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CHINA IN THE WORLD ECONOMY AND ITS ECONOMIC RELATIONS WITH SLOVENIA: PAST, PRESENT AND THE FUTURE

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1. INTRODUCTION[1]

I still have a strong memory of the response given by the Pakistani Nobel Laureate for physics (1979) Abdus Salam many years ago while discussing the technology gap when a western academic claimed that Europe and the USA were technological leaders while the other countries were just followers. He responded: »Please be more modest saying that because the West and Europe have been technological leaders for only about 200 years. The rest of the history China and India were the major economic player in the world for almost 1,800 years« (see Figure 2). This shows that M. Porter was right when saying that development is not a linear, ever-growing process (1990). It can stop and can decline to a wealth-driven stage. Countries can move backwards, as happened with China after closing down not only once in its history. When open, it has prospered like it is doing today, after having opened itself up 40 years ago.

Upon the anniversary of this opening up and following the spectacular growth seen in the last 40 years, it is time to review the historical course of relations with China and whether countries, in this case Slovenia, have benefited from China's fantastic growth record. Particularly in line with suggestion of Arora and Vamvakidis (2005) that countries should promote their development by enhancing cooperation with countries technologically on a higher level, to learn from them and secondly with those growing fast, like China has done over the past 40 years. The incomes of the Chinese have been rising as have their purchasing power and position in the global economy/system generally. Has Slovenia been able to catch at least some of the 'crumbs that fall off this table'? It is important to know this because first-movers in new markets enjoy certain advantages, especially if a small country is concerned that cannot compete with its resources and power, but perhaps on the speed of adjustments or predicting changes and adjusting to them ex ante.

1 The author wishes to thank Zvone Dragan, Tanja Drobnič, Saša Istenič, Marko Jare, Uroš Lipušček, Vlado Lukanc, Miloš Prislan and Matevž Rašković for their many helpful comments and suggestions on the first draft of this paper. The author, however, bears full responsibility for the final version. Parts of this book were used in preparation for Svetličič: Slovenia–China (Economic) Relations; in China and Central Europe: Success or Failure?, ed. by Tamás Matura, Dialóg Campus, Budapest, 2020.

Already in 2006, the article »The Chinese are coming[2]« (Svetličič and Sicherl, 2006) called for enhancing economic cooperation with China in view of the Chinese economy's then spectacular growth. A scenario using time-distance methodology predicted that China could catch up with Slovenia in terms of GDP per capita by purchasing power parity (PPP) if the growth rate difference between the two economies reaches 4% already in 2034. Chinese GDP pc in 2005 was than 4.6 times smaller than the Slovenian. By 2019, the gap had halved in 14 years to just 2.4 times. The gap is still large[3]. Catching up will obviously take more time although the difference in growth rates is still quite substantially in favour of China. But many events that were not anticipated like the Great Recession (GR) and now the Covid pandemic, for instance, have introduced doubt concerning this.

The present Covid-19 health crisis has also forced the world to look at China's development more closely. Not simply since the pandemic started in China, but because, »after an initial failure, China has fought back and contained Covid-19 more efficiently than any another state, save perhaps for Taiwan. It is also already distributing hundreds of thousands of vaccines as a *test*, which will soon replace *mask diplomacy* as a key international asset /…/ China's economy has rebounded at a better rate than any competitor. And with a twist: China has not sustained domestic demand with quantitative easing as other central banks have. Instead, it has used the gap between the consumption demand of its partners (precisely due to quantitative easing elsewhere) and their production capacity (reduced by Covid-19) to base its own recovery on exports first. In short, China is free-riding on its main partners. China's balance of trade and its current account are back at record surplus levels, and this even with state-driven capital exports over this summer« (Godement, 2020). Second, because China is reassessing and adjusting its policies to the unfavourable international environment that has emerged by reaffirming the importance of increasing the country's self-reliance and focusing on *domestic circulation*[4] (Zhu, 2020).

2 The title was an allusion on the popular movie comedy in USA in mid-sixties; »Russians are coming«, about how a submarine landed in USA and how Americans were afraid of such an invasion.

3 China's GDP PPP in 2019 being, according World Bank data, USD 16,830 while Slovenia's was USD 40,963. In this 14-year period, China's GDP pc grew approximately twice as fast as Slovenia's (3.3-fold while Slovenia's just 1.6-fold).

4 See the difference between domestic and international circulation in Li, 2020.

By opening itself up, China has transformed itself[5]– and the world along with it. By 2017, China accounted for 15% of world GDP. It had overtaken the United States to become the world's largest economy in PPP terms in 2014. Nominally, China's GDP was 64% that of the USA in 2017, making it the second biggest economy in the world (Woetzel et al. 2018). »It is increasingly clear that China is becoming the largest economy of the planet Earth[6]. It is already the case in terms of population and international trade and is almost the case or it will soon be the case in terms of share in GPP«. It was only in the nineteenth century that China lost this position to the British Empire, while after the Second World War the USA took over the mantle. But it it will take a further quarter of a century before China's share of the global planetary product (GPP) matches that held by USA at the start of the millennium.

This means it is really crucial to evaluate China's development and bilateral relations to ex ante adjust to China's present and future role in the global economy. Not least to adjust our stereotypes about China. The Chinese are too often seen by self-centred and judgmental Westerners (The Economist 2020, Nov. 7, 50) as being *from another planet*, according to ethnocentrism or Eurocentric views (see Svetličič, 2020a), as an extreme, as second rate citizens of the world (see more in Ch. 8). Already now, »2.6% of consumption in the rest of the world is imported from China. In many consumer categories, China is the largest market in the world. Today, China accounts for 30% of global auto sales, 43% of unit sales of electric vehicles, and 42% of global retail e-commerce transaction values« (Woetzel et al. 2018). Yet, we are forgetting that it is no longer just an exporter of

5 Internal political changes are however lagging well behind the economic changes. The »ideology« behind emphasising the economy before politics, before democratisation is, that wealth, economic affluence, is more important than political liberties. A research paper published by the Ash Center for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government confirms the above-mentioned strategy and Mahbubani's statements (2020) of the Communist Party's support in China. »Chinese citizen satisfaction with the government has increased virtually across the board. From the impact of broad national policies on the conduct of local town officials, Chinese citizens rate the government as more capable and effective than ever before. Interestingly, more marginalized groups in poorer, inland regions are comparatively more likely to report increases in satisfaction«, the paper states (https://nationalinterest.org/feature/book-review-has-china-won-chinese-challenge-american-primacy-168885). The Economist (2021, 23 January, 4, 7) even report, »that young Chinese (four in five students are members of the Communist Youth League) do not intend to challenge the legitimacy of the ruling Communist Party. Their social liberalism has grown even as support for the party rises. The jiulinghou (generation born between 1990–1999) are comfortable with a rising, assertive China«.

6 International Monetary Fund (IMF) predicts that China may overtake the US (on 2017 exchange rates) in 2030 (IMF, 2018) and by 2030 also in terms of nominal GDP.

simple standardised products. Technology-intensive products have been rising in importance. »China is now the second largest R&D spender in the world, after the United States. It leads key segments of the digital economy such as e-commerce and on-demand services. However, it is not yet a major technology supplier and exporter of R&D« (ibid., 2018). Compared to the world's largest R&D performer, the USA, China ranks second, and is broadly similar to the combined EU-28 area. China has a similar share of gross R&D expenditure financed by industry (between 75% and 80%) to Japan and South Korea, all of which well exceed the OECD average of 60.9% (Amighini, 2019, 18). In short, China is transforming itself from a technology laggard to a technology leader in many areas[7]. Perhaps the biggest reason that some see a technology cold war between the USA and China coming. Trump's policies on 5G or vis-à-vis Huawei clearly demonstrate this.

As this study will demonstrate, such tectonic changes in the role held by China have generally been underestimated in Slovenia by politicians[8], managers[9] and most academics[10]. The big wake-up call came very late[11], despite the foundations

7 More in chapter 2.5.

8 The first economic strategy on China was only developed in 1999 by the Ministry for Economic Cooperation and Development (MEOR) and the Slovenian Chamber of Economy (for more, see Ch. 5).

9 Actually, some managers started to be aware of the opportunities in China much earlier than politicians.

10 Some have tried to draw China's spectacular development to the attention of the Slovenian public, politicians and business community, but with not much success (see Svetličič 2004; Svetličič and Sicherl, 2006).

11 In 2008, a group of researchers clearly indicated how important enhancing cooperation with BRICS would be in this context particularly with China. The concluding chapter suggested: »The winners of the tomorrow's world will be those who will be able to choose the right moment to respond to the changes that are coming and which will properly anticipate and adapt to them in a timely manner. In spite of all uncertainties that accompany any prognosis, it is clear, that China is on the path of fast and sustainable, albeit lower growth rates than in the past in the coming decades, and returning to positions it has historically had. The winners of the "tomorrow" world will therefore be those who will be able to respond at the right time and adapt to the tectonic changes in the world market, and those who will be able to detect the true direction of these changes. The rise of China and India as the world's leading actors today is as dramatic as the Germans were in the 19th and the US in the 20th century. Where in these movements from the 20th century to the 21st century will be Slovenia, depends to a large extent on ourselves. That is why it is crucial today to "discover" new emerging centers of economic power as a new great opportunity, as Marco Polo was about 800 years ago, and we shake our fears that the rapid development of these economies threatens our development. This can only be done by replacing a defensive policy with regard to globalization with a proactive policy of hunting opportunities in its sails in order to strengthen competitiveness« (Burger et al., 2008).

very early on for good and fruitful cooperation between the two countries. The moment was missed with respect to enjoying first-mover advantages. Even today, cooperation lags well behind the potential. Reasons for this include too strong reliance on cooperation within the EU alone, thereby missing out on opportunities elsewhere which might, among other things, also help make the Slovenian economy more resilient in this volatile, ever more unpredictable world. It was long ago emphasised that a small country like Slovenia must »walk on two legs; EU and global« (Svetličič, 30–31).

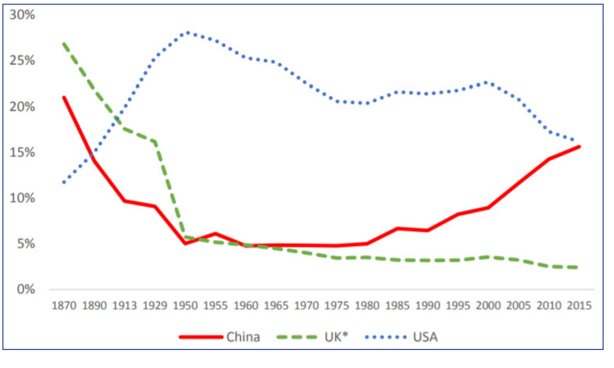
2. CHINA IN THE GLOBAL ECONOMY

The size and importance of its growth for the global economy's future development mean that China's development is central to any country's development strategy. Strengthening Slovenia's cooperation with China is strategically vital both politically and economically. A closer look at its development is therefore essential, which is the objective of this chapter. We especially consider China's role in the global economy, its technological transformation, EU policy (of which Slovenia is part) on China and, lastly, how to overcome the huge cultural differences which could erode trust, namely an important asset in this volatile VUCA world.

2.1. GENERAL ECONOMIC DEVELOPMENTS

The growth seen in China's GDP after it opened up and reformed its economy/system in 1978 has been spectacular. It has averaged at almost 10% a year and more than 850 million people have been lifted out of poverty (in the past 5 years 55 million people; CGTN, 2020). Its economy has expanded from a modest USD 149.5 billion in 1978 to USD 13.68 trillion in 2018. While the growth rate has been slower in the last few years, particularly after the Great Recession (GR), China has reached upper-middle-income country status by World Bank standards and become the world's second-largest economy.

Figure 1: Hegemonies' share in gross planet product (GPP), 1870–2016

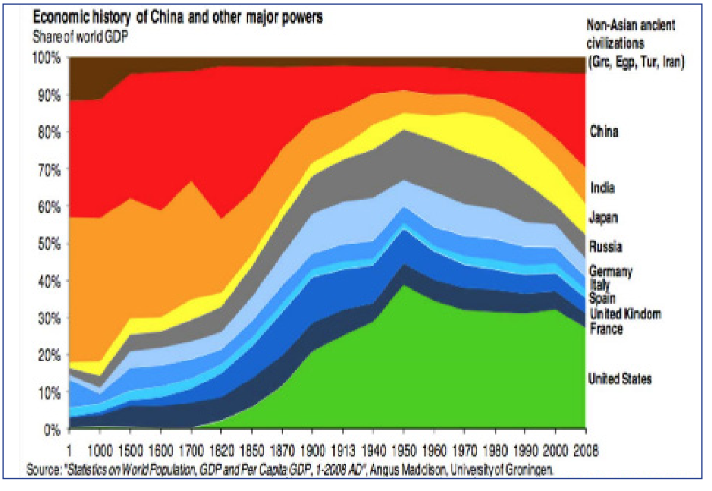


Source: Van Bergeijk, 2018, 15.

Even today, China is the biggest economy in the world by number of inhabitants, volume of trade, and soon also by size of its GDP. However, it will take another 25 years before China's share in GDP equates to what the USA had at the start of the millennium.

Many believe that it holding such a role is a total novelty, but this is not the case. Few people in the West realise how economically and technologically advanced China was in the 1400s (Edwards, 2017) and how it dominated the global system until the late 18th century.

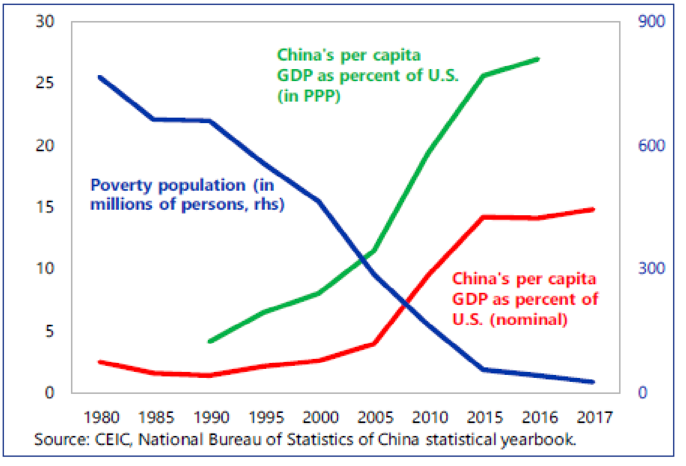
Figure 2: Economic history of China and other major players; shares of world GDP



Source: The Economist, June 2012.

From a historic perspective this is China's natural position. Only in the nineteenth century China lost that position to the British Empire and after the Second World War the USA captured the lead. Figures 1 and 2 show how the position of hegemon has been handed over. Like in the 1930s, we see that an eminent change at the top occurs in the context of a crisis and a slowdown (if not breakdown) of an era of globalisation. In the 1930s, the USA undercut the economic power of the British Empire. Today, we may observe how the re-emergence of China is challenging the position held by the USA (see Van Bergeijk, 2018, 15). However, by per capita income China is still only at the level of about one-quarter of the high-income countries. China is also lagging in labour productivity and human capital. Income inequality has improved over the last decade but remains quite high. About 373 million Chinese are living below the upper-middle-income poverty line of USD 5.50 a day (World Bank, 2020).

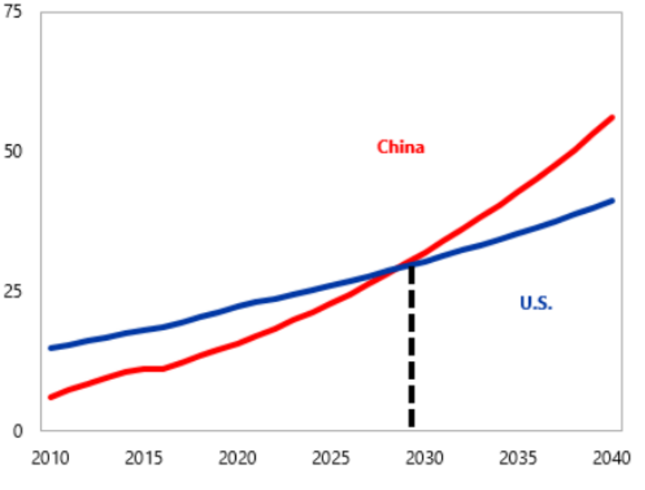
Figure 3: China's rapid growth translated into rising living standards



Source: IMF, 2018, 4.

With its spectacular growth, China has transformed the world. In 2017, nominal Chinese GDP was 64% of that of the USA. Already in 2014, China had overtaken the world's biggest economy in PPP (Bergsten, 2018, 2). The International Monetary Fund (IMF) predicts China may move past the USA (using 2017 exchange rates) in 2030 (IMF, 2018). And, by 2030, it might also do it in terms of nominal GDP.

Figure 4: China could overtake the United States by 2030 (nominal GDP in USD trillion, assuming market exchange rate of 2017)

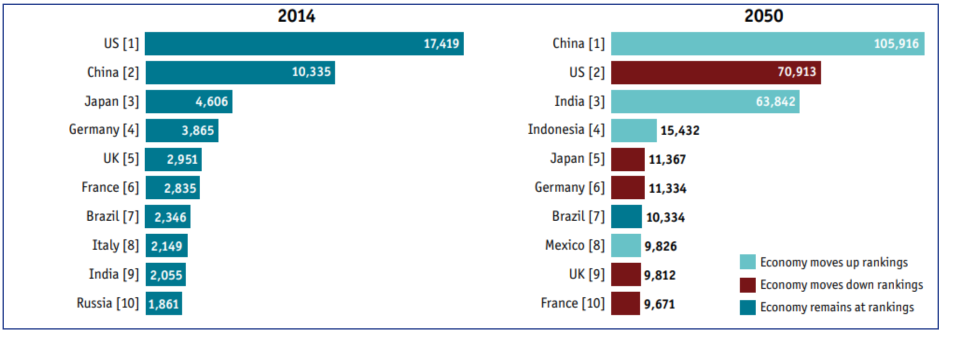


Source: IMF.

China is well on its way to becoming the world's largest economy by 2035 by share in global GDP with China first (20%–24%), the USA second (13%–16%) and two contenders for third place: the EU-27 (11%–12%) and India (9%–12%). It thus might not be appropriate to speak of a G-3 but of a G-1, 2 and 3, in which the EU-27 is the smallest, possibly even surpassed by India. Yet the question is whether China can geopolitically substitute the USA as the world hegemon (European Parliament, 2018, 16, 18).

Its domination might even be more accentuated when projecting the development level in the 2050s when, according to China's nominal GDP lead, it could be substantial, followed by the USA and India in third place. Figures 5 and 6 demonstrate how huge transformations are expected in the global system. Pax Americana is being eroded.

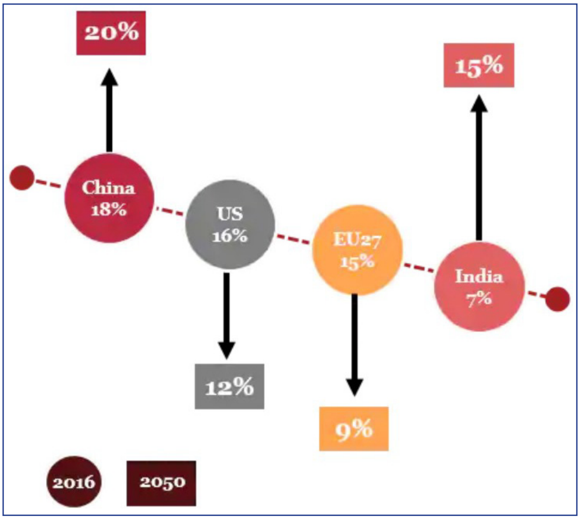
Figure 5: Top 10 economies in 2050 at market exchange rates (nominal GDP in USD billion)



Source: The Economist Intelligence Unit, 2015, 3.

The share of China will rise and those of the USA and the EU will fall.

Figure 6: Share of world GDP (PPP) between 2016 and 2050



Source: Price Waterhouse, 2015, 2.

The shares could rise further by 2060 as the USA is projected to achieve only 57% of China's GDP at PPP.

Table 1: Shares in real global GDP in 2005 PPP (in %)

	2011	2030	2060
China	17	28	28
USA	23	18	16
Euro area	17	12	9

Source: OECD, 2012, 7.

The situation is of course quite different with GDP at PPP or GDP per capita. At PPP China was projected to overtake US GDP around 2020. Purchasing power indicators are of course the most important indicator for future prospects for co-operation, reflecting the potential purchasing power of Chinese consumers. Table 2 clearly reveals that here China is already number 1, enhancing its primacy over the years. India is following suit, while the USA is expected to drop to third place in 2050.

Table 2: Projected rankings of top 10 economies based on GDP at PPP (in constant 2016 USD billion)

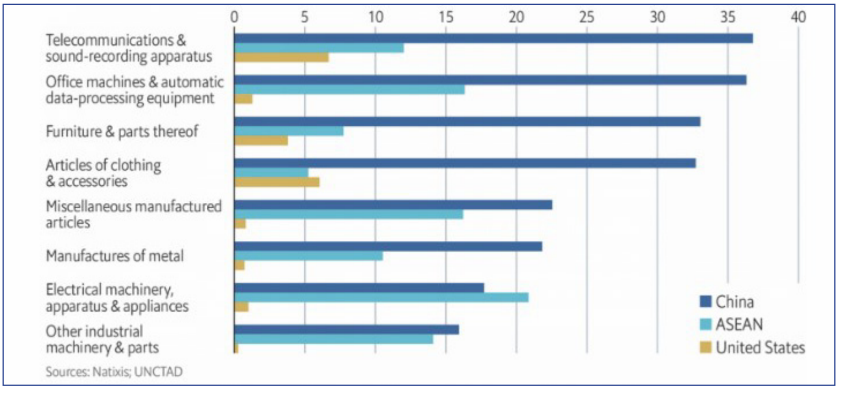
GDP PPP rankings	2016 rankings		2030 rankings		2050 rankings	
	Country	GDP at PPP	Country	Projected GDP at PPP	Country	Projected GDP at PPP
1	China	21269	China	38008	China	58499
2	United States	18562	United States	23475	India	44128
3	India	8721	India	19511	United States	34102
4	Japan	4932	Japan	5606	Indonesia	10502
5	Germany	3979	Indonesia	5424	Brazil	7540
6	Russia	3745	Russia	4736	Russia	7131
7	Brazil	3135	Germany	4707	Mexico	6863
8	Indonesia	3028	Brazil	4439	Japan	6779
9	United Kingdom	2788	Mexico	3661	Germany	6138
10	France	2737	United Kingdom	3638	United Kingdom	5369

Source: Price Waterhouse, 2017, 23.

Although China will double its GDP per capita from the current USD 10,000 to USD 21,000 by 2035, it will still remain at just below 50% of the level of the EU (European Parliament, 2018, 7).

In terms of market shares, China has also enhanced its position tremendously. It holds a dominant position in several sectors as a result of the technological transformation of the Chinese economy (for more, see Ch. 2.2).

Figure 7: Global market shares by selected industries



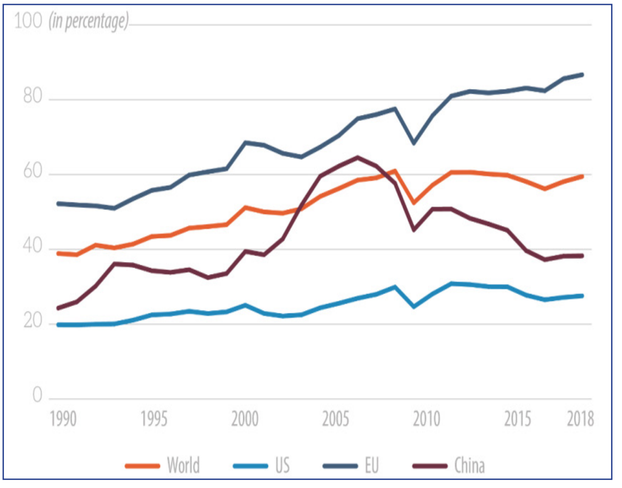
Source: The Economist, 2019, July 13, 6.

Such a pace and scale of China's economic transformation are unprecedented (Zhu, 2012; 103). Its economic growth over the previous three and a half decades has been based on several key factors: a sequence of market-oriented institutional reforms, including openness to international trade and direct investment, combined with low wages and a favourable demographic structure (Wei et al., 2017). China has made great changes in production, but also in the volume and structure of global trade in the last decade. The biggest change seen in the structure of global goods exports is the expansion of the share held by Chinese exports in global exports.

With exports growing at an average annual rate of 6.1%, China moved from being second-largest exporter in 2008 (behind the USA) to the largest exporter in 2018. It became the leading merchandise trader despite the growing global trade tensions. With a share of 13% of total exports and 11% of total imports, China's exports stood at USD 2.49 trillion and its imports at USD 2.14 trillion in 2018, rising at the fastest pace since 2012. China's exports recorded the strongest export growth (17%) among the top 10 economies in 2018 and remained the world's fifth-biggest services exporter. Information and communications technology services, largely computer services, expanded by 69% in 2018, exceeding the export value of transport and travel. China confirmed its position as the second-largest importer of commercial services with a bigger share of world imports (9.5%). This was mostly thanks to its high travel expenditure abroad, which accounts for more than half of its services payments (WTO, 2019, 48, 51).

Before the reforms in the late 1970s, China's high growth was based on resource-intensive manufacturing, exports, and low-paid labour, which all reached their limits in the last decade. Nevertheless, it is wrong to think that the basis for China's spectacular growth has simply been exports, even if initially this was the case. During and after the GR, changes were visible. The share of exports in GDP started to decrease (from 36% in 2006 to 18% in 2019; The Economist, 2020, Nov 7, 49).

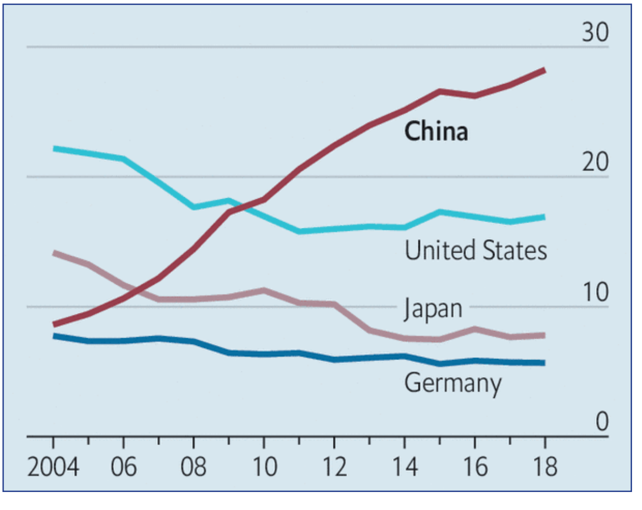
Figure 8: Trade in goods and services as % of GDP



Source: European Parliament, 2020a, 3.

Therefore, the economy's transformation relied on increasing the value added and importance of technology-based exports and reducing the share of labour-intensive products. It is no longer just an exporter of simple, standardised products. As it develops, China is turning itself ever more into a producer of finished products and moving away from being an assembler of imported parts. Value added is increasing.

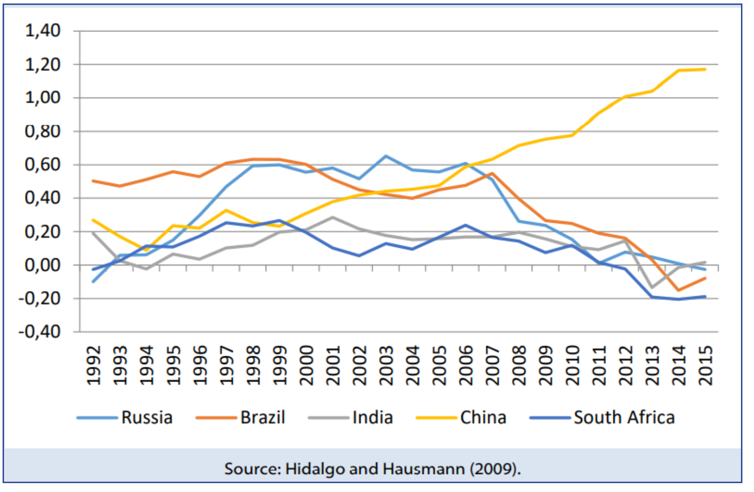
Figure 9: Share of manufacturing value added (current USD) in %



Source: The Economist, 2020, June 27, 59.

Not only has the value added of manufacturing exports risen, but the share of the knowledge-intensity exports has started to increase.

Figure 10: Knowledge intensity of exports, 1992–2015

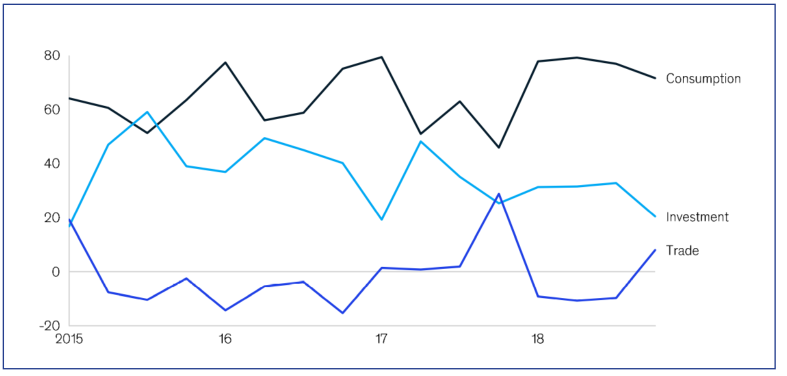


Source: European Parliament, 2018, 14.

The quality of China's manufacturing exports is also improving very rapidly, while its manufacturing 'fitness', a measure of manufacturing capability, is on a par with that of high-income economies. Further, services have taken over manufacturing as providing the largest share of GDP and is now the largest contributor to GDP growth. Meanwhile, domestic consumption, rather than investment, is becoming the main driver of demand thanks to the growing middle class and rising urbanisation (see World Bank and Development Research Centre of the State Council, the People's Republic of China, 2019) as Figure 11 indicates. Consumption is clearly in the lead, not trade which used to be so important after the opening up and investments before then[12]. In 11 of the 16 quarters between 2015 and 2018, consumption contributed more than 60% to China's GDP growth.

12 Michael Porter would say, in its investment driven development strategy, followed by countries at a lower level of development.

Figure 11: Contribution to GDP growth by expenditure component (in %)



Source: McKinsey 2019c, 49.

The driving force of the country's development has become people[13]. Their consumption has already accounted for up to 60% of total GDP growth in the 15 quarters since 2015. In the first half of 2018, this proportion had risen to 80%.
In many consumer categories, China is now the world's largest market. Today, China absorbs 30% of global car sales, 43% of electric vehicle sales[14], and accounts for 42% of global online retail transactions (Woetzel et.al., 2018).

The Chinese economy has also gradually started to move from basically a foreign technology imitation strategy to innovation-driven development, at least in certain priority sectors. New drivers of growth have begun to play the role as have the parallel social economic reforms of the institutional system, which has traditionally lagged behind economic development.

China has accomplished such progress by exploiting all of the benefits provided by the rules of the international economic system[15]. It has been able to take advantage of globalisation while at the same time curtailing its negative effects. It has followed globalisation and political autonomy/sovereignty tracks and ignored the third part of Rodrik's trilemma: democracy. Historically looking, Yugoslavia was developing under a similar dichotomy. It combined economic liberalisation under the first

13 More on changes of the development strategies in Ch. 2.3.

14 China now produces and sells more electric cars then the rest of the world combined (Krischer et. al., 2020, 58).

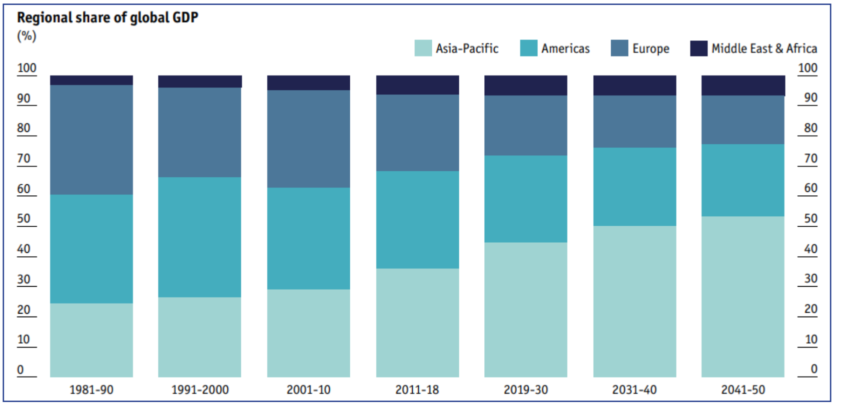
15 Lipton (2018) wrote that »China has embraced a sort of la carte globalization, adopting the rules and standards it finds most useful – like the ability to expand its companies and investments abroad – while discarding those that threaten its unique political and economic model.«

market-oriented reforms among socialist countries in 1965, paving the way for co-operation with the West, even opening the borders for joint ventures entailing foreign capital and a socialist, more authoritarian, political system. This shares some similarities with China's Going Global strategy on one side, and an authoritarian, political non-democratic regime on the other side. In this way, Yugoslavia, with Slovenia as its major Western-oriented republic, was some kind of predecessor regarding such a duality between a socialist domestic political system and a kind of market-oriented socialism also exploiting the benefits of the global market.

China's own economy does not fully function according to the principles of the international economy or when the operation of foreign companies in China is involved. It: i) prioritises its state-owned enterprises; ii) impedes the entry of new private companies and restricts competition; and iii) takes over foreign companies and hampers foreign takeovers at home. Its socialist/authoritarian arrangement allows it to play abroad by the international rules, but at home according to its own rules. Under the pressure of developed countries, China is trying to gradually synchronise both policies (see Rodrik, 2011). Such a duality in its strategy is made possible by its huge size and consequent driving role in the global economy and importance as a consumer.

Such tectonic changes are not only important in terms of size effect and role in the global economy but in terms of their impact on the growth of other countries: the whole world economy. It is in the interests of all for China's development in the future to also be fast and stable since its growth contribution is so vast. Together with India, it contributes over 50% to global growth (see Figure 21).

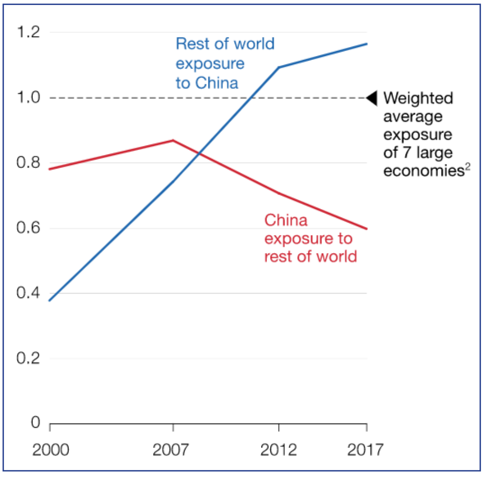
Figure 12: Contribution to world GDP growth, 1981–90 to 2041–50, for a selected group of countries (in %)



Source: The Economist Intelligence Unit, 2015, 4.

In addition, the world is increasingly interconnected with China in trade (and GVCs), technology and capital. The result is that the world is more economically exposed to China, while China has gradually reduced its exposure to the world since 2007.

Figure 13: China has reduced its exposure to the world[16], while the world has increased it (index)[17]



Source: Woetzel et al., 2018, 5.

For trade, the importance of China as a market and a supplier of goods and services to the global economy has been measured[18]. For technology, the importance of Chinese technological exports for global R&D spending. For capital, the importance of China as a supplier of financing and as a destination for investment. The authors found that between 2000 and 2017 the world's exposure to China increased in all three dimensions, with the aggregate index rising from 0.4 in 2000 to 1.2 in 2017. In contrast, China's exposure to the world was much weaker and even declined from 0.9 in 2007 to 0.6 by 2017. The difference in exposure makes the world much more dependent on China's growth than the other way around. It also strengthens its general bargaining position, making negotiations asymmetric. This can also explain why the duality of its performance exploiting the global rules internationally and only weakly at home has been silently overlooked or tolerated for so long.

16 The seven large economies include: China, France, Germany, India, Japan, the UK and the USA.

17 Includes trade, technology and capital exposure metrics.

18 For methodological explanations, see Woetzel et al., 2018.

Such an exposure is important in view of the trade war as in the one Trump started since China's room for manoeuvring is much larger than the US one, or that of other developed countries being more dependent on imports from China. Particularly when it comes to some strategic, or rare earth materials (see figures 14 and 15).

2.2. CHINA IS ALSO ENHANCING ITS SOFT POWER

While this is objective data, a country's position in the global economy, the world system, depends not only on it, but also on the 'soft' factors, on the reputation or perceptions of others countries' soft power. The capacity to influence others means possessing resources such as population, land, natural resources, economy, armed forces, and political stability (Nye & Welch, D. A., 2014). Soft and hard power are obviously not alternatives, but complements. In the words of Melissen, »the wheels of hard power can only function smoothly with the lubricant of soft power« (Ham, 2005). Lacking in the componentst of soft power, China has started to complement its hard power by more intensively relying on soft power based on six pillars: cultural attractiveness, political values, development model, international institutions, international image, and economic temptation (Li and Worm, 2010). However, it does not try to *export* so much its »unique political model, its indigenisation of capitalism, something hybrid and hard to categorise« (according to Brown, 2020, 22) as the Soviet Union did, but chiefly pursues its economic interests globally. By doing so, it can also indirectly pursue its ideology by spreading its soft power.[19]

Tai-Ting Liu (2019) considers how 'telling a good story of China' and the concept of the 'China Dream[20]' have been utilised to cope with the widespread 'China threat theory' and improve China's status and image. He concludes that by making such efforts, China seeks to move away from the popular image of 'China as a threat' to a more cordial image of China as a friendly and peace-loving nation. Such a new effort is replacing the older concept of 'charm offensive' (Kurlantzick, 2007, 6) aimed at improving its global status and image. While the idea of China charming the world with its economic and cultural prowess has not changed too

19 China has long recognised it suffers from »a soft power« deficit. Its cultural influence has not grown as fast as its economy. Therefore, in 2007 then President Hu Jintao declared that getting other countries to like China was a national priority (The Economist, 9 February 2019, 44).

20 Even before Trump took office, China was on its way to "make China great again". If the "China Dream" is the domestic aspect of the current holistic global vision of Xi's People's Republic, then the BRI is its outward face (Brown, 2020, 16, 17).

much over the past decade, in recent years 'public diplomacy' has come to replace the charm offensive as China's latest efforts to improve its status and image through soft means (Tai-Ting Liu Tony, 2019, 77).

The recent health or mask diplomacy may be included as an additional 'weapon' for enhancing China's soft power »with Chinese characteristics« (Glaser & Murphy, 2009). More important and already in use for a decade, another instrument is the increasing share held by the Chinese in international organisations. Beijing has quietly been seeding the UN and a host of other international organisations with its own nationals, racking up greater influence even as Washington is in headlong retreat (Lynch 2020). Chinese lead 4 out of all 15 UN specialised agencies (*International Civil Aviation Organisation, International Telecommunication Union, Food and Agriculture Organisation, and UN Industrial Development Organisation)*[21]. China has also been (unsuccessfully) running a campaign to lead the World Intellectual Property Organisation.

Beijing's campaigns to project itself as a 'charming' sovereign through different slogans – »Chinese Dream«, »Peaceful Rise«, and »Five Principles of Peaceful Coexistence« – seem to have failed to convince the world of its peaceful rise. The subsequently added slogan »One Belt One Road« is viewed as another step in its 'charm offensive' and generous investments. Lin (2011), for instance, argues that »conceptually, China's New Silk Road is based on China's resurging imperial role in the world, that helping Asian neighbours is merely a strategic frontier doctrine implemented by Beijing, a new strategy of gaining further influence and even its road to become a hegemony«. There are theoretical and historical reasons in support of this perception. Some international relations theories assume that it is impossible for China to rise peacefully (see Attanayake, 2016).

Whatever China does in this soft power offensive, it will be very difficult to change one aspect of the USA's very important soft power, that is, the American way of

21 See Kredo, 2020. Important positions are held by:
1. Liu Zhenmin, undersecretary general for economic and social affairs at the United Nations
2. Haoliang XU, UN Assistant Secretary-General, UNDP; UNDP Assistant Administrator and Director for the Bureau for Policy and Programme Support
3. Zhang Tao, deputy managing director of the International Monetary Fund
4. Yi Xiaozhun, deputy director general of the World Trade Organisation
5. Yong LI, Director General United Nations Industrial Development Organisation (UNIDO)
6. Liu Fang, secretary general, International Civil Aviation Organisation
7. Zhao Houlin, secretary general of the International Telecommunication Union
8. Xue Hanqin, vice-president of the International Court of Justice
9. Qu Dongyu, director-general of FAO (see https://www.scmp.com/news/china/diplomacy/article/2167522/which-chinese-hold-top-jobs-key-international-bodies).

life, which has many followers around the world. Not least because the Chinese would also like to enjoy American standards, to imitate the American way of life, particularly the young generation. This is an important dimension of the USA's soft power, its prestige and one of the pillars of its world leadership.

2.3. FUTURE DEVELOPMENT CHALLENGES

China has historically often oscillated between opening up to and closing itself off from world influences. Partly this has related to its role in the world (to achieve or hold on to its imperial position or not?) and partly due to internal issues.

The lessons of history are more in support of the opinion that China is not (yet at least) aiming to achieve the imperial position. But it does support the opinion that internal reasons could play a decisive role in opening or closing up strategy. After Admiral Zheng He's successful expeditionary, treasure-yielding voyages to Southeast Asia, the Indian subcontinent, Western Asia, and East Africa between 1405 and 1433[22], such an outward oriented strategy has stopped. By 1525, all of China's 'Treasure Fleet' ships had been destroyed – burned in their docks or left to rot. China had been poised to circumnavigate the globe decades before the Europeans did, but instead the Ming Dynasty withdrew into itself and entered into a 200-year-long slump. Historians have a variety of explanations for this. The Yongle Emperor was distracted by a land war against the Mongols, a conflict in which the navy was irrelevant, for instance. Others argue that the vast cost of the Treasure Fleet's expeditions far outweighed the actual treasure they came back with. But Angus Deaton, the Nobel Prize-winning Princeton economist, prefers a different theory. In his book »The Great Escape: Health, Wealth, and the Origins of Inequality«, he argues that the Chinese burned their boats (almost literally) in an attempt to control foreign trade. The Treasure Fleet was abandoned at the behest of the political elite in the Emperor's civil service who had become alarmed at the rise of the new rich merchant class. »The emperors of China, worried about threats to their power from merchants, banned oceangoing voyages in 1430, so

22 In the 1400s, China owned the greatest sea-going fleet in the world, with up to 3,500 ships at its peak (the US Navy today only has 430). Some of them were five times the size of the ships being built in Europe at the time. The Treasure Fleet was vast, some vessels were up to 120 m long (Christopher Columbus's Santa Maria was only 19 m and the famous Vasa ship, built much later (1628) was only 69 m long). A Chinese ship might have several decks inside it, up to nine masts, twelve sails, and contain luxurious staterooms and balconies, with a crew of up to 1,500, according to one description. On one journey, 317 of these ships set sail at once (Edwards, 2017).

that Admiral Zheng He's explorations were an end, not a beginning«, Deaton writes (see Edwards, 2017). In this, China, by cutting its international links, turned inwards, which then derailed its fast progress. Another explanation may be the country's rulers were afraid of foreign influence, a fear historically so deeply rooted in Chinese minds. *The Century of Humiliation* that began with the Opium War of 1839 is still alive in the minds of the Chinese. »Only by standing up to the West, the message goes, can China rise again« (The Economist, 23 January, 7).

