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Between a rock and a hard place: Portugal, China and the EU

The impact of Chinese FDI in Portuguese foreign policy and integration in the EU

Submitted by: Sofia Alexandra Pereira

S2464217

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Supervisor: Prof. Dr. Jue Wang

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Abstract

China and the European Union have, for a long time, sustained a cooperative, yet at the same time, antagonistic relationship. The surge in Chinese FDI in Europe, after the global financial crisis, exacerbated unfavorable opinions of China, due to skepticism surrounding the intentions behind this investment increase. There is in place the belief that Chinese investment is negatively contributing to EU cohesiveness, by putting member states against each other to curry for China's favour and secure investments, thus putting at risk the European order. The period post-2008 financial crisis saw Portugal becoming an important recipient of Chinese FDI, and as such, this paper analyzes the impact Chinese FDI has in Portuguese foreign policy and its integration in the EU. Portugal proves to be a unique case in comparison with other member states, due to its long-lasting relationship with China, and positive track record as a member of the EU. This dissertation examines this issue by using liberal intergovernmentalism and motivations behind Chinese investment, to argue that Portugal's domestic interests play an important role in how it handles both China and the EU, as well as to defend that Chinese investment in Portugal as shown to be economically motivated. The results suggest that Portugal maintains a consistent and unchanged, for the most part, China policy. Furthermore, since most of Portugal's domestic interests are met by the EU, according to liberal intergovernmentalism, in this way, it continues to contribute to its integration in the union. All in all, Chinese FDI in Portugal shouldn't pose as a concern to the EU, seeing as the data reveals that Portugal's top investors continue to be fellow member states, with China comprising a modest and slowly decreasing percentage. Therefore, the novelty of Chinese FDI in Europe continues to perpetuate an exaggerated anxiety, along with often unnecessary concerns, regarding the impact of said investment in Portugal.

Key words: Chinese FDI, Portugal, Foreign Policy, EU Integration, Domestic Interests

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Table of Contents

I. Introduction

The EU-China relationship is best characterized by its duality, "balancing between divergence and convergence" (Geeraerts, 2019). What was for the most part an economic relationship, in 2003 became a "comprehensive strategic partnership" that sought to upgrade interactions to the political level as well (Christiansen & Maher, 2017, p.122). Consequently, the presence of antagonistic views between the EU and China became even clearer. One side of the spectrum shows an overall constructive economic relationship, while the other side shows tensions at the level of national security, as well as politics and ideology.

On one hand, both entities hold, for the most part, auspicious economic ties, translated in mutual actions of trade and investment that have been steadily growing in the last decade. Since 2013, the EU became China's top trading partner, and until 2016 the trend has been of an yearly increase in trade and investment value (Walkowski, 2018). However, the increase in Chinese foreign direct investment (FDI) in the EU has also led to complaints from European enterprises who wish to invest in China in the same manner. These firms criticize the Chinese government for curbing foreign investors, by prohibiting investment in certain areas (e.g. finance), in order to protect domestic companies. Thus, the European Commission consistently requests reciprocity in market access, by demanding that European enterprises be allowed to invest in the same sectors that Chinese enterprises invest in in Europe (European Commission, 2016, p.5).

Moreover, there are fears of transfer of technological and management *know-how* that might endanger future competitiveness between European and Chinese industries, in favor of the latter (Christiansen & Maher, 2017, p.124). For example, Chinese investments in the European machinery and automotive industry have equipped China with the means to develop these respective sectors domestically. The Federation of German Industries (BDI) has already expressed their concerns regarding this issue. They believe that, in the future, a selection of Chinese corporations will be able to compete with German industries, and possibly even surpass them (BDI, 2019, p.7).

On the other hand, the EU and China stand for different ideologies that give rise to a strain to their relationship and curb further development in the political range. For all accounts and purposes, China is an authoritarian regime, while the EU considers democracy as a prerequisite of any member state (Benner et al., 2018; Grieger, 2019). In addition, both entities tend to clash in matters related to human rights, which has resulted in various criticisms directed at China. Exemplifying, the EU has called out China for its treatment of people in Tibet and Xinjiang (Grieger, 2019, pp.2-3).

As for the past decade, Chinese investment in Europe has been at the forefront of tensions between the EU and China, with public discussions vocalizing concerns regarding the political impact these investments have in member states, and consequently the cohesiveness of the EU. Some believe that, in order to attract Chinese investment, European countries are competing against each other for China's favouritism, and thus demonstrating support of China, even in issues that contradict EU ideology. By acting individually, they believe these countries put at risk the creation of an EU single voice directed at China.

Moreover, the 2008 financial crisis opened several opportunities for investment in Europe aside from the major countries, especially in Southern Europe, and consequently Portugal (Pareja-Alcaraz, 2017, p.702). The financial crisis led to a privatization surge in several European countries that previously favoured state-owned enterprises (SOEs), such as Portugal and Greece. When these companies were auctioned off, Chinese firms were often the highest bidders. Before, Chinese enterprises were hesitant in investing in these smaller and more volatile economies, but due to the crisis, companies' share prices were at a low, and so the Chinese took the opportunity.

Ever since 2011, Portugal has been an important recipient of Chinese FDI, and thus a media target of how Chinese investment might equate to political and economic dependency to Beijing. By way of explanation, some argue that an increase of Chinese investment in member states is leading to a higher reliance in Chinese capital flow, thus compelling these countries to politically ally themselves in ways that benefit the Chinese government, in order to maintain and not curb the much-needed investment.

In this dilemma, Portugal rises as a supporter of European values (e.g. democracy and human rights), as well as trade and investment regulations, while, at the same time, welcoming Chinese investment (Corre, 2018a). And so, much like the EU stands between an antagonistic China and US, Portugal stands in the difficult position of proving its allegiance to the EU, albeit also looking to secure investments that serve its domestic interests. In other words, it is as if Portugal is made to choose between political alliances (the EU and US), versus short term economic opportunities (China). In reality, one doesn't necessarily negate the other. I believe that, in order to pursue and secure its domestic interests, Portugal chooses to cooperate with both China and the EU, since each provide Portugal with specific benefits.

Therefore, I argue that Portugal is able to maintain amicable relations with both the EU and China without jeopardizing its identity as a member state, and without having altered its foreign policy to accommodate China's narrative. Moreover, I also argue that there is no reason for Portugal to be a concern for the EU in regards to the flow of Chinese FDI. Currently, China is not at equal stand with the EU in terms of cooperation, either economic, political or cultural.

Hence, this dissertation aims to examine the ways in which Chinese investment in Portugal might or might not weigh in on Portugal's foreign policy and role in the EU. Thus, it also aims to contribute to existing literature on assumptions surrounding Chinese investment in Europe. For example, if Chinese investment is as harmful to European cohesiveness as media and politicians make it out to be.

Moreover, it intends to fill a gap in literature concerning Chinese investment in Portugal, which hasn't received the same degree of attention as Greece or Italy. In order to achieve this, this thesis will provide an answer to the following research question: *To what extent does post-2008 crisis Chinese FDI into Portugal impact upon the latter's foreign policy and integration within the EU?* Subsequently, the main hypothesis (H1) claims that *post-2008 crisis Chinese FDI into Portugal did not alter Portugal's foreign policy towards China, along with its role as member state.*

As to answer the aforementioned question, this thesis will be divided into five main sections. The first consists of a literature review which elucidates on previous works relevant to the topic at hand, while addressing an existing gap. The second will put into perspective liberal intergovernmentalism as the theoretical framework, along with theoretical approaches to the motivations behind Chinese FDI. As for methodology, I will mostly analyse articles, official documents and financial reports of research centres, think tanks, international organizations and governments. The third and fourth part, the core chapters, consist of a section on crucial background information on Portugal in relation to the two key players, the EU and China, as well as an analysis on the main elements of my research question, Chinese FDI, foreign policy and EU integration. Moreover, it also frames Portugal as an independent entity pursuing its own domestic interests, in spite of its EU membership and commitment to the union and what it represents and stands for. Lastly, I will present the results, as well as concluding remarks.

II. Literature Review

This section will outline and identify the most important, past and current, developments on the topic of the impact of Chinese FDI on EU integration and foreign policy, more specifically in the case of Portugal as a member state. With this literature review I intend to explore the existing gaps in the available research concerning this topic, while framing crucial arguments and points that have already contributed to the issue at hand. Subsequently, and as mentioned before, it aims to aid in providing an answer for the following research question: *To what extent does post-2008 crisis Chinese FDI into Portugal impact upon the latter's foreign policy and integration within the EU?* Therefore, it is important to map out developments of related literature. In order to do that, I will break down the research question and elaborate on three crucial elements (pertaining to the EU and Portugal): Chinese FDI, foreign policy and regional integration.

First and foremost, there has been a shift in EU-China relations, which is evidently shown in the growing amount of research and analysis of this bilateral relationship (Huotari et al., 2015). However, the amount of information available is still, understandably, limited and constricted by its newness. In addition, existing literature on the topic doesn't necessarily correlate with the subject of European integration, and much less in relation to Portugal. More often than not, literature primarily focuses on FDI trends of investment in Europe's major countries (e.g. Germany, Britain, France). Given the fact that 'the EU has consistently opted for a bilateral strategy with a priority on material interests in its relationship with China' (Wiessala et al., 2009, p.21), it goes to show that literature focuses greatly on the politics of the economic aspect of the relationship. Aside from this, there is also a fair amount of recent literature on EU-China political and economic ties, that seek to examine new shifts in behaviour of the EU towards China (and vice- versa), as well as changes in nature of said ties (Cameron, 2009; Corre & Sepulchre, 2016; Song, 2012; Vogt, 2012)

In Vogt's book, Song Xinning, notorious researcher on European Studies, describes the Sino-European relationship as volatile, in the sense that both actors have unrealized expectations of one another, and sometimes fail to practice what they preach. On one hand, the EU advocates for further collaboration with China, while hesitating in fear of how China's new role in the global order might endanger EU's interests in the long run.

