 17 CEE states with which China (the '+1') is developing ties are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania (which quit the forum in May 2021), Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

of key technological and infrastructural assets, such as the purchase of German companies in the robotics, automotive and medical sectors, the purchase of the Piraeus port and the attempt to take over EDP (Faget 2018). Critics fear the political strings inevitably attached to such investments, and the potential implications for European security. Chinese companies' investments in small EU nations, such as Portugal and Greece, are of particular concern. Some investments have strategic importance both at the economic-business level and at the political and national security level.

The extent of China's economic engagement in Portugal casts doubt on whether Lisbon will remain aligned with the EU in defending EU interests and values against Beijing. Many critics are worried that China's strategy could contribute to fracturing the EU, as the cooperation of some more vulnerable EU members with Beijing could undermine EU institutions (Stanzel 2016; Watts 2018).

The level of Chinese investment in Portugal has resulted in political pressure on Lisbon from both its European partners and Washington. Diplomats have privately conveyed how countries such as Germany and France regret having allowed Poland, Greece and Hungary to be approached by China and are now intent on trying to prevent the same mistake being made with Portugal or Italy (Maçães 2018). Right before Xi Jinping's visit to Lisbon, former Portuguese Secretary of State Bruno Maçães commented that, with the decision whether to join the BRI or not, Portugal currently faced "one of the most important foreign policy choices of the last decades" (Carvalho 2018; *CL Brief* 2019). Berlin and Washington allegedly pressured the Portuguese government not to agree to participate in the BRI during the Chinese President's visit, with the biggest pressure reportedly coming from French President Emmanuel Macron (Maçães 2018). At the EU Council of 22 June 2017, he had called for effective measures to control foreign investment and address dumping (Capital 2017). Such concerns were dismissed by the Portuguese government, which signed the agreement at the end of Xi Jinping's visit.

Brussels: struggling to find a consistent approach to China

Notwithstanding calls from Brussels, as well as from a number of other EU member states, to foster a common – and tougher – approach towards China, developing a consistent, unified position towards Beijing remains a major challenge for the EU. Despite the criticism levelled against Portugal as regards the depth and breadth of Chinese investment, Beijing's FDI in Europe is mostly concentrated in France, the UK and Germany (Kratz *et al.* 2020; 2021).

European policy elites are wary about the potential negative repercussions of Chinese investments and geopolitical ambitions upon small countries so dependent on Chinese capital. Brussels is aware that small powers can seriously worsen the already fragile EU, by giving China a strategic foothold in Europe in terms of logistics, economics and political influence, which can also have a divisive effect. Of even greater significance are concerns around Chinese ownership of critical infrastructure and advanced technology, which have spurred calls for a tougher stance by public and international agencies (European Commission and High Representative 2019; Wright 2021; Defraigne 2017).

On 20 November 2018, after five rounds of negotiation, the three key EU institutions – the European Commission, the European Council and the European Parliament (EP) –

agreed on a mechanism to screen FDI and enhance cooperation between member states and the European Commission.

Beijing's growing influence became particularly visible as, in March 2019, Italy moved to become the first G7 country to join the BRI. Fifteen other EU countries have thereafter signed MoUs under the BRI umbrella. Criticism of Chinese investment at the EU level must be read in the context of Franco-German plans to proactively defend European industry, spearheaded by "European champions" (von der Burchard 2019; Hanke 2019) spanning from the high-technology to the heavy engineering industries. The Franco-German plan could be read as a reaction in order not to lose their upper hand in trade relations with other EU member states.

In February 2019, driven by Germany and France, the European Commission dramatically hardened its position towards Beijing, which was labelled as a "systemic rival" for the first time (von der Burchard 2019). In March, the European Commission adopted a joint Communication calling China "an economic competitor in pursuit of technological leadership, and a systemic rival promoting alternative models of governance". The new Communication also announced the introduction of a framework to "detect and raise awareness of foreign investment in critical assets, technologies and infrastructure" (European Commission and High Representative 2019). The French President called the measure the end of "European naïveté" (Brunsden and Beattie 2019).