Why is this history perspective relevant? Perhaps because also today the business elite's role is growing and it could also try to become more influential, leading to fears of a political elite. The Party could be tempted to repeat history and try to limit such an influence of the business, rich elite by limiting their power[23], curtailing their growth potential, and supressing the innovativeness of such companies.[24]

Despite the impressive economic results, we should not dive into economic determinism or underestimate the developmental problems the Chinese economy is and will be facing in the future. Its growth is based on two long-term unsustainable structural features: an extremely high level of indebtedness, and imprudent lending to its state-owned enterprises. Seismic demographic change is around the corner. Beginning in 2029, China's population will contract by around 5 million people per year, making China a much older society before it reaches high-income status (Mitter, 2021). With the elderly population (older than 65 years) jumping from only 8%–9% during 2010–2015 to an estimated 14% in 2025, China's spending on elderly care and social insurance is expected to increase dramatically, requiring further reform of the pension system, the UBS report said.

23 »The party has been increasing its influence over private firms in subtler ways. Under a strategy referred to as "party building", firms are asked to launch party committees, which can opine on whether a corporate decision is in line with government policy. The number of committees in publicly-traded but privately-controlled companies is still low. According to a survey of 1,378 Chinese listed firms by Plenum, a consultancy, of the 61% that were privately controlled only 11.5% had party-building clauses in their charters compared with 90% of state-owned firms« (The Economist, 2020, Nov. 14, 55).

24 Mr Xi's relationship with China's tycoons has always been troubled. When he became president in 2013, he inherited a corporate system replete with fraud, patchy regulation and surging debt. After the success of an anti-corruption campaign that mostly targeted officials, Mr Xi took aim at a group of businessmen who were ploughing huge sums into risky overseas investments. Officials argued that many of these acquisitions were thinly disguised means to divert capital out of China. Many of the businessmen who once fancied themselves as a 'Chinese Warren Buffett' are in prison or worse (The Economist, 2020, 14 Nov., 54)

Huge inequalities are becoming a major problem China will face in the future since it is turning into »one of the most unequal countries in the world« (European Parliament, 2018, 21).

> *China's Gini coefficient is around 0.47. By comparison, that of the United States is around 0.41. Chinese leaders have insisted a number of times that inequality above 0.40 is potentially destabilizing. It has become the Chinese system's Achilles' heel, belying the government's nominally socialist tenets and undermining the implicit contract between the rulers and the ruled. Inequality erodes the trust that Confucius thought even more essential for good government than food (or, in today's terms, material prosperity* (Milanovic, 2021).

Inequality not only relates to income/wealth but to education and skills in general. »The biggest obstacle to China's rise is poorly educated rural children«, claims The Economist (2021, 23 January, 66–67) which is a real problem since up to »two thirds of Chinese children are rural and 70% of the Chinese workforce is unskilled«. Not surprisingly Rozelle et al. (2020) predict »mass unemployment, social unrest and perhaps a crash that would *lead to huge economic shocks around the world* (see The Economist, 23 January, 67).

Politics could also become an obstacle if, as is happening now, by prioritising authoritarianism and political repression over reform. It could slow down all ambitious plans (2021–2025, and Made in China 2035) for economic modernisation. »The biggest obstacle China will face is not the hostility of the United States or other adversaries. It is instead China's own authoritarian turn/…/ but it doesn't mean that it couldn't return to this earlier trajectory« claims History and Politics of Modern China Professor Mitter at Oxford (2021). In the very long run, China cannot avoid internal political reforms, the democratisation of society. Despite very strong support for the Communist Party now[25], people will gradually demand greater political freedom, equal minority rights, freedom of speech; in short, more human rights. If China wants to become a leading power in the world, its reputation must move parallel to that, meaning to become more democratic, to be globally appreciated. Closing the gap between economics and politics/democracy will become more and more a problem. This will not happen overnight, as some in the West, under an illusion, would expect, but more slowly, according to their Confucianism philosophy, in a Chinese way. There is certainly not a *one size fits all* democracy for all societies around the world. Kissinger was thus right, claiming that »any attempt to understand China's twentieth century diplomacy or its twenty-first century world – must begin – even at the cost of some over simpli-

25 See footnote 5.

fications - with a basic appreciation of the traditional context« (2011). Too rapid changes in a large multi-ethnic society could become provide a fruitful basis for political, even military, conflicts. The third part of Rodrik's trilemma, democracy (other two being globalisation and sovereignty) has to be taken on board. Still, democracy cannot be exported, or imposed from the outside, it cannot be imported but must grow from the inside, when the conditions are ripe and allow it. Exporting democracy is a pure illusion. The policy President Sadat used, while discussing the opening of the Suez Canal which Israel had demanded after the aggression, seems very appropriate in this regard. He told Kissinger; *we can do it, if you stopped demanding it.* There has to be a balance between international pressure and the internal drivers of democratisation. »Experience has shown«, stated the confident Kissinger (2011) »that to seek to impose human rights, dignity and popular participation by confrontation is likely to be self-defeating, especially in a country with such a historical vision of itself as China«. This might may sound hypocritical in view of America's long history of systematically breaching the human rights of foreign and domestic populations while continuing with these practices in the present (Kundnani, 2014).

All of this and given the decline in exports due to the USA's protectionist measures (a trade war, becoming ever more a technology war) could substantially inflate growth rates and create a big problem for China's economy in the future. Yet, »it is highly unlikely that disruptions to bilateral US–China trade will have a large impact on overall Chinese growth rates. Growth in China is now driven mainly by domestic factors and the US accounts only for about one fifth of Chinese foreign trade« (European Parliament, 2018, 44). At the same time, China has already initiated efforts to replace the decline in its exports by promoting domestic consumption and regionally reorienting some of its exports.

As China's industrial strategy becomes more sophisticated, plans such as »Made in China 2025«[26] launched in 2015 will increasingly channel overseas investments as a means to achieve clear policy goals in the 'new strategic industries' defined in Beijing. China's new growth model ('the new normal') that is now being implemented promotes more sustainable (and less costly) economic growth that puts greater emphasis on private consumption and innovation as the new drivers of the Chinese economy. Consumption and services respectively contributed about 76% and 60% of GDP growth in 2018 (McKinsey, 2019a). Implementing a new growth model that sustains healthy economic growth could prove challenging unless China is able to effectively implement new economic reforms. Many analysts warn that, without such reforms, China could face a period of stagnant economic

26 For more, see ch. 2.5.

growth and living standards, a condition economists refer to as the »middle-income trap« (see Morrison, 2018).

President Xi's report to the 19th Party Congress delivered in November 2017 stated that China would work to become a »moderately prosperous society in all respects« by 2050[27]. Major goals include boosting living standards for poor and rural people, addressing the income disparities (e.g. rich–poor and urban–rural), making private consumption the driver of the economy, improving services, reducing pollution, promoting innovation and economic modernisation, and improving overall living standards. He stated that »We will work faster to build China into a manufacturer of quality and develop advanced manufacturing, promoting further integration of the internet, big data, and artificial intelligence with the real economy, and foster new growth areas and drivers of growth in medium-high end consumption, innovation-driven development, the green and low-carbon economy, the sharing economy, modern supply chains, and human capital services. We will support traditional industries in upgrading themselves and accelerate development of modern service industries to elevate them to international standards. We will move Chinese industries up to the medium-high end of the global value chain, and foster a number of world-class advanced manufacturing clusters« (Morrison, 2018, 45).

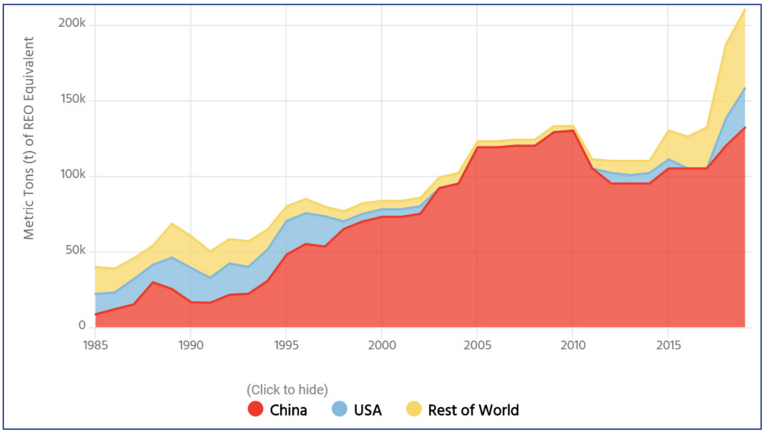
To date, such plans have been fairly well realised. The present trade war can hurt, as protectionism does, also those who initiate it. Higher tariffs might affect firms in the USA, too, given that 77% of China's exports to the USA are intermediate and capital goods used to produce finished goods. The tariffs may therefore increase the cost of US production, raising prices for consumers or lowering the profits of US companies that make final goods[28] (Woetzel et al., 2018). The latest report by the Rhodium Group estimates that if 25% tariffs were expanded to cover all two-way trade the USA would forgo USD 190 billion in GDP annually by 2025. In the investment channel, if decoupling leads to the sale of half of America's FDI stock in China, US investors would lose USD 25 billion per year in capital gains, and models point to one-off GDP losses of up to USD 500 billion. Reduced FDI from China into the USA would add to the costs and, by flowing elsewhere instead, likely benefit America's competitors. If future flows from lost Chinese tourism and education spending are at half their pre-COVID levels, the USA would lose between USD 15 billion and USD 30 billion per year in services trade exports (see Rosen et al., 2021).

27 New development plan 2021–2025 stated that China »would basically achieve socialist modernization« by 2035 in order to finally »reach the level of moderately developed countries« (Babones, 2021).

28 More on the costs of trade war in Svetličič (2020c).

In addition, American firms are highly dependent on GVCs, which a trade war could threaten, although they are hard to break without serious consequences for all parties. »Beijing could slam every corner of the American economy, from oil refineries to wind turbines to jet engines, by banning exports of crucial minerals. /…/ China supplies about 80 per cent of the rare-earth elements imported to the United States which are used in oil refining, batteries, consumer electronics, defence[29] and more«, claim Johnson and Groll (2019). The US defence[30] industry uses rare earth, from sonar and communications equipment through to missiles and jet engines. Each Apple iPhone relies on multiple rare earth elements. Neodymium is used to make the tiny, yet powerful magnets that allow iPhone speakers to function. Europium is used in trace amounts to produce the red colours on screens, and cerium is used to polish phones during the manufacturing process (https://chinapower.csis.org/china-rare-earths/#toc-2).

Figure 14: World earth mining production



Source: CSIS, 2020.

29 Every advanced weapon in the US arsenal –from Tomahawk missiles to the F-35 fighter jet to Aegis-equipped destroyers and cruisers and everything in between – is absolutely reliant on components made using rare-earth elements, including critical items such as permanent magnets and specialised alloys, as well as smart bombs and guided munitions that are almost exclusively made in China (Johnson & Seligman, 2019).

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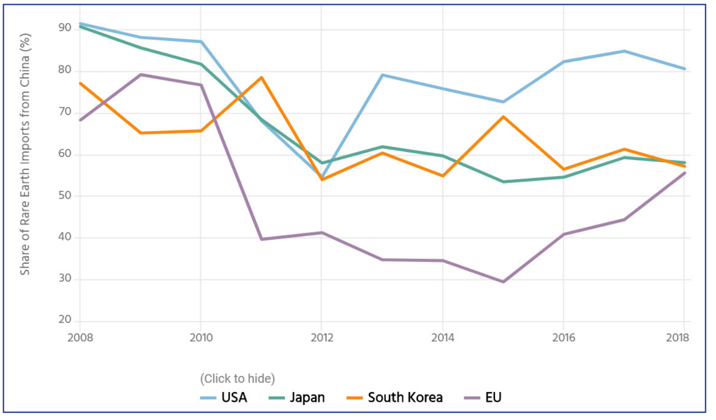
China enjoys an almost monopoly position in rare earth production.

Figure 15: Reliance on rare earth imports from China (based on volume, not value)



Source: CSIS, 2020.

As much as 80% of the antibiotics consumed in the USA is imported from China[31].»The irony of the trade war is that many of America's demands would propel China's ascent and the beneficiaries would be third parties.[32] Opening more industries to competition would boost the private sector and productivity. Curbing subsidies would ease pressure on the public purse and lower excess production. Better protection of intellectual property would stimulate innovation« (The Economist, 2019, Febr. 23., 48). This would also stimulate China to become more self-sufficient in the strategic industries and could derail the USA's dominance of the global chip market, for instance.

Nevertheless, too optimistic expectations may be naïve; namely, China facing a lot of transformation challenges, the middle-income countries trap, slowing growth rates which are, according to theories, linked to higher development stages. In 2018, its growth rate was the lowest in a decade (6.6%) and was predicted to fall to

31 95% ibuprofen, 91% hydrocortisone, 70% acetaminophen, 40% penicillin (Taylor, 2020).

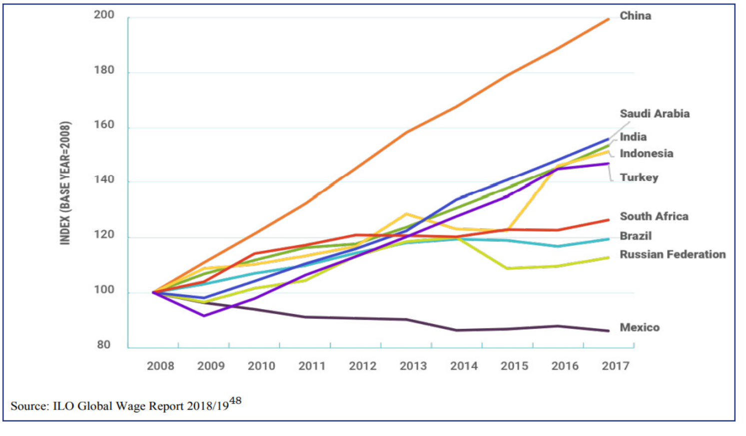
32 According to Robinson and Thierfelder (2019, 1) the US-China trade war will leave both countries worse off (although the magnitude of these losses is small) and the »winners« are the third countries that benefit from the shifts in markets and world prices. Their model projects that in the next 5 years and beyond, US and Chinese industries will adjust, diverting trade to other markets, and other countries will divert their exports to US and Chinese markets to fill the void. US agriculture and manufacturing will lose, while Chinese manufacturing will gain, expanding production and trade.

5.5% by 2023 according to the IMF. The pandemic has added to slowing of growth rates, but China has recovered much better and faster than any other country, already resuming growth in 2020 (May–June) of 4.9% (official data).

The main gaps between China and the high-income economies at a similar development stage are that China has a relatively small share of employment in the secondary and tertiary sectors, a low proportion of value added in government services, and a high investment rate. To overcome these differences, the Chinese government must gradually promote reforms of government functions, from development to services. With increases in China's income level and economic restructuring, the government needs to shift the focus from project construction to public services and public administration.

In short: many problems call for new policies (also see Ch. 2.5. on technological transformation). Fast development, which cannot last forever, brings huge changes to the new coming powers, including rising wages and transformation of the economy.

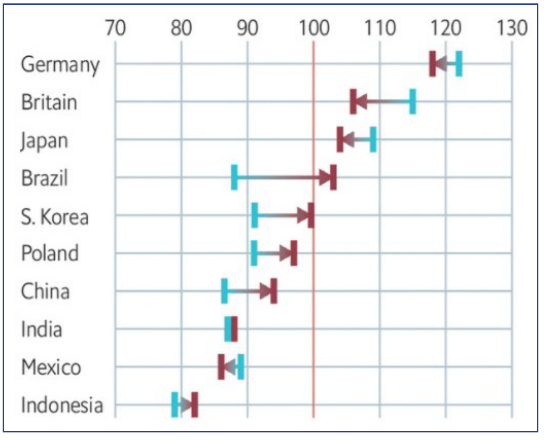
Figure 16: China has lifted wages and increased domestic demand (average real wage index for emerging G20 countries, 2008–2017)



Source: Polaski, 2020, 24 (based on ILO data).

Around the world, manufacturing costs are converging when not only wages, but also productivity, energy costs and exchange rates are considered. The competitiveness of China's exports is thereby being eroded.

Figure 17: Manufacturing cost index[33]; US=100 (blue 2001, red 2018)



Source: The Economist, 2019, July 13, 4.

China could also encounter a real estate property bubble. The old drivers of its growth are running out of steam. In past decades, China benefited from the rapid structural transformation from agriculture to manufacturing and services, high levels of investment, demographic dividends, and a speedy rural–urban migration. This led the World Bank (2019, xviii)[34] to propose six strategic choices facing China's policymakers who are to promote the three Ds and determine the country's future growth performance:

- Striking the right balance with the three drivers of growth
- Adjusting the balance between the state and the market
- Reshaping industrial policies
- Attaining mutually beneficial international trade and investment relations with global partners
- Balancing supply-side reforms with demand-side reforms
- Preparing for the future impact of technological changes.

33 Incorporates wages, productivity, energy costs and exchange rates.

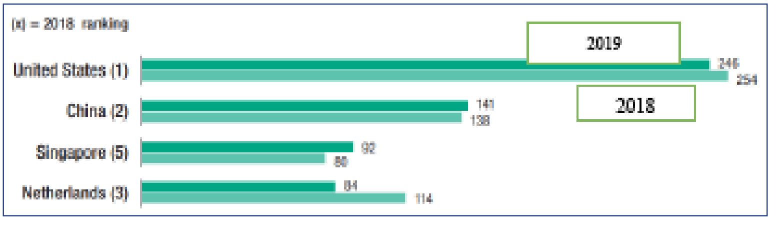
34 World Bank Group & Development Research Centre of the State Council, People's Republic of China (2019, xviii).

2.4. CHINA INWARD AND OUTWARD FOREIGN DIRECT INVESTMENT TRENDS

2.4.1. China as global investor

China has been gradually becoming a major host country for foreign direct investments (FDI) and in recent years also a major investor abroad. A realistic assessment of bilateral Slovenia–China investment cooperation can only be made if we place such cooperation in the context of global FDI trends in and out of China. This is the aim of this chapter. In this way we can evaluate the trends in bilateral FDI flows and establish whether they are in line with the general trends. The modest bilateral flows of FDI between China and Slovenia on one side and the very rapid expansion of FDI in and out of China (being the second-largest FDI recipient) demonstrate that Chinese FDI in Slovenia and Slovenian FDI in China are considerably below potential.

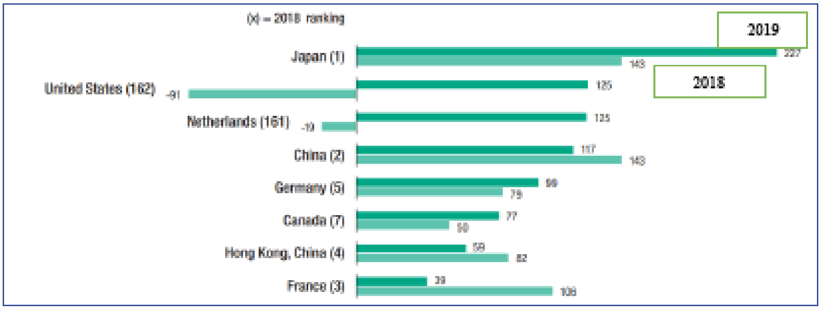
Figure 18: FDI inflows by selected major host economies, 2018 and 2019(USD billion)



Source: UNCTAD, 2020, 12.

Chinese firms do not have any longer tradition in investing abroad, but they have become the second-largest investor abroad and a very important investor in the EU.

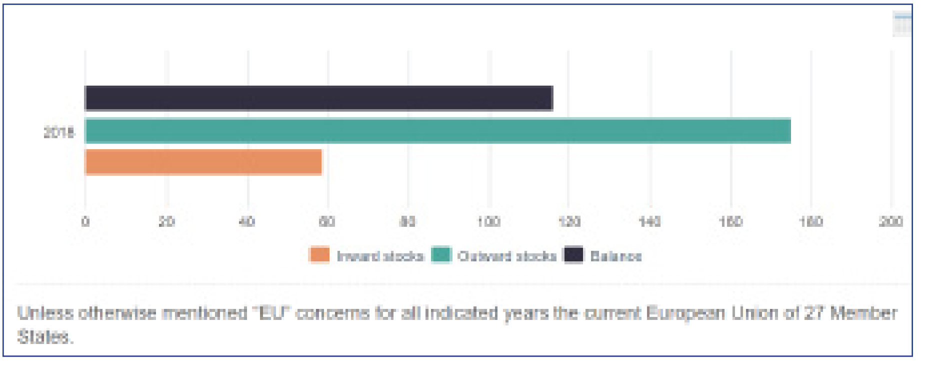
Figure 19: FDI outflows by selected top home economies, 2018 and 2019 (USD billion)



Source: UNCTAD, 2020, 15.

The EU's level of investment in China has been growing exponentially since 2001. Investments by Chinese firms in the EU began to grow faster only after the GR, although they have slowed recently. In 2017, Chinese investment flows into the European Union stood were almost five times bigger than European investments in China (EU 2018b). Chinese outbound investments in the EU continued to decline in 2018. They almost exclusively took the form of M&A (see Figure 35). Inward investment flows by Chinese firms in the EU already quite substantially surpassed those made by Europe's firms in China in 2013, yet the FDI trend has started to change recently and the stock of inbound and outbound FDI has levelled out. The negative FDI EU–China balance has thereby nearly been balanced due to the almost equal flows of both types of FDI in 2017. The stock balance is still positive overall (EUR 116.3 billion in 2018).

Figure 20: EU (27)–China foreign direct investment (stock in EUR billion)



Source: European Commission, 2020f.

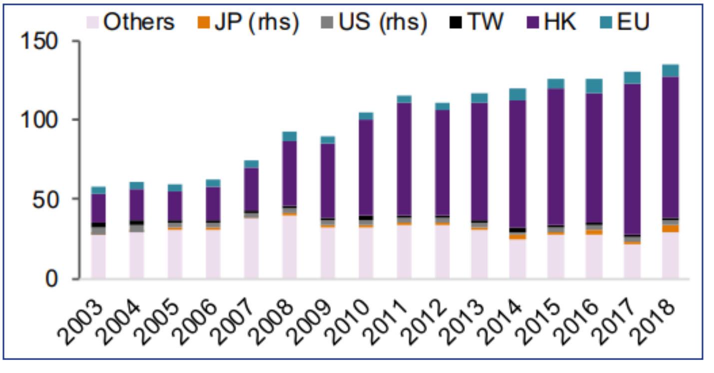
Flows of inbound and outbound Chinese investments abroad were almost in balance between 2014 and 2019, where 2019 is an exception because of the substantial fall in outward FDI (from USD 143,040 billion to USD 117,120 billion; UNCTAD, 2020, 239). Such a balance is not seen in the EU; European firms have been investing in China much more[35] than China in the EU.

35 Recently, such flows have been slowing down partly in reaction to the any restrictions still on M&A there (for example in transport and infrastructure, entertainment or energy and power generation; see details in Hanemann and Huotari, 2019, 14). They are also distorted by Chinese ownership restrictions that force foreign companies into minority joint ventures.

2.4.2. Chinese inward FDI

In 1978, China again opened itself up to foreign investment and within two decades it had become the biggest recipient of FDI. A gradual and prudent approach has been applied in the process of liberalisation in this regard. When market institutions were not fully in place in the 1980s and 1990s, China experimented with opening up to foreign investment in selected coastal cities and special economic zones/industrial parks with a focus on attracting export-oriented manufacturing FDI (see World Bank, 2020). Later, FDI became a really very important instrument for the internationalisation of the Chinese economy, first inward and later outward. FDI inflows continued to rise between 2018 and 2019, from USD 138 billion to USD 141 billion (+2%). The liberalisation plans, the rapid development of the high-tech sector, and establishment of free-trade zones facilitated these flows.

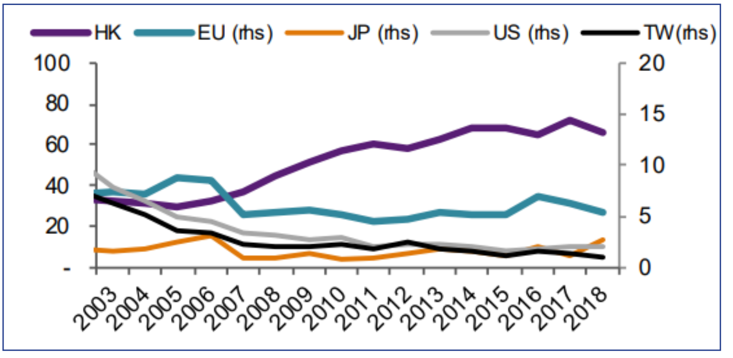
Figure 21: FDI inflow to mainland China by source country (USD billion)



Source: European Parliament, 2020b, 27.

The composition of the biggest investors in China has not changed much. In terms of shares, Hong Kong has been and is ever increasing it share in total inward FDI in China. Inflows from the USA and Europe have declined, but regional investment has continued to increase as flows from ASEAN countries have grown. MNEs from the Republic of Korea and Japan have continued their strategic adjustment in China, shifting some labour-intensive production abroad while investing in high-end production activities (UNCTAD, 2020, 42).

Figure 22: FDI inflow into mainland China by source country (in %)



Source: European Parliament, 2020b, 27.

The increasing inflows are, apart from the large market potential and high growth rates, also a result of the improving investment climate. China was ranked 31st out of 190 countries in the World Bank's 2020 Doing Business report, a big improvement over 2019 when it was ranked 46th out of 190. China was one of the top 10 economies to improve the most between the 2019 and 2020 reports. According to Nordea (2020), this progress reflects improvements in a wide array of subcomponents, ranging from procedures for starting a business to measures to improve electricity access and obtain construction permits. The country demonstrated reform agendas that aim to improve the business regulatory environment in the country over the course of several years. These reforms largely focus on increasing the efficiency of business processes, such as tax cuts, trade with tariff cuts, and reduced barriers to foreign investors. In order to attract more foreign investment, the country has introduced mechanisms to improve the delivery of major foreign investment projects, reduce import tariffs, streamline customs clearance, and establish an online filing system to regulate FDI.

With a wealth of employees and potential partners eager to learn and evolve, the country is a base for low-cost production, making it an attractive market for investors. Nevertheless, certain factors can hinder investments, such as China's lack of transparency, the legal uncertainty, low level of protection of intellectual property rights, and corruption or protectionist measures which favour local businesses. FDI inflows to the high-tech sector have been rising significantly and currently account for almost one-third of total inflows. Foreign investors started to tap into new technological achievements of the Chinese economy establishing also joint research and development facilities while American and European universities started first to developing joint programs with the local ones and later starting their own universities, because demand for better education for global expansion was growing so rapidly.

New Law on Foreign Investments

Such development is also reflected in adjustments to the legislation. A new Law on Foreign Investments was adopted in March 2019, and has been in force since 1 January 2020. It seeks to address common complaints made by foreign businesses and governments. The Law specifically prohibits the government and government officials from forcing the transfer of technology, while technology cooperation based on free will and business rules is encouraged by the state. Indeed, Article 22 states the State shall protect the intellectual property rights of foreign investors and foreign-funded enterprises. The Law also gives foreign investors the possibility to receive the same treatment when they apply for licences (Article 30) and participate in public procurement (Article 16). The competent departments for commerce (Ministry of Commerce) and for investment (National Development and Reform Commission) are delegated major responsibility to promote, protect and manage foreign investment. In addition, on 23 June 2020, the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOF) jointly issued two »negative lists« (on Foreign Investment and Free Trade Zone Special Administrative Measures) and a draft edition of the Catalogue of Encouraged Industries for Foreign Investment. Compared with the 2019 edition, the proposed 2020 Foreign Investment encouraged catalogue has been further lengthened, with 125 new industries added and 76 previously listed industries amended. There are no major changes compared to the 2019 catalogue. It welcomes more FDI in the following three main areas in China: high-end production; production-oriented service industries; China's central, western, and north eastern provinces (see Nordea, 2020). It is a part of the Chinese ambitions to become technological leader in the world and exploiting to such an end all available opportunities.

The Law simplifies the administrative procedures for FDI (e.g., permissions, licensing) and provides for the establishment of bilateral or multilateral cooperative institutions to enhance the international exchange of best practices on FDI, all of which reflect the principles of the WTO's Joint Ministerial Statement on Investment Facilitation for Development. It grants foreign investors pre-establishment national treatment, with Special Management Measures for Foreign Investment Access (a negative list) as the only exception.

According to Zheng (2019), China's investment law endeavours to establish an open market to attract and promote the free flow of resources, with Pilot Free Trade Zones serving as experimental precursors. Three features are worth noting:

- Investment facilitation is the first step in improving the domestic investment environment. The Law provides for a transparent law- and standard-setting process, allowing the participation of foreign investors; mandates a system enabling consultations on all investment law and policy matters; simplifies administrative procedures for FDI (e.g., permissions, licensing), and provides for the establishment of bilateral or multilateral cooperative institutions to enhance the international exchange of best practices regarding FDI, all of which reflect the principles of the WTO's Joint Ministerial Statement on Investment Facilitation for Development. This is supported by China's general policy to streamline administrative procedures, delegate powers and improve regulations and services. As investment facilitation does not address market access, standards of treatment and dispute settlement, it does not impinge on the country's sovereignty and is therefore quite a low-hanging fruit for enhancing the doing-business environment.

- The Law grants foreign investors pre-establishment national treatment, with Special Management Measures for Foreign Investment Access (a negative list) as the only exception. This mechanism substantially alters China's FDI regulatory regime. The negative list is the result of the Pilot Free Trade Zones experiment underway since 2013 and the exercise of evaluating the potential risks of an open investment market, while responding to foreign investors' concerns regarding particular issues such as forced local partners. In its latest version, the list (which replaces China's long-standing Catalogue of Industry Guidance for Foreign Investment) lays out the market-opening timelines for the automobile manufacturing and finance industries, and eliminates the shareholding ratio requirements for sectors like the power grid and railway network infrastructure, as well as aircraft design, manufacture and maintenance. Although the list will continue to become shorter (thereby opening up more industries), its current implementation is insufficient since the list adopts China's Industrial Classification, which differs from international practices and might cause confusion for foreign investors; the listed special management measures clearly fail to refer to specific regulatory rules and thus lack transparency; and once an investment is established, doing business in certain industries remains subject to licences or permissions. A more transparent, precise and integrated regulatory system is needed so that foreign investors can truly enjoy national treatment.
- Regarding investment protection, however, the law and policymakers are too eager to please foreign investors partly because they stretch to address issues not properly included in an FDI law. Concerning the protection of intellectual property rights, the Law explicitly prohibits government officials from forcing intellectual property transfers or revealing to a third party foreign investors' business secrets acquired while exercising their authority. However, this issue might be better addressed by amending the intellectual property law and related mechanisms. The Law also provides foreign affiliates with a complaint mechanism, to facilitate communication with foreign investors in

terms of policy coordination or public bodies' tortious acts. Still, enforceable procedures are absent as are explanations about the relationship between the complaint mechanism and the existing administrative procedures. The Law touches upon issues outside of its scope and is missing enforceable mechanisms. This may arouse the suspicion rather than boost the trust of foreign investors.

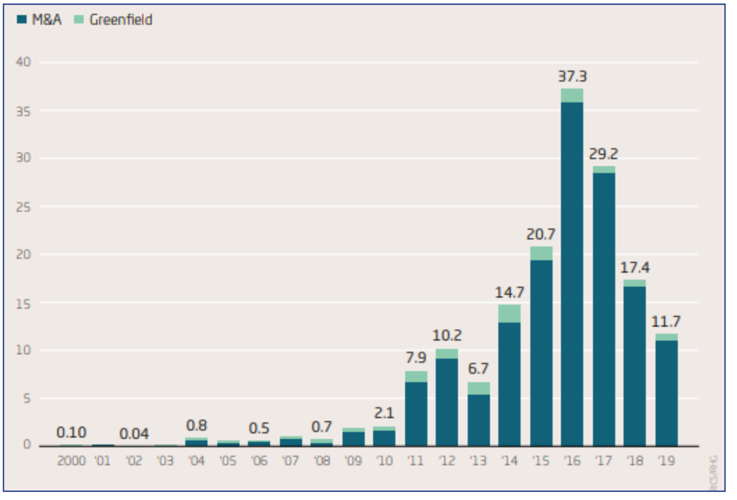
2.4.3. Chinese outward FDI

Parallel to its *Going Global* strategy[36], China started to invest abroad. This was accelerated after the country entered the WTO. Recently, China has become the second-biggest investor abroad, although the trend has slowed in the last 3 years. Therefore, it is not surprising that many countries have started to fear such a rapid expansion, and fear becoming dependent on China, not only in trade but also in FDI. Such fears are only one factor contributing to the 18% decrease of Chinese investment abroad in 2019 to reach USD 117 billion, and the 28% decline in investment outflows from Hong Kong to China to reach USD 59 billion. Investment from China, the fourth-largest investor abroad, declined for the third consecutive year from having peaked in 2016. Chinese M&A purchases globally decreased to a record low for the past 10 years. This decline has been attributed to the continuing restrictions on outward investment, geopolitical tensions and the challenging environment in terms of global trade and investment policy (UNCTAD, 2020, 45).

The EU has become one of the favourite destinations for Chinese outbound FDI, following the strategy of Chinese companies to gain foreign technology/know how. The majority of such investments are the technology-seeking type, particularly in the form of mergers and acquisitions as the prevailing form of such FDI.

36 It started in 1999 and in fact coincides with China's 2001 admission to the WTO. Initially, it was called *Going Global 1.0* and has now been re-invigorated as *Going Global 2.0* »aiming to address«, according to official sources, »1.0's failings and ensure firms invested abroad more wisely, with greater concern for local sensibilities and China's image. /…/ with the Belt and Road as a major geopolitical expression of Going Global 2.0. Hedging against US influence at its front door, the strategy focuses south and west, seeking to build up infrastructure, trade, investment and human linkages across Eurasia Belt and Road and Capacity Cooperation /…/ Going Global 2.0 is the policy rubric behind China's claims to now be the 'champion of free trade' (China policy, 2017).

Figure 23: Annual value of completed Chinese FDI transactions in the EU-28, EUR billion



Source: Kratz et al. 2020, Figure 2.

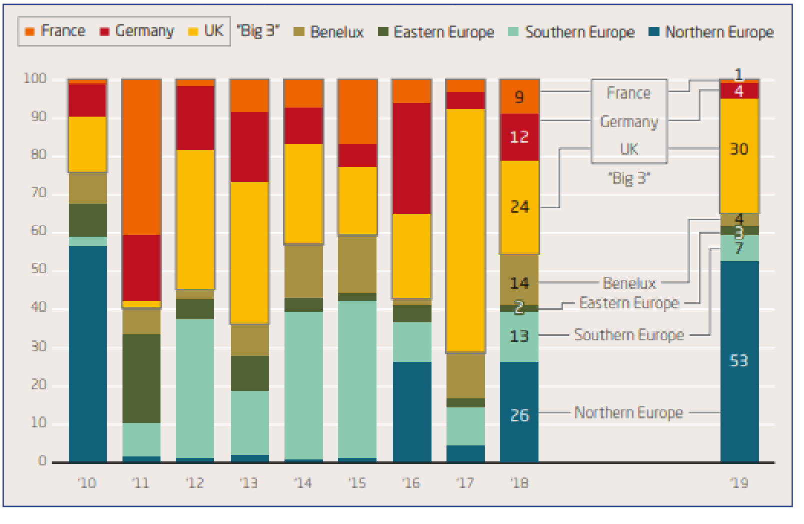
The decline in such outward FDI in 2019 was so substantial (33% lower compared to 2018) that the total value of flows fell back to the 2013 level. This drop is in line with the downward trajectory of China's global outbound investment seen since 2016. Such a fall is a result of two sets of factors. First, to the growing regulatory scrutiny in host economies and second to the continuing capital controls and tightening of liquidity in China. Many restrictions on such investment in developed countries were introduced once they started to fear such Chinese investment reaching high levels of this magnitude. Mergers and acquisitions were the main target of such restrictions, largely based on security arguments. A political and regulatory backlash against Chinese capital around the globe has started. New »screening regimes[37], which have raised the bar for Chinese takeovers, have been introduced in the USA and the EU. Several European governments updated or established their FDI screening regimes in 2017 and 2018. This strengthening of review mechanisms has already impacted Chinese investment patterns in 2018, including the first ever instance of a blocked Chinese acquisition in Europe and several delayed transactions. A second explanation for the slowdown is due to Beijing-imposed administrative restrictions making it more difficult for China's firms to raise funding and obtain approval for overseas investment in order to curb the 'irrational' investments abroad. They

37 For more on EU regulations regarding Chinese FDI, see Ch. 2.7.4.

even pressure highly leveraged firms to sell off overseas assets amidst a broader clean-up of the financial sector, thus drying out financing channels for overseas investments. The substantial drop does not mean that Chinese companies have lost their appetite for the global economy (Kratz et al., 2010; Hanemann et al. 2019; Grieger, 2020b, 5).

In terms of the country allocation of Chinese FDI in the EU, the 'Big Three' EU economies have been receiving the lion's share of investment since 2010 (53%). The United Kingdom (UK) (EUR 4.2 billion), Germany (EUR 2.1 billion) and France (EUR 1.6 billion), but their share declined from 71% in 2017 to 45% in 2018. It further dropped in 2019 to 34.6% of total investment in 2019. Newcomers made it to the top 5 list, propping up the relative shares of Northern Europe and Belgium, the Netherlands and Luxembourg (Benelux) in total investment. This was due mainly to a few large M&A deals, including Anta's acquisition of Amer for EUR 4.6 billion (which made Finland the top recipient country for Chinese investment in 2019) and China Evergrandeux in NEVS for EUR 830 million (making Sweden the third-biggest recipient country in 2019). Investment in Ireland also increased and is set to grow further as two large greenfield factories by Wuxi Biologics get underway in the next few years (see Kratz et al., 2020).

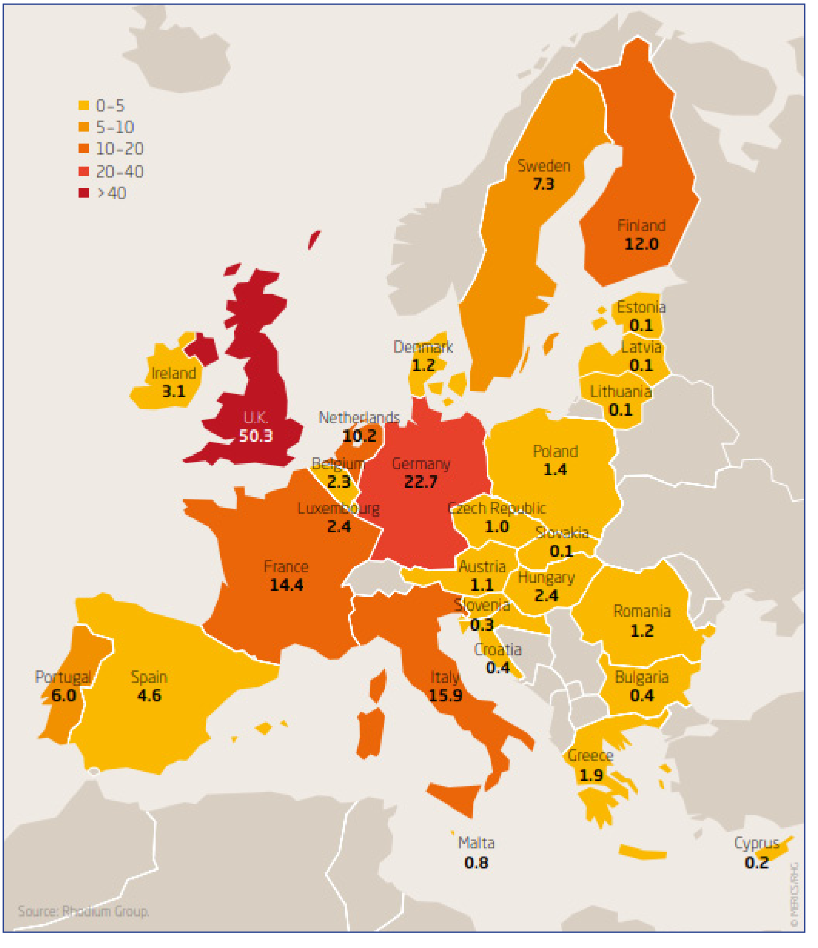
Figure 24: Chinese FDI in the EU-28 by country group, 2010–2019 (in %)



Source: Kratz et al., 2020, 10.

Nevertheless, the UK and Germany still lead by far in terms of the cumulative value of Chinese FDI in the EU.

Figure 25: Cumulative value of Chinese FDI transactions in the EU by country, 2000–2019, (EUR billion)



Source: Kratz et al. 2020, 11.

Eastern European member states, in spite of the 17+1 initiative, have not attracted any substantial Chinese FDI. The region is still failing to attract any noteworthy M&A activity from Chinese investors, and accounts for a mere 1.5% of all Chinese investment in the EU. Slovenia and Cyprus have attracted the least Chinese FDI.

2.5. TECHNOLOGICAL TRANSFORMATION OF THE CHINESE ECONOMY

In designing future bilateral cooperation, one must also look at how the Chinese economy has transformed in the area of science and technology. One reason for this is being that China is undergoing huge technological changes which might decisively influence its international economic relations and thus also Slovenia.

Technological development is attaining the most important role in China's development strategy today, moving from low-end manufacturing to a high-technology powerhouse. Namely, »China's old drivers of growth are running out of steam. In the past decades, China benefited from a rapid structural transformation from agriculture to manufacturing and services, high levels of investments, demographic dividends, and rapid rural–urban migration. China can no longer rely on those old drivers of growth« (World Bank, 2019, xviii). China is transforming from a »big processing country« into »a strong processing country« untill 2025, and by 2049 the »world's leading producer« (Made in China, as planned for the 100th anniversary of the PRC in 2049). It may be expected that China will emerge as a leader in many technologically propulsive activities. Losing the race for world leadership in technology might well be the final nail in the coffin for US hegemony, and an ideal opportunity for China to assume the mantle (Magri, 2019, 12), »because China now challenges European (and US) companies in virtually every high-technology sector« (see Ortega, in Hobbs, 2020, 10).

