China's Global Influence:

Perspectives and Recommendations

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11 China's Economic Coercion

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1 The views and recommendations expressed in this chapter are those of the author and do not necessarily reflect the policy or position of the George C. Marshal European Center for Security Studies, US Department of Defense, or US Government.

Introduction

Over the last two decades the People's Republic of China (PRC) has experienced unprecedented economic growth. It is now the second largest economy by nominal GDP[2] and measured by GDP in purchasing power parity has already surpassed the United States (US).[3] Economic development has been the main driver of China's rise and helped expand the country's political power in the form of increased voting power in international organizations and military power in the form of a greatly enlarged military budget.

In addition, economic strength is also a tool of power in its own right. One of the most common definitions of power comes from the German sociologist, political economist, and philosopher Manfred Weber who defined power as "[t]he probability that one actor within a social relationship will be in a position to carry out his own will despite resistance."[4] Following this definition China's economic strength is a tool of power as long as it enables the PRC to get what it wants against the will of another state. Depending on the economic status of a country China uses different ways of economic coercion. While China's economic engagement varies from country to country, the following three main strategies of economic coercion can be identified based on the level of economic development in the target country. In developing countries China buys political influence through development finance. In emerging and medium-sized economies China operates more discreetly, using state-owned enterprises (SOE) and investment funds to buy what is on sale. Chinese economic coercion in advanced economies is even more subtle, usually taking the form of state-backed funds, as well as, private investors buying shares in large Western companies with hopes of both realizing economic gain and reduce skepticism regarding the goals and effects of Chinese investments and global influence.

The following sections describe these three "main strategies" in more detail and explain how economic coercion helps to increase Chinese influence abroad. Some of the most outstanding country cases are summarized in this chapter. More detailed country analyses can be found in the regional chapters.

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2 GDP (current USD), *World Bank,* 2018, available at https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?year_high_desc=true.

3 "GDP, PPP (Current International $)," *World Bank,* 2018, https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD.

4 Weber cited in Isidor Wallimann, Nicholas Ch Tatsis, and George V. Zito, "On Max Weber's Definition of Power," *SAGE Journals*, 1977, https://doi.org/10.1177/144078337701300308.

Checkbook Diplomacy 2.0—Buying Political Influence with Development Finance

The term checkbook diplomacy was previously used to describe competition between the PRC and Taiwan for diplomatic recognition. Since the PRC is equipped with the bigger checkbook it was ultimately able to "convince" most countries to break diplomatic relations with Taiwan in return for financial support. Today, China uses checkbook diplomacy to compete with other major powers over global influence.

Due to a large shortage in infrastructure investments around the world, investors are in high demand. Most developing countries do not have sufficient funds and foreign investors have become more cautious after the 2008 financial crisis. China, however, invests where nobody else wants to and is, therefore, often the only investor developing countries can find. Furthermore, contrary to European or American development finance, Chinese finance is not based on the principle of conditionality, i.e., it does not come with conditions regarding human rights or anti-corruption measures. However, China is not making gifts either. The vast majority of investments come in form of loans. Once a loan cannot be redeemed China may demand other forms of compensation. Thus, more and more countries realize that China's no-strings-attached rhetoric is in fact the biggest string of all.

Sri Lanka, for example, received Chinese loans for new highways, airports, and harbors. When these investments failed to deliver the envisioned returns and Sri Lanka struggled to repay loans in 2017, China coerced Sri Lanka to lease the port of Hambantota for 99 years to the state-controlled China Merchants Port Holdings.[5] In 2011 Tajikistan is said to have ceded 1,158 square kilometers of land in a disputed border area to China in return for debt relief of unknown extent.[6] Other examples include Nepal, which was coerced to cede 75 percent of a dam project joint venture to the Chinese Three Gorges Corporation.[7]

5 Kai Schultz, "Sri Lanka, Struggling with Debt, Hands a Major Port to China," *New York Times*, 12 December 2017, https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html?module=inline.