Less than one month later, however, a major breakthrough was achieved at the end of the annual EU-China summit in Brussels on 9 April 2019, during which China's Prime Minister Li Keqiang agreed to finalise an EU-China Comprehensive Investment Agreement (CAI) by 2020. This marked a turning point after years of sluggish negotiations on how to reach an agreement opening China's markets to EU investors (*AP* 2006; Brunsden and Beattie 2019).

After the outbreak of the Covid-19 crisis, a new convergence of EU member states has emerged with regard to China's challenges to Europe. Concerns are mounting in the EU about China's assertiveness and increasingly contentious approach to a wide range of hot domestic and foreign policy topics, including massive violations of human rights in Hong Kong and Xinjiang and the South China Sea dispute. High Representative of the Union for Foreign Affairs and Security Policy Josep Borrell, called for a "more robust strategy" toward China. He noted that relations between Brussels and Beijing were not always based on trust, transparency and reciprocity (*AP* 2020; Wright 2021, 142-3, 145).

However, on 30 December 2020, leaders from Brussels and Beijing reached an agreement on the CAI. Notably, the Portuguese Prime Minister played an anchoring role in convincing its EU partners about the watershed deal (Baptista 2021). Yet, the negotiation process was not supported by a united EU position on China (Šimalčík 2021; Wright 2021, 145). The CAI was seen as a test of the EU's cohesion. Critics say the breakthrough was made possible thanks to a forceful push from German Chancellor Angela Merkel at the end of her country's presidency of the Council of the EU. Germany's automobile and industrial sectors have huge stakes in having access to China's market (von der Burchard 2020). The Portuguese Prime Minister shrugged off the criticism from EU partners, such as Poland, for rushing ahead with the deal without waiting for Biden's inauguration, especially since the incoming national security advisor, Jake Sullivan, had tweeted that the administration "would welcome early consultations with our European partners on our common concerns about China's economic practices" (von der Burchard 2020;

Carafano *et al.* 2021). In response to a question about whether the EU should have coordinated the negotiation with the incoming US administration, Costa answered: "It would also be a terrible signal for us to block this negotiation or to condition this negotiation according to others" (*Lusa* 2021b).

However, in March 2021, the CAI received an unexpected blow as a result of the imposition of sanctions on China by the EU, the UK, the US and Canada over human rights abuses in Xinjiang and the subsequent Chinese decision to respond with sanctions on several European lawmakers (Ferguson 2021).

The 5G transatlantic feud

In recent years, the ongoing trade dispute between the US and China has turned into a battle over technological supremacy over the 5G network, also calling into question European governments' approaches to the issue. The Trump administration called on the EU to ban – or significantly reduce – Beijing's involvement in 5G mobile telecommunications networks, threatening to reduce US intelligence-sharing and cooperation within NATO (Sanger *et al.* 2019; Emmott 2019).

Indeed, in the Portuguese case, Lisbon's decision regarding the rollout of the fifth-generation (5G) Internet networks was another reason for European and US uneasiness about Portugal-China ties. MEO, the country's leading wireless provider and a subsidiary of French multinational Altice, signed a deal with Huawei, the Chinese leading mobile infrastructure company, to upgrade its networks to 5G (Tao 2018) during Xi's visit to Lisbon in December 2018.

The Trump Administration did not appreciate Portugal's moves, saying that Lisbon would have to choose a side in the dispute between the US and Beijing. What started as a discrete, behind-the-scenes lobbying effort turned into public opposition and increased pressure when the Portuguese government did not accept to ban Huawei from its 5G network. In February 2019, US Federal Communications Commission, Ajit Pai, led a US delegation to Portugal that established contacts with the Portuguese Ministry of Infrastructure and Housing, the Ministry of Foreign Affairs, Portuguese companies and the national telecom regulator ANACOM. The visit was aimed at warning that China's participation, notably Huawei's, "poses a risk", and that Washington would have to reassess the ability to share information and be interconnected with Portugal should Lisbon take such a risk. At the end of Pai's visit, the US Ambassador to Portugal held a press conference publicly expressing his opposition to the Chinese rollout of the Portuguese 5G network. In Ambassador's Glass's words, protection of the telecom infrastructure in Portugal is a matter the US sees as "urgent" (*China-Lusophone Brief* 2019). A few months later, the Ambassador reiterated that Lisbon's partnership with Chinese 5G providers would affect bilateral relations, namely in terms of NATO: "Portugal is our second oldest ally […]. There haven't been any issues between us for a long time … part of that translates into sharing information that we can only have with an ally, especially with NATO allies, at a level that does not exist with many countries around the world". Ambassador Glass underlined that the issue at stake is security, and that if the means of delivery of sensitive information are not secure, this will impact Portugal-US relations (*Portugal Resident* 2019). Since then, there have been numerous meetings with Portuguese political leaders behind the scenes.