It is not surprising that a debate on whether a 'tech Cold War' between the USA and China is imminent and all of its negative long-term implications has commenced. It is not new because »every empire has been connected to some form of technological superiority. The British Empire was made possible by three innovations: the steamboat, the machine gun, and quinine, a technological trident that allowed a small island in the Atlantic to rule over one-quarter of the Earth's surface 20 per cent of the global population at that time« (Torreblanca (2021). »The new battle field today is; information technology: semiconductors, data, 5G mobile networks, internet standards, AI and quantum computing (The Economist, 2020, 21 Nov., 9). »We are not only talking about cyber-attacks and disinformation but also about a competition for world hegemony between the US and China that will last throughout the twenty-first century and whose result will depend on control over data clouds, semiconductor production, artificial intelligence, 5G and 6G network security, and quantum computing« (Torreblanca, 2021).

Such a bifurcated technology world is likely to innovate more slowly, at least in the short run. It will also be expensive. A report by Deutsche Bank written by Apjit Wali, Head of Tech Strategy, estimates the costs of a tech war at over USD 3.5 trillion over the next 5 years[38]. If there is any upside, it might arise from similar dynamics to the USA–USSR Cold War, where a ramping up in defence spending and the space race could translate into a leap in tech investment this century (Financial Times, 2020). It is un clear which side of such a trade-off would prevail, the costs or the benefits.

Emphasis on the role of science and technology is no that new in China's development strategies. In the post-1978 era, science and technology was seen as one of the 'four modernisations'. Technological progress has mainly been pursued through FDI based on the 'market for technology' principle. Since such a model, despite some tangible gains, has failed to deliver expected progress in China domestic innovative capacity, in 2005 the Chinese administration issued the Medium and Long-term National Plan for Science and Technology Development (MLNP). This plan stressed the innovation-driven development and prioritised specific areas for improvement. That course has been maintained and strengthened since Xi Jinping took over power in China in 2011. The trade war with the USA has further accelerated the calls for on 'technological autonomy' and 'decoupling'. China's 12th and 13th Four-Year Plans (FYPs) clearly showed restructuring of the economy must be treated as an imperative for China's future development. To achieve this, the 13th FYP advocated a bigger emphasis on 'innovation-led growth' (based on Paszak, 2020).

Launched in 2015, Made in China 2025 is an attempt to create globally competitive companies in the core sectors of the economy and to reduce reliance on foreign technologies. The strategy identifies ten sectors as being crucial for future development.[39] The initiative outlines in blunt terms China's ambitions to dominate

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38 The figure of USD 3.5 trillion comes from a USD 400 billion reduction a year in domestic-end demand from China and USD 100 billion a year as a "Tech Wall" creates extra costs for companies dealing with rival Internet platforms, operating systems, and communications and payment networks. A further USD 1 trillion in costs would come from rebuilding and reconfiguring the supply chain, mainly falling on "final goods manufacturers" that currently use China as a manufacturing base.

39 They are:
1. the advanced information technology industry,
2. machinery and robotics,
3. aerospace and aeronautic equipment,
4. marine engineering equipment and high-tech ships,
5. advanced rail transport equipment,
6. energy saving vehicles and renewable energy,
7. agricultural machinery and equipment,
8. new materials,
9. biopharma and
10. high-performance medical products (see Made in China, 2025)

these sectors. As of 2015, Chinese factories were already producing 28% of the world's cars, 41% of the ships, more than 60% of the TVs, and a staggering 90% of the world's mobile phones. Indeed, Apple's Elk Grove plant is now an AppleCare call centre (Hellberg, 2020).

President Xi's report to the 19th Party Congress in November 2017 stated that: »We will work faster to build China into a manufacturer of quality and develop advanced manufacturing, promote further integration of the internet, big data, and artificial intelligence with the real economy, and foster new growth areas and drivers of growth in medium-high end consumption, innovation-driven development, the green[40] and low-carbon economy[41], the sharing economy, modern supply chains, and human capital services. We will support traditional industries in upgrading them and accelerate development of modern service industries to elevate them to international standards. We will move Chinese industries up to the medium-high end of the global value chain, and foster a number of world-class advanced manufacturing clusters« (Morrison, 2018, 45).

The »Made in China 2025« initiative bluntly outlines China's ambitions for dominance in artificial intelligence (AI), robotics[42], aerospace equipment and biopharmaceuticals – high-tech industries that represent the global economy's future. The Plan outlines a three-stage strategy of building the world's leading industry by 2050. During the first stage (by 2020), it is expected that AI will become an important driver of economic growth. The next stage (by 2025) includes the dissemination of AI solutions to numerous areas and industries, such as digitalised industry, high-end healthcare, smart cities, smart agriculture, and national defence. The third and final stage envisages China as the global leader of the world's AI industry with the most competitive enterprises, top-notch scientific and research capacity and most sophisticated talent pool. By this point, AI is widely employed in manufacturing, services, military and public systems. The strategy

40 The approach to making cities sustainable has been articulated as 'ecological civilization-building', vision for socialist sustainability written into the PRC Constitution in 2018 (see Krischer, et al., 2020).

41 China plan the carbon emission to be significantly reduced through 2035 by setting a stricter environmental protection and carbon emission standard in the next five years. And accordingly, the authorities will increase the public expenditure on environmental protection equipment etc. (see Dong 2020).

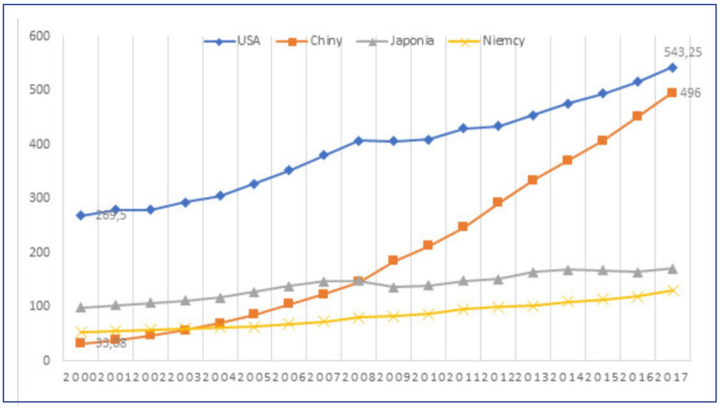
42 China intensified the installation of robots which rose by 59% in 2017, more than in America and Europe combined in order to automatise its manufacturing industry (The Economist, 2019, Jan. 5, 49). In such a way, it could soon upgrade its 23rd position in the world regarding the installation of robots per 100,000 employees (see https://ifr.org/ifr-press-releases/news/robot-density-rises-globally).

pursues ‘indigenous innovations’ and ‘self-sufficiency’, achievable by increasing Chinese suppliers’ market share for »basic core components and important basic materials« to 70%, with 40% of mobile phone chips, 70% of industrial robots and 80% of renewable energy equipment to be manufactured domestically by 2025 (see Paszak, 2019, 14). Although specific details are scarce, the theory appears to prioritise domestic consumption, markets, and companies in an effort to boost China’s technological self-sufficiency after decades of export-led growth (Segal, 2020).

Following such strategies, China’s gross domestic expenditure on R&D (GERD) grew between 2000 and 2017 from a modest USD 33 billion to USD 496 billion[43]. It increased from 0.9% of GDP in 2000 to 2.2% in 2018 (Statista, 2020). In this way, China became the biggest investor in R&D, next to the USA, and employs the largest number of R&D personnel worldwide and accounts for 20% of total world R&D expenditure. »It is also increasingly prominent in industries that intensively use scientific and technological knowledge« (Godement, 2020).

While China has made bigger investments in R&D, it still lags behind the USA when it comes to basic research. China’s share in basic research in the period 2000 to 2016 was just 5% of total R&D (17.7% in the USA, for instance) compared to the 10% to 17% devoted to applied research (see Bučar & Arbeiter, 2019, 10–12). All of the rest is experimental development. China’s world leadership in the quantity of patents does not of course mean that it also leaders in the quality of patents.

Figure 26: Gross domestic expenditures on R&D PPP, 2000–2017



Source: Paszak, 2019, 17.

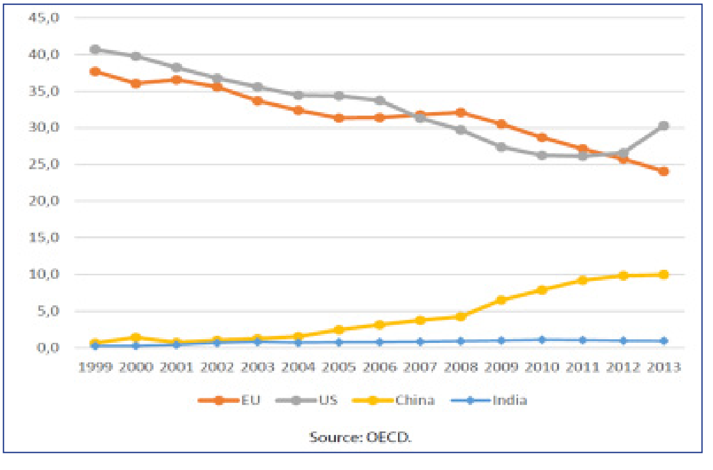
43 At the same time, American spending rose from USD 269 billion to USD 543 billion.

This shift in policy has already produced tangible results. China's innovation capabilities are rising rapidly, reducing the gap with the leading OECD countries.

In 2019, China surpassed the USA as the top source of international patent applications filed with the WIPO. With 58,990 applications filed in 2019 via the WIPO's Patent Cooperation Treaty (PCT) System, China ended the USA's (57,840 applications in 2019) reign as the biggest user of the PCT System that helps incentivise and spread innovation – a position previously held by the USA every year since the PCT began its operations in 1978. Applicants from China and the Republic of Korea filed intensively for patents related to digital communication, while those from the USA filed most in the field of computer technology. For Japan, the top technology field was electrical machinery, and for Germany it was transport. China holds first place in digital technology patent applications (16% of the world's total, and second place (14%) in computer technology, 2019; see WIPO, 2020).

Domestic patent applications have been growing strongly since 2008 (Taube, 2020). The total number rose from 0.938 million to 3.536 million and more than tripled over 6 years. Its share in global patents has doubled while those of the USA and the EU were shrinking substantially up until 2012 when the USA's share increased. Despite the extraordinary growth, this process almost certainly does not precisely reflect China's improving innovativeness or the effectiveness of its R&D spending. Of all patents granted, just 19% were recognised as 'inventions', the rest being split between 'utility models' (56%) and 'designs' (25%) (see Paszak, 2019).

Figure 27: Global patents (shares in global total)

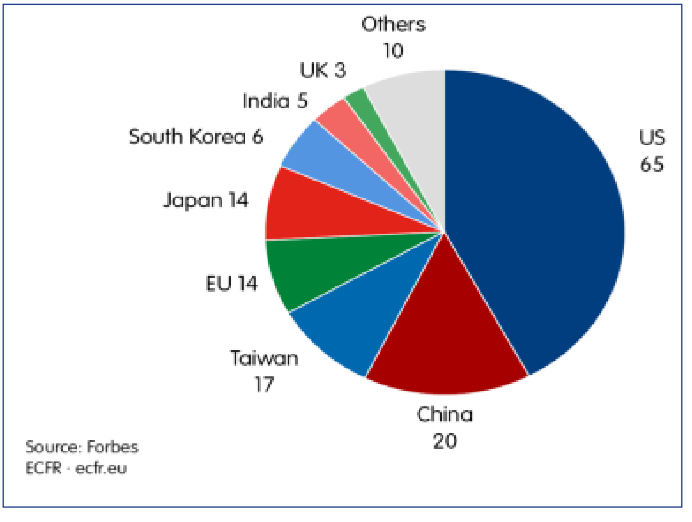


Source: European Parliament 2018, Figure 23.

It is hence unsurprising that China has started to be a leading country in certain key areas of the digital economy, like e-commerce[44] and on-demand services, artificial intelligence, fintech, high-speed trains, renewable energy, and electric cars. Companies such as Alibaba, Didi Chuxing, Huawei, and Tencent are operating on the global technology frontier (World Bank, 2019, xviii). Huawei, for example, filed more patents in the EU in 2017 than any European company. »More than half of mobile phones are made in China, along with almost all printed circuit boards, the guts of any device. Chinese factories install two-fifths of the world semiconductors« (The Economist, 2018, Oct., 2355). Huawei, for example, filed more patents in the EU in 2017 than any European company and remained the top filer of PCT international applications in 2019 (WIPO, 2020) holding the highest share of global 5G technology patents, followed by Samsung, Nokia and Qualcomm according to Statista 2021 (March, 2nd).

Nevertheless, the USA is still home to the majority of large tech companies.

Figure 28: Location of the world's biggest tech companies



Source: Hobbs, 2020, 38.

Still, Chinese firms are catching up rapidly, like Huawei in 5G technology, for instance. The race for 5G dominance will probably be the most important one over the next 5 years (for more, see Ch. 2.7.5.).

44 By size of its market it overtook America's in 2013. China's mobile share of e-commerce is 90% versus 43% in America (The Economist, 2021, 10, 47).

Another reflection of China's achievements in science and technology sector is the increasing number of scientific publications. China is second only to the USA in the number of journal publications, while their quality, as measured by number of citations, is continuously improving. Chinese universities are also becoming serious competitors of the best universities on the planet. China's leading universities are climbing up the global rankings and producing a bigger volume of high-quality research. »In 2013–16 Tsinghua university produced, according to Marginson of Oxford University, more of the top 1% of the most highly cited papers in maths and computing, and more than 10% of the most highly cited papers in STEM (science, technology, engineering and maths) than any other university in the world« (The Economist, 2018, Nov.17, 51).

The VUCA world and, recently the Covid 19 pandemic, have introduced new issues. Countries, including China, have realised they are quite vulnerable in this world and the need to become more resilient and less dependent has moved to the top policy/strategy priorities because China's reliance on foreign technology has yet to decrease. China's patents balance is still negative. Such an unfavourable international environment has driven Chinese policymakers to reassess the country's policy priorities and reaffirmed the importance of increasing self-reliance and focusing on *domestic circulation* (Zhu, 2020). Chinese elites are now aware that building a national and independent chip industry is necessary for both the economy and national security. This new approach is supposed to replace the previous one mainly based on imports of essential technologies, which has made the Chinese economy dependent. Not being in control of crucial parts of important value chains inhibits the business development of key players in China's modernisation drive, and puts in jeopardy China's economic growth and development trajectory as a whole. Not surprisingly, in April 2016 President Xi warned that: »Internet core technology is the greatest *vital gate*, and the fact that core technology is controlled by others is our greatest hidden danger«. In November 2018, he added: »Internationally, advanced technology and key technology is more and more difficult to obtain. Unilateralism and trade protectionism have risen, forcing us to travel the road of self-reliance«. The idea is to move away from the stage of »stimulating domestic growth through international circulation« into the stage of *dual circulation*[45] advocated by Xi Jinping as a mutually interdependent, complementarity strategy aimed at reaching technology autonomy and becoming an innovation power. Top of the list of targets for the 14th FYP and National Economic and Social Development (2021–25) and Long-Range Objectives through 2035 is to speed up the fostering of the new development pattern »Double Development Dynamics«, where domestic and foreign markets can complement each other, with the domestic market being

45 Coined by Wang Jian in 1988.

the mainstay. But turning inward might prove costly, warns The Economist (2020, Nov.7, 49) because it may lead to less foreign technology flowing into China. At the same time, it may stimulate domestic innovations and technological advancement.

President Xi's report to the 19th Party Congress in November 2017 stated: »We will work faster to build China into a manufacturer of quality and develop advanced manufacturing, promote further integration of the internet, big data, and artificial intelligence with the real economy, and foster new growth areas and drivers of growth in medium-high end consumption, innovation-driven development, the green and low-carbon economy, the sharing economy, modern supply chains, and human capital services. We will support traditional industries in upgrading themselves and accelerate development of modern service industries to elevate them to international standards. We will move Chinese industries up to the medium-high end of the global value chain, and foster a number of world-class advanced manufacturing clusters« (Morrison, 2018, 45).

»Made in China 2025«, launched in 2015, fits well with the general dual circulation strategy. The inward focus of the »dual circulation« strategy would create a protective umbrella for China in extreme scenarios and reduce the country's vulnerability in a confrontation scenario. Mr Xi is talking about the »unseen changes in a hundred years sweeping the global order«. Here he is referring to the combination of self-reliance and greater economic leverage over foreign countries (see The Economist, 2020, Nov.7, 49). American restrictions on exports of critical components, notably semiconductors, have put a spotlight on the gaps in China's industrial abilities. »Therefore, the new development plan 2001–2025 places maximum importance on reducing dependence on critical components, particularly semiconductors, and sees it as a matter of national security (The Economist, 2020, Nov. 7, 48). In this way, China is reducing its vulnerability and preparing itself for the worst, given the highly unstable external environment before it. For instance, in the semiconductor sector, China finds itself in a disadvantageous position due to its reliance on other countries' supply. »The fact that the U.S. government could so easily hobble the world's largest smartphone maker and 5G infrastructure supplier in less than one year is indicative of the vulnerability of China's highly centralized high tech sector. China's electronics industry relies on U.S., Taiwanese, South Korean, and Japanese suppliers for many key components, but the most strategic of strategic technologies is the microprocessor. And despite years of strategic investment, China has (so far) been unable to master the production of these highly specialized but utterly ubiquitous computer chips[46]. The stunning success

46 Huawei, for instance, depends strongly on components imported from the USA, yet the USA could also benefit from Huawei's expansion in the long run.

of U.S. efforts to hobble Huawei shows the fragility of Beijing's highly centralized tech sector« (Babones, 2020).

In the initial stages of its development, while opening up, China put great emphasis on importing knowledge in different ways, including imitating it. China is therefore rightly accused of the forced transfer of knowledge[47], of 'stealing' intellectual property and technology from foreign companies[48], although China's payments for US intellectual property »grew significantly, from $ 755 million in 1999 to $ 8.3 billion in 2017 – more than 11-fold. Even more interesting is the fact that China's royalty payments to the USA grew faster than China's GDP (see Santacreu et al. 2019, 2). However, such an imitation strategy is not unique for China. The West is not *innocent* in this regard. Although protectionism is not the optimal policy, almost no country in the world has not relied on protectionism, import substitution, in its initial development stages (see Chang, 2003) and even today we are seeing the revival of neo-mercantilism[49]. Consequently, the *accusations* that China systematically imitates and 'steals' IPRs and forces foreign companies to transfer their technology to Chinese companies seems hypocritical (more in Svetličič, 2020b). Imitation and »stealing foreign knowledge« has historically been the rule of the day. Such imitation activities (trade, foreign investment, licensing, international research collaboration, reverse engineering) by the Chinese and other LDCs, now claimed to be problematic, in fact are and have

47 Meaning that foreign firms are pressed to hand over their technology when they form a partnership with Chinese companies often as a precondition to be allowed to operate in China. The problem certainly does exist, but the data suggest that its magnitude has diminished over time.

48 According to some reports, Chinese IP theft has cost the USA USD 225 billion to USD 600 billion a year. Therefore, Huang; and Smith, fellows at the Carnegie Endowment for International Peace (2019), conclude that the significance of this issue is exaggerated. For instance, in the most recent US-China Business Council Member Survey, just 5% of respondents reported having been asked to transfer technology to China, and this concern was ranked 24 out of the top 27 challenges facing foreign companies.

49 The USA recently implemented several industrial policy instruments to strengthen its global leadership in manufacturing, like A Framework for Revitalizing American Manufacturing (2009), the United States Manufacturing Enhancement Act of 2010, the Advanced Manufacturing Partnership (2011), A Manufacturing Renaissance: Four Goals for Economic Growth (2011), A National Strategic Plan for Advanced Manufacturing (2012), A Strategy for American Innovation (2011) and the National Network of Manufacturing Innovation: A Preliminary Design (2013), A Roadmap for US Robotics – From Internet to Robotics (2013), the Measurement Science Roadmap for Metal-Based Additive Manufacturing (2013), the National Artificial Intelligence Research and Development Strategic Plan (2016) and A National Machine Intelligence Strategy for the United States (2018) /see Information Office of the PRC, 2018, 55–56, citing US sources.

been legitimate and voluntary, widely practised in early development periods by developed countries.

Fears about China's domination of the G5 technology are also a manifestation of the same logic. Whilst ever US companies dominated the area, there was no problem[50]. Now, the threat of a 'different' domination, entailing a civilisationally different country[51] has become, especially for the USA, a serious problem. Yet, this is less a genuine fear of domination by an authoritarian, undemocratic country than a defensive reaction to China becoming a technological leader in this, as well as many other, dynamic economic sectors (Svetličič, 2020b).

China has been very systematic in its acquisition of foreign knowledge. The »Thousand Talents Plan« unveiled in 2008, for instance, targeted Chinese academics outside the country, offering them state subsidies and tenured positions in China's top universities if they set up research programmes in China based on the scientific knowledge they had acquired in their work abroad (Magri, 8).

Such developments were also due to the very systematic adjustments to and long-term orientation of China's laws and regulations. The evolution of China's IPR regime has seen several stages. In the last few years, China has made efforts to review and update its IP legislation. Work on revision of the patent law and the copyright law as well as a comprehensive revision of the trademark law is continuing.

> *China had no patent law prior to 1984. /…. / In the 1990s, IP theft was rampant, although Western policymakers largely ignored it when China specialised in low--end manufacturing fueled by cheap and abundant labour. As part of accession into the World Trade Organisation in 2001 China revised its patent law which represented a major step toward compliance with international standards* (Huang & Smith, 2019).

According to the European Commission (2020b, 16–17):

> *The former State Intellectual Property Office of China (SIPO) has been transformed into the Chinese National Intellectual Property Administration (CNIPA) with*

50 According to the World Economic Forum (2018), US companies' share in the info tech sector is 73%. Google holds an impressive 90.8% market share of web, mobile and in-app searches. Among the 10 largest companies by market capitalisation (June 2019), five are from the USA (Microsoft, Amazon, Apple, Alphabet /the parent company of Google, and Facebook). Alibaba (China) follows in 6th place (Statista, 2019).

51 It is largely rooted in ethnocentrism, even racism (for more, see Svetličič, 2020a).

extended responsibilities for all IPRs, except copyright and agricultural GIs, now covering patents, designs, trademarks and geographical indications for non-agricultural products. CNIPA reports to the new State Administration for Market Regulation (SAMR), also overviewing enforcement matters, which in turn reports directly to the State Council. The National Copyright Administration of China (NCAC) remains responsible for copyright issues, the Ministry of Agriculture and Rural Affairs handles matter related to agriculture GIs. It is too early to assess the effect of this administrative reform. The establishment of three specialized IP Courts in Beijing, Shanghai and Guangzhou is clear progress. It has been followed by the creation of specific Internet Courts in Hangzhou, Beijing and Shanghai also dealing with IPR infringements. In early 2019, China created a specialised IP court as part of the Supreme People's Court (SPC) to focus mainly on patent cases. The creation of such a specialized IP court within the SPC is promising as it could increase coherence of court decisions at all levels. On 20 April 2019, the National People's Congress amended several IP laws: it strengthened the trademark law regarding bad faith registrations, and modified the anti-unfair competition law to reinforce the protection of trade secrets. In January 2019, China launched a public consultation on draft guidelines related to bad faith trademark applications. These draft guidelines should now be adapted to reflect the new provisions in the law. The draft patent law published for comments included a number of positive elements, such as the potential inclusion of patent right extensions and an increase in the level of damages. The revision of the law on plant varieties is also ongoing. Adoption of the law would bring China closer to joining UPOV 1991, which would be welcome. Although not going as far as the EU had hoped for, the new e-commerce law that entered into force in January 2019 recognises the necessity to protect IPR and addresses the matter of online infringements by platforms.

Regarding China's IPR policy, there are two prevailing and competing views. The first one, which we may call the 'natural evolutionary' view, argues that China's path to IPR protection is historically similar to that of the USA and will evolve into a strong IPR protection regime as China develops more IPR itself (Peng et al., 2017). Parallel to becoming a leader in many technology fields, it is realistic to expect, and so the declarations say (see Chinese Premier Li Keqiang[52]), that China will no longer demand the forcible transfer of technologies and that it will respect intellectual property and related patents in the future. Why realistic? First, because economic development in China will facilitate improved IPR protection as economic development in the USA did in the nineteenth century. The poor countries allocate few resources to innovation and thus have little IPR to protect. As incomes grow too, inventive capacity demands emerge for high-quality products and commercial lobbies start demanding effective protection – with domestic interests coinciding

52 »Enhancing the protection of intellectual property rights is a matter of overall strategic significance, and it is vital for the development of the socialist market economy«, Li stated (see Reuters, 2017).

with foreign interests in seeking better IPR protection. It may thus be predicted »that when Chinese IPR are significantly violated abroad, China will become more serious about IPR protection. Therefore, we suggest that China's indigenous innovation policies need to be strengthened instead of discouraged by foreign IP rights holders, governments, and other stakeholders« (Peng et. al., 2017, 21, 22, 32). The more the Chinese are innovative, the more they are interested in protecting their property rights. This is a natural development, like happened with Japan during the Meiji Restoration and after the Second World War. Such an optimistic approach implies that the USA, the EU and other large economies should simply nudge China towards compliance with international law and to implement regulation consistent with international standards. Indeed, there are signs that, as the Chinese economy develops, the government is making efforts to better protect IPR. For example, China is a member of the World Intellectual Property Organisation (WIPO) since 1980. Running for the top position at the WTO recently (albeit unsuccessfully) shows the importance China attributes to IPRs and the global technical rules[53].

The second view, which we may label 'rule of law' view, regards the systemic and severe violation of IPR in China as the Chinese government disregarding the rule of law, and the international community must thus pressure it to change in order to protect the global IPR market (Brander, Cui, & Vertinsky, 2017). This view implies the rule-based countries should punish China for violating the rules[54] and force it from the outside to comply or suffer the consequences. These two views differ in the assumptions they make about the pathology of institutional change and, hence, also the appropriate policy response.

According to Li (2020, 1), both views suffer from a narrow lens of Chinese IPR policy and insufficiently account for the active role taken on by the Chinese Communist Party (the state) in creating a self-serving political economy. This is

53 *China's* Houlin Zhao has been secretary-general of International Telecommunication Union (ITO) since 2015.

54 Minimum damage pay-outs for violations have continually increased, as have durations of patent protection. China even became the most litigious country in terms of the number of IP-related cases as early as 2005, and the number of cases has increased at a rate of over 40 percent per year for the past two years. In 2014, China debuted three specialized IP courts, and there are as many as 19 more in the pipeline. And contrary to popular expectations, foreign plaintiffs have actually fared better in patent litigation in these courts than their Chinese counterparts. Even the 2016 Special 301 Report by the generally bellicose USTR noted »welcome developments« and »progress toward effective protection and enforcement of IPR in China.« /…/In short, change is occurring at China's own initiative, and U.S. companies have taken note: In a American Chamber of Commerce in China survey, 96 percent of respondents stated in 2018 that China's enforcement of IP rights improved or stayed the same in the last five years compared with 86 percent in 2014« (Huang & Smith, 2019).

partly because of the role of China's political system and the role played by the Communist Party in China as the dominant actor which makes China different compared to the lessons with regard to the IPR strategies of now developed countries in the past. Even if IPR protection laws are introduced, they might just be »ink on paper«. As observed, some laws are not meant to be enforced, such as the rights to vote and to free speech found in the Chinese Constitution. The second reason is the size of the Chinese economy. When the USA was an IPR violator in the late 18th century to early 19th century, its economy was small, accounting for about one-fiftieth of world GDP (Drabble, 2019). A democratic and small country that is highly globalised may improve its IPR protection the fastest compared to a big, undemocratic country with little globalisation (China is a big, undemocratic country with high globalisation) (see Lipton, 2018, 68). These two factors together make the impact of China's IPR issue beyond any country's experience in history. Li et al. (2020) may well be right, but only in the short term. In the long term, leading technology Chinese firms, also active abroad not only by exporting but investing, would be highly interested in protecting their technology, their IPRs. Therefore, they will certainly push the Chinese government to install and implement such protection more efficiently than in the past.

To conclude: China holds the potential to evolve from an innovation sponge – absorbing and adapting global technologies and knowledge – to an innovation leader, provided innovations start to contribute to productivity growth more than in the past. If China wishes to sustain a 5.5%–6.5% growth rate through 2025, according to McKinsey (2015) innovations would need to contribute 50% to GDP growth because:

- the labour force is not growing anymore;
- ageing is set to reduce the working age population by 16% by 2050; and
- the return on fixed assets is declining[55].

Sustained, long-run growth will obviously depend on continuous growth in productivity, claims the World Bank (2019, xix). Its report proposes the »3+6+7« reform agenda to address China's productivity challenges and achieve long-term sustained growth:

- China's future growth will come from 3 Ds: removing *distortions*, accelerating *diffusion*, and fostering *discovery*.
- China's authorities are facing six strategic choices in furthering productivity and innovation.
- China's authorities will need to address seven critical areas of structural and institutional reforms.

55 It takes 60% more capital to generate a unit of GDP than it did between 1990 and 2010.

On this basis, one may conclude that a too aggressive policy vis-à-vis China (fuelled by accusations…) in the IPR area seems irrational because »slowing down Chinese innovation will simply weaken its incentive to strengthen IP rights. Rather than go against the grain, the United States (and the rest of the world, SM) should instead commit to working with China to foster open innovation and design knowledge transfer systems that both sides would see as fair and mutually beneficial. /…/. Ironically, if the West wants China to get better at protecting IP, it also needs to work with China to help it to become a more innovative nation« (Huang & Smith, 2019).

2.6. CHINA IN THE GLOBAL POWER STRUCTURE

Rapid economic developments, technological transformation of the Chinese economy, its deeper integration into the global economy, also imply a substantial repositioning of China in the global power structure, in the world system. Historically, many Chinese experts would agree that Mao Zedong inspired China to *stand up*, Deng Xiaoping *made China rich*, while Xi Jinping *made China powerful*. Second, it is important to know that Chinese civilisation has seen many ups and downs, now only returning to strength. Professor Wang Gungwu observed that while the world has had many ancient civilisations, the only ancient civilisation to fall four times and rise again is China. As a civilisation, China is remarkably resilient. The Chinese people are also remarkably talented. As the Chinese look back over 2,000 years, they are acutely aware that the past 30 years under CCP rule have been the best 30 years the Chinese civilisation has experienced since China was united by Qin Shi Huang in 221 BCE (see Mahbubani, 2020).

This is a historical framework for China of today's role in the modern world in which many see China about to replace the USA as the leading world power. Perhaps even as the locomotive of global economic growth, but not a leading military power. »US retreat from the world stage has given China an opportunity to fill the vacuum, particularly as the epidemic has forced US to turn inwards even more for now. It would be a mistake, however, to underestimate the power and leadership of the US:/…/ China is likely to emerge as a bigger player in political as well as economic terms while EU will emerge weakened from the crisis«, concludes the EIU study (2020, 3–4).

Not surprisingly, fears about China's growing economic power are rising (see Ch. 2. for details). The world is headed towards Luttwak's prediction, already dating from the early 1990s, »that the post-Cold War international relations will turn from geopolitics to geo-economics, especially as regards relations among most powerful states«, implying that economics will dominate over politics. Despite such a growing role of economics vis-à-vis security/defence, it must be observed that, notwithstanding fast technological developments, China is still lagging behind the USA militarily56. Such lagging behind is slowing down tectonic changes in the world because there is a strong long-term correlation between economic/production capacity (Susan Strange would say structural power) and military power, and the position of the state in the global power system. This does not mean that both powers will grow and fall parallel. This normally happens with time delays (see Kennedy, 1987, xvi, xxii). This also explains why the Yuan cannot challenge the position held by the dollar as the world's main international reserve currency[57]. For a country to become a dominant world power, its currency must also have an important role as an international reserve currency, to be used widely in international transactions. Geopolitically, to become an international one, a national currency needs to not only have economic but also political/military backing, which is now lacking in the case of China. Countries namely prefer to purchase assets in a currency which can be sold easily and rapidly in the future, which is only possible if that currency is broadly used in international transactions. The Yuan is not such a currency. It is used ever more in transactions in Asia and will be used more upon signing of the Regional Comprehensive Economic Partnership (RECEP). The denomination of foreign reserves in dollars is namely strongly security/defence related. Countries which for security depend firmly on the USA (Japan, South Korea, S. Arabia, even Germany) have almost 80% of their monetary reserves denominated in dollars. Putting it figuratively, to become an international currency a country must follow as much as the Roman gods of Mercury (trade, economics…) and Mars (war, diplomacy, geopolitics) (see Schuman Report, 2020). »Xi Jinping is now the strongest defender of free trade on the global scale and of action to combat climate change, and his »China Model« envisages his country's return to the pre-eminent position it held in the world before succumbing to Western aggression in the 19th century« (Golden, 2020).

Irrespective of such deficiencies, it is becoming obvious that, China's economic expansion, also linked to its political and military expansion, already means a change to the existing world order, even though China in fact sees itself as a 'keeper of the international order' from which it has benefited so much. »The construction

56 Although it has, according to Global Firepower estimates, roughly 2.19 million active military personnel at its disposal. With far fewer in second and third place are India and the United States with 1.45 and 1.40 million, respectively.

57 Only app. 2% of global transactions are carried out in yuan (China dashboard (digitalocean-spaces.com).

of new multilateral institutions, including the BRICS' New Development Bank (NDB, created in 2014), the Chiang Mai Initiative Multilateralization Agreement (CMIM, signed in 2014), the expansion of the Shanghai Cooperation Organization (SCO, founded 2001), and the Regional Comprehensive Economic Partnership (RCEP) can demonstrate it« (Stephen and David Skidmore, 2020, 9). On the other hand, China also criticises the existing order and the USA's dominance in many international organisations by creating new, alternative, institutions like the Asian Investment and Infrastructural Bank (AIIB)[58] which could challenge the World Bank's role, at least in Asia. In Hočevar's optimistic view (2019, 15), it seems more that »China does not undermine the capitalist world order, but rather tries to challenge the US position in the existing capitalist world order in order to form a non-hegemonic capitalist world order. /…/ All in the context of consolidating internal hegemony in China and solving internal political and economic issues and problems«. He may be right for now, but the situation may change when China achieves a more hegemonic position. »History has demonstrated that power corrupts, and that aspirations can, along the way, be broadened, including the one to shape the world more according to its own ideological design (although they also can, or better put, will be gradually changing; Svetličič, 2020a, 358). Let us not forget that the Chinese are very long-term-oriented. As H. Kissinger in *On China* (2011) so illustrated nicely, the »Chinese strategy was guided by the Chinese game of *wei qi*, not Western chess. In Western chess, the emphasis is on finding the fastest way to capture the king. In *wei qi*, the goal is to slowly and patiently build up assets to tip the balance of the game in one's favour. The emphasis is on long-term strategy, not short-term gains«.

Based on a detailed historical analysis, Subramanian, perhaps also too optimistically, notes that China's dominance is more imminent than usually thought (it may already have begun), will be more broadly based (covering wealth, trade, external finance, currency), and could be as large in magnitude in the next 20 years as that of the UK in the halcyon days of the Empire or of the USA in the aftermath of World War II (2011, 4).

It is much too early to know what kind of world power structure we will have in the next decade(s). Yet what is clear is that the primacy of the USA is at the departure gates. The international system's structure is changing with the evaporation of America's unipolar role. »The historian Niall Ferguson has written that the bloody twentieth century witnessed the descent of the West and a reorientation of the world toward the East. Realists go on to note that as China gets more powerful and the United States' position erodes, two things are likely to happen: China will

58 It was established in January 2016 and has already 103 members.

try to use its growing influence to reshape the rules and institutions of the international system to better serve its interests, and other states in the system – especially the declining hegemon – will start to see China as a growing security threat. The result of these developments, can be tension, distrust, and conflict, the typical features of a power transition. In this view, the drama of China's rise will feature an increasingly powerful China and a declining United States locked in an epic battle over the rules and leadership of the international system« (see Ikenberry, 2008).

One economic condition for China's hegemony (share in GDP) thus likely to be achieved in the medium term. This is an indispensable, yet not a sufficient condition for a hegemon. China is not superior in all fields, particularly not militarily. Due to the weakness and underdevelopment of its financial sector and absence of democratic control, it is too vulnerable to take on the role of head of the global economic system. This means we must be careful with forecasts of an ever more turbulent, unpredictable, uncertain and world of tectonic changes. Also to be careful not to jump too early over to pessimistic ('new Cold War') or over-optimistic conclusions (size doesn't matter or China will become democratic as it develops). Or with respect to »either underreacting (as happened after Tiananmen 1989) or overreacting, as is happening today« because »China is already too enmeshed in the international system therefore it is better to speak about 'another, if protracted, big chill« (Liu, 2019).

Nevertheless, it seems we have arrived at a critical junction regarding the kind of the power structure that will prevail in the future. It is evident that we are entering an uncertain post-Anglo-Saxon or post Western world in which China and India will emerge as superpowers. Samuel Zipp, historian at Brown University, figuratively stated, »that American power is in its twilight years – the strife in the country's hospitals and streets makes that clear. Propping up old notions of American indispensability ensures that we are fighting yesterday's battles« (2020). The 6 January insurrection at the US Capitol, actively inspired by President Trump, in fact looking almost like a bottom-up coup, may be seen as a final sign of the weaknesses of American democracy and the dangers of populism. It also demonstrates the fine line between democracy and fascist ultra-nationalism with elements of white supremacy and violence. S. Berman, a professor at Barnard College, Columbia University goes as far as to predict that »critical to determining the outcome of the 'contest' for geopolitical domination between the United States and China, is whether the United States can overcome its current political polarization and dysfunction. If it can, and American governments can redirect themselves to building alliances that can counter and contain, without overly antagonizing China, there is no reason to believe that the United States cannot remain a world power« (Poll: The Next 50 Years of Foreign Policy).

»Since the ability of great powers to impose their preferences will only decline further in the future/.… /the USA will no longer be the hegemon it once was/…/The twenty-first century will not be America's, China's, Asia's, or anyone else's«, according to Kupchan (2012). »The emerging global landscape represents the end of an era dominated by the USA. Five hundred years of 'Western' dominance is coming to an end. Even the latest *Global Trends Report* of the US National Intelligence Council (NIC) describes the shifting nature of the world order as an ever-widening range of states, organisations, and empowered individuals that will shape geopolitics. It concludes that the emerging global landscape represents the end of an era dominated by the US, and that any US attempt to impose order will fail (ibid., 2020). Are we facing a shift towards tripolarism, rather than bipolarism[59], as the USA and Russia lose their shares while China and India forge ahead? Is Pax Americana to be substituted by Pax Sinica, Chimerica (G2; the USA and China joining hands in ruling the world) or are we going to have a more multipolar world like a concert of more powers coordinating their role like in the past, remains an open question. According to Jones (CSIS, 2020; https://www.csis.org/analysis/world-order-after-covid-19); »there will be by 2025-2030, multipolarity between different parties, with the United States, China, Russia, and the European Union representing different poles. But at the macro level, these poles may align around regime type, with the democratic United States and Europe aligned against Russia and China«. China can enhance its position by relying on smaller regional states in Asia or elsewhere. Geeraerts (2011, 59) is of a similar opinion, positing that »the emerging multipolar structure could be a multi-layered one: consisting of two tiers. In the first tier we could have the US and an ever more powerful China (EU?). The second tier comprises most regional powers like India, Brazil, South Africa, Russia, Japan, the large European states and the remaining members of the G20«.

Finally, it would also be important to see how the general public around the world and in China see the coming changes in the global power structure. According to Poushter & Moncus (Pew Research Centre; 2020), people in many nations name China, not the USA, as the world's leading economic power. A median of 48% across the surveyed 14 countries says this, while 34% say the USA is the global economic leader. South Korea and Japan – the two nations geographically closest to China among those surveyed – are the only countries where the USA is the most common choice for leading economic power.

The Chinese view of their future role in the world remains unclear and varies when one considers diplomats/politicians or academics as to whether China

59 Rodrik (2020) believes, that as the US power recedes, we go into a multi-polar global system.

wants superpower status. It seems that China is aware of the danger of strategic overstretch (to paraphrase Kennedy, 1987), as an imbalance between its strategic commitments and its economic base, and international exorbitant responsibilities like a global insurer in the case of downturns implying colossal economic transfers. Yet China is not immune from triumphalism after abandoning Deng Xiaoping's low-profile approach of making China great again[60]. Such *wolf warriors*, although popular in some circles in China, have their limits because »almost every significant world power has learned that overconfidence often leads to missteps, and these missteps then lead to the rapid downfall of nations, regardless of their ideological system or economic prosperity« (Mahbubani, 2020).
Recent Chinese public diplomacy replacing the previous »charm offensive« strategy (Kurlantzick, 2007, 6) could illustrate such a more ambitious strategy, although its mission was initially to neutralise »China's theory of threats« and thus improve China's reputation in the world (Tai-Ting Liu Tony, 2019, 77). Geeraerts see China as a 'pandragon', featuring a double identity: i.e. a 'weak power identity' and a 'strong power identity'. At times, it considers itself a mere developing country that was wronged by the imperialists and is therefore entitled to a great degree of leniency and support. At other times, it sees itself as a great power that is well on its way to restoring the glory of the ancient empires and wants to be treated on an equal footing (2013, 61). Even the political elite is not very explicit as to how they see the future role of China in the global order. According to Roland, the National Bureau of Asian Research (2020), »the Chinese leadership has not offered an explicit description of the world order it would like to see emerge, the kinds of changes it would like to see occur, or the types of mechanisms, institutions, norms, and rules that it would like to see arise as part of a new international system under its helm. This does not mean that the leadership does not have a vision of what it wants«.

Most Chinese scholars agree that China has multiple identities, including that of a socialist country, a developing country, a rising power, a great power, and an East Asian regional power. They disagree on which identity should be most salient, but have a clear sense of China's direction; namely, they want to make China great again. However, they appear to be at odds as to the ultimate destination of China's rise on the global stage. In particular, they disagree on whether or not China should seek to become a new superpower. Moreover, Chinese scholars are actively debating whether China should continue to maintain a low profile or actively strive for achievement in a new era. A rising China faces a wide range of

60 Global ambitions are not wholly new: The Nationalist leader Chiang Kai-shek and his Communist counterpart, Mao Zedong, both held visions of a major international role for their country in the 1940s and 1960s, respectively (Mitter, 2021).

competing challenges and pressures from domestic and international audiences. How to manage its conflicting roles in ways that advance its national interests, but avoid generating dangerous misperceptions and expectations among various audiences? In particular, a rising China must balance between its competing incentives of resolve and reassurance, status and responsibilities, and the domestic audience and the international audience. These competing incentives have shaped the Chinese debate on its international positioning (see Pu, 2017).

Consequently, it is not totally clear whether the country wants to be a dominant power, substituting the USA or whether there is something else on its mind? »The influential Colonel Liu Mingfu strategy is that China should take the leading role from the US following the experience of the UK, which quietly left the lead role to the US after the Second World, and not the example of the Soviet Union, which directly clashed with the United States in the Cold War[61]. China should have influenced that the USA would do so at the time China took the lead. He advocates a tolerant, long-term strategy, a century-long marathon. It predicts China will need 30 years to catch up to the USA by size of GDP, 30 years to become equally strong in the military field and 30 years to match its GDP per capita income (see Miller, 2016). It is nevertheless becoming clear that »China's grand strategy under Xi Jinping is heading in a more assertive direction, yet still preserving a defensive-oriented foundation. President Xi's approach is rebranding a narrative of peaceful rise with international development cooperation and employing an increasingly assertive stance on global issues, and the national objectives as »the Chinese Dream of the great rejuvenation of the Chinese nation«. In this assertive turn, these objectives have been blamed for igniting long-term competition and tension in an interdependent great power politics. /…/ It is aiming for leaving behind low profile global role and achieving the goals of national« (Öterbülbül, 2021).