6 John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," *Center for Global Development*, 2018, https://www.cgdev.org/publication/examining-debt-implications-belt-and-road-initiative-a-policy-perspective.

7 Brahma Chellaney, "China's Debt-Trap Diplomacy," *Project Syndicate*, 2017, https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01?barrier=accesspaylog.

According to a report by the Center for Global Development, eight countries heavily indebted to China are in severe debt distress: Djibouti, the Maldives, Laos, Montenegro, Mongolia, Tajikistan, Kyrgyzstan, and Pakistan. Another 15 are in significant danger of default.[8] Since China grants large loans to countries it must know cannot possibly pay everything back, some China analysts have started to use the term "debt-trap diplomacy" to describe a practice of offering loans to force a country to go into debt to China.

While it is debated whether China deliberately grants bad loans, alternative explanations seem even less likely as this would mean that China either totally miscalculated the creditworthiness of recipient countries or the viability of the funded projects. Either way, once a country is indebted to China it can hardly deny demands from Beijing.

A good example is Pakistan. The China-Pakistan Economic Corridor (CPEC) is the showpiece of the One Belt, One Road (OBOR; 一带一路)[9] initiative and includes a multitude of infrastructure projects, spanning from roads, railway, ports, and pipelines to power plants. The projected costs for all CPEC projects amount to USD62 billion.[10] A lot of the projects are still in the planning phase, but Pakistan has already received USD15 billion of foreign direct investments (FDI) and loans from China. Even though it is said that the conditions of the loans from Beijing are generous,[11] Pakistan is already struggling to maintain a solid balance of payment.[12] Moreover, Chinese FDI from SOEs, which constitutes about two thirds of the financing, come with damaging conditions. For instance, the newly built power plants will partly be operated by Chinese companies and charge electricity tariffs twice as high the regional average. Thus, Chinese companies will profit more than Pakistani

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8 Hurley, Morris, and Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," 16-19.

9 The Editors have chosen to conform to the "One Belt, One Road" formulation of the initiative as initially propagated and as it is still discussed in Chinese language documents. For a complete explanation of this decision, see the introduction to this volume, p 9.

10 Thomas S. Eder and Jacob Mardell, "Die Belt and Road Initiative in Pakistan: Chinas Vorzeigeprojekt," *Mercator Institute for China Studies*, 18 September 2018, https://www.merics.org/de/bri-tracker/the-bri-in-pakistan.

11 Jacob Mardell and Thomas S. Eder, "Seidenstraßen-Projekte in Pakistan: Zu Groß Zum Scheitern," *Mercator Institute for China Studies*, 2018, https://www.merics.org/de/blog/seidenstrassen-projekte-pakistan-zu-gross-zum-scheitern.

12 Shabbir Kazmi, "Ever Looming Balance of Payment Crisis in Pakistan," *Pakistan & Gulf Economist*, 2018, http://www.pakistaneconomist.com/2018/11/26/ever-looming-balance-of-payment-crisis-in-pakistan/.

businesses, who will finally have reliable electricity, but are faced with electricity tariffs that challenge their competitiveness.[13]

The new Pakistani government announced it will review CPEC and might want to renegotiate unfavorable terms, but four years into CPEC Pakistan is already deeply committed and cannot afford to shut down half-done projects. Furthermore, the showcase nature of CPEC puts pressure on Beijing to make it a success. That is why Thomas Eder and Jacob Mardell from the Mercator Institute for China Studies call it "too big to fail."[14]

Africa is another focus area for Chinese development finance. One of China's interests in Africa is access to raw materials and fossil fuel. Furthermore, Africa is an important export market for cheap Chinese products with a lot of potential for expansion of businesses. In addition, African countries are important political allies for China's global agenda. One quarter of UN member states are African countries. By securing political backing from Africa, China can influence the decision making in the UN general assembly or other international organizations. The UN Human Rights Council has already become a toothless institution because it is subverted by countries who are under Chinese or Russian influence.[15]

One of China's latest investments in Africa takes place in Burkina Faso. Burkina Faso ranks 183th out of 189 countries on the Human Development Index[16] and belongs to a group of 37 so-called Heavily Indebted Poor Countries (HIPC) which have a very high credit default risk.[17] The country has very few natural resources except for some gold, which makes up 72 percent of export revenue, but most mining contracts are already assigned to Canadian companies.[18] Given Burkina Faso's very

13 Mardell and Eder, "Seidenstraßen-Projekte in Pakistan: Zu Groß Zum Scheitern," *Mercator Institute for China Studies,* 20 September 2018, https://www.merics.org/de/blog/seidenstrassen-projekte-pakistan-zu-gross-zum-scheitern.