Exemplifying, China's "Made in China 2025" strategy might equip Chinese enterprises with the technology they need to compete with European industries in the market. On the other hand, China seeks to develop its partnership with the EU, but also makes use of 'divide and conquer' tactics that harm the relationship between the various member states by pitching them against each other to compete for the favor of more investment (Song, 2012). Jerker Hellström[1] also mentions the same negative implications of this strategy (divide and conquer) in the creation of a coherent EU China policy (Hellström, 2016, p.26).

Furthermore, the EU's core foreign policy plays an important role in the instability of EU-China relations. In order to understand this, one must mention Europe's "normative power" (Manners, 2002), which is deeply embedded in European identity and thus its foreign policy. This characteristic points out the EU's desire to portray itself as community that attaches importance to core values, such as human rights, equality, freedom, etc. In this way, it becomes clear how this aspect of the EU's image shapes China-EU foreign policy. Exemplifying, China's track record in regard to the violation of human rights doesn't go in accordance with European values at all. Most recently, the issue with how minorities have been treated in the Xinjiang Province and the actions in the Hong Kong protests have been instances when the EU has criticized the Chinese government's actions (European Commission, 2019, p.2). Furthermore, the EU persistently attempts to convert China to its ideals, which backfires and puts at risk the stability of EU-China relations (Pan, 2012). While Vogt's book in general is successful in examining and clarifying current EU-China relations, its focus clearly lies on specific aspects and sectors, e.g. energy, human rights, global warming politics, while foregoing member state specifics, thus referring to the EU as a single unit actor.

Another author that has extensively written on the subject, Philippe Le Corre[2], holds in several of his articles, a more negative perspective of current and future EU-China relations. On one hand, he argues that ever since Chinese FDI entered Europe 'many of the targeted countries are becoming soft supporters of China on the international stage'

[1] Director of the Swedish Centre for China Studies

[2] Senior fellow in the Europe and Asia programs at the Carnegie Endowment for International Peace

(Corre, 2018b). Furthermore, he goes on to state that 'there is little doubt that China has been using its economic role to build support for its international goals' (Corre, 2018b). He specifically mentions how Southern European economies have been the biggest target of Chinese FDI, with focus on Greece, Italy and Portugal. Notwithstanding the claims previously mentioned, Le Corre provides few concrete examples of said influence, by only referencing two particular instances: when Greece was successful in blocking an EU statement on China's violation of human rights, and how various European countries opposed the creation of a screening mechanism for FDI. On the other hand, in a later article from 2019, Le Corre acknowledges that Chinese FDI in Europe has been decreasing since 2016, as well as the development of a strengthening in cohesion between the member states. However, he maintains his view on the negative impacts of Chinese FDI in Europe, once again alluding to the two instances mentioned above, regarding the statement on violation of human rights and FDI screening.

Meanwhile, Sophie Meunier, prominent researcher on European integration, in "Divide and conquer? China and the cacophony of foreign direct investment rules in the EU", argues that due to a lack of cohesiveness in screening Chinese FDI, the EU missed on the opportunity to use its leverage and attractiveness as a single market to its benefit. Thus, this led to China holding the upper hand and taking advantage of an accessible market, while not having to reciprocate the same conditions to European countries, who acted independently on negotiations such as these (Meunier, 2014). This view is, to a certain extent, shared by Nicholas Rees, who argues that lack of cohesiveness in the EU 'makes it easy for Chinese authorities to exert pressure on particular Member States' (Rees, 2009, p.42). Furthermore, Meunier feels as if correcting and patching this lapse would take a significant amount of time, and require, aside from a new-formed EU united front, a complete reformulation of already established bilateral deals, which is proving to be a thoroughly challenging task. In my view, it is understandable though, and even expected, that cohesiveness in the EU is an issue. Poorer countries with little to no leverage, such as Southern and Eastern European economies, are more preoccupied with short term economic gains, since in comparison with countries like Germany, France and the U.K., acquiring foreign investment can pose as a solution and provide financial stability and growth.

The centripetal and centrifugal forces presented by Meunier (2014) compose of two possible outcomes of Chinese FDI into Europe. According to the author, Chinese investment either pushes member states to create a single European front when negotiating, or the continuous creation of bilateral deals between single countries and China will lead to further disintegration and non-effectiveness of the EU, enabling China to continue taking advantage of the single European market. Although, one has to question, is it not possible that China, at one point had no choice but to deal with individual member states due to previous and current suspicion of China's intentions in Europe? Moreover, Meunier failed to mention how Belt and Road Initiative (BRI) projects and investments in Europe could possibly play out with the task of investment screening being passed on to the supranational level. Currently, we can clearly see that the EU still remains unable to produce a clear united front when concerning Chinese investment (Vogt, 2012).

In another, albeit more recent (2019), article written by Meunier, she discusses once again the impact of Chinese FDI into Europe. She proposes two hypotheses as to why there has been political friction. On one hand, 'Chinese FDI causes political unease because of its novelty' (Meunier, 2019, p.345), which propels media outlets to closely follow and report on any news regarding Chinese investment in any country worldwide. At first, we observe this in the countless reports of Chinese FDI in developing countries, but now the same issue arises in Europe. On the other hand, political anxiety increases precisely because Chinese FDI is inherently different than other kinds of FDI. Meunier mentions how in the 1980's there was a surge of Japanese FDI in the US that was met with the same reaction that Chinese FDI is causing today in Europe. In the end, Japanese investments were normalized, and cause for fear decreased greatly, although it pushed the US government to scrutinize foreign investment more carefully (Meunier, 2019, p.348). She also argues that since it is not usual that a developed economy poses as the receiver of large amounts of investment from a developing economy, thus the customary benefits the host country receives cannot be found. Exemplifying, usually the receiving country profits from technological *know-how*, although in this case, it is China that is seeking to acquire it. This way, China is looking to move up "the value-added chain, putting Chinese firms in direct competition with European businesses" (Christiansen & Maher, 2017, p.124).

According to Meunier, there are two possible outcomes to what she dubs 'novel vs unique dichotomy' (Meunier, 2019, p.359). If the first is the reason for political anxiety then, like the historical example mentioned above, with time it will be perceived as normal and media attention will subside. However, if the second is the cause, then political unrest will increase, as will media attention, and in the end, countries will create extra measures and increase screening of all foreign investment. In reality, Meunier's conclusion is flawed because, for example, the increment of media attention on Chinese investment can both signify its uniqueness as well as its novelty, one cannot use that as proof that Chinese investment is indeed detrimental to the host country. Moreover, she used Japanese FDI in the US as an example of novelty turned normalized investment, but in the end didn't the US also change its openness to foreign investment? Then how is it that Meunier mentions tightening of receiving foreign investment laws in host countries as evidence that Chinese investment is different, and thus should be carefully assessed in comparison with other sources of investment?

Secondly, when it comes to Portugal and the EU, since the formers entrance in the community, in 1977, 'Portugal has been consistently pro-European' (Dennison & Franco, 2019), which is shown in the fact that since then, the majority holding parties in Portugal have been pro-European ones. Moreover, the same report further confirms Portugal’s commitment in the role it plays as a member state. Franco and Dennison (2019) go so far as to state that 'the Portuguese people believe that their country’s fate is inextricably tied to that of the European Union'. Of course, much of Portugal’s optimist stems from the economic opportunities and advantages the EU provides, 'but its people believe in the EU as more than just an economic project' (Dennison & Franco, 2019).

Be that as it may be, there has also been an increase in criticism within and outside the EU of Portugal’s bending to Chinese will and interests. More often than not Portugal is grouped with countries like Greece and Italy who have been blamed of doing the same (Corre, 2018b). For example, Greece was heavily criticized for backing China in the South China Sea dispute, and for blocking an EU statement condemning China’s violation of human rights (Tonchev, 2018). Aside from news articles and interviews, there is little literature that addresses Portugal’s case and unique situation. Unique, because even before Chinese investment arrived in Portugal, Portugal and China already had deep established historical ties.

In fact, Carlos Rodrigues, Professor at University of Aveiro, explores this exact premise, and argues in his article for the ETNC, "Portugal-China relations: Political values play second fiddle" (C. Rodrigues, 2018), how political issues such as the one mentioned above, regarding China's violation of human rights, have long since not been discussed in Portuguese politics and not considered in its foreign policy. Meanwhile, aside from a few official governmental papers released by the Ministry of Foreign Affairs, there is no other Portuguese literature that approaches concerns on the negative impact Chinese FDI might have on Portugal.

On the other hand, Casaburi (2016) Ilhéu & Pereira (2012) and Ribeiro (2016) provide economic analysis of Chinese FDI in Portugal, mainly discussing what kind of investments were made, and in which capacity, e.g. size of the investment, percentage of the acquisition and in which economic sector the investment was made.