Following such a philosophy, a new model of great-power relations may be developing and not a replication of the old Cold War model. »Cold war between the two countries would arrest the progress on both sides of the Pacific/…/ since US-China relations are essential for global stability and peace. /…/US-China relations need not – should not – become a zero sum game« (Kissinger, 2011). It would be wrong to see, as some Western observers do, in China's rise a version of a 21st century cold war like that between the US and Soviet Union after WW2[62] (see Mitter,

61 Concentrated on military pushed Soviet Union behind economically. It seems that China has learned a lesson from the collapse of the Soviet Union. It is restraining its defence expenditures while focusing on economic development (see Mahbubani, 2020).

62 It may be more like the rivalry between the UK and Germany in the period 1860–1914, which led to war.

2021) because the situation today is very different. The Soviet Union was then a serious military challenger while China today is not (yet?). But, if Washington defined every such climbing power ladder of China as dangerous, »it will be setting the United States up against the natural dynamics of international life and falling into what the scholar Graham Allison has called *the Thucydides trap*—the danger of a war between a rising power and an anxious hegemon« (Zakaria, 2020). The smaller the difference in power between the leading and the rival states, the greater the chances of conflict (see Kugler & Organski, 1989). Therefore, Kugler (2006) noted that China's growing power over the USA greatly increases the chances of war over the next few decades. Nevertheless, history shows that changes in the international order, improving global governance and the strengthened role of international organisations[63] can contain the rivalry and thereby help to avoid conflicts and war.

It seems that the Beijing Consensus is unlikely to substitute the Washington Consensus in the foreseeable future. The near future will not be the same as the last century with a single country leading. There could be power sharing between China, the USA, Europe/the EU and Russia (perhaps also India) within the spirit of a 'collaborative autonomy' logic. Europe is not militarily strong enough but has an advantage in terms of its soft power. China is likely to emerge as the most powerful player, although it will not be sufficiently powerful to dominate but strong enough to be a significant shaper of the world order. Emmott (2006) compares China with Britain in the early 19th century when, despite being more powerful, it was unable to dominate. Perhaps we are living in »a transition from a global order constructed around a few commanding international organizations dominated by powerful Western states, to a more multifaceted order based on complex and polycentric governance arrangements among a wider community of national governments, international organizations and non-state actors« (Mette Eilstrup-Sangiovanni & Stephanie C. Hofmann, 2019). The erosion of USA's hegemony will certainly jeopardise the stability of the system, endangering the functioning of the existing order, throwing its stability off balance (Svetličič 2020a, 359). Why not end this chapter with the last sentence of Kissinger's book (2011): »When Premier Zhou Enlai and I agreed on the communiqué that announced the secret visit, he said: 'this will shake the world'. What a culmination if, forty years later, the United States and China could merge their efforts not to shake the world, but to build it« (2011).

63 Which was not the case before WWI and WWII.

2.7. EU POLICY ON CHINA[64]

2.7.1. Introduction

As an EU member, there is also a formal framework for Slovenia to comply with concerning bilateral cooperation. This means it is important to be aware of such a framework before designing bilateral cooperation.

The EU was not made to play an international role at the beginning. It later became an economic/political power, even if it was »unaware of it«, according to Juncker (2020, 3). »Whilst Europe is powerful economically, it is gaining political influence. This is how our partners see us, apart from the *new Americans,* Trump and others«, he stated. »The Chinese, with whom I have always had good relations, see Europe as an economic power, but also as a political player. But when we were at the Elysée Palace with Emmanuel Macron, Angela Merkel and Xi Jinping, I told the latter that China was our strategic partner, but also our competitor and rival. And the Chinese president feigned surprise«[65]. In such a way, Juncker nicely illustrated the rich and long evolution of the relationship between the EU and China over the years, from not having ambitions to play an important global role, to becoming an important global player and, in fact, a strategic rival of the China.

Relations between the EU and China have developed fast since diplomatic ties were established in 1975. Still, the road has been quite bumpy, going through tens of top-level meetings,[66] understandably not easy, particularly when they became competitors, despite having so many interests in common. According to Geeraerts (2020), their cooperation is driven by two distinct underlying logics: a power-based one and a transformational one. According to the power-based logic, the EU and China relationship reflects their relative power positions, making cooperation more difficult. In contrast, a transformational logic suggests that

64 Within this paper it is impossible to cover all aspects, particularly since the developments of the last few years have been extremely dynamic. Therefore, we will concentrate on the main issues relevant to Slovenian–China bilateral cooperation, like the general strategic framework, FDI, trade and IPR.

65 China hates the term »systemic rival« and was surprised by publication of »EU-China: A Strategic Outlook« in 2019. Chinese experts openly admitted (author's personal experience) that in 2020 China must respond to the new approach taken by Brussels (Szczudlik, 2020).

66 The first EU–China Summit was held in London as far back as 1989 and the last, the 21st one, in April 2019 in Brussels (see: https://eeas.europa.eu/delegations/china_en/60836/Joint%20statement%20of%20the%2021st%20EU-China%20summit#:~:text=%20Joint%20statement%20of%20the%2021st%20EU-China%20summit,to%20deepening%20their%20partnership%20for%20peace%2C.%20More%20).

rules and shared norms can sharply reduce conflicts of interest and mitigate concerns about relative gains by creating trust and reciprocal socialisation, making enduring cooperation between the EU and China more likely. Diverging trends, which are mutually reinforcing, are pushing the relationship towards competition and cooperation. The direction in which the EU–China partnership could evolve – more competition or more cooperation – is shaped by the relative strength of the diverging and converging trends.

Europe's policy on China has to date been one of conditional cooperation. The EU is prepared to help the PRC, to invest in development of the country but, in turn, China must meet a number of standards and demands. 'Hard power' has barely made it onto the EU's agenda in the past, but it has now. On the contrary, Europe has wished to forge a tighter link and strengthen its influence through ever increasing economic interdependence and shared values. Not surprisingly, the EU is still perceived more as a normative actor, founding its policies on values, institutions and cooperation rather than power politics (see Geeraerts, 2011, 62). The EU has gradually and silently become the regulatory superpower (see Bradford's »The Brussels Effect« book). Relative success in terms of imposing its standards[67], has been seen for example, in the field of data protection (through the GDPR) and road vehicle safety, and it will soon so again through taxes on carbon and digital commerce, and its recent digital sovereignty ideas (see Klein, in Hobbs, 2020, 37).

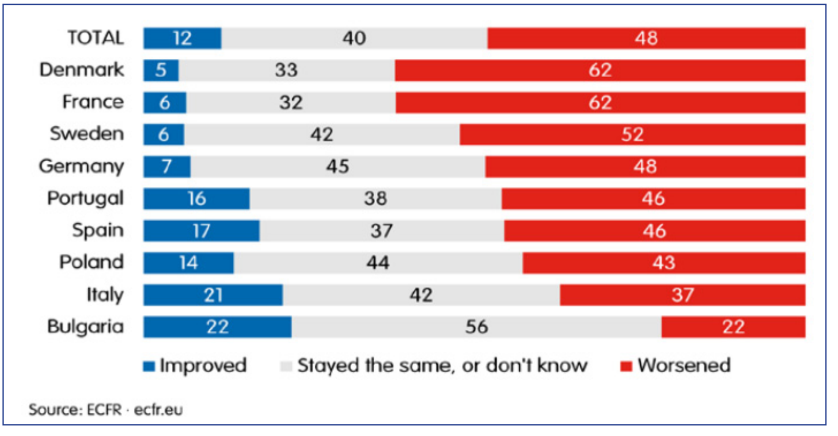
Such an attitude may face problems in light of the pragmatic realpolitik that has been followed by China with a touch of *divide et impera* logic in the case of relations with individual EU members. This policy has been facilitated by a lot of free space for separate international (economic) relations policies by individual EU member countries which, in China's eyes, might be understood as sign of EU disunity and weakness. The EU is encountering an increasingly aggressive Chinese policy of bringing about more flexible and less critical positions about China (market economy status) within the EU itself. The 17 + 1 initiative is already one such strategy that might lead to intra-EU divergences or turn some members into China's 'fifth column' in the EU (for more, see Ch. 6). It is hence no surprise that alarm bells have started to ring with respect to China's ability to use its economic power to undermine any harmonised European policy on China. However, Ferchen and colleagues believe that this is an exaggeration and that the interests of many interested European stakeholders are thereby being ignored. This points to

67 As Moravcsik noted in his review of Bradford's book, the EU's stringent regulations raise the standards of producers in China, the USA, and other countries across the globe.

the urgent need to step up cooperation in Europe to create an effective response to China's challenges (2018, 1).

The EU's changing strategies concerning China have, apart from hard economic and political factors, also been influenced by public opinion on China. Initially, such opinion was quite positive, but gradually, particularly after the GR and big Chinese takeovers of European 'champions', it changed towards more negative attitudes. The Covid pandemic has added to this substantially.

Figure 29: Has your view of China changed during the Covid crisis?



Source: European Parliament, 2020b, 10.

The lack of the reforms expected from and even promised by China in the areas of economics and human rights has also led to this deterioration in opinions. When China joined the WTO in 2001 it agreed to reform and liberalise important parts of its economy. It made some progress, but many problems remain, including discriminating industrial policies and non-tariff measures, strong government intervention in the economy (dominant position for state-owned firms), cheap financing, and poor protection, enforcement of intellectual property rights. Progress on human rights has also been slow, even getting worse recently.

The EU has become much more concerned and proactive about China, trying to ensure a level playing field for its firms in China's markets, parallel to its transformation from a developing to a technologically advanced country, rivalling EU firms. Realistic, effective and coherent engagement with China built on European values and interests is a basic starting point. Thus, the EU and China's ability to engage effectively on human rights will be an important measure of the quality of the bilateral relationship. The common belief is that the EU must become more ambitious and assertive, going beyond its mainly defensive approach. Yet it seems, that like the relations between US-China, also EU-China relations are mainly a function of economic interests, not ideology, with a touch of pragmatism required while working with the China that exists, not dreaming of the China one might wish for. While it is thus unrealistic to expect perfect unity between EU member states on all issues related to China, the growing convergence seen in their policies should provide a new platform for a more coherent and effective European approach (Oertel, 2020).

2.7.2. Evolution of the EU–China Strategy

Sino-European relations have seen turbulent times in the past. They have been and »remain highly nuanced and full of individual priorities created by bilateral interactions. The balance of power has shifted. China's economic power and political influence have grown with unprecedented scale and speed, reflecting its ambitions to become a leading global power«, (European Commission, 2019a). This new situation calls for new strategies. The emerging consensus on China among EU member states is largely a response to such changes and »existing economic imbalances, non-implementation of agreed principles of fair competition and China's unwillingness to reciprocate the openness of the EU market« (also see Oertel, 2020).

Since 2003, the EU and China have acknowledged each other as strategic partners in the Comprehensive Strategic Partnership, which has deepened and broadened cooperation in a broad range of areas. The EU and China have become highly interdependent as a result, yet have faced many ups and downs in their cooperation. In its first ever EU policy paper, China recognised the EU as »a major force in the world«, while in 2006 the EU called China a »re-emerged major power«. Slowly but steadily, the EU and China have built a partnership, probably one of the most structured relationships between two major powers in today's world arena and an important element of reconfiguration of the international order, triggered by the rise of the emerging powers. Its significance lies not only in connecting to the key order-shapers in today's world (Chen 2016), but in the management of the antagonistic quality of the relationship between actors holding such different identities (Michalski and Pan 2017; Geeraerts, 2020, 1).

»The EU's reinterpretation of its China policy started in 2016, to a great extent as a reaction to China's takeover of the German company Kuka, a manufacturer of industrial robots. It was an example of implementation of Beijing's »Made in China 2025« strategy that had been announced a year earlier. This takeover made the EU aware of new potential threats coming from China, chiefly as regards critical infrastructure and high-tech industry. This acted as an alarm bell. Since then, we can talk about the lingering process of sharpening the EU's policy on China« (Szczudlik, 2020).

The EU's new approach to China was set out in the Strategy on China in 2016 (https://eeas.europa.eu/sites/eeas/files/council_conclusions_eu_strategy_on_china.pdf), which reflects on the shifting balance of challenges and opportunities over time. For the EU, China has simultaneously become a cooperation partner in several fields where interests have converged, a negotiation partner, an economic competitor, and a systemic rival. This more realistic strategy is based on effective and coherent engagement with China, as well as European values and interests (see European Commission, 2020d). It remains the cornerstone of EU engagement, providing the foundation for delivering a further EU policy shift towards a more realistic, assertive and multi-faceted one-voice approach. The starting point was that neither the EU nor any member state can effectively achieve their aims concerning China without full unity. In cooperating with China, all member states, individually and within the sub-regional cooperation frameworks such as the 17+1 format, are responsible for ensuring consistency with EU law, rules and policies (see European Commission, 2019a).

By labelling China, a systemic rival in 2019, Europe dramatically toughened its political stance on China. In a strategic communication mapping out of 10 proposals for dealing with Beijing, the European Commission also slapped countries like Italy for becoming too closely aligned with China's flagship One Belt, One Road programme. In such a way, the Comprehensive Strategic Partnership Strategy, looking at China mainly as a (difficult) partner, was updated in March 2019, partly in reaction to the Made in China 2025 strategy and the different norms and values that underpin the EU and Chinese political and economic systems. It redefined the understanding of reciprocity in an attempt to convince China to open its market and introduce economic (but also social or maybe even political) reforms so as to become similarly open to the EU. Based on such reciprocity, the EU is set to close those areas which in China remain closed off to the EU. Another reason of this stronger assertiveness is that the EU and China have become competitors in third markets.

As the Chinese leadership also shows greater assertiveness in disseminating alternative models of governance (on international, regional and bilateral levels), China is also acting as a systemic rival, on an increasing number of issues. The Covid 19 pandemic has amplified the pre-existing political and economic challenges in EU–China relations. It has exposed the EU's over-reliance on China for the supply of strategic goods and also China's confrontational *Wolf Warrior diplomacy*, which has entailed the use of a wide range of tools, including disinformation campaigns, political influence and economic coercion, in an attempt to alter narratives critical of China's management of the crisis. It has also clearly demonstrated the need for a 'more robust' EU policy on China (see Greiger, 2020b).

Such a more assertive, pragmatic approach has been upgraded in the new concept of *strategic sovereignty* proposed by the European Council on Foreign Relations which might help guide the EU and the member states through this new era of geopolitical competition. This proposed sovereignty includes »strategic autonomy«, »regulatory sovereignty« and increasingly »digital sovereignty«. Strategic sovereignty implies that the EU and the member states must preserve for themselves the capacity to act in the world, even as they remain deeply interdependent. Promoting European digital sovereignty is a critical step in this effort (Shapiro, in Hobbs, 2020, 7).

In 2020, the EU–China Strategic Agenda for Cooperation was adopted by both sides. The two sides agreed to implement it through their annual Summit, which provides strategic guidance for their relationship through the three pillars directly underpinning the Summit:

- the annual High Level Strategic Dialogue;
- the annual High Level Economic and Trade Dialogue; and
- the bi-annual People-to-People Dialogue; through their regular meetings of counterparts and their broad range of sectoral dialogues (European Commission, 2020a).

2.7.3. Trade and Intellectual Property Rights

The European Union and China are two of the biggest traders in the world. China is now the EU's second-biggest trading partner behind the USA while the EU is China's biggest trading partner (number 1 in imports and number 3 in exports). In 2019, the share of exports to China in EU exports was 9.3% but for imports it was as much as 18.7% (EU Commission, 2020e).With China having entered the WTO, Europe and China have become increasingly intertwined economically. Two-way trade in goods and services has expanded over the last decade by about 60% (imports more than exports), to more than half a trillion euros annually (European Commission, 2019), but a negative trade balance persists (EUR 163,746 billion in 2019; see Figure 34).

Such trade is based on WTO principles, although China as a large country is able to find ways and means to interpret these principles in its own way. On the other hand, the EU is committed to developing open and transparent trading relations with China to ensure that China trades fairly, respects intellectual property rights and meets its obligations as a WTO member (see https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/).

Since the WTO mechanism for dispute settlements was paralysed after President Trump did not nominate a US representative to the WTO Appellate Body, on 28 October 2020 the European Commission, the European Parliament and the Council reached a political agreement to reinforce the EU's Enforcement Regulation. The idea was to enable the EU to respond resolutely when trade partners hinder effective dispute settlement resolution, for instance, by blocking the composition of panels. As part of the agreement, the Commission committed itself to developing the EU's anti-coercion mechanism swiftly. These changes will empower the EU to protect its trade interests despite the paralysis of the multilateral dispute settlement system in the WTO. The final agreement between the co-legislators also expands the scope of the regulation and of possible trade policy measures to services and certain trade-related aspects of IPRs[68]. This will further strengthen the Union's arsenal for enforcing its rights by allowing it to adopt countermeasures in a broader range of fields. The revised Regulation will enable the EU to react even if the WTO has not delivered a final ruling because another WTO member is blocking the dispute procedure by appealing to the non-functioning Appellate Body and by not agreeing to an alternative arbitration under the WTO Dispute Settlement Agreement. This new mechanism will also apply to the dispute settlement provisions included in regional or bilateral trade agreements to which the EU is a party if a comparable blockage arises (European Commission, 2020e).

The EU's China strategies also covers cooperation in science and technology. The renewed strategy in 2017 emphasises innovation, the cross-border transfer of R&D results, and greater reciprocity in access to research centres; demands the EU has made since 2016. The »EU–China 2020 Strategic Agenda for Cooperation« reemphasise the importance of facilitating trade between the two according to WTO rules and procedures, including in the case of trade remedy investigations or imposing trade remedy measures, to prevent their abuse. They agreed to reinforce the Intellectual Property Dialogue mechanism so as to strengthen cooperation in combating counterfeiting and piracy as well as to make full use of the new technical cooperation programme in that regard.

Over the past 5 years, Europe has become a global trailblazer in digital policymaking – attracting both the admiration and exasperation of many. »Making Europe fit for the digital age« ranked third among the European Commission's

68 The EU is negotiating a series of bilateral and regional trade agreements that include comprehensive IPR chapters, aimed at setting comparable levels of IPR protection for those existing in the EU, while taking into account the development level of the trading partners (European Commission, 2020b).

list of objectives for the 2019–2024 period. This prioritisation is evidenced by a raft of legislative initiatives on artificial intelligence, data, and other areas, all published just a month before the lockdowns across Europe began (Hobbs, 2020, 93). Ditching its previous laissez-faire attitude to tech regulation in favour of an assertive approach, the EU has actively intervened to raise privacy standards, levy landmark antitrust fines on tech companies, and shape the debate on issues such as online harm and ethical artificial intelligence. »The result is that today the EU is the world's leading digital regulatory power. But is regulatory power enough to protect Europe's interests and vision for the internet and digital technologies? If so, what comes next after the milestone 2016 General Data Protection Regulation? How can we ensure regulation does not damage the internet´s essence and founding values, or make it less attractive, profitable, or useful? Must the EU continue to work unilaterally on digital issues or is there scope for transatlantic or other alliances?«, Hobbs asks (2020, 91).

Technological sovereignty has spread like a viral phenomenon among European leaders in the past 6 months. Since the COVID-19 crisis started, politicians across the left–right spectrum have begun to push to reduce Europe's dependence on USA-or Chinese-origin technologies. From vaccine development to artificial intelligence, billions of euros are now being mobilised across the EU, while the rhetoric has turned nuclear. »If we don't build our own champions in all areas — digital, artificial intelligence«, French President Emmanuel Macron said recently, adding, »our choices will be dictated by others«.

The idea is to update the European Commission's AI strategy that was adopted back in April 2018. It was published parallel to the Commission's proposals to establish a »common European data space«. The strategy laid the foundations for comprehensive digital sovereignty of AI Europe: From rule-maker to superpower in the age of US–China rivalry – the ECFR/336 54 strategy by clarifying the main elements of the EU's future policy mix on AI. The core assumption behind the strategy is that Europe »can lead the way in developing and using AI for good and for all, building on its values and its strengths« (Renda, in Hobbs, 2020, 54).

On 19 February 2020, the Commission launched a wide-ranging package containing its ideas and actions on the digital transformation, including a white paper on AI and a European strategy for data. Both very assertive and comprehensive, the package is another step forward in Europe's quest to lead in »human-centric« AI. It is based on a specific vision of the future of data and AI, including the expectation of a forthcoming paradigm shift, from a cloud-dominated environment to data being much more widely held. In the years to come, the Commission expects the current 80/20 situation (80% of data stored in the cloud and 20% locally) to shift to a 20/80 scenario (with 80% of data being locally stored in, for example, devices, cyber-physical objects, and edge computing). With this shift, platforms like Google and Alibaba may lose some of their dominance (Renda, in Hobbs, 2020, 58).

2.7.4. Foreign Direct Investment

Since opening up in the 1980s, China has been a very attractive host country for FDI. Foreign companies started to compete on how to conquer the huge Chinese market despite the not too friendly and very complicated, often changing FDI regime. Yes, the market for inward FDI in China is very important, but the big issue of recent times has been the expansion of China's outward investment. The massive increase in China's investments, its taking over of technology-leading companies (see Godement et al., 2017) have thus become genuine economic fears in the EU– and China's economic relations. Investments opens the door not only to economic, but also political influence. Fears have also spread in the general public, with public opinion growing more hostile (Grant & Barysch, 2008) yet oscillating between »China saving Europe« and China taking over Europe« (Shambaugh, 2013). The attitudes held by individual workers or trade unions are more favourable, although the situation has been changing lately in a more hostile mood. Consequently, questions about the implications of such Chinese FDI for workers and organised labour in Europe have been raised[69].

It is not only a fear of Europe's crown jewels being taken over, but in addition it regards the »significant gap in investment openness between the EU and China. Chinese investors enjoy one of the most open investment regimes in Europe, with almost unfettered access to all industries. China on the other hand continues to strategically limit access for foreign companies in many sectors and there is rampant informal discrimination against foreign firms« (Hanemann and Huotari, 2019, 2). China still limits access to strategic sectors, while many governments of developed countries have recently also started to do this. The new Law on FDI is reducing restiveness and thereby improving the situation (see Ch. 2.4.1.). A »level playing field« is lacking in this area. In the current situation, China is exploiting the fact that the European market is open to Chinese goods and investments,

69 Burgoon, Raess' (2014) study concluded that Chinese FDI does not seem to be more (or less) focused on investing in the least regulated labour markets than other sources of FDI. Second, organised labour is cautiously optimistic about Chinese investors as being no more or less threatening to organised labour than other investors. Third and as expected, less-skilled, more vulnerable, pro-labour-union workers in Europe tend to be more rather than less enthusiastic about Chinese management than their fellow citizens.

while European firms face more limits on their exports to and investments in China.

Many governments have therefore started to be concerned about takeovers by Chinese firms in Europe and the circumvention of existing rules; acquisitions of smaller stakes in target enterprises; new threats in emerging sectors (e.g. artificial intelligence, robotics, networks, quantum computing) and in relation to sensitive personal information; new risks in more established sectors (e.g. real estate); insufficient sanctions for breached obligations; and unduly short time frames for conducting a thorough review of proposed transactions. This comes on top of many perceived shortcomings of existing policies, revealed in policy practice and the apprehension of new threats, most often associated with digital activities. The recent proliferation of restrictive policies and reforms suggests broader views that foreign investment may threaten national security (Pohl, 2019).

Therefore the major economic powers recently put in place policies that signal a potential shift in their behaviour toward foreign countries[70]. The EU has joined in by adopting the FDI Screening Regulation applicable as of 11 October 2020, although it remains the sole responsibility of the member states. In June, the European Commission also adopted a white paper dealing with the distortions caused by foreign subsidies in the Single Market and is now seeking views and input from all stakeholders (see Velten, 2020). The EU has approved a proposal that expands the list of critical sectors to include infrastructure, biomedicine and automobiles. It is also increasing its scrutiny of investments made with state influence or technology transfer to third countries. A »level playing field« is missing in this area. In the current situation, China is exploiting the fact that the European market is open to Chinese goods and investments, while European firms face several limits on exports to and investments in China. To promote EU–China trade relations, a progressive response should not aim to punish China, but to build fair and just relations within the existing multilateral system. The progressive duty is to re-regulate globalised capitalism so that globalisation serves democracy rather than undermining it« (European Commission 2018a).

In March 2020, the EU also established additional FDI guidance. The aim was to protect Europe's strategic assets as the Covid pandemic highlighted the urgent need to preserve healthcare capacities and related industries. In June 2020, the Commission also published a white paper on levelling the playing field as regards foreign subsidies in the single market, outlining several 'modules' to address the distortive effects of foreign subsidies and fill legislative gaps. The Commission

70 See Ch. 2.4.

seeks to address subsidised acquisitions by including additional scrutiny of merger reviews. The Commission's proposed international procurement instrument also seeks to establish fairer terms of trade for EU companies by encouraging trade partners to adopt reciprocal market access for public procurement.

The EU Commission and member states will also consider other factors, including whether: (i) the foreign investor is owned or controlled by a foreign government; (ii) the foreign investor has already been involved in activities affecting security or public order in a member state; and (iii) there is a serious risk that the foreign investor is engaging in illegal or criminal activities. In addition, the FDI Regulation mandates member states that have adopted review mechanisms to assess potential foreign takeovers of companies that may be involved in EU-funded projects or programmes of Union interest. Such projects and programmes of Union interest »involve a substantial amount or a significant share of Union funding« or are covered by EU law regarding critical infrastructure, technologies or inputs that are essential for security or public order. The FDI Regulation details eight of such projects, including Horizon 2020, Copernicus and Trans-European Networks for Transport (see Kirkland & Ellis, 2020).

The new Regulation related to inbound FDI adopted on Oct. 11 2020 became binding. It does not create a stand-alone mechanism to vet foreign investment akin to the Committee on Foreign Investment in the USA (»CFIUS«) or the national security review systems established by individual member states[71]. Rather, the new EU FDI regime establishes minimum standards for member states' review systems, creates an information-sharing channel between the EU Commission and the member states, and institutes a formal mechanism for the EU Commission and the member states to provide feedback on FDI that occurs within the European Union. The FDI Regulation does not require member states to implement FDI reviews on the national level or screen particular types of investment. Member states remain free to choose whether to adopt domestic review systems. Such FDI Regulation requires member states that elect to implement a national security/public interest screening system to meet certain minimum standards. For example, all member states' review mechanisms must establish transparent criteria that »do not discriminate between third countries«, protect confidential information and authorise third parties to seek recourse against the screening decisions made

71 The UK, for instance, introduced new legislation requiring companies to tell the government about any planned transactions in 17 areas of the economy, focused on technology, including categories as broad as »computing hardware«, AI, and data infrastructure. Britain's new rules look very similar to America's Foreign Investment Risk Review Modernisation Act (FIRRMA) passed in 2018.

by competent authorities. The FDI Regulation specifies illustrative criteria that the Commission and member states may consider while assessing the potential effects of a foreign investment on security and public order, including:

- critical infrastructure;
- critical technologies (including dual-use technologies);
- the supply of critical inputs;
- access to sensitive information; and
- the freedom and pluralism of the media.

Irrespective of such conceptive, yet slow, efforts to establish a coherent European strategy on FDI, China has managed to get its foot in the door in a variety of European capitals, trying to pit European countries against each other (also see Ch. 6), competing for Chinese inward FDI (particularly during the GR). Britain, while still part of the EU, literally rolled out the red carpet for Chinese investment, and over the past 5 years has sought to ingratiate itself with Beijing, only starting to reverse course recently. In other parts of Europe, big Chinese investments in ports, railroads, telecommunications, and the power grid offered countries like Greece, Italy and Portugal much-needed investment – and China a measure of its influence inside the now 27-nation bloc. Italy even formally signed on to China's trillion-dollar »Belt and Road« programme of infrastructure investment and, even at the height of the COVID-19 pandemic, has sought to deepen its relationship with Beijing. Yet this deepening of economic ties between the two also bred suspicion and concern that China is snapping up some of Europe's crown jewels. Leaders in France and Germany, in particular, are worried that China's acquisitions of key companies could undermine national security. Countries across the EU have also been torn over whether and how much to allow China's Huawei to participate in the development of advanced, fifth-generation mobile phone networks[72]. The EU's plan to treat foreign industrial subsidies with the same strict rules as the bloc applies internally to illegal state aid is just the latest sign that China's state-led economic model has pushed Europe's patience too far (see European Commission, 2019).

On China's side, a new investment law was adopted on 15 published 2019, taking effect in January 2020, that creates a general framework for FDI in China. It marks a milestone in a 40-year policy process through which China has opened itself up to the outside world, while incrementally adopting international standards to drive domestic reform. It also signals a new stage of increasingly difficult and substantive reforms (for more, see Ch. 2.4.1).

72 See the different approaches taken by CEECs in Ch. 6.

In 2020 the EU–China 2020 Strategic Agenda for Cooperation became the central framework for the EU's long-term bilateral relations with China. Parties agreed already in 2013 to negotiate a Comprehensive Agreement on Investment (CAI) to level the playing field and improve the protection of investments and boosting market access. CAI would go beyond a traditional investment protection agreement to cover market access for investment and several important disciplines. It would also include provisions on sustainable development and dispute resolution. The aim is to provide investors on both sides with predictable, long-term access to both the EU and Chinese markets and to protect investors and their investments.

Somehow unexpectedly EU and China has agreed on the CAI as »the most ambitious agreement that China has ever concluded with a third country« already in 2020, December 31st. It goes beyond traditional approach including many new issues like labour standards, environmental issues and incudes also important implementation and monitoring mechanisms. The speed in concluding the agreement could be regarded as part of EU strategic autonomy strategy vis a vis all other major powers and, perhaps a result, Germany wanted to show as one among achievements of its presidency, not least, driven by the interests of German auto makers operating in China. J. Biden idea was different, to sign a joint agreement with China. »The conclusion of the CAI is a symbol of maturity of China-EU international relations and that no third party, including the United States, could meddle with this bilateral relationship as both the EU and China are concerned in forging mutually beneficial arrangement, not scoring political points« claim Kong Qingjiang (2021) *the dean of the School of International Law at the China University of Political Science and Law.* The CAI will ensure that EU investors achieve better access to a fast growing 1.4 billion consumer market, and that they compete on a better level playing field in China. This is important for the global competitiveness and the future growth of EU industry.

The Comprehensive Agreement on Investment (CAI), aimed at improving the protection of investments, establishing a level playing field, and boosting market access negotiations, was launched by the EU already in 2013. The aim has been to provide investors on both sides with predictable, long-term access to the EU and Chinese markets and to protect investors and their investments.

Here are the key elements of the EU-China Comprehensive Agreement on Investment[73] that still had to be ratified by both sides by the end of 2021:

73 Based on: Key elements of the EU-China Comprehensive Agreement on Investment – The European Sting – Critical News & Insights on European Politics, Economy, Foreign Affairs, Business & Technology) europeansting.com.

Ambitious opening by China to European investments

The CAI binds China's liberalisation of investments over the last 20 years and, in that way, it prevents backsliding. This makes the conditions of market access for EU companies clear and independent of China's internal policies. It also allows the EU to resort to the dispute resolution mechanism in the case of breached commitments.

The EU has negotiated further new market access openings and commitments such as the elimination of quantitative restrictions, equity caps or joint venture requirements in several sectors. EU sensitivities, such as in the fields of energy, agriculture, fisheries, audio-visual, public services, etc. are all preserved in the CAI.

Examples of market access commitments by China:

Manufacturing: *China has made comprehensive commitments with only very limited exclusions (in particular, in sectors with significant overcapacity). Roughly half of EU FDI is in the manufacturing sector (e.g. transport and telecommunications equipment, chemicals, health equipment etc.). China has not made such far-reaching market access commitments with any other partner.*

Automotive sector: *China has agreed to remove and phase-out joint venture requirements. China will commit market access for new energy vehicles.*

Financial services*: China had already started the process of gradually liberaliding the financial services sector and will grant and commit to keep that open to EU investors. Joint venture requirements and foreign equity caps have been removed for banking, trading in securities and insurance (including reinsurance), as well as asset management.*

Health (private hospitals): *China will offer new market opening by lifting joint venture requirements for private hospitals in key Chinese cities, including Beijing, Shanghai, Tianjian, Guangzhou and Shenzhen.*

R&D (biological resources)*: China has not previously committed to openness to foreign investment in R&D in biological resources. China has agreed not to introduce new restrictions and to give to the EU any lifting of current restrictions in this area that may happen in the future.*

Telecommunication/Cloud services*: China has agreed to lift the investment ban for cloud services. They will now be open to EU investors subject to a 50% equity cap.*

Computer services*: China has agreed to bind market access for computer services – a significant improvement from the current situation. Also, China will include a 'technology neutrality' clause to ensure that equity caps imposed for value-added telecom services will not be applied to other services such as financial, logistics, medical etc. if offered online.*

International maritime transport*: China will allow investment in the relevant land-based auxiliary activities, enabling EU companies to invest without restriction in cargo-handling, container depots and stations, maritime agencies, etc. This will* *allow EU companies to organise a full range of multi-modal door-to-door transport, including the domestic leg of international maritime transport.*

***Air transport-related services**: While the CAI does not address traffic rights because they are subject to separate aviation agreements, China will open up in the key areas of computer reservation systems, ground handling and selling and marketing services. China has also removed its minimum capital requirement for rental and leasing of aircraft without crew, going beyond the GATS.*

***Business services**: China will eliminate joint venture requirements in real estate services, rental and leasing services, repair and maintenance for transport, advertising, market research, management consulting and translation services, etc.*

***Environmental services**: China will remove joint venture requirements for environmental services such as sewage, noise abatement, solid waste disposal, cleaning of exhaust gases, nature and landscape protection, sanitations and other environmental services.*

***Construction services**: China will eliminate the project limitations currently reserved in its GATS commitments.*

***Employees of EU investors**: Managers and specialists of EU companies will be allowed to work for up to 3 years in Chinese subsidiaries, without restrictions such as labour market tests or quotas. Representatives of EU investors will be allowed to visit freely prior to making an investment.*

<u>Improving level playing field – making investment fairer</u>

***State-owned enterprises (SOEs)** – The CAI seeks to discipline the behaviour of SOEs by requiring them to act according to commercial considerations and not to discriminate in their purchases and sales of goods or services. Importantly, China also undertakes the obligation to provide, upon request, specific information to allow for the assessment of whether the behaviour of a specific enterprise complies with the agreed CAI obligations. If the problem goes unresolved, one can resort to dispute resolution under the CAI.*

***Transparency in subsidies** – The CAI fills one important gap in the WTO rulebook by imposing transparency obligations on subsidies in the services sectors. Also, the CAI obliges China to engage in consultations in order to provide additional information on subsidies that could have a negative effect on the investment interests of the EU. China is also obliged to engage in consultations with a view to seeking to address such negative effects.*

***Forced technology transfers** – The CAI lays very clear rules against the forced transfer of technology**.** The provisions consist of the prohibition of several types of investment requirements that compel transfer of technology, such as requirements to transfer technology to a joint venture partner, as well as prohibitions to interfere in contractual freedom in technology licencing. These rules would also include discipli-*

nes on the protection of confidential business information collected by administrative bodies (for instance in the process of certification of a good or a service) from unauthorised disclosure.

Standard setting, authorisations, transparency. *China will provide equal access to standard setting bodies for our companies. China will also enhance transparency, predictability and fairness in authorisations. The CAI will include transparency rules for regulatory and administrative measures to enhance legal certainty and predictability, as well as for procedural fairness and the right to judicial review, including in competition cases.*

Embedding sustainable development in our investment relationship

- *In contrast to other agreements concluded by China, the CAI binds the parties within a value-based investment relationship grounded on sustainable development principles. The relevant provisions are subject to a specifically tailored implementation mechanism to address differences with a high degree of transparency and participation of civil society.*
- *China commits, in the areas of labour and environment, not to lower the standards of protection in order to attract investment, not to use labour and environment standards for protectionist purposes, as well as to respect its international obligations in the relevant treaties. China will support the uptake of corporate social responsibility by its companies.*
- *Importantly, the CAI also includes commitments on environment and climate, including to effectively implement the Paris Agreement on climate.*
- *China also commits to working towards ratification of the outstanding ILO (International Labour Organisation) fundamental Conventions and takes specific commitments in relation to the two ILO fundamental Conventions on forced labour that it has not ratified yet.*

Monitoring of implementation and dispute settlement

- *In the CAI, China agrees to an enforcement mechanism (state-to-state dispute settlement), as in our trade agreements.*
- *This will be coupled with a monitoring mechanism in the pre-litigation phase established at the political level, which will allow us to raise problems as they arise (including via an urgent procedure).*

It is still too early to assess the agreement, particularly since ratification in the European parliament is still pending. Nevertheless, according to Godemen (2021) it seems that »the EU-China CAI has been oversold. /…/ Defenders of the deal argue it is the best that Europe could possibly get, in a short window of political opportunity«[74]. Others argue that **China** obtained an implicit commitment that the EU will not restrain Chinese FDI in the EU while the EU got results more on pa-

74 The European Chamber of Commerce in China, the European Services Forum and Business Europe have welcomed the deal (European Parliament, 2021b, 9).

per while the real outcome will depend on the implementation[75]. And China's record in this regard has not been too encouraging thus far. »China has made minor sectoral openings on investment, concessions in principle – national treatment, inclusion of state firms, transparency of subsidies, banning forced technology transfer, committing to move towards the ILO convention on forced labour. /…/Given China's track record, it is impossible to rely on goodwill to implement commitments and unwise to believe that on key issues, a top-down political process between both parties can be substituted to legal arbitration« (ibid., 2021).

2.7.5. Fifth-generation technology network standard

One of the core objectives of the new European Commission is to create a »Europe fit for the digital age«, especially in view of the fact that »new technologies have kept our businesses and public services running, and made sure that trade could continue flowing« (European Commission, 2020f, 8). The fifth-generation (5G) mobile telecommunications networks planned across the EU over the coming years have triggered a highly politicised debate as to whether the use of Chinese 5G equipment in critical EU infrastructure poses a threat to security (European Parliament, 2020a, 6). This issue is very complex not only technology related but is a wider social problem and not only associated with China. Yes, »China's establishment of an AI-driven surveillance structure and its Leninist social scorecard raise questions as to the degree technology should be used to 'manage' the social order, enable stability and achieve welfare for all. But, the Cambridge Analytica scandal, WikiLeaks and the emergence of the new post-truth, fake-news world show some of the underlying forces at work also in the global West« (Rašković et al., 2019, 346). Europe cannot delay the digital transformation enabled by 5G if it wants to retain and enhance its competitiveness. Europeans, particularly Spain, have thus far relied much on Chinese technology for 4G (mainly Huawei, but also ZTE). They were heading in the same 5G direction since the cost differences were significant. Late in the game, however, the USA – which itself did not have companies involved in making 5G equipment – perceived a security and economic threat from such reliance on Chinese technology. The pressure of the USA was somewhat successful (Ortega, in Hobbs, 2020, 39–40) because the EU has begun to SET harmonise its policy in the area.

75 Bruegel analyst Alicia García-Herrero considers the CAI disappointing. Clingendael analysts Maaike Okano-Heijmans and Ingrid d'Hooghe claim that the EU would lose leverage vis-à-vis China owing to the CAI, and that it would be drawn into greater dependence on China. NGOs, has launched a joint appeal to the EU for the inclusion of a human rights clause in the CAI, and the requirement, for China to ratify four ILO core conventions before 'entering' the agreement (European Parliament, 2021b, 10–11).

There are three major concerns in the EU. The first is the growing sense of a 'neo-colonial' dependence on American Internet companies[76]; the second is security concerns related to Huawei as a 5G provider[77]; and the third, harmonising the different member countries' approaches to the subject. Differences are found as much among the old as the new members (see Ch. 6). Fourth, we can add the concern regarding unfair competition in view of China's substantial government support for Huawei[78]. European efforts to, for example, impose a digital tax, fine America's big tech companies for anti-competitive practices, and consider new industrial policies to foster European champions in crucial areas all reflect this growing discomfort. This reliance on the USA, at least so far, far exceeds Europe's digital dependence on China. Nevertheless, the wariness concerning China as both an economic and political competitor in the digital realm is growing. It is therefore not surprising that the EU Commission has recommended the EU member states to exclude »high-risk« suppliers from their networks.

76 Whilst ever America's Qualcomm dominated the market, monopoly was not a problem. When Huawei started to be number 1 in this area, it became a security threat even though 5G is only infrastructure while operation depends on the operators, on the applications/programs (the hardware is Chinese but the software is American). Operators can use or misuse the system (see Svetličič, 2020b). Technology provides the options; society chooses the future and actively shapes it.

77 Huawei is accused of being forced to obey the National Intelligence Law and Cybersecurity Law, to transmit data to the government. But according to a Chinese professor in cybersecurity law, Shenkuo Wu, it is stipulated that such obligations should only be fulfilled by ICT companies directly operating on Chinese territory rather than their overseas subsidiaries. Clifford Chance, a global law firm headquartered in London, also concluded that »nowhere does Chinese law give Beijing the authority to compel telecommunication equipment firms to install backdoors or listening devices – or to engage in any behaviour that might compromise network security. The next one suggests Huawei's close connection with the government because of the military background of its founder, Ren Zhengfei, and some other employees. It is also a common practice in other countries to hire such young retired personnel, without being accused of doing so. The above facts highlight the possibility that Chinese nationality is now the original sin of a company due to the heightened geopolitical tensions (see Jinghua,

78 The accusation is that the Chinese government has given Huawei as much as USD 75 billion in subsidies, which gives it incomparable advantages in the 5G market. However**,** audited data shows that in the 10 years from 2009 to 2018, the total amount of direct grants Huawei received from the Chinese government – mostly by way R&D incentives – was just 0.3% of Huawei's total sales of USD 514 billion over the same period. The high investment volume by Huawei in R&D, USD 15 billion in 2018, apparently contributed more to its success (see Jinghuan 1999, the CIA, for instance, created In-Q-Tel as an *independent, not-for-profit firm* (???, op. SM) that invests in technology start-ups which serve the national interest. One early recipient of In-Q-Tel's investment was Keyhole, which became the platform for Google Earth. Now also funded by the Department of Homeland Security, the Department of Defence, and other US agencies, In-Q-Tel identifies and adapts innovative technologies for its government customers (Darby, 2021).