14 Ibid.

15 Krishnadev Calamur, "The UN Human Rights Council Is a Deeply Flawed Body," *Atlantic*, 2018, https://www.theatlantic.com/international/archive/2018/06/us-un-human-rights/563276/.

16 "Human Development Reports-2018 Statistical Update," *United Nations Development Programme*, 2018, http://hdr.undp.org/en/2018-update.

17 "Economic Policy and Debt - Heavily Indebted Poor Countries (39 Countries)," *World Bank*, 2012, http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:20260049~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html.

18 *Burkina Faso Länderinformation*, (Vienna: Austrian Development Agency, May 2018). https://www.entwicklung.at/fileadmin/user_upload/Dokumente/Laenderinformationen/LI_BurkinaFaso_Mai2018.pdf.

small economic relevance it can be concluded that China's interest is mainly political. Burkina Faso established diplomatic ties with the PRC in May 2018 after acknowledging it as the sole legitimate representative of China. In return for abandoning Taiwan, the PRC promised to take over the funding for projects formerly financed by Taipei. Burkina Faso students studying in Taiwan can transfer to universities in Hong Kong and a new hospital for USD188 is also part of the deal. While this sounds like checkbook diplomacy 1.0 aimed at isolating Taiwan, the investment also serves to consolidate China's position in a region that traditionally was under French influence.[19]

While the hospital comes for free, the USD1.3 billion highway between the capital Ouagadougou and Bobo-Dioulasso are covered by a loan from the Export-Import Bank of China.[20] The debts will rise further when a railway connection between Burkina Faso and Ghana is realized.[21] It is very unlikely that one of the poorest countries in the world can refinance such a project. Once Burkina Faso has become indebted to China, Beijing may ask for other forms of compensation and Burkina Faso will be compelled to provide the PRC political support in international organizations.

Gaining Control over Key Economic Sectors in Emerging and Medium-Sized Economies

Countries with a sound economy and fairly developed infrastructure are less vulnerable to Chinese economic offers. They do not require enormous investments and can find alternative investors. The European Union (EU), which provides development finance for less developed member states via the European Structural and Investment Funds (ESIF),[22] was for a long time well protected from Chinese economic coercion. China only gained a strong foothold in Europe during the European debt crisis. Some medium-sized European economies,

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19 Oana Burcu and Eloise Bertrand, "Explaining China's Latest Catch in Africa," *Diplomat*, 16 January 2019, https://thediplomat.com/2019/01/explaining-chinas-latest-catch-in-africa/.

20 Simon Gongo, "China Cements Fresh Burkina Faso Ties with Hospital and Highway," *Sydney Morning Herald*, 8 August 2018, https://www.smh.com.au/world/asia/china-cements-fresh-burkina-faso-ties-with-hospital-and-highway-20180808-p4zw4e.html.

21 "Ghana-Burkina Faso Signs Final MoU on Railway Interconnectivity Project," Ministry of Railways Development, 2017, http://www.mrd.gov.gh/4/16/38/ghana-burkina-faso-signs-final-mou-on-railway-interconnectivity-project.

22 "European Structural and Investment Funds," European Commission, 2019, accessed 6 June 2019, https://ec.europa.eu/info/funding-tenders/funding-opportunities/funding-programmes/overview-funding-programmes/european-structural-and-investment-funds_en.

such as Greece, Portugal, and Ireland, struggled with serious government debt as a consequence of the 2008 financial crisis. The EU provided financial support, but in return demanded economic reforms and privatization of state-companies to gain liquidity.[23] The following privatization wave opened an opportunity for China to buy companies in key economic sectors because most European SOEs provide utilities, like water and electricity, or public transportation.