The problem with Lisbon is that Beijing is likely to make future investments dependent on Portugal taking in Chinese 5G networks. In March 2019, António Costa said he had taken on board the EU's security concerns over the Chinese operator, but added: "It is very important not to stop the modernisation of Europe's digital infrastructure" (Wise and Hall 2019). His comments came following the adoption by the European Parliament of new regulations for screening non-EU investment in mid-February. Costa further remarked that closing EU borders to foreign investment was not the answer, and that Brussels should be more concerned in investing in education and research than in erecting barriers.

In his April 2019 state visit to China, Portuguese Foreign Minister Santos Silva said that the Portuguese government should deliver to the EU its assessment of security risks when implementing 5G technology, in order to evaluate whether to exclude companies from their markets for national security reasons (*Lusa* 2019c). Implicitly referring to the agreement between Altice and Huawei on 5G, Portugal's President Rebelo de Sousa highlighted: "Portugal is free to choose who better complies with our security rules and who is in a better position to be chosen, as the country is not under pressure by any agreement between private companies" (*Lusa* 2019b). The President further stated that he saw no problem that Chinese Huawei competes for 5G in Portugal and that "Portugal is very comfortable" with the possibility of the Chinese multinational operating in the country, despite external pressure (Pereira and Crespo 2019).

In late 2019, Santos Silva said that Portugal would not exclude Chinese companies from supplying technology to the 5G wireless network. The declaration was made during the visit of US Secretary of State Mike Pompeo to Lisbon, following the NATO summit in London of 3-4 December 2019 – ostensibly to pressure the Portuguese government against using Chinese technology in the developing 5G network (Hatton and Chan 2019). In September 2020, Ambassador Glass stressed the moment had come for Portugal to decide whether it was going to work with "secure partners, the allies" or choose its "economic partners, the Chinese"" (Donn 2020) Shortly afterwards, Keith Krach, the US Under Secretary of State for Economic Growth, Energy and the Environment, visited Portugal as part of a European tour, conveying a similar, although softer message. The Foreign Affairs Minister did not take long to respond to Glass's statements: "In Portugal, the decision-makers are the Portuguese authorities, who take the decisions that interest Portugal" (Soares 2020; Cunha 2020). Eventually, the three Portuguese companies – Nos, Vodafone and Altice – decided not to use Huawei's technology in the 'core' 5G networks. Portugal's Minister of Infrastructure and Housing, Pedro Nuno Santos, said that the operators' announcement "has nothing to do with the options or impositions of the Portuguese government, which in this matter is absolutely aligned with European guidances" (*Reuters and Público* 2020). The decision of the Portuguese telcos had to do with several factors: the fact that they have other partners (for example, Ericsson, in the case of Vodafone) that also develop that technology, as well as the fact that the parent companies do not use Huawei's technology, which also leads their subsidiaries to do the same.

Other strategic assets

Beijing has also set its sights on the Portuguese Azores islands, the "crossroads of the Atlantic" for their strategic position across major shipping lanes (Tavares da Silva and

Pereira 2020). Since the US announced the reduction of its troops at the Lajes Field military airbase in the Terceira Island in 2012, the Azores have featured on Chinese military radars. There is little discussion on China's interest in that strategic point of the Atlantic, and the issue is handled with care in political and diplomatic circles, due to the sensitive nature of this dossier. In early September 2019, China manifested interest in the storage facilities at the Lajes airbase (Kavanagh 2019). The Chinese would reportedly use the facility to install a business centre that would serve as a hub for goods from China, allowing their distribution to Europe, Africa and the Americas (Donn 2019).