As shown above, much like the research on EU-China relations, the majority of literature on the Sino-Portuguese relationship tends to focus on exploring the patterns of Chinese FDI, while seeking to provide explanations as to in which circumstances Chinese firms invest in Portugal, and in what manner (e.g. which sectors) (Galinha, 2017; Ribeiro, 2016). While this information is useful as a basis and starting point to understanding current Sino-Portuguese economic relations, there is still a gap in literature that fails to correlate the impact of Chinese investment in foreign policy and regional integration.

Therefore, there is a scarcity in literature that covers the connection between the Sino-Portuguese economic relationship and how that plays into Portugal's foreign policy as a member of the EU, and thus subject to its rules and values. Most surprisingly, the research that does exist is usually composed of reports on EU-China relations that include stand-alone analysis on each European country in association with China (Corre, 2018b; Huotari et al., 2015). Accordingly, it is precisely this gap in linkage that I will dissect and expose in the following chapters, by aiming at contributing to the connection between Chinese FDI, European integration and foreign policy, with regard to a distinct singular country and reality, Portugal.

III. Theoretical Framework and Methodology

3.1 Liberal intergovernmentalism

Intergovernmentalism was first created as a response to the neofunctionalism theory of integration promoted by Ernst B. Haas (Moravcsik & Schimmelfennig, 2019). At its core, neofunctionalism defends that political integration would surely occur by means of deeper economic cooperation within the EU. This process is labeled as a "spillover effect", which is when cooperation in one area unexpectedly spreads to another area. In this case, economic integration would lead to political integration. Moreover, Haas argued that once supranational institutions gained more power through function transfers from member states, that this would also generate more integration (Lobo-fernandes, 2006, p.150). In the end, apologists of neofunctionalism believe that European integration is a self-sufficient process that will result in a transfer of power to a neutral and secure supranational entity.

Stanley Hoffmann first introduced his counter theory, intergovernmentalism, to neofunctionalism in his article "Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe" in 1966. Later, in 1993, Andrew Moravcsik built his own variant, liberal intergovernmentalism (LI). I will mainly be using his latest revision, in collaboration with Frank Schimmelfenning, which sought to answer to criticisms pointed at his theory as well as frame in a clearer way LI as a theory.

The reason why I chose this theory as opposed to the other main theory, neofunctionalism, was because the latter mis predicted 'both the trajectory and the process of EC evolution' (Moravcsik, 1993, pp.475-76). As stated previously, neofunctionalists argued that political integration would occur through a spillover. Alas, this gradual loss of member states' sovereignty to the supranational institutions, at the level and time frame Haas had predicted, simply didn't occur (Troitiño & Chochia, 2013). Currently, we observe that some type of power transfer has occurred, but EU nations remain the paramount actors in decision-making, not other supranational entities, such as the European Commission. Thus, as I will further explain, Moravcsik's theory of LI is a more adequate framework to explain EU integration in the context of this paper.

According to Moravcsik, liberal intergovernmentalism draws on "contemporary theories of international political economy" (Moravcsik, 1993, p.474), and derives, at its core, from classical theories of realism and liberalism. Therefore, some of its concepts were extracted from these very same theories. In regard to regional integration, it defends that integration takes place through a series of interstate bargaining and agreements between states. As such, in contrast with neofunctionalism, in LI, states are the main actors, as opposed to a supranational organization. In other words, EU cooperation unfolds by way of dialogue between member states, often with supranational institutions as common mediators, as opposed to acting as a higher authority over states.

As stated by Moravcsik and Schimmelfenning, LI presupposes two basic premises: the importance of states as the main actors in the international arena, and states as rational entities (2019, p.1).

Firstly, states hold the ultimate and final word in the decision-making process, acting through a channel of interstate bargaining according to their own set of preferences. Supranational entities serve as institutions that ensure and enforce that previously set policies remain active in case certain states decide they no longer serve their interests (Moravcsik & Schimmelfennig, 2019). For example, if a member state, at a given time, realizes that a certain policy is not as beneficial as it was before, it cannot simply decide to no longer abide by that policy. Thus, these entities exist to cement the premises the EU represents and stands for, which translates into deepening of integration levels.

Secondly, states tend to act rationally or with a purpose in mind. As follows, they act according to preferences that are built on domestic interests. In other words, states calculate the possible outcomes of bargaining, as well as decision-making beforehand, in order to deliberate on whether a course of action will lead to a positive result that serves national interests, or to a disastrous one (Moravcsik & Schimmelfennig, 2019, p.2). What is more, preferences and interests are not everlasting, and thus 'vary across issues, states and time according to issue-specific societal interdependence and domestic institutions' (Moravcsik, 2008).

Additionally, the authors outline a three-stage system that results in the process of integration. In the first stage, states set and single out their preferences and domestic interests. In the second stage, nations discuss and negotiate between themselves, in order to ensure a deal is created that best serves their own goals. Finally, in the third stage, the states involved ensure an institutional entity secures the fulfillment of the commitment and agreement that was created.

Henceforth, interests are a big component of what drives domestic and international state policy. At the moment, the EU continues to serve member states political and economic interests. Be it in the spectrum of the values of democracy and human rights, or in the case of investment and trade relations, the EU remains its states' most crucial partner. Notwithstanding, China has recently stepped in as another possible source of investment, and thus capable of fulfilling some member states' economic interests, such as the need for investment capital. Nevertheless, as stated, the EU remains the member states' most capable and important granter of interests, either politically or economically.

On one hand, as members of the union, all states advocate for democracy, economic liberalization and human rights. This characteristic implies that all states are politically aligned to a certain degree. On the other hand, due to, for example, the European common market, which enables the free movement of goods, capital and people, investment and trade within the EU is facilitated. Therefore, member states tend to engage more in trade and investment with other member states. Such is the case of Portugal.

Accordingly, I will consider the liberal intergovernmentalism notion of "state interests", specifically Portugal's interests, as the main instigator of its integration within the EU.

3.2 Motivations behind Chinese FDI

With media, economists and politicians speculating on the intent behind the surge of Chinese investment in Europe, it is relevant to uncover the motivations behind it. In reality, the main suspicion held by the public is that investments made by Chinese enterprises, especially SOEs, are driven by political, rather than economic reasoning. Therefore, by analysing and exposing the interests behind these investments, I am able to argue that Chinese enterprises in Portugal are encouraged by lucrative economic gains and incentives.

Scholars have consistently tried to approach Chinese investment abroad by utilizing traditional theories of FDI. Alas, most have acknowledged their inadequacy in faithfully framing and interpreting motivations for Chinese FDI (Berning & Holtbrügge, 2012, p.9).

Consequently, there is a call for the revision of traditional FDI theories to accommodate cases outside of the West and developed economies (Erdener & Shapiro, 2005). Nevertheless, according to Berning and Holtbrügge, Dunning's OLI paradigm (1979) is the most utilized theory to analyse the driving forces behind Chinese FDI (2012, p.10).

The OLI paradigm covers three important advantages FDI can provide: ownership (O), location (L) and internalization (I). Succinctly, ownership advantages imply that an enterprise has firm-specific advantages, which financially enables it to operate abroad, without jeopardizing profits and capital gains. Location advantages refer to the place the company chooses to locate to abroad. Lastly, internalization advantages address the manner in which an enterprise operates abroad (e.g. through a joint venture or licensing).

According to Dunning, these advantages 'would help firms obtain competitive edge in their international production and investment' (Liang et al., 2011, p.5). However, Berning and Holtbrügge argue that this theory falls short in explaining how Chinese multinational enterprises (MNEs) do not initially hold ownership advantages (e.g. technological or managerial savviness), but actually seek those advantages through FDI (2012, p.11). As previously explained, for an MNE to successfully operate abroad, it needs to possess the three OLI advantages simultaneously. However, in this case, Chinese MNEs don't register as the norm. Furthermore, Chinese MNEs bring to the table their own unique advantages, such as governmental support, which is not included in traditional OLI advantages (ownership, location and internalization).

Berning and Holtbrügge argue that there isn't enough attention given to the impact domestic governmental policies have on Chinese FDI (2012, p.23). Aside from the usual economic incentives an MNE takes advantage of when it invests in foreign markets, Chinese MNEs are also urged by the government, which means there is an added motivation for a Chinese company to go abroad. This governmental support often translates into monetary incentives, guidance, initiatives, and auspicious policies that protect enterprises' activities in case of setbacks.

In reality, Chinese firms adjust their FDI strategy according to domestic policies and governmental requests, and thus, to a certain degree, there is the existence of political interference. One example that precisely illustrates this governmental support, is the "Going Out" policy (1999), that encouraged Chinese enterprises (national and private) to invest abroad. To make matters more obvious, in this context, the majority of Chinese enterprises in the EU are SOEs (Corre, 2019), which further highlights the importance of governmental encouragement to the strategy behind Chinese investment abroad.

The same notion is defended by Knoerich and Miedtank in their article "The Idiosyncratic Nature of Chinese Foreign Direct Investment in Europe" (2018). In addition, Hellström also argues that the increment in Chinese investment in Europe is a consequence 'of reduced restrictions on outbound investment and policies to encourage companies to look overseas for acquisitions' (2016, p.4). The reason behind such policy changes is that the Chinese government realized that, in order to enhance global competitiveness, Chinese enterprises would have to gain technological expertise that could only be obtained from superior competitors abroad. Moreover, China is undergoing a transformative process from an export-driven manufacturing economy, to a technology and consumption driven one. In the end, these policy changes, coupled with other external circumstances, such as the 2008 financial crisis, gave way to the increase in Chinese FDI in Europe.