In Portugal, China invested in all sectors of importance for daily life: electricity, oil, transport, financial services, insurance, health care, and media. Chinese FDI increased from almost zero in 2012 to USD6.6 billion in 2016. Among the most prominent investments is the former state-owned energy supplier and grid operator Energias de Portugal (EDP), which has operations in several European countries. Chinese companies currently hold 23.3 percent of EDP and have made a bid to overtake the whole company for USD11 billion, which would give the Chinese control over 20 percent of the Iberian Peninsula's electricity market.[24] The takeover offer is currently under review by EU and US regulators - EDP has large assets in the US as well.[25] Also worrisome is the acquisition of 30 percent of Global Media Group, which owns several widely read newspapers, a TV station, and a radio station. Furthermore, Global Media Group is a stakeholder in Portugal's largest news agency Lusa, which ran a temporary collaboration project with the Chinese state-controlled newspaper *People's Daily*.[26]

As a result of Chinese economic activities, 73 percent of Portuguese think Portuguese foreign policy has changed (28% a little, 31% somewhat, and 14% a lot).[27] Portugal left the EU bailout mechanism in 2014 but this does not mean the country is financially rehabilitated. Portugal seems to be aware of the Chinese influence but accepts China's continued takeover of more of the economy in the hope these invest-

23 "EU Financial Assistance," European Commission, 2019, accessed 6 June 2019, https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance_en.

24 Philippe Le Corre, "China's Rise as a Geoeconomic Influencer: Four European Case Studies," *Carnegie Endowment for International Peace*, 15 October 2018, https://carnegieendowment.org/2018/10/15/china-s-rise-as-geoeconomic-influencer-four-european-case-studies-pub-77462.

25 Foo Yun Chee, Clara Denina, and Kane Wu, "China Three Gorges Halts Talks with EU Regulators on EDP Takeover," *Reuters,* 25 January 2019, https://www.reuters.com/article/us-edp-m-a-china/china-three-gorges-halts-talks-with-eu-regulators-on-edp-takeover-sources-idUSKCN1PJ2CN.

26 Le Corre, "China's Rise as a Geoeconomic Influencer," 8-9.

27 Ibid., 9-11.

ments will pay off.

Greece is a similar case. China provided much needed capital during the heights of the EU debt crisis. Major investments include an electricity grid operator, wind parks, and telecommunication companies. Since 2014 Greece and China signed several cooperation agreements and facilitated commercial contracts worth USD4 billion. The most important acquisition is the port of Piraeus. The state-owned China Overseas Shipping Group Company (COSCO) started investing in the harbor in 2008. At that time, Piraeus processed just 430,000 containers per year.[28] COSCO invested hundreds of millions and raised the container handling to 4 million per year. Since 2017 COSCO holds a 67 percent majority of the Piraeus Port Authority and received a forty-year concession to operate the commercial harbor. China wants to use the port as hub for the Maritime Silk Road and gateway into southern Europe.[29] Apart from the strategic importance of the investments, China also earns a political dividend from its business activities in Greece. In 2017 Greece blocked the EU from giving a scheduled statement at the UN Human Rights Council over disagreement about critiques of China's human rights record. It was not the first time the Greek government protected China from criticism. Following the ruling of the Permanent Court of Arbitration in favor of the Philippines regarding the nature of South China Sea maritime claims, Greece, together with Hungary, intervened and stopped the EU from condemning China's defiance of the ruling.[30]

Hungary has also been a beneficiary of Chinese investment. The "Belt and Road Center," a newly founded think tank financed by the Central Bank of Hungary, calls Hungary a "key state on the silk road."[31] Hungary's President Viktor Orban seems very open to closer alignment to China and was quoted at a private business meeting stating: "If the European Union cannot provide financial support, we will turn to China."[32] In November 2017 Hungary hosted a meeting of the 16+1 initiative, a platform for 16 Central and Eastern European Coun-

28 Measured in Twenty-foot Equivalent Units (TEU).

29 Le Corre, "China's Rise as a Geoeconomic Influencer," 14-16.

30 Robin Emmott and Angeliki Koutantou, "Greece Blocks EU Statement on China Human Rights at U.N.," *Reuters*, 19 June 2017, https://www.reuters.com/article/us-eu-un-rights/greece-blocks-eu-statement-on-china-human-rights-at-u-n-idUSKBN1990FP.