Allegedly, the Chinese started to have an interest in the Azores as far back as 2012, although this became more apparent lately, in 2016, when Prime Minister Li Keqiang made a two-day "technical stop" at Terceira while on route home from Cuba (Kavanagh 2019). Li's predecessor, Wen Jiabao, had already made a stopover in the Azores with a delegation of over 100 people on a trip to Latin America in June 2012 (*JN* 2016). Xi Jinping also visited the Terceira Island after returning from a visit to Chile in 2014, being met by the then Portuguese Vice-Prime Minister (Ames 2016; Berenguer 2016). A Chinese *ad-hoc* delegation was reportedly negotiating to expand China's presence on the islands, including the runway at Lajes Field and the shipping port on Terceira (Barnes 2015).

Over the last several years, the current Portuguese government has nudged the US into rethinking its strategy over the base by insinuating the possibility that China and others could step into gaps left by US disengagement. Diverse assertions of that kind have been brandished by Portuguese decision-makers to pressure Washington into reversing its Azorean drawdown. Those veiled allusions may have been intended to induce the US to look to the Azores and to the Lajes Field base with renewed interest (Carrapatoso 2016). Prime Minister Costa said that if the US does not renew its "exclusivity agreement", then China could move into Lajes, "but not for military purposes" (*Portugal Resident* 2016). Also the Portuguese President of the Republic stressed the importance of the US presence in the Azores and advised Washington not to create a void which could be taken advantage of, for example, by China, warning that "those who are absent are always wrong" (*Lusa* 2019a). For his part, Foreign Affairs Minister Santos Silva stated: "Portugal's only interest is that the base is used fully under the Defence and Cooperation Agreement that we have with the United States" (Kavanagh 2019).

Lisbon's relationship with China came under fresh scrutiny as the Portuguese government launched, in October 2019, an international tender for a new container terminal at Sines (see Tavares da Silva and Pereira 2020), a deep-water seaport 160 km south of Lisbon. The Chinese government mentioned its interest in investing in the new container terminal and leading Portuguese cargo-handling infrastructure. The hub of Sines, being the closest European port to the Panama Canal, is seen as having great potential for the so-called "New Silk Road" (Duarte 2020, 66-70). The future terminal thus attracted Chinese interest, as was demonstrated when Lu Hao, China's Minister of Natural Resources, visited the port in May 2019 to learn all the details of the project and its future location (*Essential Business* 2019).

From Portugal's perspective, Beijing could contribute to turning Sines into a key trans-Atlantic logistic hub (Wejchert 2021). If the Chinese interest failed to materialise, the Portuguese government hoped that the US government might manifest its interest due to the port's strategic position for exports of liquefied natural gas (LNG) to

Europe.[3] The Portuguese government strongly promoted Sines even before signing the December 2018 MoU under the BRI. Prime Minister Costa declared his intention to go ahead with the integration of Portugal's south-western deep-water seaport into the "new silk roads" roadmap, pointing out "the importance of Portugal's strategic role in linking silk roads with the ensemble of connections between Europe and Asia" (Rodrigues 2018; *AFP* 2018a). According to Portuguese Foreign Minister Santos Silva Portugal is "very interested" in the BRI's multi-billion-dollar infrastructure loan scheme and willing to contribute to a "new maritime Silk Road", of which Sines will be part (Hatton 2018). He said Lisbon is prepared to cooperate with China with a view to creating "new Silk Roads" for trade, which, in his opinion, are not coterminous with becoming an extension of Beijing's BRI. Santos Silva underlined that cooperation with the BRI lies within the broader framework of the EU-Asia Connectivity Strategy and the EU-China Connectivity Platform, as well as within the – at the time – forthcoming EU-China investment agreement. Portugal has an interest in developing sea and land routes connecting China to Europe. There is already a freight railway route departing from the remote confines of China all the way to Madrid. Therefore, the port of Sines, if expanded, modernised and connected by rail to Spain, could become the link between the maritime and land routes (Rodrigues 2018; *CGTN* 2018). The tender closed only in April 2021, with no bidders emerging due to the conditions of the specifications being not commercially attractive: the requirements were enormous and unrealistic in business terms for private investors (Gonçalves 2021; *Lusa* 2021a).