However, the problem is that European 5G suppliers are technologically behind Huawei and costlier. »The costs of ditching Huawei are high[79], risking on becoming dependent on two firms, Nokia and Eriksson (danger of duopoly!!), the other main suppliers of 5G« (The Economist, 2020, Nov.7, 15). South Korea's Samsung is another contender (Hobbs, 2020, 40). Although from a digital sovereignty perspective the USA is the biggest problem, China has become Europe's biggest fear. For one, because China is increasingly interested in the European market and has persistently been moving up the value chain. But, as Oertel noted, the Chinese have begun to wear out their welcome in Europe. The European–Chinese relationship was deteriorating rapidly even before China's aggressive diplomacy during the Covid crisis added to its troubles. Chinese finance and equipment remain attractive and cheap. Yet new efforts at investment protection and recent attempts in the UK and Germany to revisit the issue of allowing Huawei equipment into the 5G network, for example, demonstrate the heightened concern that China may threaten European digital sovereignty (Shapiro, in Hobbs, 2020, 10). The nationwide introduction of 5G with up to 600,000 base stations announced in late March 2020 could give Chinese companies a huge competitive advantage over their rivals in their push to digitalise the economy. And more is set to come: China is to spend USD 1.4 trillion on boosting its tech sector over the next 5 years (Oertel, in Hobbs, 2020, 26).

A Chinese company is perceived as a different company than a Western one and thus represents a different security threat in certain Western eyes. Still, »Snowden's revelations facilitated the public opinion of Europe to believe that, since everyone hacks, it does not really make a difference who to trust, especially in the absence of concrete proof that the Chinese government used its ascendancy over Huawei and ZTE to hack data« (Rugge, 2020).

Nevertheless, early in 2020 the Commission published the »EU Toolbox«, a set of measures developed to mitigate the cybersecurity risks of 5G networks identified at national and EU levels; it was backed by a Communication which requires all member states to take steps to implement the measures recommended in the

79 The Oxford Economics' study commissioned by Huawei finds »that in 2019, Huawei supported a total contribution to European GDP of €16.4 billion. This total is made up of three channels of impact. A direct contribution of €2.8 billion—generated by Huawei's own European operations, which (for the purposes of this study) include the EU-27, the United Kingdom, Iceland, Switzerland, and Norway. An indirect contribution of €7.3 billion—stimulated through the procurement of European goods and services by Huawei's worldwide operations. And finally induced contribution of €6.3 billion—generated by Huawei staff and all employees in Huawei's European supply chain, as they spend their wages in the wider economy on activities such as retail, leisure, and healthcare (2020, 4).

Toolbox by 30 April 2020. Its goal is to create a robust, coherent and objective framework of security measures on both strategic and technical levels in order to ensure an adequate level of cybersecurity of 5G networks across the EU. Major objectives of the EU are to achieve a shared strategic view and a coordinated approach among the member states, »emphasising the importance of safeguarding the integrity, security and resilience of critical infrastructures, electronic communications networks, services and terminal equipment« and supporting »the need to ensure and implement a coordinated approach to mitigate the main risks, such as the ongoing joint work based on the EU Toolbox on 5G cybersecurity and the secure 5G deployment in the EU« (Giustozzi, 2020)

2.7.6. Concluding remarks

Any successful cooperation is based on common interests and on all parties, particularly by being able to bring about win-win solutions. So it is in the case of China, despite the recent more assertive approaches to such cooperation on both sides. While China has always been very strong in following it interests, the EU has only recently become more pragmatic and aggressive by starting to view China as a »systemic rival«. Yet this does not necessarily mean that both actors are always strategic rivals or competitors. »China is, simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance« (Berkovsky, 2020, 104). Both parties share many common ideas about the totality of international cooperation, like the global multilateral economic system, sustainable development, and the 2030 Agenda, climate change, public health etc. However, this implies that the EU's policy on China must transform further from being more reactive and defensive into a more proactive, agenda-setting 'realpolitik' strategy. Szczudlik (2020) claims that »after effectively introducing a set of measures to protect ourselves, there would be a time for the EU to work on an active agenda, since China has become an important actor in Europe, has become a *European power*«. »Europe thus needs to engage in a mature and meaningful debate about the growing influence of China's power, which goes beyond simple divisions between friend/foe, rival/ally, because we live in a complex world and interlocutors can simultaneously perform several contradictory roles« (Smotrytska, 2020).

3. SLOVENIA-CHINA BILATERAL RELATIONS

3.1. SHORT HISTORY OF BILATERAL COOPERATION

The early roots of Slovenia–China relations can be traced back to the 18th century and the activities of the Jesuit Ferdinand Halerstein[80], a Slovenian astronomer and mathematician, who made important contributions to the development of science and astronomy in both China and Korea. He held a remarkable position in Beijing, acting as the Head of the Imperial Board of Astronomy from 1746 until his death in 1774, and holding a historic role as a cultural link between Europe and China. He arrived in Beijing in 1739, while in 1746 he was appointed to succeed Ignatius Kögler as Head of the Imperial Board of Astronomy, a position he held until his own death nearly 30 years later. In the court of Emperor Qianlong, he was appointed to the very high status of mandarin of the third rank. He was also a corresponding member of the Royal Societies of London, Paris and St. Petersburg. Among others, he elaborated a map of China in the world (see Saje 2015; Vampelj-Suhadolnik 2015, 3).

Another historical 'connection' between the two nations was the Boxer Rebellion (1900) that caught the attention of the Slovenians, who »understood the essence of the events unfolding in China at the turn of the 20th century when China was defending itself from foreign colonial aggressors that had forced on it a capitulation and tried to break its tradition of statehood and undermine thousands of years of culture, while also forcing a new religion on it. Independence and nation-building were extremely important for both nations. »All leading Slovenian newspapers of the time openly sided with the Chinese in its defence against foreign colonial aggressors under the slogan »China to the Chinese», not for the American and British merchants. Not surprisingly, they found themselves in the same boat, a boat guided by the self-determination of nations and having cut anchor from the old imperialistic practices – a boat to be led by US President Wilson at the Paris Peace Conference at the end of the First World War« (see Lipuščček 2013, 47 and 48).

80 Chinese name Liu Songling.

As part of Yugoslavia, Slovenia started to cooperate with China soon after Yugoslavia recognised China in 1949, although the latter, due to the INFORMBIRO[81] policy, did not recognise Yugoslavia until 1954 or, more properly, 1955 when diplomatic relations were established. In 1958, China's foreign policy changed and relations deteriorated so badly that the ambassadors were recalled. Relations remained on ice until 1969. Normalisation started in 1970 when the Slovenian sinologist Vinko Trček commenced his advisory position in the Yugoslav Embassy (1970–1974) in Beijing.

Unfortunately, after the Tiananmen incident in 1976[82], which is not the better known Tiananmen Massacre of 1989[83], relations once again deteriorated, only to be strengthened after the death of Mao Zedong. Doors were opened for the visit of President Tito in China in 1977 and continued with President Hua Guofeng's very important visit to Yugoslavia in 1978, laying the foundations for the future relationship between the two countries. He explicitly wished to visit the most developed country within the socialist group of countries. After his visit, a considerable number of industrial cooperation projects began[84].

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81 Abbreviation of the "Communist Information Bureau" dominated by the Soviet Communist Party. In 1948, Yugoslavia started on a more independent policy, strengthening its cooperation with the West and moving away from Soviet ideological domination. The conflict with the Soviet Union, referred to usually as INFORMBIRO, was a consequence.

82 On the night of 4 April 1976, people laid thousands of wreaths to honour the death of the great leader Zhou Enlai. The Gang of Four was afraid of the movement of these people so they had banned any organisation of people on the square. Thousands of people ignored this threat and came anyway on 5 April in a spontaneous demonstration against the radical leaders. Crowds reached more than 100,000, becoming outraged by the removal of the wreaths by the government. Although there was some violence, it was minimal because many of the police were sympathetic with the people. The incident was labelled counterrevolutionary and blamed on Deng Xiaping by the radical government leaders (see https://academic.mu.edu/meissnerd/tiananmen-76.htm).

83 It happened 30 years ago when the Chinese government forcibly suppressed student-led demonstrations calling for free speech, some democracy and a continuation of the reforms started by Deng Xiaoping, who wanted to see China grow prosperous by embracing some pro-market liberalisation. Military troops armed with assault rifles and tanks fired at the demonstrators trying to block the military's advance towards Tiananmen Square. Estimates of the death toll vary from several hundreds to 2,600, with several more thousands of wounded. The protests first began in April, triggered by the death of former Chinese Communist Party leader Hu Yaobang, seen by the public as a champion of liberalisation.

84 For instance: i) installing traffic signals at 57 of the most important crossings in Beijing. This USD 2 million worth deal was obtained in 1987 in competition with Siemens, Ericson, two Japanese and one American corporation. Iskra Avtomatika equipped all major transport hubs in Beijing with traffic lights, and micro motors for refrigerators (Rotomatika). Many

The most interesting project was Iskra Delta's computer network for the Chinese police. The system was noticed by the Chinese at the Zagreb Fair. Delta computers were then being manufactured using US-made processors. The Chinese believed they could get hold of this modern information technology from a high-tech Yugoslav company that relied on US-made processors, which they could not otherwise buy directly from the USA due to the embargo. Therefore, they invited the Interior Minister of Yugoslavia Stane Dolanc for a visit. The result was an agreement on cooperation of the police of both countries, mentioning Iskra Delta as the executor of the project. The director of Iskra Delta, J. Škrubej, insisted they could only carry out such a computer project with the approval of the USA[85]. The Yugoslav government therefore sent a delegation to the United States to convince the Americans to allow their processors to be used in the building of a computer network in China. Under special conditions, they decided to allow the export of processors to China. This meant the demanding Milliard project, as it was called, could begin, to the great satisfaction of the Chinese. The project of building a computer network for the Chinese police could not completely be kept a secret from other countries of the communist bloc, that also sought to acquire American information technology. In 1988, a Soviet delegation led by Mikhail Gorbachev visited Slovenia with just one thing in mind: could a Slovenian computer company possibly assist it in getting its hands such computer technology (for more, see Škrubej 2013).

The biggest problem at that time was payments. Only for a very few deals were the Chinese willing to pay in hard currency. The majority of the deals took the form of barter or compensation arrangements. China's new open door policy launched in 1978 along with its economic reforms opened the gates for the cooperation of Yugoslav republics with Chinese provinces. Already in 1982 Ljubljanska Banka opened the representative office in Singapore covering South-East Asia. Three years later South Korea and Australia was added to the portfolio. Slovene Ivan Rudolf, led the office from 1985 to 1991. In addition, Ljubljanska banka also had, jointly with Beograjska banka, a representative office in Bejing. Opening a representative office also in Tokio in 1987 demonstrates that Ljubljanska Banka was an *early bird* in opening China «doors« for bilateral cooperation. Unfortunately, all

opportunities were missed despite the good political relations and own shortcomings, including technological problems (interview with V. Lukanc).

85 The export of Western computer technology was namely prohibited to socialist countries under the Coordinating Committee for Multilateral Export Controls (CoCom) rules during the Cold War to put an arms embargo on COMECON countries. CoCom ceased to function on 31 March 1994 (see Yasuhara 1991).

these offices were closed in 1992, because either follow up economic cooperation nor political cooperation have not backed such a business network abroad.

Soon after Hua Guofeng's visit, a consortium of Slovenian companies seeking cooperation with China was established (Koto, Tehnoimpeks, Kovinotehna, Jugotekstil, Lesnina, Slovenijales, Iskra, Emona and Ljubljana Banka; later Smelt[86] and other firms). This consortium was replaced in 1989 by a joint representative office of Kovinotehna, Jugotehnika and Lesnina in Beijing. Economic cooperation was thereby facilitated, leading to quite a number of deals. For instance, Lesnina built two furniture factories in Manchuria and Sichuan. The mentioned representative office was later taken over by Kovinotehna, which had inherited Kovinotrade. In terms of size, Smelt's business was the largest: it set up an oil refinery in Guangdong province (1985–1990) and built a titanium dioxide factory in the province of Gansu (1988). Iskra was intensively involved in the Chinese market between 1983 and 1990, mostly in the form of long-term cooperation. In 1990, Iskra moved its Beijing office to Hong Kong, to take care of the Chinese market. More important investment projects in China were conducted by Emona (two poultry farms), Gorenje (refrigerator factory), Kostroj (leather goods), IKOS (reconstruction of a shoe factory), Krka (development anti-malaria medicines) and Adria Airways with the Sichuan province to train pilots and airport staff. In 1977, Ljubljanska Banka opened an account with the Bank of China to facilitate payment transactions with China (see Čeplak Mencin et al. 2012, 184).

During the 1980s, Slovenia became the strongest economic partner of China from Yugoslavia. The Centre for Cooperation with Developing Countries[87] systematically analysed the China market. Between 1986 and 1987, it also published a special Bulletin on China and in 1986 it organised the first China–Yugoslavia business conference. At the Chamber of Economy, a trade section on cooperation with China was established, with 67 firms as members. Slovenia's share in bilateral relations was the highest at around 60% of all Yugoslav industrial projects in China. Hence, it was no surprise that Chinese President Jiang Zemin came to visit Slovenia as a party representative in the 1980s. Chinese Prime Minister Zhao Ziyang stated during his visit to Slovenia in 1986 that Slovenia and the province of Sichuan are an example of successful cooperation.

86 They even had a representative office in Beijing (late 1980s) with very efficient representative Vladimir Gašparič who later became a head of Commercial diplomacy in Ministry of foreign affairs and in such a way applied his profound knowledge about China.

87 In the mid-1980s, the Centre also organised training for China's high officials on the special Yugoslav form of joint ventures financed by the International Finance Corporation. In their opening up policy, they were so systematic that they studied all different forms of FDI, including the quasi-equity type of joint ventures that Yugoslavia introduced in 1967.

However, cooperation started to stagnate afterwards due to the crisis of the Chinese economy and financial (payments) problems related to the business done by way of mutual compensation. The penultimate Slovenian-born Ambassador of Yugoslavia in China (1985–1990), Zvone Dragan, was very active in stimulating bilateral cooperation. The Embassy had two economic counsellors, apart from a representative office of the Federal Chamber of the Economy. Dragan was also instrumental in organising a visit by Prime Minister of Yugoslav Republic Slovenia Šinigoj to China at the time and later, after returning home, a visit by Foreign Minister of Slovenia Rupel to Beijing (February 1992). He was received by Chinese Foreign Minister Qian, which was quite exceptional since China was opposed to the disintegration of Yugoslavia. This visit was instrumental to ensuring China's official recognition of the Republic of Slovenia 3 months later.

The cooperation was not limited to economics. Cultural and scientific cooperation swiftly developed in early Yugoslav times. The first cultural exchange came in 1956 when the Slovenian Octet (group of singers) visited China and a Chinese circus came to Ljubljana (Čeplak Mencin et al. 2012, 173). Later on, the driving force in greater links with China began at the Faculty of Arts with the introduction of Sinology studies in 1995[88], culminating in 2010 with a Confucius Institute being established in Ljubljana at the Faculty of Economics. The Chinese Government accepted the proposal of Slovenian President Danilo Turk while on a visit to Beijing in 2007 to establish a lectorate (department) of the Slovenian language in one Chinese university. The Lectorate for Slovenian Language at the University for Foreign Studies in Beijing was the outcome of this initiative, commenced the next academic year with the Slovenian language as a major course. At present, Slovenian language courses also exist at the Beijing International Studies University and the Hebei International Studies University. Learning of the Slovenian language at some universities in China, and the Chinese language in Slovenia, are important signs of possibilities for more successful cooperation in the future since knowledge of the local language in China is extremely important.

3.2. SLOVENIAN ATTITUDES TO COOPERATION WITH CHINA

Not so much is known about China in Slovenia generally, although many firms that cooperate with China hold better knowledge and experiences due to their

88 Teaching on China and Chinese language started much earlier, but was really strengthened by the establishment of an Asian Studies department in 1995.

early cooperation with Chinese firms and the growing number of students who have studied Sinology at the Faculty of Arts since 1995.

While general public support for cooperation with China has been strengthening, some reservations remain when it comes to a more developed form of cooperation like FDI or Chinese firms undertaking large infrastructural projects. This is not surprising as Slovenian public opinion regarding FDI generally is not overly friendly. According to an Epicenter public opinion poll in 2015, more Slovenians have a negative than a positive view on China (52% vs. 45%), largely due to the country's exploitation of cheap labour, its political regime, expansion to foreign markets and human rights violations. Still, almost one-third admires China's economic development (Makovec, 2015).

More precise future-looking attitudes concerning China are revealed in a survey conducted by Raskovic among Slovenian Millennials[89]. They generally hold a positive attitude to China (over 80%), seeing it as a global superpower, a civilised, friendly and developed nation, which can (to some degree) also be seen as an ally. Yet, one can assume that Millennials are not totally representative of general public opinion. They are, by definition, more liberal, more open-minded and less pass-dependent. The survey results show that awareness and familiarity with the One Belt and One Road Initiative (OBOR) and the 16+1 China–CEECs cooperation initiative remains quite low in Slovenia. Despite hardly knowing about the 16+1 China–CEE cooperation initiative or the OBOR, the respondents evaluated the current level of cooperation with China as good, and show a general interest in China-related issues and topics. Most respondents see the OBOR as a platform for strengthening foreign trade, international relations and attract FDI into Slovenia from China. Surprisingly, infrastructure, connectivity and logistics rank somewhere in the middle. There is, however, overwhelming support for selected infrastructure projects from the Chinese in Slovenia, first and foremost in Ljubljana's train and bus station. The majority of respondents do not support the acquisition

89 The survey and study were conducted in November 2017, ahead of the 16+1 China-CEE high-level meeting in Budapest, among Millennials (born in the 1980s and 1990s) in Slovenia, students of either business and economics, or international relations studying at the University of Ljubljana. The analysed sample included 293 university students. The respondents' mean age was slightly below 25 years, 59% of the respondents were female and 37% had already been to China. The educational background of the students was quite balanced in terms of business and management studies vs. international relations. This segment of the population was deliberately selected because Millennials represent future businesspersons, policymakers and leaders who will shape the further development of China–CEE cooperation and the next-stage implementation of OBOR projects in CEE. They are also a good and 'neutral' yardstick for measuring stereotypes, perceptions and attitudes in social psychology, as well as international business and relations (Rašković, 2018; Rašković & Vuckovski, 2016).

of either Slovenia's biggest bank (Nova Ljubljanska Banka) or its biggest retailer (Mercator) by the Chinese, indicating limited support for investments in the private sector in Slovenia, despite the recent billion-dollar acquisition of Outfit7 by the Chinese in January 2017 by the United Luck Consortium which was then sold to Zhejiang Jinke for over USD 1 billion (for more on this, see below). Our results show much work remains in raising awareness related to the OBOR and the 16+1 China–CEE cooperation initiative in Slovenia. While the biggest opportunities in strengthening China–Slovenian relations lie in the areas of trade, international relations, and FDI, there is considerable public support for Chinese investments in selected infrastructure projects. Still these should be well targeted and avoid acquisitions in the private sector regarding which public opinion is much more reserved. Interestingly, a large share of respondents does not believe that China has an appropriate media image (Raskovic, 2018, 11).

Like in many other CECs[90], the majority of reports and analyses in Slovenian media about China are quite negative, consistent with the attitude found in the EU and especially in US corporate media. Looking at China trough Western lances, ignoring the rich historical context of China development and the specific context, is inadequate. Particularly in view of the deep crises these societies, especially US, are facing now. More analytical, in depth coverage of the developments, economic and political, inside China, about regional developments is missing. The exceptions are newspaper DELO where Zorana Rašković is really qualitatively reporting about the developments in China and Radio Slovenia having its own correspondent in China. Like majority of Slovenian politicians[91], leading Slovenian media editors are also not aware of more and more decisive influence of China in the world.

3.3. SLOVENIA FOREIGN POLICY RELATIONS WITH CHINA

After the country became independent in 1991, the first priority of Slovenian foreign policy was international recognition of the new state and its integration into all major international organisations. In 1992, Slovenia became a member of the

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90 Analysis of almost 4,000 Slovak and Czech articles revealed significant differences in the sentiment of the discourse and the topics covered: 70% of Slovak articles were neutral in their views on China, 25% of articles were negative while 5% had a positive outlook. By comparison, only around 40% of Czech articles covered China neutrally and 45% framed China negatively (Šimalšik 2018).

91 President Pahor did not include China among the most important non-EU and NATO partners of Slovenia in his lecture given to the diplomatic core in 2014. Because he mentioned India and Japan, the Chinese ambassador left the event.

United Nations. By becoming a UN Security Council member (non-permanent seat from 1998 to 1999), Slovenia was able to realise one of its priorities: to become important player in international relations. Its second priority was to join both EU and NATO[92]. The third foreign policy priority was to get *away from the Balkans,* to dissociate from it. This orientation seen between 1992 and 1998 was later gradually changed to *back to the Balkans* (1999–2004), a more inclusive (creative) way of thinking about this region. Ironically, the very same Euro-Atlantic external foreign policy environment that Slovenia wished to come closer to by losing its Balkan identity and connections had pushed Slovenia to completely alter the idea and turn its foreign policy 'back to the (Western) Balkans' in 1998. Following EU and NATO accession (2004), Slovenia again found itself in a vacuum. The initial *away from the Balkan* strategy of Slovenia was changed during the country's presidency of the EU Council in 2008 when the Western Balkans appeared to be a specific contribution the Slovenian presidency could make (Bojinović and Šabič, 2017, 53–55; Bojinović and Požgan, 2013). Even today, as Slovenia is preparing for its second EU Council presidency, the draft 'Trio Programme' features the Western Balkans as one of Slovenia's foreign policy priorities.

Foreign policy orientation was initially mostly a bottom-up, spontaneous activity without any strategic documents in support of it. It was only in 1999 that the Slovenian Parliament adopted the first strategic document *Declaration on foreign policy of Slovenia*. Its main emphasis was Europeanisation and strengthening cooperation with its neighbours. Asia or China were not paid much attention, although the declaration did state that:

»The Republic of Slovenia will continue to strengthen all round cooperation with non-European states. As an active member of the international community, Slovenia will continue the conduct dialogue with the most important countries and regional initiatives and organisations in this part of the world. Slovenia will further build its presence in carefully selected locations, in which there are ample needs and possibilities for economic cooperation. Considering the strategic opening of the European Union to non-European countries and within the framework of globalization of the world economy, the Republic of Slovenia will pay special attention to its presence in individual regions of the world and in non-European states. Particular emphasis will be devoted to cooperation with the People's Republic of China as a permanent member of the UN Security Council and to those countries in which live large groups of Slovenian emigrants« (Declaration … 1999, 8).

92 This was such a high priority that even the Strategy of International Economic Relations of Slovenia with other integration groupings and selected countries does not select China at all among countries for developing specific cooperation (see Strategija, 1996).

Obviously, Asia and in this context China were not among the top priorities (receiving less than half a page out of nine). This Declaration was followed in 2015 by a *more comprehensive foreign policy of the Republic of Slovenia* adopted in 2015 (see Slovenija, 2015). It follows previous priorities, where strengthening relations with China was again not very high on the agenda (less than 1 page for the entire Asia among a total of 25 pages). The strategy stipulates that:

»Slovenia's leading Asian partners include India, Japan, and China as the world's economic superpower. Slovenia's economic interests in Asian countries are closely associated with the port of Koper, Slovenian railways, the Slovenian automotive industry, and Hi-Tech cooperation. The highly important segments of Slovenia's cooperation with Asia concern the fields of science, development and innovation« (Slovenija, 2015, 21).

Although a relatively low priority, political relations with China were raised to a very high level quite early on.

Table 3: Major bilateral meetings before 1996

1992	Visits by a delegation of the Chinese Foreign Ministry to Slovenia
February 1993	Slovenia Embassy opens in Beijing
August 1993	Chinese Embassy opens in Ljubljana
September 1993	Protocol on consultations between Foreign Ministries signed in Ljubljana during visit by China's Deputy Prime Minister and Foreign Minister
June 1994	Foreign Minister Peterle visits China
February 1995	Prime Minister Drnovšek visits China

Source: Cencen 2011, 279–281.

After 1992 came 24 visits by high-level Slovenian politicians, including 4 visits by Slovenian prime ministers to China (1995, 2003, 2007, 2015) and one by its deputy prime minister in 2016. The President of the Republic of Slovenia (RS) visited China three times (1996, 2008, 2009), followed by visits by the President of the Slovenian National Assembly (2011 and 2015).

Chinese officials also visited Slovenia at a high political level quite frequently (13 times after 1992), including visits by prime and deputy prime ministers, the minister of foreign affairs and senior officials of the Chinese People's Political Consultative Conference (CPPCC) and other high-level party officials from central and regional levels (details are found in Appendix 1).

The relatively intensive initial cooperation was due to shared economic and political interests. The reason for such intensive bilateral relations was initially in

Slovenia's interest as it sought to obtain international recognition and getting China's, as a permanent member of the UN Security council, to support this, was thus very important. Another driver on the Chinese side was to establish relations with the new state as part of its global open door policy while deterring Slovenia from becoming too cosy with Taiwan.[93] This proved to be successful since the Slovenian authorities often reiterated that they supported One-China policy.[94] In the economic field, China saw Slovenia as a springboard to the EU (the Port of Koper is important here and regarded by the Chinese as a hub) and finally more intensive economic and technological cooperation benefited the competitiveness of their firms.

Table 4: Interests in bilateral cooperation

Chinese	Slovenian
Establishing relations with new states as part of its global strategy	Recognition of the new state
Deterring Slovenia from Taiwan	China as a member of the UN Security Council
Economic and technological cooperation	The large Chinese market
Slovenia as a springboard to the EU	
Strengthening its position in Europe	

Source: Cencen, 2011, 280–281.

China was also interested in observing how the region had developed after the dissolution of Yugoslavia and, as the latest 16+1 initiative demonstrates, in the development of the whole region of Central and Eastern Europe (CEE). Not least since China has been in transition, its interest has also included studying the experiences of countries like Slovenia on their path through transition. Since China, like Yugoslavia, was a multi-ethnic/multinational state, such experiences were also of interest to China. However, China was somehow reluctant to support the position that all successor states of former Yugoslavia were equal successors to former Yugoslavia. China also did not support the position that Milošević's

93 In March 2018, the Slovenian Police detained six criminals (4 of Taiwanese nationality) for being involved in human trafficking associated with illegal call centres (the action was coordinated by the Taiwanese). The victims of such telephone fraud were Chinese citizens. The Slovenian Police's cooperation with Taiwan's respective institution was seen by China as a violation of *one China policy* and could »harm bilateral relations between China and Slovenia«, wrote the Chinese Embassy in Ljubljana. For the Slovenian authorities, it was »merely following the operational requirements of the international investigation, which the Chinese authorities were also aware of«

94 China has also frequently stated that the Tibet question is equally important to China.

Federal Republic of Yugoslavia had to apply for membership in the UN as a new state. It was only after 1996 that China (President Jiang Zemin) clearly stated that China had no special interests in South-east Europe and was seeking to establish good relations with all states (see Cencen 2011, 281). Still, even today it does not recognise Kosovo as an independent state.

Finally, a culture also plays a role. The Chinese have certain sympathies for former Yugoslavia and thus also due to Yugoslav partisan movies being often shown on Chinese national TV channels (for instance, Valter Defends Sarajevo, which remains very popular), the first foreign movie to be played in China after the Cultural Revolution. Slovene music group Laibach has also become quite popular.

3.4. INSTITUTIONAL BASIS FOR MUTUAL COOPERATION

Such intensive bilateral relations led to several agreements to be signed quite early on. These aimed at building the institutional framework to facilitate bilateral political and economic cooperation (see Appendix 2).

Table 5: Major economic agreements between Slovenia and China

Interstate	• Agreement on trade and economic cooperation • Agreement on scientific and technological cooperation • Agreement on the promotion and mutual protection of investments • Agreement on the avoidance of double taxation and prevention of tax evasion
Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investment (JAPTI)	• CIPA (China Investment Promotion Agency) – agreement on mutual cooperation
Chamber of Commerce and Industry (GZS)	• China Council for the Promotion of International Trade (CCPIT) – agreement on mutual cooperation • Council for the Promotion of International Trade (CCPIT – agreement on establishment of the China–Slovenia Business Council) • Trade Development Board at the Ministry of Trade (MOFCOM)
EU	• Agreement on trade and economic cooperation • ADS (Authorised Destination Status), which also obliges Slovenia as of 1.5.2004. Chinese tourists must enter and leave the EU as a group with at least five people. They must travel within the EU area as part of a tourist programme. • Bilateral EU–China agreement on the WTO

Source: compiled by the author.

The first official visit after Slovenia's independence came in February 1992 when Foreign Minister Rupel visited China. Soon after, in May 1992, the two countries established diplomatic relations and Slovenia established an embassy in Beijing that started working in February 1993. In order to boost economic cooperation, a co-operation agreement was signed in 2000 by the Slovenian Chamber of Commerce and CCPIT (with quite a delay), according to which a Joint Commission for Trade and Economic Cooperation was set up.

Despite such intensive political relations, the first economic strategy on China was only developed in 1999 by the Ministry for Economic Cooperation and Development (MEOR) and the Slovenian Chamber of Commerce. Major priorities were to exchange technologies, promote joint production for third markets, stimulate a joint technology development in the framework of science-technology cooperation, and support Slovenian representative offices in China. Its basic orientation was to expand exports in four priority areas: automotive, pharmaceuticals, industry of electrical machines, and the wood industry. Later, a special programme for enhancing the internationalisation of Slovenian firms was also prepared for the period 2010–2014, which indicated certain priority markets. The EU was, together with the Balkans, still given the most emphasis in Slovenia's regional orientation of its economic world ties. Nevertheless, the Programme gave special attention to new emerging markets like BRICS. Specific operational programmes by countries were planned to be developed on a yearly basis later.

Such programmes were later upgraded by the 2015–2020 *Programme for Internationalisation* (Programme for Internationalisation, 2015). This Programme took account of compliance with the existing strategic documents such as the *Slovenian Industrial Policy*, the *Smart Specialisation Strategy 2014–2020*, the *Partnership Agreement* and the *Operational Programme* as well as the guidelines the EU provided in the *Europe 2020 Strategy*, including the *Trade Strategy for EU 2020*.

Strategic objectives of the above-mentioned Internationalisation Programme are to:
- increase exports by 5% annually;
- raise GDP per capita by 2%–3% annually, and the share of exports in GDP per capita by 2% annually;
- increase exports to non-EU markets by 5% annually; and
- at least maintain the share of inward FDI in GDP.

Special attention is paid to the diversification of economic ties from the too high dependence on the EU only to increasing exports to non-EU members like China. China is specifically mentioned in context of promoting the international operation of companies, especially SMEs, including the Intellectual Property Rights (IPR) Helpdesk China (Programme for Internationalisation, 2015, 7).

The last strategic document adopted by the Slovenian government was the Strategy for the Economic Development of Slovenia 2030 (Strategija razvoja Slovenije, 2030) adopted in 2017 more a list of development objectives, and almost ignores the international setting. It does not set out any regional or foreign trade priorities. China is not mentioned at all, only implicitly (in the global context chapter) where it is claimed that »economic power is moving towards Asia, which influences the global changing power relations« (see Strategija, 2017, 10). In the latest International Challenges 2019–2020, China has also assumed only 8th place among the priority markets (after Germany, Austria and Switzerland, Italy, France Visegrad group and former Yugoslav republics (Ministrstvo za gospodarski razvoj in tehnologijo, 2019, 13).

Cooperation in the area of science and technology is governed by the bilateral governmental agreement on scientific and technological cooperation. In addition, an agreement on scientific cooperation was signed by the Slovenian Academy of Sciences and Arts and the Chinese Academy of Social Sciences (to facilitate the cooperation of all interested scientists). Activity in the field of karstology and the recultivation of karst areas was paid special attention.

In the field of health and medicine, cooperation is regulated by the bilateral governmental agreement on working together in the area of health and medicine. In the framework of the cooperation thus far, most activities have concerned the fields of blood supply, traditional Chinese medicine, education of Slovenian doctors in the field of acupuncture and mucous in China, pollution studies of heavy metals etc. The two governments also signed the Protocol on the Health Condition of Slovenia Exporting Dairy Products to China«, which opened the gate for Slovenian agriculture and food product exports in the Chinese market.

Two memoranda on cooperation in infrastructure and sports were signed in 2018. The latter forms the framework for cooperation in education between the two countries, mobility, openness, exchanges of teachers and students, as well as the collaboration of schools in Slovenia and China. China has shown an interest in boosting cooperation with Slovenia in sports and sports infrastructure, particularly in the context of preparations for the 2022 Beijing Winter Olympics. Minister of Education, Science and Sport Maja Makovec Brenčič presented what Slovenia can offer in the area of sports infrastructure, such as the Planica Nordic Centre, and staff training, especially in winter sports[95] like ski jumping. The problem is with the following activities: Competitors like the Austrians, Swiss and Canadians

95 Slovenian cooperation in this field should be a good starting point in terms of Elan skis holding the biggest market share of China's market. ELAN skies are quite well-known in the

started to offer their cooperation in this regard immediately after the announcement that China had won the games by opening their own representative offices there in order to facilitate such cooperation.

The memorandum on countries' participation in transport and infrastructure was only signed in 2018 in Beijing, despite China's often expressed interest to invest in this area. This memorandum stressed the importance of maritime transport and infrastructure development in the areas of railways, motorways and logistics. Slovenia would like the transport routes along the Silk Road to be connected up with transport corridors that cross Slovenia.

Slovenia and China also signed agreements on boosting cooperation in aviation to allow Slovenia's maker of ultralight aircraft, Pipistrel, to sell its planes in this Asian country. Chinese aviation is growing fast and holds great market potential[96] and this agreement will boost sales of ultra-light aircraft and equipment in the Chinese market. The project is worth over EUR 350 million.

Apart from the mentioned institutional basis, many other activities stimulate cooperation with China. For instance, several seminars or conferences have been organised. A seminar entitled »Opportunities for doing business on the Asian market – with an emphasis on India and China« (2015), was organised by the Public Agency SPIRIT Slovenia. It was attended by 40 representatives from 35 Slovenian companies interested in doing business in the Asian market. In particular, opportunities in the fields of clean technologies in India and the food industry in China were presented.

Great efforts to boost cooperation have also been made by SPIRIT Slovenia that organised 10 companies to join the CEEC Trade and Investment Expo in Ningbo, China. More than 30 companies visited China along with Minister Židan and participated in the China International Agriculture Fair in Fuzhou.

Besides that, seminar, many other meetings have been organised in order to promote cooperation. For instance, the »China and Europe – 21st Century Global Leadership« Forum organised by IEDC in June 2016 in Bled, was attended by China Construction, Power China and many other big companies. The First China Premium Brand Fair was held at the Celje Fair, at which 60 Chinese companies

Chinese market, but so far the ELAN company is lagging well behind its competitors from Austria.

96 China will overtake America as the world's biggest aviation market by 2022, and will go on to reach a total of 1.5 billion passengers by 2036 (The Economist, 2018, 7 April, 56).

exhibited their products. The Municipality of Maribor held a Slovenia–China Economic and Trade Forum in November, with over 60 representatives from Shanghai, Jiangsu and other parts of China participating. More and more Chinese companies are willing to cooperate with their Slovenian counterparts. Over 100 hundred companies came to Slovenia in 2016 to seek cooperation opportunities. Last but not least, culture will also help boost economic cooperation. A performance of TURNADOT by the China National Opera as well as orchestras conducted by Chinese musicians were warmly welcomed by Slovenian audiences in 2018. Slovenia learns about Chinese culture through the Chinese Language Day and other events conducted by the Confucius Institute (see the interview with H.E. YE Hao, Ambassador of the People's Republic of China in Slovenia (Fister, 2016)).

SPIRIT Slovenia knows that the start of business in China is organisationally and financially a very demanding project for most Slovenian SMEs and thus offers support to firms with a range of free services like education, consulting, implementation of economic delegations, organisation and co-financing of group and individual trade shows, co-financing the production of market research, and assistance from other organisations.

4. ECONOMIC COOPERATION BETWEEN SLOVENIA AND CHINA

4.1. THE ROLE OF PORT KOPER

The crucial starting points serving as the framework for bilateral cooperation is the geostrategic position of Slovenia represented by the Port of Koper, the largest container terminal in the Adriatic, and the second-biggest car terminal in the Mediterranean (Vrabec, 2016). Logistically speaking, it offers some of the best access to European markets, particularly Central Europe[97]. Its importance has grown substantially since China launched the OBOR project because the Northern Adriatic is an end point of the Maritime Silk Road along with some other ports within the North Adriatic Ports Association (NAPA). They are recognised by the European Commission as »European core ports«, while the Northern Adriatic was recognised as »the key EU entrance«, taking fourth place among ports in Europe. A study by Motoh et al. (2019, 1) estimates that around 6 million TEUs could be reached by 2030, compared to 124 million tonnes of cargo throughput in 2018. According to the same study, the Port of Koper is vital for the Austrian, Slovak and Hungarian markets. It positions itself as a leading cargo freight port in the Northern Adriatic, especially for vehicle throughput and other cargo types on the southern route to/from Europe (timber, livestock, soy, alumina, iron products)[98]. It operates 12 terminals. The container terminal has regular weekly lines to the Middle East, East Asia, and the Red Sea, while also being connected via feeder services with important Mediterranean[99] ports. The Car and Ro-Ro terminal is one of the largest car terminals in the Mediterranean, operating European exports and imports which mostly come from Japan, South Korea and Turkey. Other terminals include: the General Cargo Terminal, Reefer Terminal for perishable goods, Timber Terminal, Dry Bulk Terminal (for minerals, indus-

97 For more, see Mirošič, 2016.

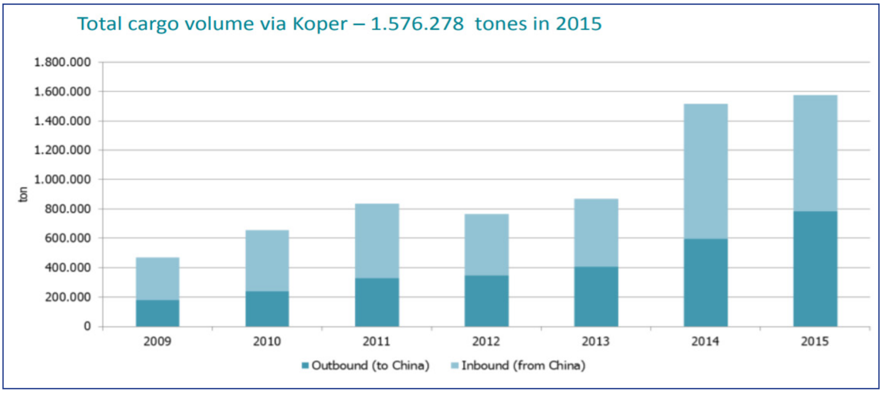
98 »Summary of Luka Koper d.d. and the Luka Koper Group Business Strategy until 2030 and the Company's and Group's Strategic Business Plan 2016 – 2020«, *Luka Koper* (https://www.luka-kp.si/eng/mission-vision-strategy)

99 »Container Terminal«, *Luka Koper*, https://www.luka-kp.si/eng/terminals/single/container-terminal-244 (15 May 2019)

trial minerals and other bulk cargo), Silo Terminal (for cereals and fodder, with a divided system for storing non-GMO), Alumina terminal (for the sandy type of alumina), Iron Ore and Coal Terminal, Liquid Cargos Terminal (chemicals, minerals and vegetable oils) and Livestock Terminal. The Port of Koper also operates a cruise terminal, with an increasing number of incoming cruise ships what Covid 19 of course interrupted.

The Port of Koper remains the first port of call in the Adriatic with the most favourable transit time in the westbound import direction. Not surprisingly, the Chinese market is an important market for the Port of Koper in view of China enhancing its cooperation with Central and Eastern Europe through the 17+1 initiative. The cooperation of the Port of Koper with the Chinese market in the container segment has already been very important and promises even greater opportunities in the future.

Figure 30: Chinese overseas traffic through Koper in tonnes



Source: Vrabec, 2016.

The Port of Koper has direct, weekly connections with China through two alliances. The second one, The Ocean Alliance, includes China's Cosco. The latter is coming to Koper with two more feeder services, i.e. connections within the Mediterranean. Koper is the biggest destination for exports to southern and central Europe. It is therefore no surprise that, as China's Ambassador to the Republic of Slovenia emphasised, »China is willing to actively participate in Slovenia's projects at the Port of Koper and railway reconstruction, and carry out cooperation with Slovenia in fields such as trade parks, logistics, equipment manufacturing and transportation infrastructure based on China's initiative of cooperation in three port areas of the Adriatic Sea, Baltic Sea and Black Sea. China supports its enterprises to participate in the privatisation of some state-owned enterprises in Slovenia and launch cooperation with Slovenia in fields such as new energy, high and new technology, biological pharmacy and environmental protection. China is willing to expand its cooperation in agriculture, forestry and tourism« (see interview with H.E. YE Hao, Ambassador of the People's Republic of China in Slovenia; in Fister, 2016).

Except for 2019, the total volume of cargo transhipped via the Port of Koper has constantly been increasing, particularly the containers cargo. Total transhipment in the Port of Koper grew from 20.7 million tonnes in 2015 to 24.1 million tonnes in 2018 but dropped in 2019 to 22.8 tonnes. The importance of transactions with China is ever growing. In 2018, more than 2 million tonnes of goods were transhipped to and from China, of which over 190,000 twenty-foot equivalent (TEU) unit and approximately 92,000 vehicles. In 2019, the total transhipment volume rose to 2,140,000 tonnes. In the summer of 2020, Luka Koper recorded 1,040,000 tonnes of transhipped goods to/from China. In recent years, the transhipment of prestigious car brands exported from the EU to China via the Port of Koper has also been a recognised phenomenon.

In 2018, the Port of Koper also formal joined the OBOR initiative after signing the Memorandum on understanding in the framework of the international conference »Maritime Silk Road Port International Cooperation Forum«, in June 2018 in the Chinese city of Ningbo. This Memorandum aims to strength the trade between China and the Central and Eastern Europe countries[100], which conduct most of their overseas trade through the Port of Koper. It is offering new opportunities to the Port in the future, especially by shortening the transit time by establishing direct links, which is becoming so critical for all, including Chinese freight forwarders and exporters. However, to fully realise such plans a precondition is to build a second railway track between Divača and Koper so as to greatly enhance inter-modal transport's capacity from the Port of Koper.

Container connections are currently established between the Far East and the Port of Koper, with two direct container services provided by the shipping associations: 2M (Maersk Line and MSC – Mediterranean Shipping Company) and Ocean Alliance (CMA CGM, COSCO, Evergreen, OOCL). As well as these direct services, the Port of Koper is also connected to Chinese ports by other ship-owners via 'transhipment arcs'.

100 Two-thirds of the goods in Koper are handled for hinterland markets' needs and the Port of Koper has a dominant market share for some destinations. On average, as many as 70 freight trains per day connect Koper with the largest economic centres in Central and Eastern Europe.

The Port of Trieste is another competitor of the Port Koper. Despite seeing increasing investment (it has also doubled its container traffic since 2016), it still lags behind the Port of Koper in container traffic and capacities, surpassing the 24 million-tonne cargo milestone in 2018. This makes it particularly important that the Port of Koper keep pace and, by developing its hinterland links, strengthen its competitiveness.