31 Fanni Maráczi, "Hungary - A Key State on the Silk Road," *Belt and Road Center*, 7 November 2017, http://beltandroadcenter.org/2017/11/07/hungary-a-key-state-on-the-silk-road/.

32 "Orbán: If EU Doesn't Pay, Hungary Will Turn to China," *Budapest Business Journal*, 11 January 2018, https://bbj.hu/economy/orban-if-eu-doesnt-pay-hungary-will-turn-to-china_143836.

tries who want to benefit from China's OBOR initiative. Eleven of the 16 countries are EU member states, but the EU was only invited as an observer after Brussels complained that China approached its member states without consulting Brussels first.[33]

The Czech Republic is China's newest ally in Europe. After a Chinese conglomerate invested USD1 billion in a financial company, an airline, a media outlet and a football team (including its stadium), Czech president Milos Zeman appointed the chairman of the conglomerate as "adviser" – a position with unknown responsibilities. President Zeman seems enthused to deepen his country's relationship with China, raising the hope the Czech Republic would become "the unsinkable aircraft carrier of Chinese investment expansion." Turning this kind of rhetoric into action, the Czech Republic is among a group of countries opposing stronger EU investment screenings.[34] These examples show that China tries to divide the EU and thus far it is quite successful in doing so.

Outside of Europe, Brazil is one of the largest targets for Chinese investments, accounting for about 55 percent of Chinese investments in Latin America, fifth overall as a destination for Chinese FDI.[35] Chinese companies spent USD54 billion in more than 100 projects over the last 15 years. In addition to Brazil's banking sector, China is involved in infrastructure projects, such as state-owned Industrial and Commercial Bank of China financing 70 percent of a new port in Sao Luis.

In East Asia, emerging economies Malaysia and Indonesia received the largest amount of Chinese FDI. China already invested USD17 billion in Malaysia and around USD13 billion in Indonesia, the fourteenth and fifteenth largest sums for Chinese FDI.[36] However, after a change of government, Malaysia now offers hard critique of Chinese infrastructure investments. Prime Minister Mahathir Mohamad announced he would cancel a USD20 billion railway project as well as two oil pipelines. Both projects were financed with Chinese loans and supposed to be important parts of the OBOR's Southeast Asian corridor. Prime Minister Mohamad does not doubt the economic utility, but stated that his country

33 Maraczi, "Hungary – A Key State on the Silk Road."

34 "Chinese Investment, and Influence, in Europe Is Growing," *Economist*, 4 October 2018, accessed 6 June 2019, https://www.economist.com/briefing/2018/10/04/chinese-investment-and-influence-in-europe-is-growing.

35 "Does China Dominate Global Investment?" *Center for Strategic & International Studies*, 19 July 2018, https://chinapower.csis.org/china-foreign-direct-investment/.

36 Ibid.

cannot afford the projects.[37] He also fears too much Chinese influence as this quote from a meeting with Premier Li Keqiang illustrates: "We do not want a situation where there is a new version of colonialism happening because poor countries are unable to compete with rich countries."[38] Maybe Malaysia's decision can be a turning point and lead other countries to reconsider if they want to become economically dependent on Chinese investments.