The aforementioned information can explain the means through which Chinese investment increased abroad, but why invest in Europe? What are the motivations behind Chinese FDI in developed countries? According to scholars, strategic asset-seeking in managerial and technological *know-how*, as well as efforts to acquire cutting edge technology that might increase their competitiveness are the main reasons as to why China invests in Europe (Berning & Holtbrügge, 2012; Knoerich & Miedtank, 2018).

By means of strategic-asset seeking in Europe, Chinese enterprises are able to gain access to skills and competences previously unknown to them, that enables these MNEs to improve their capability, and consequently, level of competitiveness. An illustration of this was the China Three Gorges' investment in EDP, a Portuguese utility company, which equipped the Chinese investors with management *know-how* in energy firms (Leung, 2019, p.112).

Thus, Chinese MNEs 'use outward FDI to overcome their competitive disadvantages' (Knoerich & Miedtank, 2018, p.5). This also explains why in the EU the majority of Chinese investment comes in form of mergers and acquisitions (M&As) and not greenfield investments (Bickenbach & Liu, 2018), as well as explains the establishment of research and development (R&D) bases in Europe by Chinese firms (Knoerich &

Miedtank, 2018, p.5). In comparison with greenfield investments, M&As allow Chinese investors to access *know-how* more quickly, and with less effort and planning. Whereas greenfield investments imply the creation of a new business, a M&A involves an already existing, and often developed, company.

Following this, I will build on strategic asset-seeking, as well as technological and managerial knowledge transfer as the main motivations behind Chinese investment in the EU, while encompassing specifics of Portugal as an attractive recipient of Chinese FDI, that will be further explained in Chapter V.

3.3 Data and methods

In order to carry out my study, I will be relying on secondary sources relevant to the topic. In fact, my analysis is mostly based on material gathered from news articles, official documents, financial reports, as well as academic papers, publications and books. Therefore, I decided to utilize a combination of different methods according to the type of data at hand. I will use a mix of quantitative and qualitative research methods, specially surveys, interviews and data conducted and extracted by third party researchers and think tanks. Another method at hand is the use of simple and straightforward discourse analysis on official governmental documents and public statements, together with news media articles, which allows me to discover and analyse underlying meanings and possible intentions in text. Florian Schneider succinctly describes discourse analysis as 'a detail-oriented language analysis that tries to figure out how linguistic choices affect meanings' (Schneider, n.d., p.29).

For news articles I will be using both English and Portuguese news outlets in order to broaden the opinion scope to a mix of domestic and international debate. As for official documents I will rely on white papers and written statements by the Portuguese Foreign Affairs bureau, the Chinese government and Joint Communications by the European Commission. In addition, I will draw on financial reports by renowned think tanks and organizations such as MERICS (European think tank), Rhodium Group (research provider), AICEP (independent entity of the Portuguese government) and ETNC (European think tank), to extract quantitative and analytical data on Chinese FDI in Europe and Portugal. Lastly, the selection of academic papers, publications and books are mostly peer reviewed articles, books written by prominent scholars, as well as a couple dissertations (Galinha, 2018 and Ribeiro, 2016) that include unique and specific interviews and surveys privy to their own research, and as such, not available outside of them.

With reference to case selection, I’ve restricted the study to Portugal because it is often a disregarded case in comparison with other Southern European cases, such as Greece and Italy. Also, its lengthy relationship with China makes it a peculiar case, as I will argue in the following chapters. Moreover, my knowledge of Portuguese grants me access to crucial sources in the Portuguese language. In addition, and as mentioned before, Portugal hasn’t been researched enough in the context of Chinese FDI and European integration (Corre, 2018a), thus it is useful to contribute to the debate and literature.

IV. Portugal, China and the EU

4.1 Contextualizing Portugal-China relations

The Sino-Portuguese relationship precedes any relationship between China and other European countries. The two countries first crossed paths in the 16th century, during the Age of Discovery, and established trading relations, which years later culminated in the acquisition of Macao as a major trading post, and afterwards a Portuguese colony. Consequently, the Portuguese language and culture was introduced in Macao, and there were efforts to maintain dialogue between the two. To an extent, these century old interactions helped the Portuguese government get a sense of Chinese culture, and how China operates. Currently, this aids the Portuguese government in knowing how to conduct itself with China. Moreover, China values this relationship precisely due to its longstanding status. Nevertheless, at this stage, it was still an undeveloped relationship.

In fact, it was only in 1979 that both countries officially established diplomatic relations (B. F. Pereira, 2006). From this year until 1999, the Sino-Portuguese relationship was monopolized by the Macau Question, which consisted of efforts and negotiations around the return of Macao to the CCP. Negotiations went smoothly, and finally there was time and opportunity to open a new chapter in Sino-Portuguese relations, hopefully including cooperation and dialogue in a greater number of aspects (Pereira, 2006, p.65). The rapid success of the negotiations is also a reason as to why, today, China views Portugal as a reliable and non-problematic economic partner.

Be that as it may be, for a while Portugal lost interest in immediately working on bettering ties with China, and there was ‘a lack of interest in a significant and multidimensional relationship with China’ (Gonçalves, 2010). I believe this may have been because at the time Portugal was focusing on its role in the EU, as it was entering the Eurozone and adopting the Euro currency, thus it was preoccupied with more pressing issues.

Eventually, in 2003, the Forum Macao was established between China and Portuguese-speaking countries and describes itself as ‘a multilateral, intergovernmental co-operation mechanism aimed at promoting economic and trade exchanges between China and Portuguese-speaking Countries, by using Macao as a connecting platform’ (Secretariat of

Forum Macao). This cooperation framework has enabled, even now, the maintenance and development of economic and cultural ties between Portugal and China by, for example, contributing to an increase in exports and investment of Portuguese enterprises in China (Ihéu & Pereira, 2012, pp.20-1).

After the establishment of the Forum Macao, in 2005, the Portuguese and Chinese governments signed a global strategic partnership which further cemented bilateral ties. According to the joint statement signed by Wen Jiabao, premier of the PRC (2003-2013) and José Sócrates, Portuguese prime minister (2005-2011), Portugal and China would begin cooperating on several issues regarding politics, economy, culture, justice and health (*Declaração Conjunta Dos Governos Da República Portuguesa e Da República Popular Da China Sobre o Reforço Das Relações Bilaterais*, 2005). It is believed that what propelled China to sign such an agreement was the potential it saw in Portugal as a bridge to other continents (Portuguese-speaking countries) and the EU (Galinha, 2017, pp.81-2; Gonçalves, 2010; Pereira, 2006, p.67). At this stage, Portugal was one of the few European countries that had signed a strategic partnership with China, and as argued already, this also stems from the fact that Portugal and China were already well acquainted.

With this crucial step in Sino-Portuguese relations, followed developments in culture, with the creation of the first Confucius Institute in Portugal (University of Minho); political, with the establishment of a Consulate in Shanghai; economic, with business partnerships between, for example, ZTE and PT, Chinese and Portuguese telecommunication companies respectively (Pereira, 2006, p.69). Furthermore, and according to Futscher Pereira, Portuguese journalist and diplomat, after 2005 there was an increase in Portugal's exports to China, as well Portuguese investment in China (Pereira, 2006, p.70-1). However, he also mentions it fell short in comparison with other European countries, which registered higher values of interaction at the cultural, political and economic levels.

The next stage of the Sino-Portuguese relationship would unfold a few years later, and in direct connection with the 2008 global financial crisis. This was an important instigator, that to this day carries weight and frames much of Portugal-China relations post-2008. I will discuss and analyse this development in detail in Chapter V, where it is relevant to do so.

4.2 Portugal as an EU member state

After decades of dictatorship, the left took control of the Portuguese government after a military coup (the Carnation Revolution in 1974), which enabled the initiation and development of the democratization process (Sousa, 2000). However, political instability persisted, and it was only after entering the EEC in 1986, that Portugal saw positive political and economic development. Moreover, Sebastián Royo[3] argues that integration in the EU 'has contributed to the modernisation of the Portuguese economy' (Royo, 2013, p.198).

The following years saw a period of accommodation to the EU's political, economic and social parameters. Eventually, EU financial policies in regards to liberalization and privatization further aided the Portuguese economy in the 1990s, when it registered the highest levels of financial growth and stability, and was thus able to meet the financial requirements in order to enter the EMU and adopt the Euro currency in 1999 (Royo, 2013, p.201). This was an important step in the convergence of Portugal and the EU.

In spite of this, the 2000s saw Portugal suffering from an economic recession, and soon after, in 2008, the global financial crisis hit Portugal particularly hard and pushed the EU to present a €78 billion bailout that would require austerity and further privatization efforts (Royo, 2013, pp.206-7).

The TROIKA[4] bailout and enforced austerity saw a rise in scepticism and discontent towards the EU, and countries like Portugal and Greece felt abandoned by their "mother" institution. Although, even if levels of discontent grew, austerity was still more easily accepted in Portugal, in comparison to Greece. Pedro Lains talks about how in Portugal "austerity" had a more positive connotation in public debate in Portugal than in other equally affected economies, like Greece and Spain (Lains, 2019, p.107). This is just one example of Portugal's commitment and belief to the EU agenda.

[3] Scholar and professor at Suffolk University, with a focus on Southern European politics and economic institutions.