Conclusion

Portugal, as most EU countries, is caught between China and the US in the unfolding rivalry between them. On the one hand, they cannot afford to fall out with Washington, but on the other hand, they also do not want to forego economic gains brought about by China's economic prowess. Small states presently find themselves in a bind, having to pick sides between their top security ally and their major trading partner.

In this new context, Lisbon seems to be dealing pragmatically with China, despite criticism from the US and its EU partners. Crisis-hit Portugal sees Chinese investment as a way back to financial health. Beijing has been able to leverage Lisbon's need to strengthen its financial position, while gaining an ever-increasing foothold in Portuguese infrastructure and companies. Many critics have described such investments and takeovers as a 'sell-out', stressing how the Portuguese elites have failed to discuss the risks of Chinese engagement compared to other European countries.

Regarding its China policy, the country seems to have acted with autonomy from the US and the EU. This is not to say that Portugal calls into question the strong transatlantic ties and the relevance of its engagement with Washington. Nevertheless, Lisbon is intent on maximising its gains from different actors, including China. As for the EU, during the recession period, Portugal sought greater help from its European partners, but the conditions imposed by the 'Troika' (the European Commission, the European Central Bank

[3]In light of Russia's invasion of Ukraine on 24 February 2022, the European Commission has proposed an outline of a plan to make Europe independent from Russian fossil fuels well before 2030, starting with gas. Portugal could be an alternative route to solve Europe's gas supply by importing US LNG (Wejchert 2021).

and the International Monetary Fund) were extremely harsh. The international bailout and external assistance programme in 2011 pushed Lisbon to forced privatisations and to look for economic support outside the EU, delivering a number of essential assets and infrastructures to China.

The EU is in a delicate balancing act, as deteriorating EU-China relations coincided with the Biden administration's assertive stance on China. However, the truth remains that Europe is divided over how to address the Chinese challenge: despite a tougher line promoted by Berlin, Paris and Brussels over the past years, the economic benefits of deeper relations with China appeal to an audience that is not limited to small states. It has become increasingly clear that Germany sees China's rise as an opportunity and that it thinks the EU should maintain its autonomy on foreign policy, including the possibility of having its own China policy (Liu Zhen 2021).

To be sure, Portugal is a committed member of the EU, while reaffirming its allegiance to the US and to the Atlantic Alliance as the foundation of its security. Portugal needs to be able to take advantage of an open economy and to cooperate with a wide range of countries, even those that are not considered as sharing its values. Portugal sees itself as highly vulnerable in a more hostile world of great-power competition. Lisbon cannot afford to get on the wrong side of Beijing, at a time when China's economy and its reach seem destined to increase. However, the deepening of Lisbon's trade and economic relations with China will not be indifferent to its political and military relations with Washington. The conflict between the US and China therefore demands that Portugal act prudently to avoid getting crushed between growing US unilateralism and China's proactive support to non-liberal values. However, over the next years, Portuguese and European policymakers may be asked to choose where they stand in the US-China dispute.

For a small state such as Portugal, this high-wire act has already come at a cost, as it ended up creating an unfavourable context for taking timely decisions, especially with the outbreak of the Covid-19 pandemic and growing pressure from the Trump administration. Indeed, small states have fewer resources, which leaves them vulnerable to external coercion and pressure, especially in a context of uncertainty. However, this case study evidences a more nuanced picture. The US put Portugal in a delicate position vis-à-vis the Chinese. As regards 5G, a diplomatically manageable solution was chosen. The Portuguese government did not formally impose a ban, as the US demanded, while maintaining cordial relations with China. At the same time, the most representative companies chose not to use Chinese technology, because they have other options, thus not antagonising Washington. It was a win-win situation for the Portuguese government. As regards Sines, it is only a matter of time before the tender specifications are reviewed and it becomes again a hot-button issue.

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