Influence through Shareholdings—China's Strategy for Advanced Economies

Investments in advanced economies are more difficult to assess because it is not always clear if an investment is motivated by economic considerations, has a political calculus, or both. Another incentive for investments in advanced economies can be to bring illegal money out of the PRC, or to remove clean money from an uncertain environment. Capital flight from China amounted to USD425 billion in 2014, the most recent year for which data is available.[39] Regardless of the reason for the investment, even those that on the surface appear purely business motivated can increase Chinese influence. When an investor buys shares in Western companies they get a say in business decisions and, perhaps more important, access to company records. Since there is no clear division between the private and the state sector in China, any large scale Chinese investments should be treated with caution.

The number one destination for Chinese FDI is the US, where China invested USD175 billion between 2005 and 2018. However, in 2018 after a decade of rising investments the volume dropped 84 percent to the level of 2012—probably a consequence of US-China trade frictions.[40] The majority of FDI consists of minority holdings because the high market value of multinational corporations makes takeovers very expensive. Nevertheless, there are prominent examples of company takeovers. In 2005 the then relatively unknown Chinese company Leno-

37 "The Perils of China's 'Debt-Trap Diplomacy,'" *Economist*, 6 September 2018, https://www.economist.com/asia/2018/09/06/the-perils-of-chinas-debt-trap-diplomacy.

38 Hannah Beech, "'We Cannot Afford This': Malaysia Pushes Back against China's Vision," *New York Times*, 20 August 2018, https://www.nytimes.com/2018/08/20/world/asia/china-malaysia.html.

39 Frank R. Gunter, "Corruption, Costs, and Family: Chinese Capital Flight, 1984-2014," *China Economic Review* 43 (January 19, 2017): 105-17, doi:10.1016/j.chieco.2017.01.010.

40 Dereck Scissors, "Chinese Investment: State-Owned Enterprises Stop Globalizing, for the Moment," *American Enterprise Institute,* January 2019, https://www.aei.org/wp-content/uploads/2019/01/China-Tracker-January-2019.pdf.

vo bought IBM's personal computer division. The popularity of IBM's ThinkPad series helped Lenovo become the largest vendor of personal computers within 10 years.[41] Motorola, GE Appliances, and Legendary Entertainment also have new Chinese owners. Investments typically come from Chinese private companies, but many deals are backed by state-owned banks and thus are financed with public funds. In some cases the Chinese government is also directly involved in shareholdings. Notably, the China Investment Corporation (CIC), a sovereign wealth fund which manages and invests part of China's foreign exchange reserves, holds 15 percent of AES Corporation, a US-based electricity provider that also operates in 14 other countries.[42]

Australia received the second most Chinese investment between 2005 and 2018, totaling USD95 billion. Chinese investors are mainly interested in natural resources like metals and energy,[43] but CIC also holds roughly 20 percent of shares in Australia's largest port in Melbourne.[44] Compared to the total inward FDI Australia receives, China is still one of the smaller investors and contributes only 2 percent of all foreign investments. This qualifies the nominal numbers and illustrates that investments must always be put into relation to the size of the economy.[45]

In Europe's largest economies, too, China is not yet the largest investor, but state-backed companies have started to make some prestigious investments. The largest shareholders of the French PSA group, the conglomerate behind Peugeot and Citroën, and the Italian tire manufacturer Pirelli are Chinese companies. Dongfeng Motor Group holds 12 percent of PSA shares[46] and the China Chemical Corporation currently holds 45 percent of Pirelli, after initially buying 65 percent in 2015.[47]

41 Tim Bajarin, "How Lenovo Became a Global PC Powerhouse after IBM Deal," *Time*, 4 May 2015, accessed 7 June 2019, http://time.com/3845674/lenovo-ibm/.

42 "AES Announces Close of Transaction with China Investment Corporation," AES Corporation, 15 March 2010, accessed 7 June 2019, https://www.aes.com/investors/press-releases/press-release-details/2010/AES-Announces-Close-of-Transaction-with-China-Investment-Corporation/default.aspx.

43 "Does China Dominate Global Investment?"

44 Jenny Wiggins, "Port of Melbourne Tops up CIC's Local Infrastructure, Real Estate Basket," *Australian Financial Review*, 20 September 2016, accessed 7 June 2019, https://www.afr.com/business/port-of-melbourne-tops-up-cics-local-infrastructure-real-estate-basket-20160920-grkf5m.