[4] Group formed by the European Commission, European Central Bank and International Monetary Fund

Fast-forward a decade later and the EU continues to be just as important for Portugal. In 2017, a survey of the Eurobarometer reveals that an increasing number of Portuguese citizens feel confident and optimistic in belonging to the EU (European Parliament, 2017). Moreover, and in the context of EU-China relations, when asked about the importance of the EU when dealing with a rising China as an economic and political power, 66% of Portuguese citizens thought it best to act in convergence with other member states and the EU.

In addition, as previously mentioned in the literature review, a policy brief conducted by Dennison and Franco through the European Council, demonstrates how Portugal is aware of the EU's importance and contribution to the country, and thus it continues to strongly identify with EU values and guidelines (2019). Economically, just in 2018, Portugal has received more than 5 billion euros.[5] In contrast, it has contributed less than 2 billion. What I mean to say is that, it is obvious how Portugal benefits economically by being a part of the EU, so it continues to be in its interests to remain an active member.

Meanwhile, at the political level, and in decision-making in the EU, Portugal has limited influence, in comparison with major countries like Germany and France, due to its smallness and limited contribution to the EU. On one hand, Portugal seems to have more equal ground in the European Commission, in comparison with the European Council and Parliament (Marquês de Almeida, 2010, p.84). This is because in the Commission, there is one representative, and thus one vote per country, as well as a framework based on collective decision-making. However, Almeida also stresses how the European Council can be an opportunity tool to argue and defend Portuguese interests (2010, p.85). For example, in the European Council, Portugal holds a voting power of 3,5%, which is considered a position of intermediate relevancy in decision-making in the EU.[6]

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[5] Source: Europa, an EU official website, https://europa.eu/european-union/about-eu/countries/member-countries/portugal_pt

[6] Ibid, https://ec.europa.eu/portugal/news/eu-myths/portugal-%C3%A9-um-pa%C3%ADs-sem-peso-na-uni%C3%A3o-europeia_pt

On another note, when it comes to trade and investment, the EU remains Portugal's largest trade partner. In 2018, 76% of Portuguese exports went to other member states. The same percentage applies to Portuguese imports.[7]

In the end, Portugal relies strongly on the EU for political and economic guidance and cooperation, as history as shown between the two. Both exhibit high levels of economic and political convergence, as well as a common external policy built on multilateralism. However, in recent years, the EU is showing signs of a more protectionist action in light of China's global rise (e.g. tougher and assertive China policy). This has been met with slight criticism by the Portuguese government, that advocates for the continuation of an open and multilateral external policy, that benefits both Portugal, the EU and China.

[7] Ibid, https://europa.eu/european-union/about-eu/countries/member-countries/portugal_pt

V. Data Analysis

5.1 Chinese FDI in Portugal

Before the 2008 global financial crisis, there was not much to be said about Chinese FDI in Portugal. While practically nonexistent before, in 2011 it increased exponentially due to demands of economic privatization of Portuguese national enterprises by TROIKA, as part of the EU bailout deal. As someone states, 'before the privatization programme, the only significant investment China had in Portugal was through SJM Holdings who acquired Group Casino Estoril' (Ribeiro, 2016, p.24). As mentioned before, the crisis in connection with the Going Out policy propelled the rise of Chinese investment in Europe and, consequently, Portugal (Pareja-Alcaraz, 2017).

Accordingly, when the EU failed to provide sources of investment capital to Southern and Eastern European countries affected by the crisis, Chinese capital proved to be an easy and welcomed solution (Benner et al., 2018, pp.14-5). For Portugal, this resulted in major deals, which ended up making it the 4th largest recipient of Chinese FDI in the time period between 2000-2014 (Pareja-Alcaraz, 2017, p.703).

Exemplifying, between 2000-2017, the stock of Chinese FDI in Portugal was $7,6 billion (Ilhéu, 2018, p.27). In fact, major acquisitions happened in the period between 2011-2014, with most Chinese investors obtaining 'important voting shares' (Pareja-Alcaraz, 2017, p.102). In 2011 and 2012, China Three Gorges acquired 21% and 49% of EDP and Renováveis, respectively. Later, in 2014, Fosun acquired 80% and 96% of Caixa Geral and Espírito Santo Saúde. Hence, the investment trend reveals that Chinese enterprises in Portugal invest primarily in the energy and utilities sector, along with the finance and banking sector (Pareja-Alcaraz, 2017).

Furthermore, Santos Neves talks of a three dimensional reality in regards to Chinese investment in Portugal (UALMedia, 2014)[8]. There are big scale investments, which first appeared in 2011 due to the privatization surge, small scale investments related to CFE

[8] Interview of the director of Observare (Portuguese research centre).

(Chinese Family Enterprises), and medium scale investments associated with the Golden Visa scheme. To clarify, the Golden Visa scheme was a programme set up by the Portuguese government in 2012. In order to attract foreign investment, Portugal allows foreigners to obtain permanent visas if a significant investment is made (e.g. €500 thousand for real estate). Since its creation, Chinese have been granted the majority of Golden visas (Bongardt & Neves, 2014, p.28). However, since a great deal of the investments made have been in real estate, their contribution to the Portuguese economy has been very small (UALMedia, 2014).

Most recently, in 2018, Portugal signed in on a memorandum with China regarding the 21st Century Maritime Silk Road (Visita de Estado Do Presidente Da República Popular Da China, 2018), which brought new promises of more investment, particularly in the strategic Port of Sines. This deep-water port is set in a strategic and advantageous location, which allows easy access to the Panama Canal. As of now, the port is being expanded and construction has already taken place, with investments over $70 million (Business Reporting Desk, 2020).

With this in mind, what compels China to invest in Portugal? Much like the motivations exposed in Chapter III, Chinese firms in Portugal look, for the most part, for technological and managerial *know-how*, as well as strategic market seeking. One example of the former is, Chinese interns are sent to EDP in order to understand and interiorize how this enterprise is managed, so they can apply the same management strategy in companies in China (UALMedia, 2014).

Concurrently, a great part of China's interest in Portugal as an economic partner seems to be the latter's ties with other Portuguese-speaking countries (the CPLP[9]), which provide China with access to a large and profitable market (Ihéu & Pereira, 2012; Pareja-Alcaraz, 2017, p.706). On this account, Portugal can serve as a platform between China and the CPLP. Exemplifying, there are several Portuguese companies with a strong presence in Portuguese-speaking African countries, that would be excellent choices for partnerships

[9] The Community of Portuguese Language Countries (CPLP) comprises of Portugal, Brazil, Angola, Cape Verde, Mozambique, Guinea-Bissau and Saint Thomas and Prince.

between China and the CPLP, since they already have an established presence in the latter (Diário de Notícias, 2019).

Namely, when China State Grid acquired shares of the Portuguese state energy grid REN, which operates in various countries all over the world, it opened it to new prospective deals and negotiations with Brazil, which has over 3 million REN consumers (Galinha, 2017). Moreover, Ilhéu and Pereira also argue that China Three Gorges invested in EDP with the main goal of also gaining access to the Brazilian market (Ihéu & Pereira, 2012, p.2).

In addition, China also holds deep economic interests in Africa, thus through Portugal it gains access to crucial countries such as Mozambique and Angola. In fact, just 'in 2008, Angola was China's largest single oil supplier, acquiring an increasingly strategic role in China's external relations' (Ihéu & Pereira, 2012).

In this scenario, Portugal was only one of the many European countries in which Chinese investment latched on. This “shopping spree”, as many refer to, has, in the past decade, attracted much attention in the public debate, with the novelty of Chinese investment in Europe raising concerns regarding possible future national security and competitiveness issues (Hellström, 2016). Moreover, others also argue that ‘efforts by European governments to attract Chinese investment could put EU coherence at risk and increase China’s ability to influence political decision-making’ (Hellström, 2016, p.8). To make matters worse, in this case, the majority of Chinese investments in Portugal were made by SOEs (UALMedia, 2014), which are closely connected with the Chinese government, thus further highlighting anxiety over any intelligence transfer, as well as possible political pressure exuded.

Hence, as an important recipient of Chinese FDI, Portugal has also been targeted and criticized for contributing to the issue, as well as putting at risk the EU’s coherence on its China Policy. For example, often mentioned, is the fact that Portugal was one of the member states that voted against the creation of an FDI screening mechanism in the EU (Cerulus & Vela, 2018). However, there has been no other concrete evidence shown on possible influence exerted by China aside from the screening mechanism proposal.

In fact, I argue that Portugal was simply defending its own economic interests, by not wanting to compromise investment flow, when turning down the implementation of said mechanism. The Portuguese government considers FDI of utmost importance to the country (Santander Trade Markets, 2020). Moreover, Chinese FDI in Portugal remains a very small percentage in comparison with other sources of investment. In 2018, when Portugal voted against the screening mechanism, France, Spain and Germany were actually Portugal's largest foreign investors, and in Portugal's top ten investors, seven of them were fellow European countries (EY, 2019, p.17). Once again, it seems as if the novelty of Chinese investment exacerbates public outrage and reaction.

Meanwhile, in Portugal, while some economists and politicians have also expressed concerns over the rapid surge of Chinese investment, the majority seems to view it as a positive matter. In an interview conducted in 2016 by Pedro Galinha, prominent figures of the Portuguese government, as well as ambassadors and researchers on the field gave their opinions on the aforementioned investments. The consensus seems to be that 'there are more reasons to be believe it is a *win-win* situation than the contrary' (Galinha, 2017, p.98), and that to them it seems clear that China's goal is not to gain political power and influence over Portugal, but to conduct business. Berning & Holtbrügge also conclude that Chinese FDI in Europe is 'mainly motivated by commercial and not by political determinants' (2012, p.16).