4.2. OTHER SLOVENIA'S COMPARATIVE ADVANTAGES AND FEARS

Slovenia's second comparative advantage is its membership in the EU that offers China a chance to indirectly penetrate this large market. In addition, Slovenia is a member of 17+1 initiative which, when combined with OBOR and the Port of Koper, provide the shortest gateway to parts of EU member's markets. The strategic position enjoyed by the country offers China a way of materialising one of its major strategic objectives for the next decade: the penetration of global markets not any more by traditional export products but by higher value-added manufacturing, even Hi-Tech products. The Chinese may regard the 17+1 scheme as a 'soft belly' entrance to the EU, a way of enhancing its political clout in the EU.

A third opportunity is the spectacular rise of China, which offers vast potential for economic and other forms of political, cultural and scientific cooperation. Yet this potential might also be a threat, as demonstrated by recent developments such as the huge rise in Chinese FDI in the EU, particularly taking over some European technological champions, and the increasing sense that there is an excessive dependence on Chinese imports (especially in the health sector during the Covid-19 pandemic). As a result, the EU has started to change its strategy on China towards being more assertive (see Ch. 2.7.1.). The issue is thus how to strike a balance between opportunity and threat, namely, not such a new dilemma in a historical perspective. These are Slovenian's biggest macro-economic and political comparative advantages in its relations with China. The strategic position it holds allows China a way of accomplishing one of its major strategic objectives for the next decade.

In their article the »Chinese are coming«[101] (Svetličič and Sicherl, 2006), the spectacular growth of China was mainly evaluated as both an opportunity and a challenge. It even estimated that China could catch Slovenia up in PPP terms, provided that

101 The title was an allusion to the popular movie comedy in the USA in the mid-1960s; »The Russians are Coming, the Russians are Coming! «, about how a submarine landed in the USA and how Americans were afraid of such an invasion.

difference in growth rate would be 4% already in 2034. Twelve years later, the same title was used by Slovenian Newspaper Finance's the special dossier, China (Finance, 2018), largely based on Godement et al., 2017 with almost the same title. Still, the main message this time was quite different, warning about the challenges and threats of China's growing role in the global economy, Chinese *sharp power*, about imposing its standards etc. It emphasised the threat brought by China's greater FDI around the world, in Europe and Slovenia, claiming that such ownership could threaten both the sovereignty of host countries and lifestyles by transferring Chinese ways of doing things and the country's undemocratic system.

Such threats are not totally new. They were already seen in the past as *yellow peril*, which has begun in at the end of the 19th century as a fear of Chinese immigrants. The second yellow peril was the fear of Japan's expansion and technological threats in the mid-1960s through the mid-1980s. After WW2, Europeans started to be afraid of America's domination, as well described in Schreiber's *American* Challenge (1967). Later, Soviet communism (*the red scare*) began to worry the Americans and now, in more recent times, the Trump Administration started a trade war with China since the American president believed China had been exploiting the USA (perhaps *the third yellow peril*[102]). Today, we may observe similar reactions, fears of the rising global competitiveness of newly emerging economies, China in particular, leading to them becoming important players in the global economy.

In the past, all of such fears have shown to be overblown, notwithstanding the substantial differences exist among them, due to the size, political system and ideological basis along with military strength and geopolitical ambitions and, finally, civilisation/cultural characteristics of the challengers. If history is a good teacher, it may also now seem as if the threats of China are overblown, even though China is now much stronger in all its characteristics, representing a qualitative difference. »The greatest threat is not China's ambitions, but its selfishness, and this will define the coming decades« (Brown, 2020, 23).

4.3. FOREIGN TRADE

Europe's strong path dependency based on the traditional European orientation of Slovenia's international economic relations, which is also a political priority, necessarily imply that lower priority is being given to cooperation with Asia,

102 Read more about these fears in Svetličič, 2020a.

including China. This did not facilitate a framework for boosting economic cooperation with China, as did the lack of interest and knowledge about trends in the global economy. The tectonic changes underway were underestimated, particularly China's spectacular growth rates. China namely almost quadrupled its GDP between 1989 and –2018, while advanced economies only saw a rise of some 50% (see The Economist, 2018, March 31, 74).

China, as part of BRICs, started to attract more attention only after a Goldman Sachs study in 2003 (Wilson et.al.) and later during the consultations that President Drnovšek organised as part of strategic debates on Slovenia's future foreign policy (Svetličič, 2004) and conferences at the Chamber of Commerce and Industry (GZS) in 2005. Slovenian authorities and firms had overlooked the dynamic development of China and opportunities in that market in view of high growth rates and its general opening up strategy.

Bilateral trade has been quite unbalanced. Imports into Slovenia from China are much more important than Slovenian exports to China (not among the major partners at all). One reason is lack of knowledge about the Chinese market, including cross-cultural differences about how to do business there. Chinese firms started to be interested in investing in Slovenia already in 1996 while Slovenian firms mostly only after 2000, and even then relatively modestly. An important step in stimulating economic cooperation was establishment of a Slovenian representative office in Shanghai by JAPTI in February 2008. In addition, there is the Club of Slovenians in Shanghai, which brings 40 entrepreneurs together who mostly work in the eastern part of China and share their experiences and contacts. Most Slovenian companies namely operate on the eastern side of the Yangtze River, in the metropolitan cities of Shanghai and Suzhou.

As late as in 2014, while meeting Chinese Minister of Commerce Gao Hucheng at a conference of trade and economy ministers from China and 16 Central and Eastern European countries in Ningbo Minister of the Economy Dragonja stated that Slovenia planned to double its exports to China over the next 5 years. The Chinese side expressed its interest in investing in the infrastructure[103], energy,

103 Chinese investors have often been interested in buying or investing in the Port of Koper. In 2011, then Slovenian Prime Minister Pahor revealed the Chinese government had offered up to EUR 10 billion to purchase Slovenian Railways and that the construction of high-speed lines would be carried out by Chinese companies with Chinese workers. He had rejected the offer as the arrival of thousands of Chinese workers in Slovenia might have caused a social bomb that the country would not tolerate. Chinese Southern Airlines (the largest airline in Asia and second biggest in the world) was ready to buy Adria Airways, a freight airport, and an aviation school. Their plan was to convert Brnik Airport into a hub for Western Europe.

biomedicine and automotive sectors. Gao Hucheng expressed his support for Slovenia's plans and said that Slovenia should boost food exports and expressed his wish that the issue of visas and work permits at Slovenia's embassy in Beijing and at the Shanghai consulate would be simplified.

In spite of constant growing trade with China, its share in total Slovenia foreign trade has remained very limited, albeit it is increasing gradually (see Table 6). It has become much higher in terms of imports which have risen substantially while the share of exports to China in total Slovenian exports continues to be modest.

Table 6: Foreign trade of Slovenia with China, 1994–2019; shares in total exports and imports of Slovenia (in %)

	1994	2000	2008	2012	2017	2018	2019
Exports	0.6	0.16	0.39	0.65	1.12	0.99	0.83
Imports	0.5	0.39	1.91	2.79	3.14	3.34	3.70

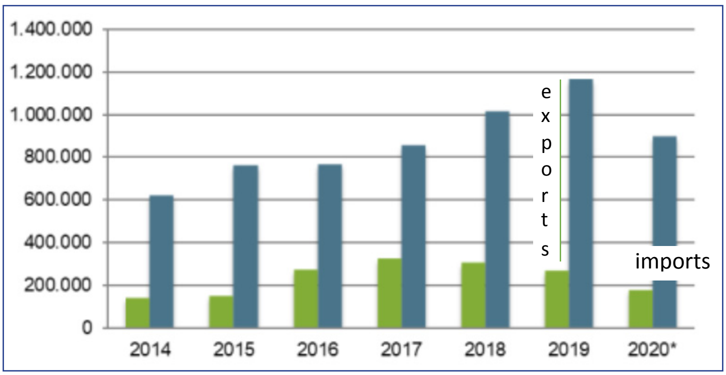
Source: Bank of Slovenia, 2017 and 2020.

The lion's share of Slovenia's foreign trade of during the whole period was held by the EU, accounting for almost 77% of Slovenian exports and 80% of imports, followed by countries of former Yugoslavia. This orientation of Slovenian foreign trade towards Europe has even grown since in 1997 when the EU absorbed 63% of exports and was the source of 67% of the country's imports. But taking into account that the number of EU members has increased, one may conclude the share has remained almost the same. Slovenian exports to Serbia alone used to be more than four times greater than those to China (2015), but in 2018 they were only around three times. The situation is totally different with imports into Slovenia, where China's share is almost twice as big as that from Serbia alone.

The project collapsed as no Slovenian state representative found time to accept the Chinese delegation (Jenko 2016). In view of the fact that China's airlines are adding passengers at a rate not seen since Emirates, Etihad and Qatar Airways started to attract customers to their Gulf hubs, this may be seen as quite a strategic opportunity. The airport was instead sold to the German Fraport AG in 2015, reflecting at least in part the traditional Slovenian mentality; »Made in Germany means quality« while the Chinese are not well-known enough, not considered to be on the technology top level, are different, unknown and unpredictable, as the stereotypes go.

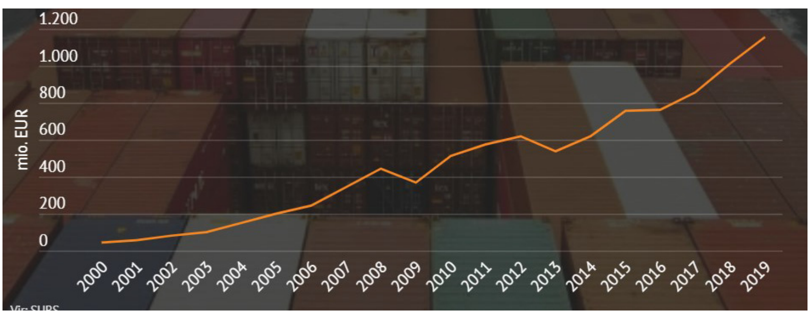
Foreign trade with China, without Hong Kong[104], has been gradually increasing since 2000. The value of imports from China until the end of 2019, when it accounted for 12.6% of Slovenian goods imports from non-EU countries but only 3.4% of total Slovenian imports. This increase in 2019 was mostly the result of greater imports of medical equipment and related textile products. In 2019, China was the eighth-most important country from which Slovenia imported, and its second-most important trading partner (after Switzerland) among non-EU countries.

Figure 31: Trade in goods between Slovenia and China 2014–2020[105] (EUR million)



Source: Statistical Office of Slovenia.

Figure 32: Imports of Slovenia from China 2000–2019 (in EUR million)



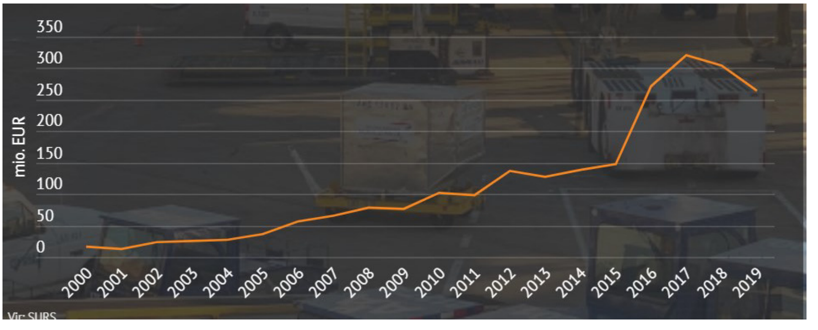
Source: Statistical Office of Slovenia.

104 Hong Kong is given separately.

105 For 2020 only until the end of August.

In export terms, the situation is quite different, although exports to China have also been on the rise, particularly after 2015. Still, China is not such an important export destination for Slovenian firms as it is with imports. In 2019, Slovenia exported to China EUR 265.3 million or 3.0% of the country's total exports to non-EU countries and imported EUR 1,159 million (a 26-fold increase over 2000). China thereby became Slovenia's seventh-most important export destination among non-EU countries in 2019, and the eighth-most important country generally from which Slovenia imported. The value of Slovenian exports to China largely grew until 2017, but then it started to fall (Statistical Office of Slovenia).

Figure 33: Exports of Slovenia to China 2000–2019 (EUR million)



Source: Statistical Office of Slovenia, https://www.stat.si/StatWeb/News/Index/9202).

This unbalanced trade has produced a substantial and ever-growing trade deficit, and continues to be the second biggest feature of foreign trade with China (the first being the modest shares involved). The trade deficit increased from the quite modest EUR 27 million in 1994 to EUR 894 million in 2019. Since exports to Hong Kong have grown much more than imports, trade with Hong Kong has in fact slightly improved the trade balance with China, although the importance of the trade with Hong Kong has decreased, as seen in its considerably smaller share compared to China (see Table 7).

China's increasing role is the result of its growth rates exceeding those of other countries. Although Slovenia is a small open economy, in 2018 one could find 12,581 companies importing from China and 475 exporting there (see https://www.gov.si/novice/2019-12-24-slovenska-gospodarska-diplomacija-po-svetu-pismo-s-kitajske/). On one side, these figures seem like good news, yet they increase the costs and risks of transactions. Not all firms, particularly small ones, have the knowledge and skills to successfully overcome all of the risks and fixed or entry costs entailed in international operations.

Trade with China clearly started to rise after it joined the WTO in 2002, thus simplifying trade relations and attracting more Slovenian firms to start cooperating with China. Prior to 2002, only firms that with already established contacts in China from Yugoslav times were active there, or those whose managers had transferred their knowledge of doing business with China from other companies they worked at the end of the 1980s/early 1990s and then opened up their own businesses (Ivančič, 2016, 36–37).

The shifting trajectory of exports can be explained by huge deals made by some firms in particular years[106] while the drop in imports in 2009 can be by the crisis of the Slovenian economy. Regrettably, Slovenia missed the opportunity to help it exit from the GR in 2008 by expanding its exports to China which, due to its clever pre-crisis policies of adjustment and swift reactions to the crisis, had almost bypassed the Chinese economy without any serious bruises. On the contrary, imports from China during the crisis increased more than exports. Still, in the period before the crisis, Slovenian trade with China was growing much faster than to any other big countries or groupings. Slovenia was not very specific in this regard as most EU member states, including new members, had not grasped the chance to develop cooperation with China as a way out of the crisis (see Tkalec and Svetličič (2014; 176). The cited authors claim that new EU member states (NMS), have been more successful in adjusting to the new centres of economic growth (more by way of exports than inward FDI), but not if Russia, the biggest partner of the NMSs, is excluded from the analysis. It therefore cannot be claimed that this success was the result of far-sighted strategies. The NMS have in fact been faster than the EU-15 in increasing the share of their exports and inward FDI in relation with Growth market countries (GMs)[107]. Part of the explanation may be path dependence since the GMs include former socialist and non-aligned countries that are historical partners of many NMSs. Some cultural factors, smaller cultural/institutional distance and less risk aversion may explain this result and help in understanding why countries might not have seen such cooperation as an exit strategy during the crisis. Even some specific policy initiatives on the EU and bilateral levels aimed at strengthening cooperation with China and India, for instance, have been unable to prevent the continuing of such historically, deeply-rooted path dependence factors to enhance the strong links with Russia on top

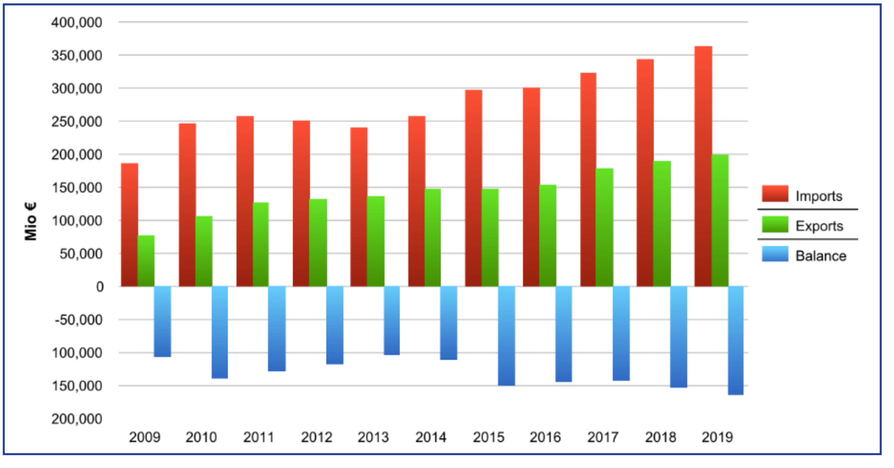
106 Once for instance Gorenje was equipping whole new residential areas with household appliances, implying huge exports of such equipment from Slovenia. With the help of the local partner GIIC CO, Gorenje is basically selling on the local market only designer products (Pininfarina) made with Swarovski crystal elements. The local partner was needed because the Gorenje trademark was not known enough.

107 BRIC countries plus Mexico, Korea, Turkey and Indonesia.

of the economic complementarities (oil and gas for consumer goods). Regional policy initiatives have not moved very far forward from declaring the BRICs as strategic partners. One explanation for this may be differences among EU members, particularly with regard to China. There were more bilateral arrangements, whereas multilateral ones prevailed before the crisis as a strategy (ibid. 2014, 194).

The dynamics of Slovenia's trade with China are similar as for the whole of EU trade relations with China. In all cases, there is a substantial trade deficit (yet much smaller in the case of the EU) and the growth has seen similar dynamics. Imports almost twice exceeded exports in 2019 (being a 2.3-fold decrease since 2009), while in the case of Slovenia they outpaced exports by four times in 2019.

Figure 34: EU trade flows and balance with China, 2009–2019 (EUR million)



Source: European Commission, 2020h.

4.4. TRADE WITH HONG KONG

Slovenia's trade with Hong Kong (HK) was initially quite important since it accounted for up to 40% of exports to China in 2000 (but imports much less at 21%). Parallel to the strengthening of cooperation with China, the share of imports and exports to HK has been falling and with substantial oscillations (see Table 7), although in exports it remains an important destination. In 2019, EUR 103 million worth of goods, or 4% of the total trade between Slovenia and mainland China, was routed through Hong Kong (Honorary Consulate General of Slovenia in Hong Kong) https://www.hketoberlin.gov.hk/en/re_slovenia.htm).

Table 7: Share of foreign trade with Hong Kong in total trade with China (in %)

	2000	2008	2012	2017	2018	2019
Exports	40	16	28	12	17	20
Imports	21	10	0.7	0.7	0.8	0.7

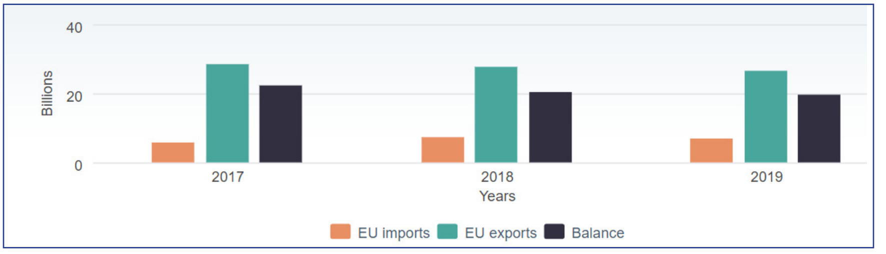
Source: Statistical Office of the Republic of Slovenia; SURS https://pxweb.stat.si/SiStatData/pxweb/sl/Data/-/2490004S.px/table/tableViewLayout2/.

The huge oscillations seen in trade flows have run parallel to the substantial variations in the trade structure. The import structure was similar to imports from China, with manufacturing products dominating and decreasing the share held by textiles.

In 2019, Slovenia's main imports from Hong Kong were manufactured tobacco (99.3%). Exports have also seen huge fluctuations in terms of trend and structure. Machinery and equipment dominated in the country's exports to HK, with a decreasing trend. On the other hand, chemicals have gradually increased their share. The most substantial was the rise observed in miscellaneous products. In 2019, Slovenian firms mostly exported passenger motor cars (61.8%), watches and clocks (5.3%) as well as measuring, analysing and controlling instruments (5.1%) (see https://www.hketoberlin.gov.hk/en/re_slovenia.htm). To conclude, Slovenian firms have not been sufficiently using the 'small' Hong Kong as a good starting platform for the large Chinese market. This cooperation might be particularly suitable for new entrants and SMEs.

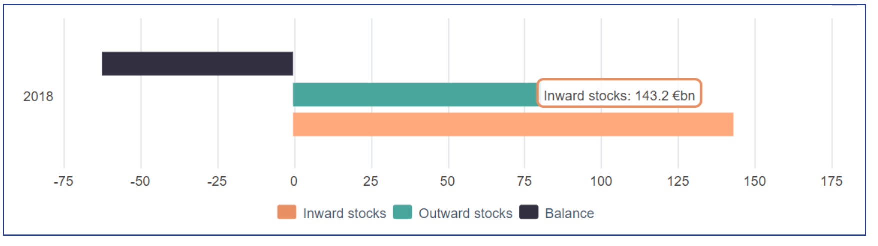
Slovenia's trade with Hong Kong is generally similar to the EU's trade with Hong Kong, yet there is greater stability with the EU's trade with Hong Kong. Hong Kong is also not one of the EU's top trading partners. In 2018, it was its 20th largest trading partner in goods while it ranked as the EU's 8th trading partner in Asia. On the other hand, the EU is Hong Kong's second biggest trading partner after China. The trade structure is also similar. EU imports from Hong Kong are dominated by machinery, transport, and telecommunication equipment. The structure of exports is similar, dominated by machinery and transport equipment, telecommunication equipment, chemicals and other semi-finished products. In commercial services, EU–Hong Kong trade has shown stable development over the past years. FDI data indicate that in past years the EU has been a major source of foreign direct investment in Hong Kong. In 2017, Hong Kong was the third-most popular FDI destination for the EU. According to the latest survey carried out by the Hong Kong SAR government (2018), over 2,200 EU companies have set up business in Hong Kong and around half are using Hong Kong as their regional headquarters or regional offices. EU companies are key players in a range of sectors in the Hong Kong economy, including banking, insurance and securities. This importance may well decrease due to Brexit.

Figure 35: EU–Hong Kong trade in goods (EUR billion)



Source: European Commission, 2020, https://ec.europa.eu/trade/policy/countries-and-regions/countries/hong-kong-sar/.

Figure 36: EU-(27)–Hong Kong FDI (EUR billion)



Source: European Commission, 2020 https://ec.europa.eu/trade/policy/countries-and-regions/countries/hong-kong-sar/.

Foreign direct investment data indicate that over the past years the EU has been a major source of FDI in Hong Kong. In 2017, Hong Kong was the third-most popular FDI destination for the EU. According to the survey carried out by the Hong Kong SAR government (2018), over 2 200 EU companies have set up their businesses in Hong Kong and around half of them are using Hong Kong as their regional headquarters or regional offices. EU companies are key players in a range of sectors of the Hong Kong economy, including banking, insurance and securities. This importance may decrease due to the Brexit.

4.5. THE CHANGING STRUCTURE OF SLOVENIA'S TRADE WITH CHINA

Along with the transition, restructuring of the Slovenian economy, and spectacular growth enjoyed by China, the bilateral trade structure has also been changing (more in terms of imports than exports). It has gradually become ever more intra industry trade. Manufactures dominated in the whole period on both sides for exports and imports. While initially textiles, a traditional export item of less developed countries, represented quite a large share of Slovenian imports from China, in 2000–2017 its share fell almost 4-fold. Just the opposite trend was seen in exports, where the share of machinery and equipment (capital goods) grew more than 4-fold in the same period, reflecting the technological upgrading of the Chinese economy. Such trends followed the changing structure of China international trade in general, where the share of more technology-/knowledge-intensive sectors in China's exports was growing quite substantially. From 2006–2015, the knowledge intensity of Chinese exports has almost tripled (European Parliament, 2018, 14). The share of low-technology-intensive goods dropped in the period 2000–2017 from 31.5% to 21%, while high-technology-intensive goods rose from 26.6% to 37% and medium-technology-intensive exports did similarly (see Bučar & Arbeiter, 2019, 9).

Still, these structural changes also reflect the altering structure of the Slovenian economy during the transition, albeit at a much slower pace than in China. Slovenia's trade structure with China is quite similar to the general structure of the country's exports in which road vehicles, pharmaceutical products and electrical machinery& appliances dominate. It is also a result of the intensification of imports of technology by Chinese firms, including from Slovenia (the share more than doubled), with exports of chemicals being similar. Consumer goods initially formed a high share of Slovenian imports from China, but have almost halved in 21 years partly due to the higher standard of living in Slovenia and enhanced awareness of the importance of health and environmental standards, with respect to which Chinese firms are still not in compliance with all European standards.

Table 8: Trade structure of exports and imports of Slovenia with China, 1994–2015 (SITC rev.2), in %

	Exports				Imports			
	1994	2000	2008	2015	1994	2000	2008	2015
Manufactures	88.85	97.99	94.34	90.95	91.08	93.17	96.83	95.42
Machinery and transport equipment	30.25	32.45	73.90	49.65	11.26	29.82	43.60	46.73
Chemical	10.26	22.99	6.04	18.12	11.89	7.87	7.14	13.17
Food	4.84	0.01	5.46	4.54	5.19	2.97	0.92	0.67
Agricultural Raw Material	1.69	1.58	0.16	3.15	2.38	0.40	0.34	0.33
Ores and Metal	3.27	0.41	0.02	1.22	0.62	3.42	1.90	2.80
Textiles	12.99	0.72	1.66	0.78	38.34	16.03	16.10	10.85
Fuel	1.13	..	0.01	0.13	0.74	0.04	0.02	0.77

Sources: SURS, and https://wits.worldbank.org/CountryProfile/en/Country/SVN/Year/2015/TradeFlow/Import/Partner/CHN/Product/All-Groups.

A more detailed structure of exports by product groups for 2019 (see Table 9) better reveals these structural changes. Now, electrical machinery and equipment and parts thereof, apparatus for recording or reproducing images or sound, and parts and accessories of such articles represent as much as 25% of total Slovenian exports to China.

Table 9: Structure of Slovenia's exports to China in 2019

Share	EUR 1000	PRODUCT GROUPS
25%	66,477	Electrical machinery and equipment and parts thereof, apparatus for recording or reproducing images or sound, and parts and accessories of such articles
17%	46.425	Nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof
13%	33,501	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof
7%	19,631	Wood and wood products, charcoal
6%	17,184	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, parts and accessories thereof
4%	10,969	Iron and steel

Source: Statistical Office of Slovenia, https://www.izvoznookno.si/drzave/kitajska/poslovno-sodelovanje-s-slovenijo/.

China's technological upgrading is also visible in its exports to Slovenia, where technology-intensive products together with some industrial consumer goods have started to dominate.

China is no longer an exporter of cheap labour-intensive products to Slovenia, reflecting the general quality upgrading and orientation to higher value-added products in the last decade as part of China's strategic long-term vision.

China is in the transition from an investment-led to a productivity-led growth model. Not surprisingly, some even claim that in certain sectors like automobile production it has already surpassed the European level of quality[108]. Details of the import structure reveal that higher value-added products have recently begun to play a much more important role.

108 R. Page, one of the leading designers at Volvo claims that Geely's Chinese factories have achieved better production quality than European ones due to the greater automatisation of production (see Božin, 2018).

Table 10: Structure of Slovenia's imports from China in 2019

Share	EUR 1000	PRODUCT GROUPS
27%	314.979	Electrical machinery and equipment and parts thereof, apparatus for recording or reproducing images or sound, and parts and accessories of such articles
18	212,433	Organic chemical products
14	162,323	Nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof
3%	33.465	Furniture, bedding, mattresses, mattress supports, cushions and bases stuffed, lamps and accessories therefor, not elsewhere specified, illuminated signs, prefabricated buildings
3	32,555	Plastics and articles thereof, rubber and articles thereof

Source: Statistical office Republic of Slovenia https://www.izvoznookno.si/drzave/kitajska/poslovno-sodelovanje-s-slovenijo/.

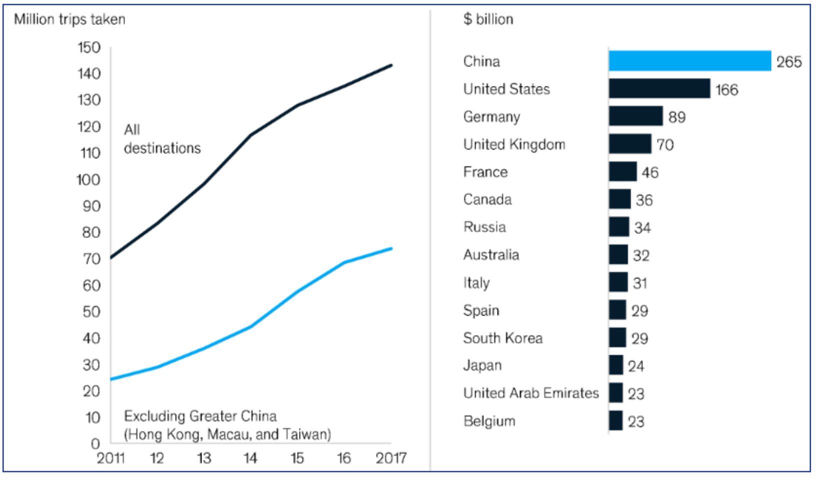
This is basically similar to the structure of the EU's trade with China since in its imports machinery and appliances also represent even the biggest share. On the other hand, textiles are the second-most important import product group, yet not really that important for Slovenia. Also similar is the situation with exports: machinery and appliances are leading with a 33% share, followed by transport equipment (21%; see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_china_en.pdf).

Greater opportunities are also visible in services, particularly tourism[109], since the Chinese have recently become some of the most desired guests in Europe. In 2016, about 156 million Chinese tourists crossed the border (including businessmen, spending EUR 261 billion (https://metinalista.si/kitajski-turisti-v-sloveniji-in-crni-gori-kdo-so-in-zakaj-prihajajo/). »The number of Chinese tourists going abroad has rocketed in the past decade, from 41 million a year to over 130 million (The Economist, 2018, April 7, 56). Many more will join the crowd since »currently less than 10% of Chinese hold passports (The Economist, 2019, Special Report, May 19, 5). However, the recent Covid-19 pandemic has halted this long-

109 The Shenzhen-to-Seattle flight carries 12,000 outbound tourists a month (2018 data). The new Hong Kong–Zhuhai–Macau bridge attracts up to 100,000 mainland tourists per weekend. Passports are now held by 120 million mainland Chinese, with as many as 30 million more being issued in 2019. A major challenge is that underprepared destinations will easily find themselves being swamped if unprepared for an influx of high-end Chinese travellers (see Orr, 2018, 10). The pandemic of course stopped such increasing trend but could be returned to long term trend after the vaccination and immunization of the population.

term trend and one cannot expect tourism to recover any time soon. On the contrary, the sector will change by way of greater emphasis on domestic tourism.

Figure 37: China is already the world's largest source of tourists – most to Greater China – but increasingly they are visiting other destinations



Source: McKinsey, 2019c, 103.

In 2017, Chinese tourists spent over USD 250 billion, far outstripping the spending of their American counterparts (see The Economist, 2019, Febr. 23.). In 2018, around 150 million Chinese tourists made outbound trips, with their number expected to reach 160 million by 2020. China is the world's largest source of outbound tourists in the world, and their spending in destination economies is very significant, including in Asia. For instance, spending by Chinese visitors is equivalent to 7% and 9% of private consumption in Singapore and Thailand, 7% in Singapore, 2% in South Korea, and 1% in Japan. In contrast, spending by Chinese tourists outside of Asia Pacific remains fairly low, at about 15% of total outbound spending in 2017 (although that share is higher than the 12% seen in 2012). The capacity is rising to meet the demand created by Chinese tourism among a wider range of destinations. For instance, in early 2019, four Chinese airlines applied for additional routes to Italy which, if approved, would increase the weekly frequency of Italy-bound flights by 24 trips. Such destinations can expect Chinese tourism spending to grow (see McKinsey 2019a, 104).

Slovenia is also increasingly attracting Chinese tourists, particularly after 2015. According to the Slovenian Tourist Organisation, in 2018 they numbered 78,171 (but only 1.97% of all foreign tourists), increasing to 98,958 (2.10% of all foreign tourists). The Covid-19 pandemic, of course, has put a stop to this trend (only

323 Chinese tourist arrived in Slovenia in 2020 (January–September; 0.25%). Although the shares remain low, a clear positive trend is observable, which may predict an increase in the share of all foreign tourists after the pandemic. The comparative advantage of Slovenia is that is located close to Venice, Vienna and Munich, and thereby act as the entry point for Chinese tours of Europe. Everything European appeals to Chinese tourists. The prime objective of the EU and China in this context is to promote investment opportunities for European operators in China and to boost European economic growth and jobs by promoting Chinese tourism in the EU.

4.6. INVESTMENT COOPERATION

The starting point is that Chinese FDI in Slovenia and Slovenian in China are well below potential in view of the very intensive FDI made by Chinese firms globally, particularly in Europe, and the growing FDI in China (see Ch. 2.4.2 for details). Second, given the very important role FDI plays as the most important instrument of globalisation, in two respects. First, as cost-reduction-motivated activities by establishing global value chains in lower cost countries and thus retaining and enhancing competitiveness and, second, by mergers and acquisitions (M&A) aimed at obtaining advantages, gaining access to better technology and knowledge by acquiring foreign firms. At the same time, M&A offer an opportunity to consolidate firms' activities, allowing them to gain control of foreign productive assets overnight, unlike the case with the greenfield investment type of FDI. Because in global business size matters more and more, not only due to the need to acquire economies of scale and scope but to build economic empires, strong oligopolistic structures feature in the global market structure. Second, FDI and the building of multinational companies have also become increasingly important instruments for small countries since only in this way can their firms gain the economies of scale and scope they need for their competitiveness. At the same time, by supporting their own multinationals, small countries that wish to prevent large swathes of their economy coming into foreign hands, can preserve the balanced ownership structure of their economies. For a small country like Slovenia, the so-called 40/40/20 structure seems optimal. But why? Because on average in the EU foreign ownership in small countries is around 40%. Assuming that about 20% are economic activities which cannot be or are not globalised, the only way to keep foreign ownership at 40% or below is to actively support the development of its own multinationals to hold the remaining 40% share of the economy. Third, it is also vital to know that the FDI's importance also stems from the fact that ever more international trade is in fact induced by international investment. FDI is also a large part of the booming global value chains (GVCs) or integrated global production networks that are emerging, in some calculations already representing about 70% of all international trade. Yet, this share may shrink following the Covid-19 pandemic and ensuing rationalisation of such networks to lower risks (for more, see Ch. 2.4.1.).

Several of the traditional motives for FDI apply to Slovenian firms' investments in China, and vice versa in case of Chinese ones in Slovenia. The number 1 motive for Slovenian firms is market- and efficiency-seeking FDI (a large market, low labour costs). Market-seeking investment frequently takes place in the form of tariff-jumping factories (high tariffs or other types of protectionism). Recently, the gaining of knowledge can also be addedarallel to technological advance of Chinese firms, also the other way around; Slovenian investment in China intended to acquire new knowledge. Investment cooperation is very important since it seems that without local production it is, at least in the long run, impossible to sell products in the enormous China market. Another explanation concerns the long and un-transparent customs procedures.

The idea of this chapter was to determine whether bilateral Slovenia–China FDI has followed the growing importance of FDI as an instrument of globalisation generally and whether Slovenia appeared on the Chinese map when China started its Going Global strategy and BRI initiative, particularly Slovenia's place in the 17+1 scheme (see Ch. 6).

Inward FDI[110] does not play a very important role in Slovenia. The share of FDI in GDP in 2019 was 33%, significantly less than in other comparable countries. The growth of inward FDI averaged out at 11.8% between 1994 and 2019, where the top investor countries came from the EU. Foreign direct investment by Chinese firms in Slovenia is exceedingly modest, albeit oscillating in terms of flows, yet growing over the last few years. It is more important if the ultimate investing country, not the first counterpart country, is taken into account because China makes investments in Slovenia via branches in Luxemburg, for instance.

Investing abroad by Slovenian firms has been even less important since the stock of outward FDI in GDP was just 13.7% in 2019, despite average growth of 13.9% of such flows between 1994 and 2019. The major destination countries in this case were not the EU, like with inward FDI, but the former Yugoslav republics (63%). China is playing a marginal role, although its stock is slowly rising.

In 2018, Slovenian investments in China amounted to EUR 58 million and Chinese direct investments in Slovenia EUR 357 million. Slovenian companies

110 All data are taken from the Bank of Slovenia, Direct Investment, 2020.

operating in China mainly come from the automotive, electrical and chemical industries, pharmaceuticals, footwear and textile industries, trade and transport.

Table 11: Slovenian foreign direct investment in/to China (EUR million)

Stock of FDI in Slovenia, Dec. 31 each year	2010	2015	2018	2019
Investing country				
Total	7,893	11,612	15,254	16,008
EU(-28)			12,806	13,226
China	-0.4	3.0	3.9 (0.02%)	4.3 (0.03%)

	2010	2015	2018	2019
Total all outward FDI	6,097	5,508	6,108	6,637
EU		2,330 (43%)	5,650 (4.8%)	6,119 (50.2%)
In China	14.4	35	56 (1%)	75 (1.1%)

Source: Bank of Slovenia, 2020, 39, 72.

Although FDI is a business activity, there may be some macroeconomic, even political considerations behind it as well. This is particularly the case with countries like China, where state sector and state interventionism are still very strong (see Ch.s 2.4. and 2.7.). This may imply that such FDI is not only market-driven but might also be politically induced. In relation to Slovenia, the underlying strategy might be the diversification of economic ties away from the very high European dependence. Second, it may be grasping opportunities in the fast-growing market so as to become the locomotive of the global growth economy. In relation to China, macro-economic and political considerations include »jumping« into the EU markets through Slovenia, especially by using the Port of Koper, or acquiring the airport at Maribor (which however it turned out to be a failure), as a springboard into the EU. In such a way, China has also obtained insights and influence concerning what is going on within the EU. Moreover, its investment in infrastructure may be regarded as part of China's flag ship project the Belt and Road Initiative.

In terms of micro-economic motives, Chinese investment in Slovenian industry does not depart much from its general motives for investing in Europe[111]; gaining knowledge, getting access to technology and trademarks. Such motives are combined with EU-market-seeking strategies.

111 Major motives being access to modern technology and know-how, but in view of BRI also to infrastructure.

Slovenian investments in China are surprisingly extremely small compared to both the FDI made by other EU members (see above) and because it started well before Slovenia had become an independent state (see Ch.s 3 and 4). The main initial motives for investing in China were to exploit the low labour costs locally and to import such labour-intensive products back to Slovenia. This was combined with the idea of overcoming the low quality of local semi-finished products or raw materials to be exported later to Slovenia and built into final products for export to European markets. In some cases, entering the local market by direct presence was the only way of obtaining access to it due to China's policy stimulating spill over effects from foreign firms. In a few cases of semi-finished products, suppliers to large multinational companies operating in China entered the market in order to move closer to their 'customers' building their product into, say cars ('induced internationalisation'). Suppliers to the German car industry are very prominent in Slovenia. Such firms have realised that the only way to stay competitive globally or even to stay in business as a supplier is to follow German or other auto makers, including into the Chinese market. Some firms were dissatisfied with the quality of local products and thus entered into joint ventures (JV) with them or bought local producers in order to ensure control over the quality.

Getting access to the huge local market was the next motive. Firms were also clever in selecting the right form of investments, from wholly-owned to joint ventures. In several cases, these forms have also changed over time as demanded by experience or learning by doing. S. Petrič, the general manager of Kolektor, clearly posited in his book: »If you enter the Chinese market by a greenfield investment, you will have troubles from the beginning, if opt for a joint venture(JV), later« (Petrič, 2016, 296). This was precisely why Kolektor disinvested from a certain JV in China, while keeping on a wholly-owned one. Another businessman complained that it is almost impossible to win legal proceedings in China. However, after 8 years he was forced to correct himself, claiming to have already won the legal proceedings, thereby showing how rapidly things are changing in China.

Despite all the long-term, deep-rooted motives to invest, Slovenian investments in China are well below what other countries are doing in China which is, after the USA, the number 2 location for FDI around the world. More than 30 Slovenian companies have, as estimated by the Embassy of the Republic of Slovenia, representative offices companies operating in China in the fields of automotive, electro, chemical, footwear, textile, trade, and transport.[112] A survey by Ivančič (2016) revealed that only a few of the respondent firms had established a subsidi-

112 The list of investors in China is available here http://www.sloexport.si/en/search?MenuID=278&repcountry=China.

ary in China. The majority of them were importing from China (48%), exporting (24%) and the remaining 28% had representative offices and subsidiaries of different types there. These include Le-tehnika[113], Gorenje[114], Domel[115], Etol, Cablex, Letrika, Kolektor, Krka[116], Cosylab[117] and others[118].

The main activities of Slovenian companies in the Chinese market are the production of footwear, products and semi products for the thermoplastics electronics and electromechanical industry, products and components for the automotive industry, sales promotion and market operations, support for the purchasing activities of the parent company etc. Duol signed with the China National Sports Group a contract on exclusive representation/agency for the Chinese market and a pre-agreement on the construction of a temporary infrastructure object for the winter Olympic games in Beijing in 2022 (valued at approximately EUR 25 million; see Maselj, Čeh, 2017). Iskra Avoelektrika, later Letrika, entered the Chinese market in 2012 (Iskra Suzhou) and is now building a new factory there. It is estimated that Slovenian firms in China employ around 40 foreign workers and more than 1,600 Chinese.

Chinese FDI in Slovenia, although growing, is also very modest, in fact it is so small that the Bank of Slovenia does not report it among the four most important

113 It was the first wholly-owned company (Sinoslo Technology) established by a Slovenian company in 2002.

114 In 2017, Gorenje opened 15 new sales salons (Gorenje, 2019).

115 Also entering the local market in 2005 in order to get closer to its suppliers like Philips, Electrolux and Rowenta.

116 Krka and its Chinese partner Ningbo Menovo Pharmaceutical set up the joint venture Ningbo Krka Menovo Pharmaceutical in 2017. Krka holds a 60% stake in the new company. Its initial capital will total EUR 30 million. The joint venture will also make products for Europe and Krka's other markets. In 2021 a new drug is going to be launched for a Chinese market (Pregabalin) and more are in the process of registration. KRKA's CEO Colarič is projecting China to become in the next 5 years one among the most important markets. The objective is to produce and register there as many products as possible. Before Krka, another pharmaceutical firm called Lek was active in China. After being taken over by Novartis, this aspect of Lek's activity in China was terminated.

117 According to M. Pleško, the general manager and owner, Cosylab gained a larger deal in the treatment of cancer with proton therapy and so was able to employ in its own company there a top team of seven Chinese. The Chinese now have fewer than five proton centres, yet wish to have 70 in the next 5 years. »With our software we can shorten their entry to the market from five to two years« (see Bertoncelj 2018).

118 Due to data confidentiality, it is impossible to include a comprehensive list of such ventures. In addition to some of the companies mentioned above, there were also: Alpina, Unior, EURO PLUS engineering, Cablex, Gostol.