45 "Does China Dominate Global Investment?"

46 "Peugeot: Shareholders Board Members Managers and Company Profile," accessed 7 June 2019, https://www.marketscreener.com/PEUGEOT-4682/company/.

47 "Pirelli & Co.: Shareholders Board Members Managers and Company Profile," accessed 7 June 2019, https://www.marketscreener.com/PIRELLI-CO-37980122/company/.

These companies are not in financial difficulties like Jaguar Land Rover was before it was acquired by the Indian Company Tata Motors in 2008, but have sound operations and belong to the backbone of their countries' economy. While Chinese acquisitions are assessed rather critically in Paris, the government in Rome, led by the populist Lega Nord, signed a memorandum of understanding with China in March 2019.[48] The agreement lays out a plan for Italy's participation in OBOR and was supplemented by 29 other government agreements and commercial contracts with a total value of USD2.8 billion.[49]

A real sensation was the 2018 acquisition of almost 10 percent of the German luxury car manufacturer Mercedes Benz by Chinese car manufacturer Geely. Morgan Stanley helped Geely circumvent reporting duties while buying large packages of shares. Thus, Mercedes Benz only learned of its new investor after they already acquired enough shares to become the single largest shareholder.[50] This kind of "hostile" investment inevitably raises opposition among business leaders and politicians. To ease negative sentiments, China tries to influence the public debate by hiring prominent advocates. The former British Prime Minister David Cameron, the former French Prime Minister Jean-Pierre Raffarin and the former German Vice-Chancellor Philipp Rösler now all work for Chinese funds or conglomerates.[51]

A public outcry is further kept in check by China's market power. For many advanced economies China has become the most important trade partner, which is why Chinese misconduct, including violations of intellectual property and patents, rarely has consequences. That large Western companies do not want to offend China was demonstrated in February 2018 when Mercedes Benz publicly apologized for using a quote by the Dalai Lama in one of its advertisements. The incident happened before Geely became Mercedes Benz' largest shareholder and was clearly intended to prevent the loss of customers in its most important market. A few months later the US clothing brand GAP also issued an

48 "Memorandum of Understanding between the Government of the Italian Republic and the Government of the People's Republic of China on Cooperation within the Framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative," Government of the Italian Republic, 2019, http://www.governo.it/sites/governo.it/files/Memorandum_Italia-Cina_EN.pdf.

49 Andrew Chatzky, "China's Belt and Road Gets a Win in Italy," *Council on Foreign Relations*, 27 March 2019, accessed 7 June 2019, https://www.cfr.org/article/chinas-belt-and-road-gets-win-italy.

50 "Chinese Investment, and Influence, in Europe Is Growing," *Economist*, 2019.

51 Ibid.

official apology after complains about a T-shirt which displayed a map of China that did not show Taiwan.[52]

Market access and business opportunities are also the reason why few politicians openly condemn human rights violations in China. Meetings of Western leaders with the Dalai Lama have become rare after Beijing started to heavily intervene every time the Buddhist spiritual leader was welcomed in a European capital. The influence might be more discrete and is also partly preemptive obedience, but Chinese economic coercion definitely has begun to affect foreign policy decision making in large, advanced countries as well.

Chinese Investment Conclusion and Recommendations

Economic conditions are different in every country and so are China's economic activities. Therefore, it is not surprising China uses different economic tools in economies with differing levels of development. Three main strategies of economic coercion have been identified on the previous pages. While an ideal response to Chinese economic coercion should be customized for every country, the classification of main strategies allows the development of responses for country groups that can serve as blueprints for further customization.