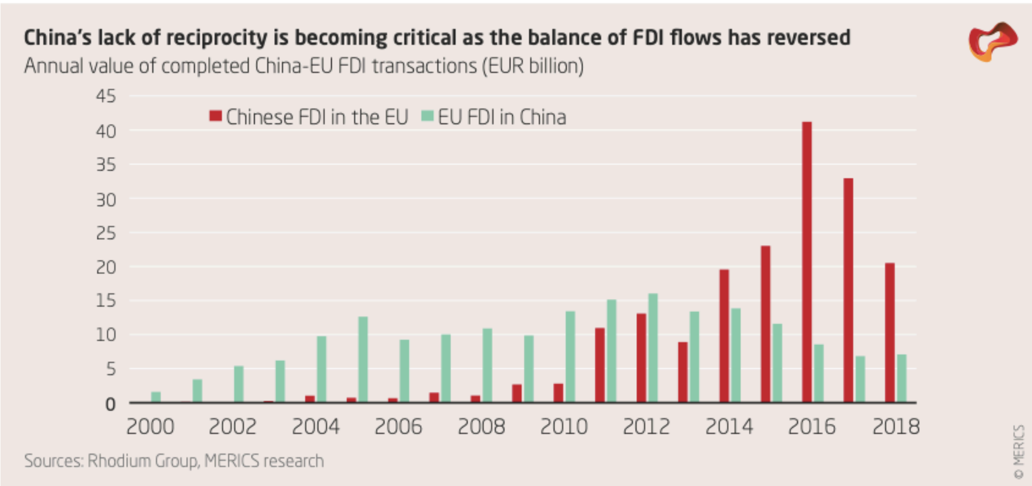
On the other hand, Santos Neves argues against the positive impact of Chinese investment in Portugal, and states that until now Chinese investment has brought 'no impact or direct benefit' (Galinha, 2017, p.98). This is mainly because Chinese investment has translated in M&As and not greenfield investments, which register a lack of job creation. Notwithstanding, Santos Neves acknowledges that, in the beginning, it was crucial for maintaining the jobs of the companies that would have otherwise gone bankrupt due to the financial crisis (Pareja-Alcaraz, 2017, p.707; UALMedia, 2014).

While Chinese FDI in Portugal has been met with an overall positive reaction, Portugal still shares some of the same concerns heavily debated in the EU. More member states are becoming skeptical of the actual benefits Chinese investment provides, thus disappointment levels are rising (Poggetti & Zenglein, 2020). For example, the Portuguese government has complained about a lack of reciprocity in market accessibility, as well as in investment (UALMedia, 2014). However, in 2019, the Chinese government released the news that they are working on a new guideline that will 'improve business environment for foreign investors' (Xinhua, 2019), which is the type of positive development Portugal and other member states have been waiting for.

In the end, both Portuguese economists and politicians argue for a more positive development of future Chinese investments, hoping that they will bring more jobs and technological advancement in the industry sector (Quintã, 2017). Notwithstanding, it is important to mention other ways in which Chinese investment has fallen short of vis à vis the amount of attention it has received.

Not only in Portugal, but in Europe in general, Chinese FDI has been steadily decreasing (Huotari et al., 2020; Kratz et al., 2020). Figure 1 reveals how it has been decreasing since 2016, when it reached its peak.

Figure 1. EU-China FDI flow



Source: MERICS Report "Managing Economic Cooperation and Competition with China" (2020, p.9))

The main reason behind this are recent Chinese governmental guidelines that exert a tighter control on FDI. China is slowly turning back to its domestic market, and thus new investment abroad is solely focused on what they deem to be the most strategic sectors (Ilhéu, 2018, pp.24-5).

Besides, a report shows that in 2019, Chinese investment saw a new focus on Northern Europe, leaving Southern European countries behind (Kratz et al., 2020). Also, the 2020 COVID-19 outbreak is sure to contribute to this steady decrease in investment, as early 2020 data has already exposed a continuing decline (Kratz et al., 2020).

Therefore, with help of the information I have presented until now I argue that it is erroneous to assume with certainty that Portugal is being politically and economically swayed by Chinese FDI. Furthermore, the Portuguese Minister of Foreign Affairs, Augusto Santos Silva, on a recent interview with the Financial Times, denies that Portugal is a 'special' friend of China (Cruz, 2020), and hopes that the latter adopts a new, more beneficial, investment strategy by, for example, setting up strategic industries in Portugal.

While it is important for member states like Portugal to critically assess Chinese FDI, it is unwise to blow out of proportion its significance in the EU's big picture. In reality, Chinese investment in Portugal and the EU, is but a small part in comparison to investment from the US or even from European countries themselves (Knoerich & Miedtank, 2018; Poggetti & Zenglein, 2020).

5.2 Portugal's domestic interests

Seeing as Portugal is an EU member state, it goes without saying that to some degree, Portugal's political and economic interests are aligned with the EU's interests, especially in regard to political values. Notwithstanding, it is naïve to assume that there are not other "players" capable of catering to Portugal's domestic interests.

On one hand, the importance of democracy and human rights have always been at the forefront of the EU political agenda, and consequently, Portugal's agenda. On the other hand, economically, I have already established that other member states are Portugal's most important trade and investment partners. Moreover, in accordance with the EU, the Portuguese government is a firm advocate of the free market, as well as an adherent of the World Trade Organization (WTO) guidelines on trade and investment.

However, while the EU is a large part of Portugal's national interests, it is not the only part. Portugal realizes that as a small country with limited power and international leeway, in order to voice and protect its interests, it is crucial to establish and maintain different cooperation channels, in different areas, and thus with multiple countries (Dennison & Franco, 2019). In addition, it is an active participant and member of several international and global institutions aside from the EU, such as the CPLP, International Monetary Fund

(IMF), United Nations Children's Fund (UNICEF), Organization for Economic Co-operation and Development (OECD), WTO, United Nations (UN), and countless others[10].

Another important aspect is that, in some of these organizations, for example UNICEF, Portugal, China and the EU share the same interests and goals, which in this case, is providing humanitarian aid to children worldwide. Therefore, there are, in fact, ways in which Portugal, China and the EU are able to cooperate without antagonism.

Notwithstanding, the central point is that Portugal has multiple purposes, separate from China and the EU, when joining some of these organizations. The CPLP is one such case. Succinctly, it is part of Portugal's strategy to use its advantageous geographical position and history to actively pursue some of its economic interests.

For instance, because of the Portuguese language, Portugal is closely connected with other Portuguese-speaking countries, and thus finds in its interest important to maintain these historical and cultural ties ("Programa Do XXI Governo Constitucional 2015-2019," 2015), which have translated as well in cooperation in the trade and investment sphere.

In fact, it is part of the current government's programme, to explore and cherish other strategic partnerships outside of the EU, such as with Brazil, South America and China ("Programa Do XXI Governo Constitucional 2015-2019," 2015, p.36). In addition, the programme also mentions the importance of deepening economic relations with China and the CPLP, always in accordance with EU strategic guidelines ("Programa Do XXI Governo Constitucional 2015-2019," 2015, p.252). Just as the document implies, Portugal has also turned some of its focus to Asia, and China, most importantly, has proven itself to be an interesting poll to exercise Portuguese economic interests.

On one hand, the surge of Chinese investment in Portugal post-2008 financial crisis has opened Portugal's eyes to the possibility of viewing China as a strategic investor in the country, as long as investments remain beneficial (e.g. create employment) and follow EU's parameters. While the Portuguese economy has grown since the crisis, it is still a

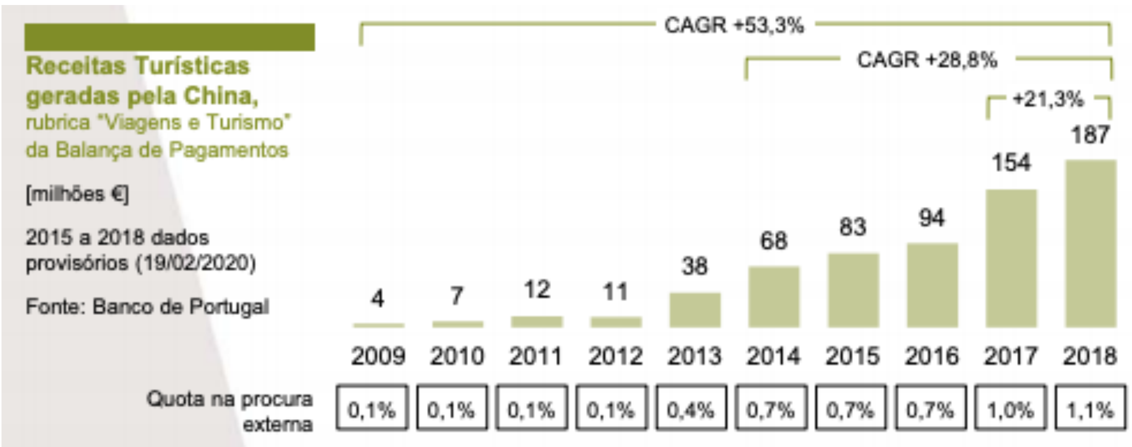
[10] Information available on the Portuguese government's official website: https://www.portugal.gov.pt/pt/gc21/area-de-governo/negocios-estrangeiros/informacao-adicional/organizacoes-internacionais-de-que-portugal-e-membro.aspx

country in need of investment, and even if Chinese FDI represents a small percentage, it is still welcomed, such as are other types of investors.