Asian investing countries[119]. Nevertheless, in Slovenia, around 110 companies with 100% Chinese ownership and about 23 companies with mixed ownership (including Chinese) have invested in Slovenia[120]. Most of these are restaurants (27), followed by trading companies (26) and consulting (15).

This lagging behind in investment cooperation is surprising given the fast growth of Chinese investment in Europe generally. Chinese investments have targeted the flagships of European industry (such as Pirelli in 2015) and key strategic interests (like the robot manufacturer KUKA (USD 5 billion by China's Midea Group) and already 14 European ports with a majority stake in 6 of them). This has led to a sudden awakening among Europeans that the entire Single Market may be weakened by the lack of coordination and failure to anticipate the acccumulated impact of Chinese investments (see Fabry, 2019).

Chinese outward FDI in Slovenia is also modest compared to that other CEECs. Of all FDI in this region, Slovenia has attracted just 0.3%. Obviously, the motives for Chinese investment in CEE vary somewhat from those in other EU countries, where the driving motive is access to knowledge/technology. Among CEECs, only Estonia, Macedonia, Latvia and Montenegro are hosting less Chinese FDI than Slovenia. Such FDI is more than 100 times higher in Hungary alone (and in Poland over 60 times). Chinese investment in Slovenia constitutes only 50% of the FDI in Croatia and less than that in Bosnia and Herzegovina and Albania by way of comparison (see Istenič 2018, 5 and HKTDC 2016). Their share in total outward FDI nevertheless grew from an extremely low 0.3% in 2012 (having appeared for the first time in 2002) to a still very low 0.8% in 2016 or EUR 11 million (Bank of Slovenia, 2017, 19). This level is almost four times smaller than Slovenia's FDI in China. The situation is in practice a little better because some investments are not registered as Chinese since they are undertaken by Chinese firms located in other countries or are Slovenian companies located abroad.

Chinese investors believe Slovenia is very attractive due to its strategic location and well-educated workforce. Their investments in Slovenia are typically strategic,

119 But we should also consider that some of these investments are not registered as coming from China since Chinese companies acquiring Slovenian ones are not located in China but in other countries (for instance, the takeover of Outfit 7 for USD 1 billion). The situation is nevertheless changing after the major takeover of Gorenje by the Chinese company Hisense in 2018 for about EUR 300 million (see later).

120 See the list found at Sloexport Search.

they wish to acquire new modern technology and knowledge[121]. Some cases are presented below[122]:

- The biggest Chinese FDI in Slovenia is the purchase of Outfit 7[123] from Slovenian owners for USD 1 billion by the United Luck Consortium, yet after 4 days sold to Zhejiang Jinke Peroxide[124], after the acquisition with new name Zhejiang Jinke Culture Industry.
- Hinsense took over the household appliances manufacturer Gorenje, becoming the second-largest Chinese investment in Slovenia.[125]
- The investment in the Slovenian high-tech company Elaphe[126] (producing in-wheel electric motors).
- A joint venture with Pipistrel d.o.o. Ajdovščina, a Slovenian light-aircraft manufacturer, was announced. After almost 15 years' experience dealing with the Chinese, a contract was signed for the production of advanced light aircraft. The original idea of a simultaneous JV investment by the Chinese firm Sino in Pipistrel in Slovenia later collapsed due to opposition to Chinese co-ownership in Pipistrel in Slovenia, yet a EUR 350 million deal is underway with another partner in China.

121 The only different examples are the investment in DINOS (although waste processing is also becoming quite technology-intensive), Javna razsvetljava, and Airport Maribor.

122 If not otherwise stated, data according to Finance, 2018 (22–23).

123 The company best known for having created the media application and franchise *Talking Tom and Friends*, which have been downloaded over 8 billion times.

124 A Chinese firm located in Cyprus.

125 In May 2019, Hisense announced its takeover bid for Gorenje, offering EUR 12 per share, which valued the company at about EUR 293 million. Hisense acquired 62.5% of all issued Gorenje shares. By July 2018, it has acquired over 95% of Gorenje shares. The new owner plans to make Gorenje a research, development and production centre for the company in Europe. The new facility – a television plant – adjacent to the current Gorenje complex at the end of 2020 while Gorenje Valjevo will expand its production and construction of additional production halls to become the cooling centre of the Hisense Group in Europe. Parallel to the ownership changes, organisational ones also started. In March 2019, Gorenje was transformed from a joint-stock company into a limited liability company in order to simplify its corporate governance and pave the way for more efficient management and decision-making within the Group, with a view to reaping the synergies with Hisense and cutting its operating expenses. Some of Gorenje sales companies abroad are already being integrated with Hisense's sales companies. As a result of the business transformation and restructuring, merging of functions, thereby decreasing the number of management levels, and business optimisation, the number of employees in support services of the Group has decreased as part of its reorganisation and business optimisation process.

126 According to the agreement, Zhejiang Asia-Pacific Mechanical & Electronic APG will become a 20% owner of the Slovenian company and strengthen it with EUR 10 million of fresh capital (Delo, 2015). This cooperation is strategically important in view of the big long-term strategies of Chinese automakers: boosting exports of cars, particularly electric ones, to Europe.

- TAM Europe: TAM Durabus, a Chinese-Dutch JV, re-launched bus production in the city of Maribor in the spring of 2013, specialising in the production of electrical busses. The company is however not in good shape and producing losses, although the general manager is optimistic about the future.
- Fotona, also a hi-tech producer (laser technology), was bought from the Slovenian state by the two American firms Gores Group and Technology4Medicine in 2014 only to be sold 3 years later to the Chinese financial fund Agic Capital. The company is very successful, increasing its profits. In 2017, it took over two sales companies and set up the subsidiary Fotona China, after the USA being the second-most important market.
- Arctur, offering supercomputer services, also has a Chinese co-owner.
- Acies Bio, a biotechnology firm, is 22% (EUR 5 million) in Chinese hands (Desano, a generic pharmaceutical firm) and is operating profitably.
- Huawei is also present in Slovenia with a small company that employs just one person.
- The China-Central and Eastern Europe Investment Cooperation Fund and the China-CEE Fund spent EUR 22 million in 2016 to obtain an 84.1% share in Javna razsvetljava (lighting, signalisation, engineering and electricity production) that is still operating at a loss.
- Maribor airport, the second-largest airport in Slovenia, was purchased by SHS Aviation for EUR 7 million and was also obliged to pay an additional EUR 100,000 concession fee each month, a condition it struggled to meet in the last quarter of 2018. It is not operating profitably[127].
- DINOS (waste processing) was bought by the Chinese firm Chiho Tiande Group, specialising in prefabricating waste, from the original German owners (Scholz) that was facing a severe crisis. Under the new ownership, Dinos has started to operate profitably.

The experiences of investors from both sides clearly show that:
- it is fruitful to ensure two-way, reciprocal (investment) cooperation; Chinese firms in Slovenia and Slovenian firms with the same partners in China. Cases

127 In January 2019, SHS Aviation terminated its 15-year concession of the airport, less than 2 years after taking it over in March 2017. Despite not delivering on most of what it promised, including transforming Maribor Airport into a hub for Chinese tourists, the operator expressed its unhappiness with delays by the central government in adopting a zoning plan, which would allow it to begin its massive EUR 660 million airport redevelopment project (extending the airport track and expanding the airport with other facilities so the airport could accept intercontinental flights), which was not very welcomed by the local population (https://www.vecer.com/negotova-usoda-mariborskega-letalisca-6689511).

of such cooperation are (Pipistrel[128], Arctur[129], Elaphe[130]). In such a way, particularly suitable for Hi-Tech firms providing modern technology or developing it together with Chinese partners, two objectives can be achieved: expansion within the Chinese market by Slovenian firms and enhancing exports to the EU or global markets generally by Chinese firms.

- Concentrating cooperation in specific niches, particularly Hi-Tech, is the best for smaller Slovenian firms unable to compete on economies of either scale or scope.

If the intention is to attract more of such investments, one must first consider that they are an instrument of China's economic transformation leading to more consumption-based growth and higher value-added industries, including technology and services. Second, it is necessary to try to find a balance between Chinese outward investment motives[131] and the interest of Slovenia on the other side.

4.7. SOME PROBLEMS AND HOW TO OVERCOME THEM

Slovenian firms cooperating with China claim that entering the Chinese market is harder (64%) than doing business in other markets. This implies that firms are facing more problems there. These include poor competitiveness, a lack of financial resources (for investments), cultural and language barriers, and a lack

128 Later, the co-ownership in Pipistrel collapsed.

129 This high-technology firm active in high-performance computing can also promote Hi-Tech goods exports from China to Europe, holding exclusive export rights for Europe.

130 The leading firms producing in-wheel electric motors which are considered as the future in electric cars?

131 Their motives for investing in Europe are, according to Seaman et al. (2017, 9-11), to:

- *Acquire technology, to include established high-tech assets, emerging technologies and know-how;*
- *Access the European market, for Chinese goods and services;*
- *Access to third markets via European corporate networks, especially in Latin*
- *America and Africa;*
- *Acquire brand names to improve the marketability of Chinese products both abroad and for the Chinese market;*
- *Integrate regional and global value chains in production, knowledge and transport;*
- *Enter a stable legal, regulatory and political environment, particularly in the context of global disruption and political uncertainty;*
- *Seek political/diplomatic influence in a region that in aggregate terms remains the second-largest economy after the USA.*

of trust[132]. Finally, firms have also run into problems after poor preparations to enter the Chinese market. Quite a number of them reported they did not consult anybody prior to entering that market (see Ivančič 2016, 61, 65, 70).

On the macro economic and political levels, the problems related to China–CEE cooperation, of which Slovenia forms part, were listed by Istenič (2018) as follows:

- »Chinese investment in CEE will raise Beijing's ability to wield political influence over the decision-making process in the EU. It will »divide« the CEE from the rest of the EU due to states' competition to attract Chinese investment, which might significantly affect the EU's unity and coherence and weaken the European leverage vis-à-vis China on matters of strategic importance.
- Chinese acquisition of key/strategic industries critical to a nation's economic growth and international competitiveness, may endanger the national security of the individual CEE country in question.
- Levels of borrowing from China might become unsustainable as the expected benefits and economic viability of projects are uncertain.
- Trade imbalances with China and the lack of investment reciprocity due to limited access to the Chinese market are creating uncertainty and may bring serious challenges in the future. An open EU and thus Slovenian market has not been met by the same openness on the Chinese side, which applies a less transparent, selective FDI channelling approach to some strategic sectors«.

Some of these concerns are also relevant for the Slovenia–China relationship. The danger of key strategic industries being acquired is less relevant, perhaps except for the Port of Koper and the related railway. Almost no money is borrowed money from China in Slovenia and the nonexistence of any Chinese bank in the country[133] means that its future potential is also very low. Trade and investment imbalances may be a problem, but it is up to Slovenian companies to enhance their competitiveness, including in sectors that respond to the evolving new demands of Chinese consumers and promote trilateral cooperation with large multinationals operating in China so as to overcome the barrier of smallness and thereby

132 Interestingly, the language problem was given the same rating by firms having employees mastering Mandarin Chinese and those lacking such cadre. Language barriers may gradually decrease since knowledge of Mandarin has been improving quite rapidly in Slovenia (the role of the Sinology Department at the Faculty of Arts and many courses by the Confucius Institute at the Faculty of Economics).

133 The presence of such a bank could stimulate bilateral cooperation such as membership in the Asian Infrastructural Investment Bank (AIIB) of which Slovenia is not a member even though 21 EU member countries are (including all CEECs, except Slovenia and Croatia). According to Lipušček (interview), "it is impossible to develop strategic cooperation with China not being a member of AIIB".

narrow the imbalances. Trilateral cooperation with some large EU member countries that enjoy strong cooperation with China, particularly given that Slovenian companies are important suppliers of semi products particularly to German firms in the automotive sector, is another, insufficiently utilised opportunity.

In spite of the quite fast growth of trade and investment cooperation with China in the last two decades, such cooperation seems not to be grasping all of the opportunities brought by China's growing importance in the global economy and even, perhaps, to be lagging behind efforts on the political/institutional level. Slovenia has not grabbed the chance to attract more Chinese investments despite of their spectacular growth in the past decade or so, nor the opportunity to enhance its exports to China as a crisis-exit instrument. Lastly, there is also lagging behind in the opportunities presented by regional programmes of the EU like the EU SME Centre Peking[134] relevant to most Slovenian firms since even the largest ones are small on the global or Chinese scale. It provides a comprehensive range of cost-free hands-on support free services to SMEs, assisting them to establish, develop and maintain commercial activities in the Chinese market. By offering support with the provision of information, confidential advice, networking events and training, the EU SME Centre focuses on the crucial early stages of SMEs' market penetration strategy.

The China IPR SME Helpdesk, also under the auspices of the European Commission, provides practical information and once again cost-free assistance to European companies in protecting and enforcing intellectual property rights in China and could also be used more in the promotion of bilateral cooperation.

China remains one of the most problematic countries in terms of local market protectionism, human rights, intellectual property protection/theft[135]. Therefore, Slovenian companies must be alert and safeguard their interests and follow EU policies in this regard (more on intellectual property developments in China, see Ch.s 2.7.3 and 2.7.5.).

Slovenian companies can also use the services of Eurochambres, the association of 43 European Chambers of Commerce that was founded in 1958. Under its auspices, several programmes are in place to support European companies in

134 See http://www.ealink.eu/business-support/partners/eu-sms-centre.

135 Negative effects at the European level of cyber theft of trade secrets could amount to about EUR 60 billion in lost economic growth, resulting in the loss of competitiveness, jobs and reduced R&D investments. More specifically, 289,000 jobs could be at risk in 2018 in Europe and 1 million jobs could be at risk by 2025 (PWC, 2018, 11).

penetrating foreign markets. Membership of Slovenian companies in such an organisation could prove very instrumental for facilitating cooperation.

Potential is also held by the EU–China co-funding mechanism for research and innovation, an overarching research framework arrangement. China is becoming increasingly strong in many technologies, making it necessary to increasingly address cooperation as a *two-way game*. Slovenian companies might invest in advanced Chinese innovation centres/companies also to learn from them.

There are several explanations for Slovenia lagging behind in cooperation with China compared to some other EU members. On one hand, there are objective factors like the Slovenian economy's small size and comparatively small size of its firms. A further factor is the large geographical and cultural distance and historically strong European leaning towards international political and economic cooperation. On the other hand, several subjective explanations and biases are preventing any expansion of future cooperation. The first is the lack of knowledge about China in general, associated with the distance problem and Slovenians' 'smallness/inferiority complex'[136] where they view themselves as a small country with many limitations preventing closer cooperation with such a big country as China is. A survey among managers and graduate students showed that managers rated their knowledge about Chinese culture (together with Indian) the lowest. Not surprisingly, they regarded improving such knowledge as the most important way of avoiding mistakes in business relationships (Kralj and Svetličič, 2017, 262–263). Enterprises still lack the knowledge and skills to successfully overcome all of the risks entailed in international operations. They are increasingly aware of different mindsets and have started to articulate the need to learn and understand the background of the Chinese tradition. The different philosophical frameworks between China and the West are reflected in their distinct approaches to managing relations with the outside world (Lajčiak, 2017). Understanding institutional change and the ongoing transition in China is not only becoming a crucial challenge for theory makers and business strategists but enterprises as well. Slovenian enterprises, although used to transition, (still) have to learn a lot about doing business with China (Polajžer & Turk, 2013; Ivančič, 2009).

China is still typically seen as a less developed economy, with citizens only able to afford cheaper products. The size of the middle class (for more, see Ch. 5.) and

136 It is less and less a problem for the new generation of managers/entrepreneurs who are gaining much more self-confidence also accumulated through their global mind-sets and better training.

particularly the large size of the very rich Chinese is underestimated[137]. Their consumption patterns are more and more like to be those of more affluent European or American. Firms also do not take into consideration the advantages of an origin in Europe since »Made in the EU« is very appealing in China. Chinese firms like to cooperate with Europeans in order to boost their sales at home in the local market. While firms have become better informed, even here many stereotypes exist regarding China as a less reliable partner, producing goods of lower quality, being at a lower level of technology development, with low health safety/environmental standards that in turn make Chinese products less reliable for Slovenian customers.

The public image still holds the traditional biases and is unable to of technology perceive the sea changes in China's innovations and technology sector, although China remains behind the USA in the technology sector[138]. Such attitudes are partly due to the persisting stereotypes and insufficient knowledge of Mandarin Chinese in particular, although several firms active in China do have experts who speak Mandarin.[139] There is also a fear that in any cooperation with the Chinese they would insist on their ways of doing things, management styles, and standards which do not match those in Europe. Firms are entering into cooperation inadequately prepared. They lack knowledge about their Chinese partners and their subcontractors. It is not infrequently that final contract execution depends not on the firm with which one signs a contract, but one of several subcontractors in the whole chain. The last in the chain to execute the contract is paid much less and hence the performance is not up to the desired standards (interview with Tanja Drobnič, SPIRIT Slovenia).

To properly promote cooperation with countries like China, a lot of time, money and human resources must be invested. This is particularly a problem for SMEs lacking in capital and human resources. In response, a manual was prepared by the Slovenian Chamber of Industry and Commerce on how to do business with China (see Polajžer and Turk 2013).

> *Success does not come overnight, but conclusion of the deal cannot be expected in less than a year. Trust is crucial; therefore, it is necessary to visit partners in China. Deals cannot be made over a distance without personal contacts. It is not enough to send*

137 There were 373 billionaires in China in 2017 according to Forbes. Available at https://www.forbes.com/billionaires/#753e5500251c.

138 According to The Economist, it is 42% less technological powerful than the USA (only 15% in 2012), but it is catching up fast. At the present pace, China's tech industry will be at parity with America's in 10–15 years (17 February 2018, 61).

139 Among 75 companies surveyed, up to 60% of larger enterprises employ those who know Mandarin (Ivančič, 2016, 55).

> *salesmen to China, the company director must travel there to establish a relationship. Sending a salesman might be interpreted as underestimating the Chinese partner and underestimating the relationship. It is important to rely on agents (implementation of the quanxi principle; see Ch. 8 for details on overcoming cross-cultural problems) and, finally, top management must conduct the biggest negotiations. This builds confidence and may lead to other doors being opened. Many in Slovenia see huge potential in the Chinese market, but are not prepared to invest either time or money, let alone acquire the numerous certificates and foreign trade licences required. There is a lot of bureaucracy in China. Corruption has been a major problem, although it has been decreasing in recent times. This concerns the bribery of government officials and it is under the jurisdiction of local mediators that accelerate the decisions of government agencies. Slovenian companies not do usually deal with them directly. When one is seriously in business with the Chinese, it is necessary to have a local interpreter. More and more decision-makers on the Chinese side understand English, yet only a handful says language is a barrier* (ibid., 2013).

Chinese firms also encounter problems while operating in Slovenia. One is payment discipline and the judicial system. The country's favourable geographic position including the Port of Koper alone are not enough to convince Chinese capital. Chinese partners have observed a significant deterioration in payment discipline and considerable mistrust among business partners in the past 5 years in Slovenia. Some Slovenian suppliers even require payments in advance for goods that are ordered, even though all payment terms are longer than 1 month (see Kos, 2014).

»Large Chinese diasporas in some of the CEE states offer China not only a higher motivation for its OFDI but also present an important vehicle for utilising China's public diplomacy. Migrants of Chinese origin can promote Chinese culture and lobby for China's political and economic interests within host states« (Wong and Tan, 2017: 1–12). While no reliable data can be found on the exact number of Chinese in any particular CEE country, it is estimated that the majority, namely 15–20,000, live in Hungary, with about 14,000 in Romania, 8,000 in Poland, 6,000 in the Czech Republic, 5,000 in Bulgaria, 2,000 each in Serbia and Slovakia, and less in other CEE countries. In Serbia, the Chinese were warmly received during Miloševič's regime, welcoming up to 50,000 in 2000 (Nyíri, 2011: 247, 249). In contrast, in Slovenia they number only around 1,000 (Maselj and Čeh, 2017, 3)[140]. Such diaspora can stimulate cooperation, yet its soft power influence might also be negative. The majority of Hungarians are opposed to Chinese immigration, similar to Poles. CEE citizens distrust the Chinese regime, have different perceptions of human rights, and disapprove of China's behaviour towards Tibet and

140 The number of residents of Slovenia holding Chinese citizenship in the period 1996–2009 increased from 103 in 1996 to 806 in 2009 (Bofulin, 2016, 28).

Taiwan. They are also increasingly concerned about Chinese investments in the energy sector, the limited transparency of Chinese-funded projects, allegations of illicit payments and blurry environmental impacts (Darby, 2016; Makocki and Nechev, 2017).

Another problem is that Slovenian companies are not paying sufficient attention to the macro political/economic plans China is making for its future development. This led the Chinese ambassador in Slovenia to suggest to those companies wishing to explore the Chinese market or attract Chinese investment to pay close attention to China's national economic development plan for 2016– 2020 (currently for 2021–2025, added by SM). It will help such companies share the steering wheel guiding China's future development. This refers to the development concept of »Innovation, Coordination, Green Development, Opening Up and Sharing«, along with the action plan »Made in China 2025« and »Internet+«, which show that the Internet, ocean and green economy are becoming key development points (see Interview with H.E. YE Hao, Ambassador of the People's Republic of China in Slovenia in Fister, 2016).

5. FUTURE POTENTIAL FOR ECONOMIC COOPERATION BETWEEN SLOVENIA AND CHINA

In view of the tectonic changes in the global economy, in the future the Slovenia–China relationship must be designed more strategically, taking account of potential transformations of the global economy/system and China's changing role within that. A long-term visionary approach is needed, along with the suggestion by Gros et al. »that Europe should take a more pro-active approach vis-à-vis China, which is bound to become not only the largest world economy but also the most important trade partner for Europe« (2013, 113).

In short, Slovenia should gain substantially from the elevating the importance of relations with China in the future. Now, Slovenia is lagging behind EU average shares of total extra EU import from and export to China. This should also be considered while designing Slovenian development policies. One way of looking at this question is to see the present situation, the share of exports and imports in total Slovenia exports and imports as compared to:

- the share of China in world GDP; and
- its shares in global trade.

Regarding GDP, huge difference exists: China's share in global GDP in 2017 was 11.9% (in PPP 23.1%) while it absorbed only 1.12% of Slovenia's exports. In terms of China's merchandise imports, its share in global imports has grown spectacularly from 0.9% in 1973 to 10.2% [141] in 2017 (WTO, 2016; 93 and WTO, 2018, 19). In such a way, China is approaching the USA as the largest importer in the world (13.4%), followed by the EU-28 (14.8%; http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods#). Slovenia's exports to China are thus lagging well behind the import absorption capacity of China. If Slovenia wishes to more proactively grasp China's import absorption capacity, exports to China should rise substantially. The future projections further reinforce the above conclusion. China is expected to have the biggest share in global GDP soon (for

141 China's share in the global import of services is also high at 11.7%, following the EU-28 (20.1% and the USA 13.1% (WTO, 2018, 22).

more, see Ch. 2). The international trade projections make such an increase in exports to China even more urgent.

Table 12: Shares of world exports and imports of all goods and services by countries/ groups, 2004–2030 (in %)

	Exports		Imports	
	2004	2030	2004	2030
China	6.7	19.6	5.7	12.1
W. Europe	42.3	26.3	42.5	31.0

Source: Derived from the GTAP Model Results (see Anderson and Strutt, 2011, 28).

In view of China's recent strategy on »domestic circulation« that emphasises domestic consumption as a major driver of growth, stimulating FDI in China is becoming extra important in order to grasp such increasing domestic demand with local market operations.

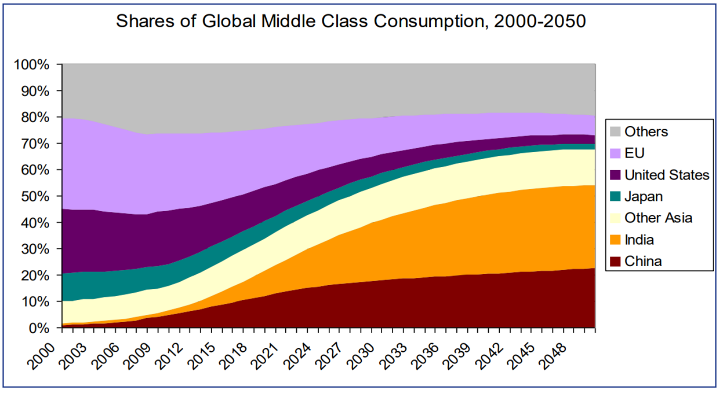
The second relevant consideration is where will future consumption be coming from. It has been forecasted that in 2030 developing countries will constitute 50% of global consumption (without China 35%; Lund et al., 2019). The emerging-market middle class as the major source of consumption – defined as households with a daily expenditure of USD 10–100 per person at PPP – is projected to double its share of global consumption from one-third to two-thirds by 2050. Its will grow in size from 1.8 billion in 2009 to 3.2 billion by 2020 and 4.9 billion by 2030[142]. The bulk of this growth will come from Asia: by 2030, Asia will represent 66% of the global middle-class population and 59% of middle-class consumption, compared to 28% and 23%, respectively, in 2009 (Pezzini 2012).

What also makes it interesting for business is that it is the most rapidly growing segment of consumption. In terms of consumption expenditure, by 2030 China and India will have by far the biggest middle classes in the world, while the middle class in the USA will be ranked third in terms of its consumption power, followed by Indonesia, which does not even rank in the top 10 today (NIC, 2012). Europe and North America's share of global middle-class consumption is expected to fall from 64% in 2009 to 30% in 2030. By contrast, the share in consumption of the

142 Projections by the World Data Lab are even more optimistic, predicting that the middle class could reach some 4 billion people by the end of 2020 and 5.3 billion people by 2030. The middle-class markets in China and India in 2030 will account for USD 14.1 trillion and USD 12.3 trillion, respectively, comparable in size to the USA's middle-class market at that time of USD 15.9 trillion (Kharas et al., 2018).

Asia-Pacific middle class is estimated to rise from 23% to 59% over the same period. Some estimates see middle-class consumption in North America and Europe rising by only 0.6% a year over the next couple of decades (Gros et al., 2013, 74).

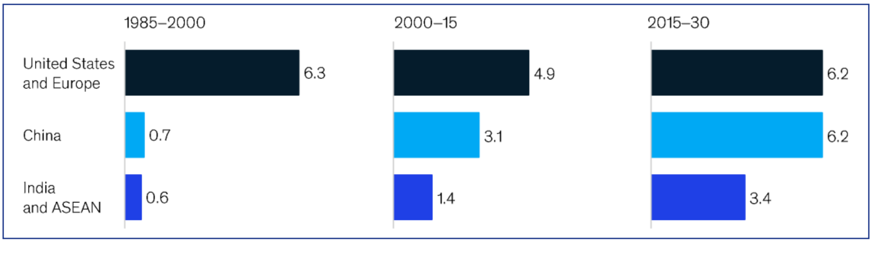
Figure 38: Shares of global middle class projections, 2000–2050



Source: Kharas and Hamel, 2010, 29.

Today, on the other hand, the majority of consumption by the global middle class is accounted by the EU and the USA (approximately 35% while China's middle class share is only 10%). In 2000, Asia (excluding Japan) only accounted for 10% of global middle-class spending. By 2040, this could reach 40% and it might continue to rise to almost 60% in the long term (Kharas, 2010, 28). If this is what future consumption is to look like, then the share of Slovenia's exports to China in total exports must increase substantially to get at least a very small slice of the newly emerging consumer cake. The Asian middle class will namely be one of the biggest drivers of global economic growth.

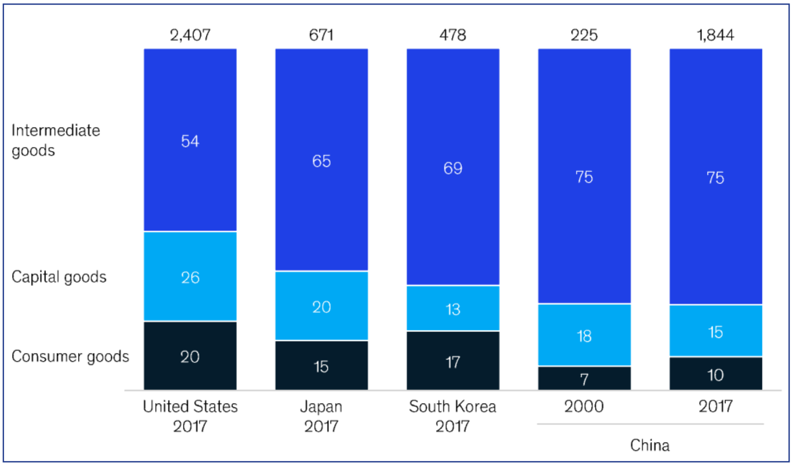
Figure 39: China's consumption growth over the next 15 years might be comparable with that of the USA and Western Europe (incremental growth in consumption, USD trillion, constant 2016 prices)



Source: McKinsey, 2019c, 115.

Nevertheless, at the moment China consumes fewer imported consumer goods than developed countries, meaning there is great untapped potential in the future to increase the country's consumption of imported goods. But by 2030, the Chinese working-age population will account for 12 cents in every dollar of urban consumption worldwide (Manyika et al., 2020).

Figure 40: Despite fast-growing private consumption, China imports fewer consumer goods than developed economies do (%; USD billion)



Source: McKinsey, 2019c, 116.

We tend to forget that the Chinese are consuming more and more luxury goods. According to the China Luxury Report 2019 (McKinsey, 2019b), Chinese consumers are set to contribute almost two-thirds of the global growth in luxury spending. China delivered over half the global growth seen in luxury spending between 2012 and 2018, and is expected to deliver 65% of the world's additional spending heading into 2025. Also by that year, Chinese consumers' expenditure is anticipated to almost double to USD 179 billion. China is expected to be responsible for 65% of the world's luxury spending by 2025 when 40% of such spending will be made by Chinese consumers. The majority of them, around 70% in fact, will be doing their luxury spending overseas, a result of their increasing affinity for outbound travel and the price differential arising from China's import tax regime and pricing policies of the country's own brands'.

The next major challenge is to catch opportunities at the right time. The biggest problem in the past was that the potential held by bilateral trade and investment were discovered only quite late, too late if one wishes to benefit from first-mover advantages, which often prove to be very useful.[143] Latecomers get the 'crumbs that fall off the table'.

Despite the spectacular growth enjoyed by the Chinese economy in the last four decades, Slovenia–China economic relations, even if growing fast over the last decade:

- are lagging well behind potential, which is surprising in view of the historically very early connections (already in the 18th century) and leading role Slovenia had in the cooperation with China during the days of Yugoslavia;
- have not been given appropriate attention as a high priority in Slovenia's foreign policy orientation due to it being preoccupied by joining the EU and NATO and first getting away and then returning to the Balkans. Even after BRICS was established, when 'all of the world' sought to stimulate cooperation with China, Slovenia still did not have it a major priority for economic cooperation;
- have not been relied on as a form of crisis-exit instrument, noting that during the financial crisis the Chinese economy survived almost without any 'bruises';
- are also lagging behind Slovenia's very strong international economic involvement since the share of trade in GDP is over 146% while the share of exports to China in total exports is just around 1% (imports 3%);
- are particularly lagging in cooperation with regard to both inward and outward FDI, especially given the very strong internationalisation of Chinese firms in the global and recently particularly the EU market and being the number 2 country in inward FDI in the world. There are also vast possibilities in developing global value chains with Chinese firms or others in, say, triangular cooperation. FDI is important because much trade is actually induced by earlier investment cooperation or based on GVCs which might also be investment-based;
- have missed the time to grasp the advantages of being a first-mover in the Chinese market so as to at least partly reduce the shortcomings of small firms and a small economy; and
- have insufficiently utilised the opportunities offered by the 17+1 initiative due to an approach that may be described as too little, too late, and not proactive enough.

143 »Anyone who has been with the Chinese up to now is treated better or at least as equal. Soon the Chinese will not be looking at those who will take too long to deal with that giant market, or offer lower quality goods than the Chinese can produce themselves, *from above*« (M. Pleško, director and co-founder of Cosylab).

The reasons for these lags or missed opportunities are:

- the lack of geostrategic political wisdom in finding the right place in the present restructuring of the global powers, while also following the interests of Slovenia as a member of the EU and its *bloody* national economic interests »rather than wavering amateurishly between influential centers of power and colliding in latter with the interests of powerful forces« (see Kovač, 2020, 35);
- general attitudinal barriers and stereotypes regarding China, which is mostly seen as a less developed, technologically underdeveloped country whose consumers are hence less demanding. These stereotypical attitudes have recently started to change as part of a friendlier climate for cooperation, yet have again deteriorated during the pandemic;
- the lack of knowledge about China's development in the last decades due to the large geographical and cross-cultural distance (macro political/economic and firm level);
- the dominant orientation towards Europe given that the major political goal after independence was to join both the EU and NATO. Along the way, it was forgotten that the necessary internationalisation of a small open economy demands »walking on two legs«, both European and global (Svetličič, 1993);
- objective factors, like i) Slovenian companies' inferior competitiveness compared to their technologically more advanced multinational rivals from Western countries; and ii) the mix of a small economy and small firms creates a barrier to cooperation with such a large market as China's; and
- not least the fears held by Slovenians that the Chinese might come to dominate certain infrastructure objects in Slovenia (port, railway) if allowed to build them.

The promotion of bilateral cooperation is another instrument of the diversification needed in economic ties, currently firmly linked to the EU. By strengthening economic cooperation with China, Slovenia can reduce its EU dependence and thereby may become more resilient. Still, it is important to be aware that with China good political relations are a first step in any successful economic cooperation. It holds greater weight than most other countries.

This makes it crucial to be able to find the right place among today's *mixing of the powerful cards* on the global geostrategic map, to be able to maintain the correct balance between the interests of Slovenia and those of China. As B. Kovač nicely expressed in his magazine column, »Slovenia used to have a better understanding of non-alignment and economic equidistance, when and how to protect its own interests so as not to harm others. We obviously can't do that anymore today. / …/ In 2016, we left China in front of the Port of Koper, in 2020 without hesitation we followed the interests of the USA to clumsily stop Huawei's 5G. /…/ and stopped Chinese firms from bidding for construction of the second track. None of the above was necessary. Therefore, the current moves will not be without consequences. The port will probably shed jobs, Gorenje may lose in its development, Slovenian companies in China will face restrictions« (Kovač, 2020, 35).

The signing of the Joint Declaration with USA on 5th-generation Internet technology in August 2020, inter alia stipulating that suppliers and their suppliers must be scrutinised will act as a substantial barrier against cooperation with China's Huawei. It implies, among others, the transparency of their ownership, respect for intellectual property rights and whether they are bound by legislation requiring transparency of corporate governance. It in fact keeps Huawei out of the 5G market in Slovenia, which will directly worsen Slovenia relations with China and probably also hurt Slovenia economic interests[144]. Prime Minister Janša's betting on the election win by Donald Trump is implicitly supporting his tough policy on China. Not congratulating President Elect Joe Biden, even insulting him, claiming him as the weakest US president, would substantially deteriorate long-term relations with the USA and indirectly also with China by damaging Slovenia's image/reputation in the EU and in the world in general. Siding with illiberal democracies (Hungary and Poland) is only adding to this.

To conclude: enhancing economic and political cooperation with China must be one of Slovenia's top priorities in the future. Not simply because of its growing role economically but also politically in view of the changing power structure in the world with China well on its way to assuming a leading role in the future. Neglecting this would hurt Slovenia's national interests in the long run and its resilience to unexpected external shocks, that is so strongly EU dependent.

144 *Huawei's exclusion from the list of potential providers of 5G equipment is expected to have at least three major impacts on the Slovenian economy:*

1. *Impact on increased 5G investment costs due to limited competition,*
2. *Impact on the slowdown of the 5G rollout due to the increased investment costs leading to an increased share of the population left without access to a 5G network,*
3. *Impact on the loss of productivity and permanent loss in GDP due to a slower rollout of the 5G network.*

Our calculations show that restricting competition in the 5G infrastructure equipment will lead to an overall increase in building the national 5G network in the range of between EUR 18 million and EUR 57 million in the period 2021–2026. In our central cost scenario, which assumes an increase in equipment costs by 13.3%, restricted competition will lead to a total increase in capex for all telecom services providers by more than EUR 37 million as opposed to the baseline scenario. Translated to euros, lower economic growth due to delays in the 5G rollout and the associated slower technological growth reduces GDP by between EUR 220 million and EUR 460 million in 2030. Cumulatively, GDP losses over the period 2021–2030 will be in the range of EUR 1.7 billion to EUR 3.7 billion (Damijan et al., 2020).

6. THE 17+1 INITIATIVE

6.1. GENERAL FRAMEWORK

The 16+1 scheme is an initiative of the People's Republic of China aimed at intensifying and expanding cooperation with 11 EU member states and 5 Balkan countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia). The initiative was inaugurated by the first 16+1 Summit held in Warsaw, Poland, in 2012. The original 16+1 changed to 17+1 when Greece joined at the Dubrovnik meeting in 2019. It is regarded by the Chinese as »one of the most important achievements« (Tianping, 2017) and has in fact been integrated into the One Belt One Road Initiative (BRI or OBOR[145]), China's big long-term strategy for materialising China's advantages in the world. In a way, it may be regarded as an early step in its efforts to connect the Port of Piraeus acquired by the Chinese firms COSCO via Macedonia to the proposed high-speed rail link running between Belgrade and Budapest, and to then direct it into the Western side of the continent.

The scheme may be regarded as a way for the former socialist countries to become more familiar with the Chinese, which is vital if they are to overcome the region's pervious ignorance[146]. Establishment of the 16+1 scheme has begun to change this

145 It aims to facilitate economic development in a vast region covering sub-regions in Asia, Europe and Africa and to promote greater integration among the 60-plus countries along the Belt and Road (Huang, 2016). CEECs that provide a strategic link between Asia and Western Europe are vital to the success of the BRI (HKTDC, 2016, p. 2, in Jaklič & Svetličič, 2019).

146 Central and Eastern Europe has long been absent from the Chinese going out strategy. The CEE countries remain unknown, if not mysterious, among most Chinese elites. Most Chinese businesses are only vaguely aware of the existence of (let alone the vast differences among) the 16 CEE countries (…). This neglect has started to change in early 2010s with the introduction of 1+16 formula in Warsaw in 2012, supposed to become a kind of foothold in the European Union – China has been »trying to parlay its economic heft into bigger diplomatic influence in Europe, especially in cash-strapped states in the east and southeast« (Johnston, 2016). The CEE region has also been considered as a place to improve China's image – buying political goodwill is one of Beijing's unstated purposes (Turcsányi, Matura, Fürst, 2014, pp. 127–141).

weaker starting position. The CEE region has also been considered as a place to improve China's image (Turcsányi, Matura, Fürst, 2014, pp. 127–141).

The 17+1 scheme covers the fields of infrastructure[147], transportation and logistics, trade, investment, finance, science, education, and culture. As part of the initiative, China has defined three potential priority areas for economic cooperation: infrastructure, high technologies, and green technologies. It »provides promising opportunities for both China and Europe. CEECs had enthusiastically embraced this form of cooperation as a chance to diversify their EU-focused economic relations and strengthen the resilience of their economies to 'next' crises«.

»Strengthening Sino-CEECs co-operation and connectivity is also conducive to the successful implementation of the OBOR, which aims to facilitate and promote greater integration among the 60-plus countries along the Belt and Road. CEECs, providing a strategic link between Asia and West Europe, are vital to the success of the OBOR« (HKTDC, 2016, 2). This initiative somewhat resembles the movement of non-aligned countries because countries with different ideologies and political systems are to be involved. Its focus is on constructing infrastructure projects aimed at linking China and Europe through many other Asian states. It may also be regarded as another instrument for the expansion of China's soft power[148] (see Ch. 2.2.).and at the same time an infrastructural vehicle for China further economic expansion towards the West. In any case it is extremely ambitious threat/opportunity dichotomy project. If realized as planned it could be real game changer in the world economy.

However, it is now facing some difficulties in the implementation stage. Firstly, pandemic has negative influence on it realization. Recent Boston University (BU) research is showing that a sharp drop in Chinese overseas policy bank lending has fuelled speculation that BRI may be fading away. The slowdown in BRI activity is real: China's outbound lending has been in decline since 2016. However, the numbers do not reflect the changes underway in China's ambitious initiative (Mingey et al., 2021). Secondly, concerns/fears about Chinese economic and political influence among countries among the silk road are growing. Some countries have already faced inability to repay the huge credits provided by China, bringing them in a political dependency situation. It has again demonstrated that economic dependency which can be brought about by private FDI, as some say, is much less a threat involving and hurting only the concerned company, that macro political dependency as a result of country not in a position to repay huge debts. It gave

147 They are mainly carried out by Chinese companies, financed by Chinese loans.

148 See the report on Chinese soft power; McGiffert, 2009.

other partner countries or potential partners to think about the viability of such very ambitious project at the time of crises which affects the global implementation of the initiative. Some are therefore accusing China of debt trap diplomacy, or even neo-colonial aspirations while other see it as the *main game in town*. There is opportunity/threat' bifurcation in perceptions of the BRI, translating into two contrasting theoretical explanations: either as a neo-Gramscian counter hegemony based on South-South cooperation[149] or an offensive mercantilist form of debt trap diplomacy. In either case it represents a major challenge to the existing liberal international order based on the hegemony of the West (see Garlick, 2020).

China's main objective in boosting its relationship with CEE countries is probably to enhance its relations with the EU. »Some Central and Eastern European countries reiterated their ability to serve as China's gateway to markets in the EU, the world's largest economic bloc[150]« (Tianping, 2017). Extreme views would claim the 17+1 scheme might »undermine the European integration process by turning the CEE countries into a 'Trojan horses'«[151] and by sowing division on the continent. It is based on the fact that Central and Eastern European countries hold diverging views on China's presence and influence in Europe. Some have even demanded that China adopt a »One Europe« policy just like the EU supports the »One China« policy. The fear is that the '17+1' is threatening the EU's one-voice strategy in its relationship with both China and the Western Balkan membership 'candidate' countries, with the impact on the EU's internal political dynamics and the process of new CEE members catching up in their economic development

149 China wish to position itself as the leader of the global South. This aim is not original; during the Cold War, China sought to portray itself as a champion of what was then called the Third World (Mitter, 2021).

150 It is not anymore because the Regional Comprehensive Economic Partnership (RCEP) agreement, signed in November 2020 by 10 Southeast Asian countries and South Korea, China, Japan, Australia and New Zealand, became the largest become the largest preferential trade agreement by economic output in the world, with the potential to increase trade and integration among the economies of East Asia The pact is seen as an extension of China's influence in the region.