- **Poor and developing economies:** When China uses checkbook diplomacy to buy political influence an obvious response would be to use checkbook diplomacy as well to offer an alternative source of investment. But this does not seem wise in all cases. Many of China's investments are a gamble. If the investments do not pay off China will lose a lot of money. China's calculus might be that this is the price for political support and increased global influence, but it is not certain countries will continue to support China once the cash flows stops. Gratitude is short lived and "debt-trap diplomacy" is no guarantee for loyalty.
    - *Do not challenge China everywhere*: China's checkbook diplomacy can also be seen as a global development aid program. There is a global shortage of infrastructure investments and for many countries China remains the only realistic investor. Especially Africa can profit which, according to the African Development Bank, has an annual investment demand of USD130-170 billion and a financing gap

52 Tom Hancock, "Multinationals Bow to China's Political Sensitivities," *Financial Times*, 20 May 2018, https://www.ft.com/content/36c03e40-52a8-11e8-b3ee-41e0209208ec.

of USD68-108 billion.[53] For decades it was mainly Western countries who financed and built roads, railways, and ports in developing countries. If China is now building highways in Burkina Faso for which it will likely see no return, then Western countries save money. This way China can actually contribute to greater global economic development and prosperity. Thus, not all Chinese investments should be challenged by Western governments.

o *Only challenge China in regions of strategic interest*: Instead a feasible and effective response for developing countries would be to challenge China in regions that are of strategic interest and compete in projects which are economically worthwhile. The US and Europe do not have the resources to invest wherever China becomes active and cannot risk to lose money in questionable infrastructure projects. Instead political focus and money should be concentrated on countries and projects where the payoff is the highest. Let China do the heavily lifting and wait to see if it pays off. There is already talk of imperial overstretch given China's shrinking cash reserves.[54]

● **Medium-sized and emerging economies:** In medium-sized and emerging economies the main problem is that China is acquiring influence in strategically important economic sectors like water, energy, or transportation. The decision of the EU during the European debt crisis to force struggling member states to privatize SOEs, many of whom provide utilities, opened up the opportunity for Chinese companies to access power grids and rail networks. Economic solidarity in the form of EU financial assistance for member states will be key to stop further Chinese coercion in Europe.

o *Encourage US and EU companies to invest in emerging markets*: To balance the presence of Chinese investors elsewhere in the world private companies in the US and Europe should be encouraged to invest more in emerging markets and to

53 African Development Bank Group, *African Economic Outlook*, (Côte d'Ivoire: African Development Bank, 2018), 63, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf.

54 Gordon G. Chang, "The Real China Challenge: Imperial Overstretch," *National Interest*, 24 February 2018, https://nationalinterest.org/feature/the-real-china-challenge-imperial-overstretch-24635.

compete with Chinese companies over infrastructure projects. As many Chinese investors are state-backed, support of private companies with state guarantees should be considered to restore a level playing field.

o *Inform and strengthen civil society*: Additionally, an open discourse about the benefits and disadvantages of Chinese investments in medium-sized economies should be supported. The public in many countries is not well informed about Chinese investment activities and are faced with Chinese information campaigns. Thus, it is important to provide access to independent sources and balanced reporting so that the public can form a free and well-considered opinions, get a voice in the investment screening process, and hold their governments accountable for economic deals with the PRC.

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o *Stricter financial screenings*: An effective measure for advanced economies to become less vulnerable to Chinese investments would be to introduce stricter financial screenings that make it harder for unwanted investors like state-backed entities to become major shareholders in companies that are classified as vital for the national economy or national security. This is not to say that screening measures should discriminate against China, because this would contradict free market economy principles and prevent valuable Chinese investments. The goal of the screening measures should be to prevent "hostile" investments and to protect critical infrastructure and vital economic sectors from foreign coercion. The EU has recently drafted such a framework. While the final product represents the lowest common denominator among 28 member states, the process led to several states reexamining and updating their national investment screening legislation.

o *A partnership on equal footing*: Another response towards Chinese economic influence in advanced economies could be to care less about offending China and live with the economic consequences of standing up to Beijing. China is a very important market for most advanced economies, but what made China economically strong in the first place was foreign investments and technology transfer. Furthermore, China is an export-oriented economy which depends on access to export markets. The economic dependence between the Western world and China is not asymmetric, but China relies as much on their trading partners as they do on China.