Aside from this, there are other spheres in which China contributes to maintaining Portuguese economic interests. In particular, tourism is a crucial source of revenue for Portugal (V. Rodrigues & Breda, 2014), by being the largest exporting economic activity, occupying 52,3% of export services in 2019, and contributing 8,7% to GDP in the same year (Turismo de Portugal, 2020). Notably, Chinese tourists are great contributors to this activity.

The economic rise of China enabled the creation of a rich middle class with new financial means to travel abroad, thus the amount of Chinese tourists globally has risen and continues to increase, and Portugal is just one of their many destinations (V. Rodrigues & Breda, 2014, p.317).

Figure 2. Revenue generated by Chinese tourists (in Euros)



Source: Turismo de Portugal December 2019 Tourism Report (April 2020), available at: https://travelbi.turismodeportugal.pt/pt-pt/Documents/Mercados/China/china-mercado-em-numeros-dezembro-2019.pdf

According to figure 2, revenue generated by Chinese tourists in Portugal continues to increase each year, hitting its all-time high in 2018. Moreover, other data shows that Chinese tourists tend to spend more money on luxury items, which are obviously more expensive, thus differentiating them from other types of tourists in Portugal (V. Rodrigues & Breda, 2014, p.320).

Seeing as the flow of Chinese tourists in Portugal continues to grow, it is of course, in Portugal's interest to continue attracting these tourists, which contribute positively to local businesses as well as the country's GDP.

On another note, Santos Neves and Rocha have identified and researched the emergence of a Chinese cultural and entrepreneurial diaspora in Portugal, that contributes to the community in diverse ways (Neves & Rocha-Trindade, 2008). The presence of this Chinese diaspora enables employment growth or maintenance (even if in a small capacity), as well as an increase in competition, particularly with other local businesses, which ends up benefiting local clientele (Neves & Rocha-Trindade, 2008, p.167).

Moreover, these Chinese entrepreneurs cooperate and establish business partnerships with Portuguese small and medium-sized enterprises (SMEs), thus aiding the latter in accessing the Chinese market with the advantage of reduced costs and risks (Neves & Rocha-Trindade, 2008, p.171). Hence, once again, it is in Portugal's interest to maintain this community and not neglect or discard it with potential damaging hostile policies or actions against China, with no reason but to only appease the EU.

Accordingly, I have just demonstrated how by maintaining close ties with both the EU and China, Portugal is acting according to its economic interests, and not looking to actively undermine the EU. I believe it is possible for Portugal to pursue its domestic interests through different channels (e.g. through both the EU and China), and not renounce its role as a member state or contest EU investment guidelines.

In reality, by choosing to forgo further cooperation with China due to recent growing anxiety in the EU, coupled with the criticism aimed at countries that are looking to attract more Chinese investment and cement strategic partnerships, would go against Portugal's domestic interests and goals. I reiterate, as long as cooperation takes place in accordance with EU's guidelines and values (in other words, legally), it is illogical for Portugal to isolate itself from China related issues and possibly advantageous opportunities.

Notwithstanding, this doesn't mean Portugal is looking to create a partnership with China at the same level of the Portugal-EU relationship. It is also in Portugal's interest to prioritize its role as a member state and continue to focus and invest in the EU (Galinha, 2017, p.84). In fact, this is the idea publicly expressed by the Portuguese government, which in a public statement delivered in 2019, Santos Silva addresses how Portugal has built its current ties with China through the EU, and by respecting and abiding by what the latter has dictated until now (Silva, 2019). Moreover, he expressed that Portugal and China 'are partners and not allies' (2019, p.8, translated by me), as they do not deal bilaterally in matters of defense and security, as well as geopolitics.

5.3 Portuguese foreign policy

A country's domestic interests also play an important role in defining an effective foreign policy. Portugal's foreign policy underwent a major shift after the 1974 Carnation Revolution (P. Pereira, 2018), which, as I have mentioned previously, marked the establishment of democracy in Portugal. This event, coupled with the entrance of Portugal in the EU a few years later, shaped most of Portuguese foreign policy, even to this day.

Indeed, Portugal's foreign policy focuses mainly on three crucial facets: Europe, the Atlantic and the Portuguese language (P. Pereira, 2018). Portugal's strategic location gave way to the development of a foreign policy turned to other territories apart from Europe, thus translating in a foreign policy built on multilateralism and prideful of its openness. In addition, the process of globalization and further internationalization of Portugal's economy has forged its current foreign policy, capable of answering to new challenges. The global rise of China as a key international player is one such challenge posed to foreign policy, as it contests US hegemony, which is an important Portuguese ally.

In light of present-day unease regarding the impact Chinese investment might have on member states attitude vis à vis China, and thus how it affects the formers foreign policy, Portugal is a peculiar case, due to its historical connection with China. Ultimately, I argue that a Portuguese foreign policy favourable to China is product of a mix of historical circumstances, the emphasis put on multilateralism, along with the importance of domestic interests.

Historically, Portuguese foreign policy on China was constructed around the status of the region of Macao as a Portuguese colony and Chinese territory, considering that this aspect compromised the greater part of Sino-Portuguese interactions for a substantial amount of time. Later on, this particularity equipped Portugal with the necessary knowledge to construct a solid China policy built on historical ties, and attentive of any cultural differences (Jesus, 2013, p.13-4).

The handover of Macao back to the Chinese government (1999) was an important step stone in consolidating diplomatic ties with a rising China. The fact that negotiations went along smoothly for both sides, enabled the development of a peaceful dialogue built on mutual respect between Portugal and China (Jesus, 2013, p.15). Following this episode, diplomatic visits and dialogue between leaders of both countries became a somewhat constant occurrence.

Another key point is how Portugal highlights multilateralism in its foreign policy. In fact, according to the Portuguese government, multilateralism is one of its most important pillars (P. Pereira, 2018; C. Rodrigues & Tavares da Silva, 2020). On one hand, this concept is core to the EU's foreign policy as a whole, thus it is only logical that as a member state, Portugal stays consistent with main EU values. On the other hand, as already explained, Portugal's geographical location and historical past (Age of Discovery) conditioned it, since early times, to associate with different nations in different continents.

Moreover, Portugal is a small-scale country, and for this reason it understands that in order to defend its interests and successfully engage in a global context, it needs to have an efficient foreign policy capable of unbiasedly appeasing whoever it cooperates with.

In a recent ETNC report, two researchers indicate how Portugal makes use of multilateralism and universalism to justify the maintenance of amicable relations with China and the US (C. Rodrigues & Tavares da Silva, 2020). Identically, the same justification could be applied to how Portugal handles itself in the EU-China context, by adopting a diplomatically neutral approach, as well as revealing how 'the Portuguese political and economic elites, despite external pressure, are still eager for business as usual' (C. Rodrigues & Tavares da Silva, 2020, p.135).

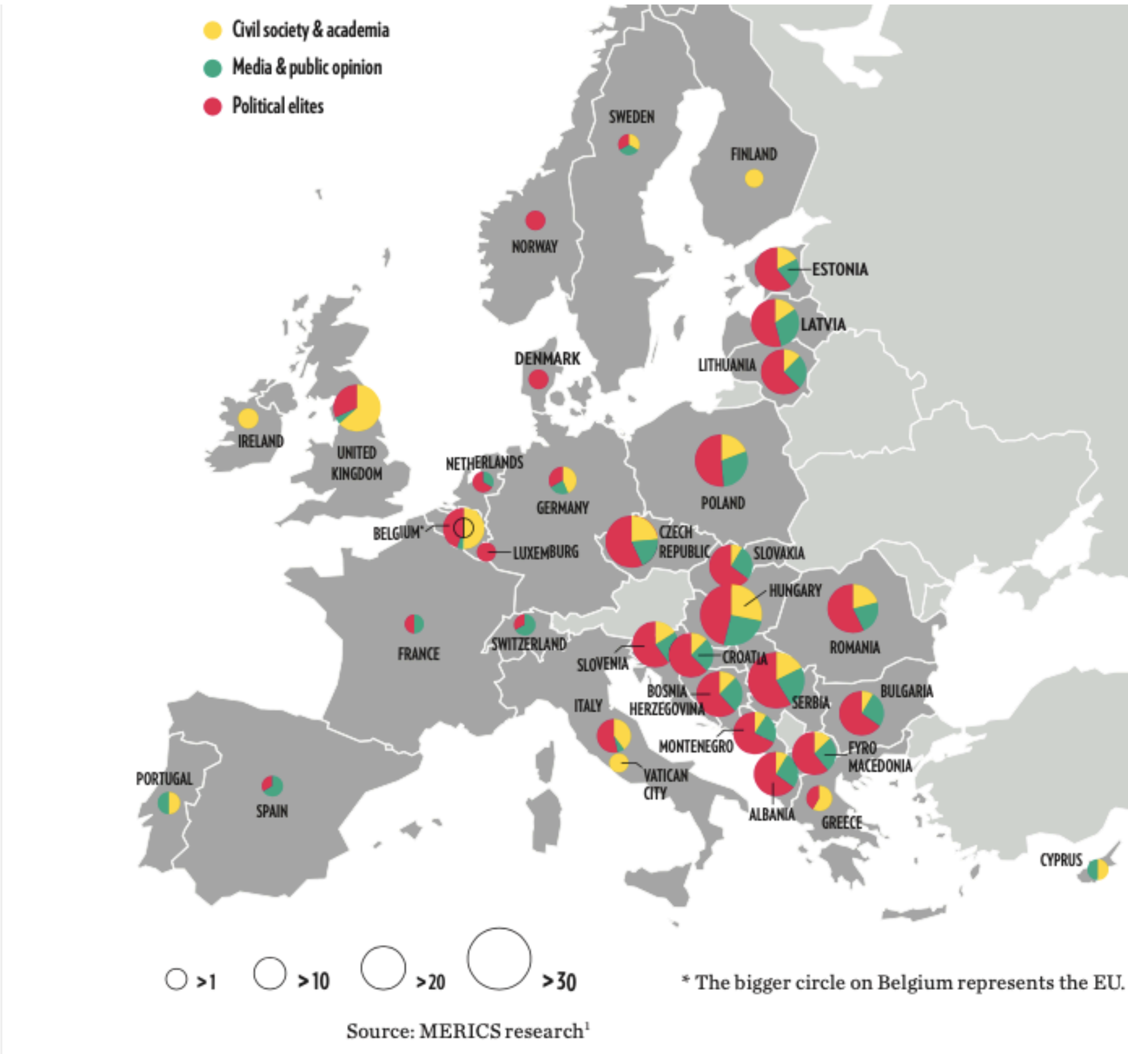
Notwithstanding, some people believe neutrality is not an option, and that there is a need for change in how Portugal approaches this particular aspect of its foreign policy. With rising external pressure from the EU and even the US, Portugal is being pushed further into a corner, and forced to "choose a side". Especially in the EU, supranational institutions argue that member states' national preferences continue to shape individual

China policies, thus limiting European integration in its own goal to achieve a cohesive China foreign policy (Marquês de Almeida, 2010, p.88). So, the EU and the US are becoming more vocal regarding countries' behaviours in relation to China.

By the same token, national preferences and domestic interests play a crucial role in shaping foreign policy. In the previous chapter I made evident how China is involved in Portugal's interests, and consequently, how beneficial it is for Portugal to maintain an amicable relationship with China. So, it only makes sense that in order to protect those interests, Portugal takes them into account when constructing its external policy. The end result is a foreign policy favourable not only to China, but others as well (e.g., EU and USA).

However, although it is supportive of China in certain aspects (mainly in the economic front), it is wrong to assume that this is due to political pressure or power exuded by China.

Figure 3 "China's Influence on Political Elites, Media and Civil Society Spreads Across Europe"



Source: MERICS and GPPi February Report "Authoritarian Advance: Responding to China's Growing Political Influence in Europe" (Benner et al, 2018)

According to figure 3, Portugal is one of the few European countries where China holds no influence in political elites (Benner et al., 2018, p.13). In other words, Portuguese political elites do not take into consideration China's preferences and inclinations in policy formation. Therefore, this aids one in concluding that Portugal's external policy in regard to China is not a result of any pressure exuded, but instead, in this case, a blend of the three aforementioned perspectives.

On another note, today, Portugal and China cooperate on a multitude of different aspects in varying levels. Exemplifying, at the diplomatic level, there has been an average number of state visits (usually once a year), each of them with a specific purpose, which is either a celebration of successful cooperation or the signing of new bilateral deals. Recently, in 2018, a total of 17 bilateral agreements were signed on diverse areas, such as finance, culture, science and technology (Visita de Estado Do Presidente Da República Popular Da China, 2018). Furthermore, in 2019, there was another state visit from Xi Jinping in Portugal, in celebration of further economic cooperation, with Portugal being the first eurozone country to issue bonds in Chinese Yuan currency (Amaro, 2019).

In conclusion, I argue that Portuguese foreign policy was built in light of the country's specific historical context, while simultaneously making a point of reaffirming the concept of multilateralism and universalism, as well as considering national preferences and domestic interests. Moreover, Portugal's external policy has, for a long time, been consistent in its guidelines, which is indicative of a consistent China policy even in the face of a rise in Chinese investment.

Some might argue that it is naïve to assume that by utilizing multilateralism, Portugal is able to avoid conflict between the EU and China indefinitely. However, my objective is not to provide a manual on how this can be achieved. What I am arguing is how Portugal can potentially benefit economically with China, while also remaining close to the EU.

VI. Conclusion

With this thesis, I have aimed to analyze the implications of Chinese FDI in Portuguese foreign policy and its role as an EU member state, by answering the question: *To what extent does post-2008 crisis Chinese FDI into Portugal impact upon the latter's foreign policy and integration within the EU?* In order to do this, I have broken down its core elements throughout this research: Chinese FDI in Portugal, Portuguese foreign policy and Portugal's status as a EU member state. Moreover, I have also identified and established how important Portugal's domestic interests are to understand the dynamic between the existence of Chinese FDI in Portugal and Portugal's relation with the EU.

More concretely, this research used liberal intergovernmentalism as a theoretical framework, to argue that EU integration occurs through a series of interstate negotiations, in which domestic interests and preferences are at the very base of bargaining efforts. As Portugal continues to hold vested interest in the EU, it thus continues to willingly be a part of the integration process. Additionally, this research has also made use of theoretical analysis regarding motivations behind Chinese FDI, to uncover the reasoning behind the rise of Chinese investment in Europe, and consequently Portugal. It evidences that Chinese enterprises are spurred by the economic benefits (e.g. strategic asset seeking and market seeking) that European companies can provide.

At a basic level, I argue that Portugal is able to effectively remain an active member of the EU, while continuing to welcome Chinese investment. Ultimately, Portugal's goal is not to pander to neither the EU nor China. Despite its EU membership, at the end of the day, Portugal is a country looking to pursue and defend its own domestic interests, and the truth is that by cooperating with China, a number of those economic interests are fulfilled.

Indeed, it is in Portugal's interest to continue cooperating with China. Firstly, Portugal greatly values FDI, so even if in a smaller percentage, Chinese investment contributes to this need for foreign investment. Secondly, as a tourism driven economy, Chinese tourists make up an important part of Portugal's tourism revenue. Lastly, the presence of a Chinese cultural and entrepreneurial diaspora in Portugal, contributes to local development (e.g. employment creation), along with assisting small Portuguese enterprises who wish to enter the market in China.

Furthermore, I argue that there is in place an exaggerated anxiousness and suspicion surrounding Chinese investment in Portugal, that often times is product of the novelty of Chinese FDI. I highlight three important arguments that aim to disprove the notion that Chinese FDI in Europe is turning countries like Portugal into avid supports of China in the international realm, at the expense of their identity as member states:

1) In comparison with other European countries, Chinese FDI in Portugal comprises of only a minor scale investment in quantity. As exemplified, in 2018, European countries were the top investors in Portugal (EY, 2019). This has, for a long time, been the case for Portugal. Even in 2016, when Chinese investment in the EU reached its peak, the EU was responsible for over 80% of FDI in Portugal (ILP Abogados, 2019).
2) Since 2016, Chinese investment in Portugal (and Europe in general) has been steadily decreasing. Moreover, Chinese investors seem to have turned away from their post-2008 crisis focus on Southern Europe, and have since turned to Northern Europe (Kratz et al., 2020).
3) Recently, the Portuguese government has shown discontent with the current development of Chinese investment trend. Aside from the prevailing calls for more reciprocity in market accessibility in China, the Portuguese government is also expecting that Chinese investors start shifting away from M&As and invest more in the industrial sector through greenfield investments (Quintã, 2017; UALMedia, 2014).

These three reasons evidence that Chinese FDI in Portugal should not be the top concern of Portuguese and European economists and politicians, seeing as China is not even Portugal's top priority.

Lastly, I argue that Portugal has maintained a coherent foreign policy vis à vis China, that has not undergone significant or drastic changes that indicate Portugal is trying to curry favour with China in order to capture investment. Sino-Portuguese historical ties are partially responsible for the positive state of the Portugal-China relationship. This long-established connection has equipped Portugal with the knowledge on how to best communicate with China. In addition, Portugal utilizes multilateralism and universalism as a diplomatic tool, in order to stay neutral and avoid entering in conflict between the EU and China.

This research has focused on Portugal as a peculiar example of the discourse concerning Chinese FDI in Europe. As such, it has contributed to the literature by analyzing the case of a barely disputed member state, Portugal, which stands on equal grounds with other recipients of Chinese FDI in terms of received investment (e.g. Greece, Italy and Spain). In addition, this paper also contributes to research on the impact of Chinese FDI in European regional integration.

In the end, this thesis serves as an analysis built on previous and current data regarding Chinese FDI, Portuguese domestic interests and Portugal's integration in the EU. However, it does not look to provide policy recommendations nor political and economic advice for the Portugal-China-EU relationship.

In reality, it is possible that, in the future, changes occur that might push Portugal to reconsider its relationship with China, or its opinion of Chinese investment. Pressure exerted by the EU, or a change in domestic preferences could lead to a new attitude vis à vis China. Notwithstanding, past and present evidence leads me to conclude that in order to pursue its domestic interests, Portugal has opted for, and has been successful in balancing its relationship with both China and the EU, without putting at risk its identity as a member state and its centenary ties with the Asian giant.

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