151 The Economist even reports that Czech President Zeman wants his country to be *China's unsinkable aircraft-carrier* in Europe. Faced with such behaviour, it is only prudent for Europeans to be nervous (The Economist, 2018, Oct. 6, 11). Manifestation of such a role can also include the appointments of David Cameron, former British prime minister as adviser to a Chinese investment fund, Jean-Pierre Raffarin, former prime minister of France as the director of a Chinese manufacturing firm, and Philipp Rösler, Germany's former vice-chancellor becoming the boss of the charitable wing of a large Chinese conglomerate. China Energy (CEFC) hired various influential Czechs: Jaroslav Tvrdik, a former defence minister, who became vice-chairman of its European operations; Stefan Fule, previously a European Commissioner, joined its supervisory board; Jakub Kulhanek, a one-time deputy minister at the Foreign Ministry, joined as a consultant (The Economist 6.10. 2018, 18–19).

with the 'old' EU member states. This culminated in early March 2019, just as President Xi Jinping was embarking for his trip to Italy, in an official proclamation issued by the European Commission that for the first-time labelled China a »systemic rival« of the EU. The voting behaviour of some states already demonstrates this influence[152]. Every vote, including that of Slovenia, or other CEECs in Brussels, have been in support of the Chinese. However, »it would be a mistake to attribute too much grand strategy to its actions«, as some do,[153] warns the CEECs Economist (Oct. 6.2018, 18). Still, China's EU policy may be regarded as an attempt to enforce its doctrine of Confucianism aimed at maintaining balance and harmony; keeping a low profile while quietly achieving something.

Coming from a big country, the Chinese think big and prefer to deal with larger countries or groupings of smaller ones. Therefore, they regard the CEEC partners in 17+1 on one hand as a homogeneous group, which it is not [154], and on the other take different approaches to different countries (groups). Despite the appearance of a unified strategy on CEE, the »17+1 cooperation initiative seems very much a bottom-up approach and in fact consists of a patchwork of different kinds of bilateral relationships and projects« (Vangeli, 2017). With some CEE countries, China is developing more of strategic relationship (Hungary, Poland, Czech Republic, Serbia) while others are more in the nature of pragmatic, project-based relationships. Among countries of the Western Balkans, Serbia in particular has sought to employ its increasing political and economic links with China as it pits itself against the EU and great powers. There is obviously a big difference among the Western Balkan countries when it comes to cooperation with China, with Serbia evidently being China's preferred partner.

Although 17+1 seems to be a multilateral scheme, it is basically only a framework for facilitating bilateral cooperation. »China much prefers to deal with states one-on-one, where its size advantage is greater. It's annual '17+1' summits with

152 Greece stopped the EU from criticising China's human rights record at a UN forum. Hungary and Greece prevented the EU from backing a court ruling against China's expansive territorial claims in the South China Sea. In 2016, Hungary and Greece prevented the EU from joining America and Australia in backing the Permanent Court of Arbitration's ruling in favour of the Philippines over China in a dispute over maritime borders in the South China Sea (The Economist, 6.10.2018, 18).

153 Some Europeans see China as playing four-dimensional chess to divide and conquer the Continent (The Economist, 6.10.2018, 18).

154 The approach to non-members is quite specific (Serbia for instance). Some participants in the scheme are mainly seeking loans or Chinese investments while for Slovenia it is more important to ensure some »projects, issues« appear on the priority lists of the provinces. The latter facilitate the participation of Slovenian firms in such projects.

central and eastern European states, are really 16 one-plus-one summits, where each government deals with China on its own terms« (The Economist, 2018, Oct. 6., 18). The 17+1 scheme »resembles the Forum on China-Africa Cooperation (FOCAC) created in 2000. Like FOCAC, and despite their multilateral-sounding names, most business is actually transacted bilaterally, and summits are largely venues for strings of bilateral meetings between Chinese officials and leaders from participating countries. But the CEECs have basically discarded such an 'African approach'. CEECs expect a cash influx into the region[155], which also reflects the willingness of countries in the region to engage with China, perhaps also out of a desire to increase their own leverage with, and within, the EU itself (see Godement & Vasselier 2017, 64).

Most CEE countries also have no clear China strategy and, even if they do, they do not coordinate with each other. Huge differences may be seen among CEECs. They all have their own agendas. For one, there are EU members and those aspiring to be. Apart from this, there are vast differences in the development level and structure of their economies. As a result, the 17+1 economic cooperation is mainly driven by China. China sets the agenda (see Szunomar et al., 2020, 56). The approach to non-members is, for instance, quite specific (Serbia for example). Some participants in the scheme are mainly looking for loans or Chinese investments while for Slovenia it is more important to ensure some 'projects, issues' end up on the priority lists of the provinces, where the latter facilitate the participation of Slovenian firms in such projects.

Policies on Huawei and G5 is another factor of differentiation among the 17+1 member countries and their relations with China. Slovenia and Slovakia signed with the USA a Joint Declaration on 5th-generation Internet technology in August 2020, reaffirming America's commitment to keep untrusted vendors out of critical infrastructure, as did Estonia, Latvia, Poland, and Romania[156] already in 2019. Yet, it seems that Huawei will not be completely excluded from the Polish market. Still, Slovakia and the Czech Republic have not signed such a declaration. The Czech government will most likely follow Germany's approach. Prime Minister Babis clearly stated: »We are a sovereign country and will decide for ourselves what to do with our nuclear plant & Huawei. Hungarian MFA already

155 Since 2013, China has been repeating the same pledge for a USD 10 billion (now USD 11 billion) credit line and, in 2015, a USD 3 billion investment fund. Although the 16 CEE countries would prefer to receive Chinese cash by way of investment, Chinese state companies overwhelmingly prefer loans issued on their own terms, and in fact above EU market rates (see Godement & Vasselier 2017, 66 and 70).

156 Huawei has already announced it will challenge the legality of the 5G bans in Poland, Romania and might also do so in other countries.

announced in November 2019 that Huawei would build its 5G wireless network. Other countries in the region are, less committed. Serbia has been cooperating with Huawei for a long time. Representatives of Serbia have stated they have no concerns regarding Huawei, are satisfied with their cooperation and that it will be further developed« (see Szunomar et al. 2020, 51 and Huawei: Banned and Permitted in Which Countries? List and FAQ – Page 2 of 3 – ChannelE2E).

The '17+1' has brought about a change in China's relations with the EU, basically supporting the country's core strategic interests accompanied by both great expectations and concerns. China might well utilise the scheme for political gains. Some CEECs have reiterated their ability to serve as China's gateway to markets in the EU, the world's largest economic bloc. »Not surprisingly EU has the lukewarm and reserved stance of the EU towards the 17+1 China–CEE cooperation« (Turcsányi, 2014), which seems to be only partly connected to OBOR (Raškovič, 2018, 1).

China's influence in the CEE region is attracting increasing attention. Some even go as far as to claim »there is no question that the 17+1 scheme is part of a broader *divide and rule* Chinese policy (see Godement & Vasselier, 2017, 65). The number of new 'friends' of the '17+1' (like Portugal after 2018) is likely to increase in the future, along with it also China's influence. Others claim that »while European concerns over China's political objectives are justified[157], there is little evidence thus far of a strategic attempt on China's part to 'divide' CEE off from the rest of the EU (Hellström 2016; Pepe, 2017) or to wage a cold war against USA (according to M. Collins from the CIA).

On one side one finds those fearing Chinese acquisitions of firms with cutting edge technologies in Europe's most advanced economies, such as Germany and France. In 2017, a full quarter of China's outbound FDI was destined for Europe. From German robot manufacturers, to British nuclear power plants, to Greek ports. Chinese investment was welcomed by many as a scarce source of capital in the region. More recently, as China has stepped up promotion of its BRI, with Europe as its final destination, ever greater flows of investment in Eurasian connectivity are on offer. Others have centred on Chinese investments in transportation

157 There are two main concerns. The first is that China may intensify its efforts to use its influence-building in Central and Eastern Europe to frustrate aspects of the EU's common China policy. The second is that some 17+1 countries may exploit strong ties with China to buttress their negotiating positions against Brussels, such dynamics could undermine Brussels' effectiveness in the often-fractious relations with its second-largest trading partner. The third concern is that China's push for guaranteed contracts for its companies will undermine the EU's single market rules on public procurement.

infrastructure in southern and eastern Europe. Such investment in Europe allows it greater levels of influence in the region, not only economically but also politically. However, Ferchen et al. (2018, iv) posit »that concerns about China's ability to 'divide and rule' the EU as a result of the influence gained from greater investment are premature and potentially misleading and should not be exaggerated«. Instead, their study paints a more nuanced picture about the often-fuzzy line between the commercial rationale behind individual projects and the mix of Chinese and host-country political calculations about the political or strategic benefits tied to Chinese investments and loans. In all of our cases, there is a distinguishable commercial basis or interest in the Chinese investment or loan package, albeit a basis that is sometimes misjudged (by either China or the host country). They were namely »unable to conclude that Chinese investments and loans for these infrastructure projects clearly led to a quid pro quo political influence, let alone forms of strategic capture of European local or national governments« (ibid., 2018, v). The Economist also thinks that »Europe thus needs to take a path that avoids the extremes of naivety and hostility« (6. Oct. 2018, 11), which has hitherto been a characteristic of public opinion. The general trend of a positive mood in public opinion on China has shifted and become more hostile (Grant & Barysch, 2008). Public opinion polls reveal the low reputation held by China in Europe, rejecting both the *demonisation and partnership* and the opinion shift from »China taking over Europe« to »China saving Europe« (Shambaugh, 2013).

Discussions on the effects of cooperation and calls for a more balanced trade and reciprocity of market access emerged (among CEECs, the EU and observers), more intensively after the 2018 Sofia Summit.

It can nevertheless be concluded that it is in China's interest to maintain the region's stability in order to fulfil its own economic interests«. Beijing was also quick to realise that successful implementation of projects in the 17+1 framework would require the EU's endorsement and compliance with the EU regulations. For that reason, the 2014 Belgrade Guidelines pledged that all 11 EU members would act »in accordance with EU legislation, regulations and policies,« whereas the EU–China Connectivity Platform initiated in September 2015 and the Riga Declaration issued at the last 17+1 summit held in November 2016 recognise the need to finding synergy between CEE–China and EU–China relations (see Istenič, 2017, 13). Yet the practice of countries leveraging their diplomacy to win funding for projects, with the Chinese partner examining the projects put to it in terms of the rules that come with EU membership – and in the near future with being an accession candidate – have proved to be a much harder nut to crack.

Despite these concerns, in the 7 years of its existence the 17+1 cooperation platform has become a valuable economic and political instrument in support of

China's interests in Europe. Political cooperation and institution-building with CEECs have moved ahead at a remarkable pace. Before Covid 19 they have been more intensive than with any other region. The regular frequency of the '17+1' summits have been accompanied by several lower-level gatherings, sectoral coordination mechanisms across CEE and local cooperation between CEECs and Chinese cities and provinces. However, the general assessment after 5 years of its existence is often summarised as »hot politics, but cold economics« (Turcsanyi, 2017). The 16 CEE post-communist states have become essential partners for facilitating the construction of China's flagship project. Ever since the first 16+1 summit held in 2012, the CEECs have gained more weight in China's policy on Europe (Istenič, 2018, 1). The somewhat artificial group of 16 CEECs seems to be the least prepared and the most confused as concerns the myriad initiatives and mechanisms surrounding China's activities in Europe (see Góralczyk, 2017).

6.2. ECONOMIC COOPERATION TRENDS

China's economic engagement with the region has thus far lagged far behind its promises[158], although the trade of the 17+1 group of countries with China has increased since 2002 very rapidly. In general, trade relations between the 17+1 and China remain relatively low and unbalanced, leading to a rising trade deficit in all 17 countries. The shares of such trade with China are still very small and trade is quite lopsided. There is also a strong concentration on a few large countries (Poland, Czech Republic). Their trade has risen much faster than trade with the Western Balkan countries, apart from Serbia, which has dramatically increased its imports from China. The intensity of trade varies from country to country: Greece and Romania are China's most important trade partners from the Balkan region, for both imports and exports, followed by Slovenia, Serbia and Bulgaria as additional important import partners. Bulgaria, Slovenia and Croatia are the most important exporters. China is one of the three main trading partners of the three

158 There is a sense of disappointment within CEE countries about future engagement with China under the mechanism. CEE countries are increasingly dissatisfied with the outcome of their economic engagement with China and also have qualms about the 17+1 initiative in general. What was once Beijing's pivot to Europe is being met with scepticism about the future of the framework because of its slow results. China's manoeuvres in the region are now increasingly being viewed as merely symbolic, with the pandemic only adding to its woes. The ninth summit between China and the Central and Eastern European countries, scheduled to be held in the first half of 2020 in Beijing, was postponed (it was held in February 2021; add. by SM) indefinitely in the wake of the Covid 19 pandemic. As host, China has hoped to upgrade the economic cooperation and shape its relations with countries from the region (see Gupta, 2020).

Balkan countries of Albania, Montenegro and Serbia. All 10 Balkan countries run a trade deficit with China, with Romania leading the group, with an enormous USD 4.425 billion in trade deficit, followed by Greece (USD 3.177 billion) and Serbia (USD 2.075 billion). The increase in Chinese imports since 2012 is the highest in the case of Serbia and Montenegro (94% and 80%, respectively), followed by Bosnia and Herzegovina, Albania, Bulgaria, and Serbia (all around 50% to 60%) and Slovenia, North Macedonia, and Greece (around 40%). In Croatia, Chinese imports even dropped by 36% during the period, potentially due to the decline in purchases of Chinese textile-related products, mainly footwear and apparel (see Szunomar, 2020, 38).

The structure of CEE exports is characterised by higher value-added products in the case of the Visegrad region, Lithuania and Estonia, while the Chinese export baskets for most Balkan countries – except for Slovenia, Croatia and Romania – comprise low value-added products and/or a few raw materials (Szunomar, 2020, 38 and 56).

The USA–China trade war might disrupt trade in many sectors. It might lead to cooperation being upgraded to a higher level as part of America's reorientation of its trade and other economic cooperation to other countries, which can step into fill the void left by China. »Tariffs tend to shift trade more than they reduce it and, as importers in China and the US look for alternative suppliers, new opportunities will open up for exporters in third-party markets« (EIU, 2018, 2). On the other hand, exporter of parts to China will be hurt by the cuts made to China's exports to the USA. Although this region will neither be the main beneficiary nor the loser of this reorientation, it might still gain some of the *crumbs that fall off the table as China leaves* and other countries can step in. The Economist Intelligence Unit (EIU) calculated the biggest beneficiaries will be the region of Malesia and Vietnam[159], less so India, Indonesia and Thailand (information and communications technology field). Thailand will join Malesia as the main beneficiary in the automotive industry along with India, Malaysia, the Philippines and Vietnam. On the other hand, Bangladesh, Vietnam and India appear to be the main beneficiaries of the readymade garment industry, together with Sri Lanka and Pakistan (see EIU, 2018). Apart from readymade garments, CEECs have chances to enter the automotive and less so the IT and communications sector. Still, there is another side. Negative impacts will mainly be felt in Asia, but might also hit the CEE economies that particularly export to China parts for the automotive industry, although mainly indirectly via Germany. The

159 Relocation of some industries from China to poorer Asian countries is not totally new, having started already some years ago parallel to the rise of wages in China.

hardest hit will however be exporters in Japan, S. Korea, Singapore and Taiwan (automotive sector), with the Philippines joining the group in the IT and communications sector (see EIU, 2018). It is still not possible to say what the net effect will be, but it is certain that much depends on proactive policies of the countries concerned.

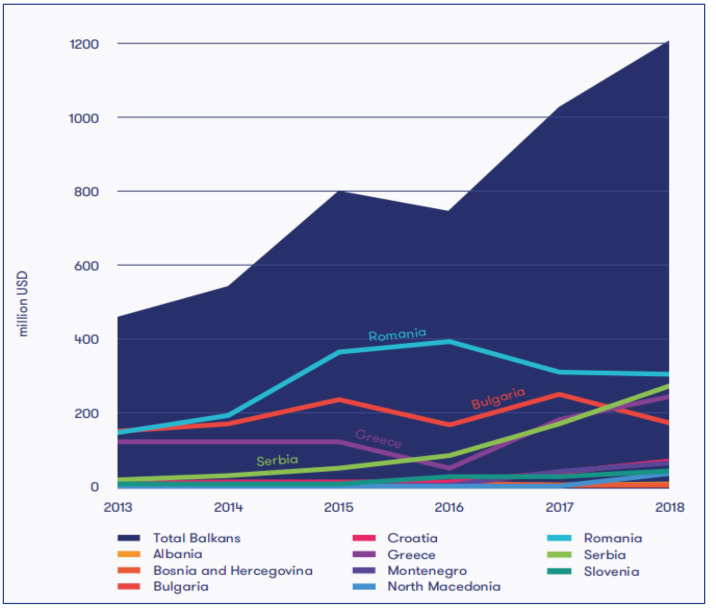
Only a small share of the Chinese FDI projects in Europe have landed in CEE. Despite the 17+1 initiative, Eastern European member states have not attracted any substantial FDI from China. The region is still failing to draw any significant M&A activity from Chinese investors, and accounts for only 1.5% of all Chinese investment in the EU (see Figures 24, 25). Slovenia and Cyprus have attracted the least Chinese FDI.

China's investments in the region are primarily guided by its interest within BRI to better connect to the EU market with new intermodal transport channels as time- and cost-saving alternatives to the existing longer ones. Chinese firms have tended to invest more along the »Belt and Road« route after the BRI was launched (Kang et al., 2018a; Jaklic & Svetlicic, 2019, 88). This means it is not surprising that cooperation in the investment field has not been overly promising.

Apart from being modest in size, Chinese FDI is concentrated in a few countries. Like with trade relations, CEE countries host Chinese FDI to varying degrees: the four Visegrad countries receive more than 75% of total Chinese OFDI to the 17 CEECs, while the other 13 countries – often despite slight increases – have not received significant amounts of Chinese FDI flows thus far (Szunomar et al. 2020, 42). The favourite destinations for FDI in CEECs in 2016 were Poland, the Czech Republic and Romania, in contrast to Hungary, Slovakia and Lithuania that saw negative flows in this period, but large FDI inflows before the economic crisis. »The main beneficiaries of Chinese investment are Poland, the Czech Republic and Hungary. There is a fairly valid reason to believe that a crisis in the EU can potentially provoke 'competition among the '16' for China's attention« (Burjanadze, 2017). China was not among the top 5 foreign investors in any of these 16 countries. Recently, Romania has attracted much more by way of investment, while Slovenia has been a very marginal partner.

Infrastructure projects – financed with Chinese loans – are being negotiated all over the region but non-EU countries among the 17+1 scheme seem to be more open to using this opportunity while EU member countries are more reserved in this regard. Although financial cooperation is gaining momentum, it is currently limited to EU members. Slovenia is also here lagging well behind here (see the list of projects under implementation or negotiation, Table 1 in Szunomar et al. 2020, 49).

Figure 41: Chinese FDI stock in the Balkans (in USD million)



Source: Szunomar et al., 2020, 44.

»Despite last year's announcement of a EUR 10 billion investment fund for infrastructure projects in Central and Eastern Europe, most Chinese investment in Europe have chiefly been directed to Europe's four largest countries towards the West: the United Kingdom, Germany, Italy, and France« (Poggetti 2017).

To conclude: it seems the new geopolitical developments[160] and altered EU policy on China (strategic, rival, strategic autonomy) will also affect the direction of the China–CEEC 17+1 scheme. It will certainly be repositioned and adjusted in the new context of China–USA–EU trilateral relations.

6.3. SLOVENIA IN THE 17+1 SCHEME

Slovenia is not one of the bigger partners in the scheme. Oehler-Şincai (2017, 13) differentiate four groups with respect to the position of a country in the EU and its attitude to cooperation intensity within the '17+1' format:

160 The changes are expected with the new US Administration related to trade war and the Huawei 5G policy and general US–China rivalry for world primacy.

- Active participants ('champions', 'leaders') include the Czech Republic, Hungary, Poland and Serbia. All are Eurosceptic and all are China's strategic partners.
- Ambitious partners include Bulgaria, Latvia, North Macedonia, Romania and Slovenia. Most are Euro-optimists or Euro-moderates (apart from Bulgaria, which is Eurosceptic)
- Followers include Croatia, Estonia, Lithuania and Slovakia. These countries are known as Euro-optimists or Euro-moderates.
- Laggards refer to Albania, Bosnia-Herzegovina and Montenegro, known as Euro-optimists/Euro-moderates.

A more in depth look at results of the 17+1 scheme does not provide strong support for Oehler-Şincai's claim that Slovenia is an ambitious partner. In the comprehensive division of labour developed within the group, with each country concentrating on a specific field, Slovenia does not have a prominent role and results on the ground have so far not met the expectations in general.

Table 13: 16+1 institutionalisation progress

Established institutions	Year	Country
Business Council	2014	Poland
Secretariat for Investment Promotion	2014	Poland
New Silk Road Institute (NSRIP)	2015	Czech Republic
Centre for Dialogue and Cooperation on Energy Projects	2016	Romania
Regional Centre of the China National Tourism Administration	2016	Hungary
Coordination Mechanism on Forestry Cooperation	2016	Slovenia
Association for the Promotion of Agricultural Cooperation	2017	Bulgaria
China–CEE Institute	2017	Hungary
CEE Federation of Chinese Medicine Societies	2017	Hungary
Virtual "16+1 Cooperation" Technology Transfer Centre	2017	Slovakia
Secretariat on Logistics Cooperation and Virtual Information Platform	2017	Latvia
Secretariat for Maritime Issues	2017	Poland
Association on Transport and Infrastructure Cooperation	TBA	Serbia
Cultural Cooperation Coordination Centre	TBA	North Macedonia
Inter-Bank Association	TBA	Hungary
Small and Medium-sized Enterprises (SMEs) Association	TBA	Croatia
Veterinary Science Cooperation Centre	TBA	BiH
Environmental Protection Association	TBA	Montenegro

Source: updated Istenič, 2017.

Slovenia has selected the field of forestry that is not such a promising or important field in the short run[161] compared to, say, logistics which is definitely strategically important for China as it considers European markets, investments or tourism. At the 8th summit in Dubrovnik in 2019, Slovenia added to forestry cooperation in the field of cultural and creative industries; more precisely, to host the 5th China–CEEC Cultural and Creative Industries Forum in 2020. During the 2021 meeting of the group, Slovenia assumed coordination mechanism for winter sports.

161 But in the long term it is important in view of the pressing ecological problems China is facing and the role of forests in improving the environment. Slovenian experiences and the expertise of its universities and institutes might prove very useful in this regard.

7. HOW TO PROMOTE FUTURE BILATERAL COOPERATION?

The first general starting point for enhancing bilateral cooperation with China is to realise that China has substantially changed and continues to do so every day. Companies and governments must acknowledge that China is no longer our production site as was believed at the beginning of China's opening up but is developing into an innovation and technology, knowledge developing site. The situation is now totally different: China is producing and innovating, and every day innovating more and more. China is not any more a producer of traditional, standardised, more labour-intensive products[162], but becoming a leader in many technology- and science-intensive products, gradually transforming itself from an imitator to a trendsetter. As M. Roll, perhaps over-optimistically in the short term at least, claims: »The West will gradually move into the role as adjusting partner instead of trendsetter. Trends will continue to emerge from Asia. Asia will build more global iconic brands and in such a way export its Way of Life« (Roll, 2019) and in thereby enhance its soft power.

Therefore, bilateral cooperation must be restructured to take this into account. The second mistake one can make while approaching China is to treat it as a totally uniform country. »China is a large and heterogeneous market which makes talking about Chinese consumers a task which is fraught with dangers and risks of overgeneralizations. For every consumer trend you see, there is an opposite, though not necessarily and equal, trend[163]/... /« Ashok (2019) adds that, »Successfully selling to the Chinese means getting to know their consumers and entrepreneurs. The enormous differences exist between the city and the village, between the rich and the poor, and the middle class is segmented by consumers. Stereotyping Chinese as poor is deadly wrong. There is a lot of very rich people«.

162 They increasingly outsource such production to neighbouring Asian countries.

163 For instance: Chinese consumers are becoming more health-conscious but at the same time Western junk food restaurants have been opening at a phenomenal rate. Similarly, we can say that Chinese consumers are becoming Westernized, as seen in the adoption of Western food or customs (Chinese brides have white gowns, they have started to celebrate Christmas, although they are mostly atheists, and Valentine's Day). On the other hand, there is a resurgence of interest in traditional Chinese culture (see Ashok, 2019).

> *Just a decade ago, most urban Chinese had enough money to cover basic needs like food, clothes, and housing (92 percent had annual household disposable incomes of 140,000 renminbi or less). Today, half are living in relatively well-to-do households (annual disposable incomes of 140,000 renminbi to 300,000 renminbi) where they have ample funds for perks like regular meals out, beauty products, flat-screen TVs, and holiday travel. Most rural Chinese, on the other hand, remain relatively poorer. The urban consumers are now the main driver of the Chinese economy, with their spending accounting for more than 60% of GDP growth. Across the globe, Chinese consumer spending represented 31% of household consumption growth from 2010 to 2017. Now, 10 years into this expansion, consumer behavior is shifting, and we see a bifurcation among Chinese consumers. On one hand, a segment of consumers in lower-tier cities continues spending money freely without any worry about cost or saving for the future. Other consumers, though, mostly in large, expensive cities such as Beijing, Guangzhou, and Shanghai are responding to the dip in China's economic growth and the increased cost of urban living by adjusting their attitudes and, in some cases, their spending* (Ho et al., 2019, 4–5).

The above-mentioned McKinsey report based on a survey conducted between May and July 2019 of 5,400 respondents from 44 cities, representing approximately 90% of China's GDP and half of its population, revealed the following 5 major consumer trends[164]:

Source: Ho et al., 2020, 5.

164 For details see: China consumer report 2020: The many faces of the Chinese consumer (mckinsey.com)

The most important conclusion is that young free spenders account for 60% of total spending growth, yet constitute just 25% of the population (2018 over 2017). Second, major consumption is coming from large cities and the consumers there are much more cautious about what they buy; 60% of consumers in large cities said they always check the ingredient labels for packaged food for instance. Third, consumers are changing their lifestyle; 72% of survey respondents told us they were actively seeking a healthier lifestyle.

> To conclude: *Chinese consumers are responding in distinct ways to the country's current economic uncertainty and slowing growth. Some continue to spend freely and seek out more expensive options, while others have grown more discerning and are tightening their belts. But for the large majority of consumers in our survey, there is a consistent story. These consumers remain confident and will collectively represent an economic powerhouse for the foreseeable future* (Ho et al., 2019, 19).

Much earlier research (see McEwen et al., 2005) already indicated the beginnings of such trends, demonstrating that:

- that the consumer behaviour patterns of generations Y (18–24 years) and X (25–29 and 30–39) in China should not be thrown into the same basket as for Germany, the USA or Brazil. China's generation Y is becoming more demanding, highly information-educated, and open to Western ideas and Western culture. The past is hence a poor basis for predicting the future behaviour of consumers in China.
- Ten-year Gallup research reveals that Made in China does not mean more than it did in the past (as drop in preferences for locally made from 78 to 67% and even faster among young people).
- Chinese people are increasingly thinking about the quality of life, thinking about air conditioning, about satisfaction, and not just about how hard to work and become rich.
- The market for more demanding consumer durables is expanding quickly. Over 80% of Chinese people already have a TV at home, almost 60% a mobile phone, 50% a stereo system, over 30% a refrigerator and a microwave, 25% a computer, a video and a digital camera.

These structural changes are a result of the fast growth seen in China's GDP per capita between 2000 and 2018. It increased 9-fold to reach, according to the World Bank, USD 9,977 in current terms. Growth in PPP was slower, rising 4-fold to reach USD 15,309 in current international terms. But, of course, the benefits of such rapid growth are increasingly distributed unevenly among the population. Huge regional disparities are thus emerging and this explains why managers looking to cooperate with China must also consider this while looking for the best location for investments or business partners generally.

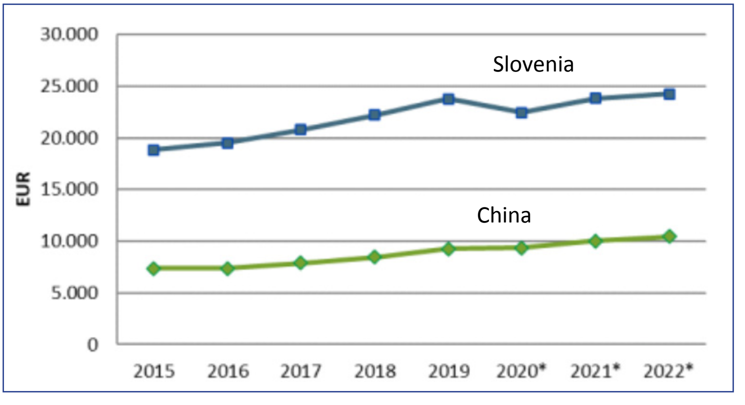
China is obviously catching up quickly but the gap between Slovenia and China in PPP terms is still vast, in spite of substantial convergence, especially after the GR in Slovenia that led to dropping growth rates.

Table 14: China and Slovenia GDP per capita PPP – forecast 2020–2022

Country	2020	2021	2022
China	16,450	17,700	18,210
Slovenia	35,000	37,500	38,800

Source: Trading Economics: https://tradingeconomics.com/forecast/gdp-per-capita-ppp.

Figure 42: Projections of Slovenia and China GDP per capita growth, 2000–2022 (PPP, EUR)



Source: SPIRIT izvozno okno: https://www.izvoznookno.si/drzave/kitajska/pregled-gospodarskih-gibanj/.

The gap between China and Slovenia's GDP per capita in current US dollars has narrowed substantially; from over 10-fold in 2000 to 2.6-fold in 2018 (only 2.5-fold in current US dollars). The gap has not narrowed as fast as the scenario (Svetličič and Sicherl, 2006, 706) predicted that China can, if the growth rate gap between China and Slovenia continues to be 4% to 5%, catch up to Slovenian GDP pc PPP by 2034 (4% difference in growth rates) or by 2028 at a difference of 5% in growth rates During the crisis that Slovenia faced between 2008 and 2015, the growth rate gap well exceeded 4%–5% but is now, parallel to the slowing down of China's growth rates, narrowing, but again increasing during the Covid 19 pandemic. Catching up is occurring, but now at a slower pace. Nevertheless, it is important to consider in bilateral relations that the consumer pattern of the Chinese is moving closer to that of the Slovenian consumer and to adjust the structure of foreign trade accordingly.

Second, it is essential to enhance the ability to respond to global tendencies and the role of China within them, as well as internal structural changes in China's economy. Delaying here might prove very costly. Alternatively, as established already many years ago: »Flexibility, rapid response to the tectonic changes in the world should become a fundamental challenge for the Slovenia development strategy. It is time to see where the world is sailing, and quickly, ideally, in advance, to respond to such tendencies. Reducing reaction time is the foundation of entrepreneurial 'time-based competitiveness', which can also be used on the state level. This is an old, yet insufficiently anchored finding (see Svetličič 1993, 34).

Third, many barriers and problems must be overcome in order to enrich such cooperation:

- The first is to geographically diversify economic relations, bringing them in line with the tectonic changes around the world in which China is becoming the number 1 player. Moreover, in a much longer perspective, Africa should also be included among the very long-term priorities. Some even have optimistically predicted that the 21st century will be the century of Africa. Covid has acted to insert *sand into such wheels*. Nevertheless, it is safe to say that Africa is underestimated, but holds huge potential. Africa's land area exceeds that of China, Europe and the USA combined (see Appendix 3).[165] China is one country which has really taken such a long-term perspective very seriously, strengthening its economic presence in Africa already for a long time. The country has invested in the future, obviously wanting to be the first if the market starts booming.
- Second, to develop a really comprehensive long-term strategy to locate the relations with China in focus within the framework of the new world's *geopolitics*

165 For more elaborated perspectives, also see Leke et al. (2018a, 4 and 8) who present a strategic guide to business in Africa based on interviews with 40 of the continent's most prominent executives and development leaders, case studies of thriving companies in sectors ranging from banking to technology to manufacturing, and proprietary McKinsey research. One of the respondents, the Ivorian-born CEO of Credit Suisse Thiam, posits that »You've got (in Africa, SM' remark) the demographic boom combined with GDP growth rates of 5 6, 7, or 8 percent. Companies that get in early and shape the right strategy can sustain double-digit profit growth over decades«, he adds, »There is an element of breaking ground, but the long-term rewards will be very high. /…. Africa is home to a consumer class whose spending outstrips India's, and it will soon have double the number of smartphone connections than North America«, However, the situation is changing after Covid 19.

in the making. It seems there is no strategic thinking in Slovenia regarding how relations with China are to be developed in the long run. Such a strategy should not only concentrate on China as such, but include priorities for cooperation by areas and provinces. Not the least with other Asian, densely-populated countries that are also developing very rapidly.

- Wherever possible or feasible, it is better to establish direct cooperation with Chinese partners rather than to work as suppliers to western multinational companies, or at least to attempt to work on both legs: suppliers and directly.
- In such a general framework, it is also time to rethink suppliers' networks. The Covid crisis and 'slowbalisation', to borrow The Economist's term to describe the globalisation backlash, are bringing about a fundamental restructuring of GVCs. Shoring in geographically-close locations in order to reduce the risks of doing business over a long distance will become more important. Geographically diversified[166] and regionalised, localised and more collaborative supply chains with critical suppliers will reduce exposure to location-specific shocks and make GVCs more reliable, less fragile and more self-sufficient by moving them closer to consumers and innovators (partial re-industrialisation of developed countries). Slovenian suppliers to EU companies dealing with China may become more attractive but Slovenian companies sourcing in China may encounter the challenge of reducing and diversifying such cooperation.
  Specifically, a European Parliament study (2020b, 30) listed the following priorities in GVCs' adaptations by (decreasing) order of relevance:
  - Increasing crisis modelling and contingency planning
  - Diversifying location
  - Relocating to the primary country of operation
  - Avoiding protectionism, institutions and nationalism
  - Relocating for political stability
  - Relocating for shared values
  - Relocating to the continent of the primary country of operation
  - Relocating for economic development
  - Relocating to places with an excellent Covid-19 response
  - Not changing anything

166 Excessive Euro centricity is bad as growth poles move to Asia and, perhaps in the long run, to Africa. Among UBS bank's 1,000-plus respondents, 76% of firms from America, 85% from north Asia (e.g. Japan and South Korea) and even 60% from China say they have already moved or plan to move some production away from China. Keith Parker of UBS estimates that companies might shift between 20% and 30% of their Chinese manufacturing capacity. That will not happen overnight, but it will chip away at China's dominance in manufacturing (The Economist, 2020, June 27, 59).

- A constituent part of such a strategy might also be the establishment of a consortium of Slovenian firms active or interested in cooperating with China over the long term. A coordinating approach like this could facilitate future cooperation, particularly of SMEs that lack their own competencies and capabilities.
- To strengthen political relations; China is a specific country in which good political relations on all levels (macro with the state, mezzo with the provinces, micro with agents first[167] and finally firms) are a *sine qua non* for successful long-term economic cooperation; all with a view to establishing the necessary QUANSHI (for more, see next Ch.).
- The precondition for better political and economic cooperation is also to break, or at least reduce, the attitudinal barriers and overcome the persisting economic and cultural stereotypes about China.
- Apart from Croatia, Slovenia is the only CEE country with access to the Adriatic Sea and is therefore as a Northern Adriatic gateway to the EU perhaps the most important comparative advantage to materialise. This also gives power to our negotiators, particularly since the Chinese deeply respect not only those with whom they share opinions but also those with different opinions but which possess, and are able to materialise, such powers.
- Slovenia should attempt to present itself as being different to other CEECs by more strongly offering its unique comparative and competitive advantages (including in science and technology) also based on its geographical position, which also makes it attractive to Chinese tourists.
- The framework for long-term-oriented cooperation should consider the Chinese programme »Made in China 2025« and the new FYD plan 2021–2026 aimed at moving from a 'low-cost factory' to a high value-added economy[168]. This implies upgrading the cooperation in the ever more technology-intensive sectors in which China plans to dominate.[169]
- It is of the utmost importance to also bilaterally establish reciprocity with China, and even more so on the EU level; what we offer here should be matched in the same way in China as well. Greater assertiveness is needed on both the Slovenian and EU sides.
- Being a small economy, Slovenia cannot imitate the ways big countries enhance their cooperation with China but must find its own specific ways to

167 Based on the guanxi principle.

168 See Chapter 2.5.

169 Already now, China is the world's largest user of industrial robots. In 2016, sales of industrial robots in China reached 87,000 units, accounting for around 30% of the global market. To put this number in perspective, robot sales in all of Europe and the Americas in 2016 reached 97,300 units (according to data from the International Federation of Robotics). Between 2005 and 2016, the operational stock of industrial robots in China increased at an annual average rate of 38% (Hong Cheng, Ruixue Jia, Dandan Li and Hongbin Li, 2019).

build on its strengths, the competitive advantages of its firms and comparative advantages of the country, either alone or in tripartite cooperation with larger countries/companies.

- By enhancing the productivity and competitiveness of Slovenian firms by co-operating with Chinese ones, the Slovenian economy could also strengthen its competitiveness in the global market generally.
- Outward and inward investments are closely linked. Firms able to materialise such two-way cooperation hold better prospects of prospering in the long run.
- Utilise even more the free services provided by the IPR and SME help desk. They can also be very instrumental in the selection of good, reliable Chinese partners, namely one of the major preconditions for success in the Chinese market. Barriers related to the smallness of the economy and small firms can be reduced through more intense use of several EU schemes for helping SMEs to penetrate the large Chinese market.
- Specific knowledge and skills are essential for success in the Chinese market, knowledge that goes beyond mainly functional education and is more in the direction of the holistic training across disciplines needed for international business. Therefore, further efforts to improve and modernise the education and training of human resources are called for, specifically also in the field of soft skills like the cross-cultural communications and negotiations that are so important while dealing with the Chinese. In this way, cultural differences, considered by many as among the big reasons for failed cooperation, could be overcome.

8. OVERCOMING CROSS-CULTURAL DIFFERENCES SO AS TO ENHANCE BILATERAL COOPERATION[170]

A considerable share of Slovenian managers has indicated that overcoming cross-cultural traps is a major challenge in today's international business relations. Mistakes or misunderstandings they have made or faced in this area have nevertheless been singled out as big problems they faced on their internationalisation path. Such experiences are confirmed by Cohen (1997) and Faure (1998), positing that misunderstandings caused by variations in negotiating behaviours stem from cultural differences. Pfajfar et al. (2020) also noted that in the Slovenia–China negotiation context cultural differences and non-understanding of them are certainly the most common reasons that misunderstandings with the Chinese occur. One reason for such a prominent position of cross-cultural mistakes is that such mistakes are not easily corrected, if possible at all. They are remembered for a long time; huge ones may persist even in the generation. You can repair your product or service, but if you insult your foreign partner due to not knowing about their cultural background this can mean the end of the cooperation or at least a lower price or the loss of some other element of a potential business transaction. This knowledge is important in international businesses in general, but particularly when one is faced with partners from other, less well-known, distant continents that are culturally and historically quite different from us. This is especially the case if we cling too much to ethnocentrically-or Eurocentrically-based stereotypes about other cultures, which is a common mistake made by business people.

Not mastering cross-cultural differences often leads to not only misunderstandings but even to conflicts and failed business deals. Another source of conflict is that foreign behaviour is interpreted through the prism of our cultures (some sort of cultural imperialism or ethnocentric or Europocentric view of the world). It is hence vital to understand foreign, in this case, Chinese culture, but also our own or, in other words, how they see us. Intercultural negotiations can otherwise produce poorer results than ones within a single culture. Still, one must be aware

170 This chapter is not designed as a complete guide or textbook on negotiations but instead offers a short list containing some basic issues which are important for making bilateral cooperation between the two countries more efficient.

that huge differences also exist between regions, cities and villages, big and small cities, in any foreign culture. This particularly applies to China.

China is certainly such a distant country that is less well-known by Slovenians, although some similarities can be found. Analysing and understanding these differences and how to prepare for and overcome them in business transactions is the goal of this chapter.

8.1. THE GENERAL IMPORTANCE OF CULTURAL DIFFERENCES FOR INTERNATIONAL NEGOTIATIONS

The statement by Geert Hofstede (1994) that »the business of international business is culture« perhaps best illustrates the importance of understanding culture in international business. Differences among countries and cultures are so great that business people can really make a big and irreparable mistake if they do not understand them. They include differences in national heritage, education, thinking patterns, religion, communication and behaviour, attitudes to time or risks, individual vs. collective behaviour, patterns of communication, and emphasis on personal relations. Some basic principles of intercultural negotiations may be divided into nine groups:

1. Prepare well. International, intercultural negotiations require additional, in-depth preparations beyond the subject, but even more about the culture and about the concrete negotiators on the other side of the table. Before the negotiations, examine the culture and history of the partner, not just the subject matter. It is best to learn their language as well. Get acquainted with the history of bilateral relations. Managers must know how the other side (OS) is influenced by its history, economic, social, political and cultural circumstances.
2. Find out how your partner sees and perceives you. Good self-knowledge is the basis for successful negotiations. If you are seen as a Martian by them, your ideas will also be Martian. A common mistake of negotiators is to think that the OS sees them as they see themselves, as if their self-image is also an image in the eyes of the OS.
3. Know the stereotypes about other cultures, but avoid relying on them too much. They may be terribly misleading. Business people must be aware of the limits of stereotypes because generic information about other cultures is often based on stereotypes. These indicate typical behaviour in certain cultures, of individuals from such cultures. However, there can be vast differences within cultures, meaning stereotypes should not be applied to every region of a given country and even less so to every individual.

4. Try to establish a pleasant personal relationship with your partner before starting the formal negotiations and express respect and interest in foreign cultures. If you do this, the mistakes one will almost certainly make in negotiations with unknown negotiators from other cultures will be forgiven. If one does not show respect and interest, mistakes will be paid for dearly.
5. Adapt your strategy to your partner's cultural habits. International negotiations are much less predictable than domestic ones. Therefore, it is necessary to constantly adapt, to be able to face ever new situations and problems. If you are selling (the buyer is *king*), you must adjust to the OS' culture (say 60/40 or even 70/30 in their favour), and vice versa if you are buying. In this case, relations between the two cultures could be more in your favour because now you are *king*.
6. Don't think your partner will always understand your (verbal or non-verbal) message the way you do. Pay attention to indirect and nonverbal communication. Traditional societies attach great weight to them. Be aware that the OS might attach a lot of weight to status and face saving/giving.
7. Treat partners as equals. Do not criticise publicly; follow face saving priciple. Do not surprise them with advance arrangements. Appearance can be at least as important as the content. The agreement must be »presentable«. Symbolic benefits can outweigh losses in content.
8. Be patient. In some cultures, speed is seen as the »devil's thing« (Arabs…) or creates mistrust (China…). Rushing provokes unnecessary concessions. Allow time for the partner to make decisions as well. Long bureaucratic procedures (Germany…) are required in some cultures more than in others.
9. The attitude to how to finalise the agreement reached at the end of the negotiations varies considerably among cultures. For some, relationships are more important than a written contract. Some cultures prefer long and very detailed contracts, for others agreeing on the basic principles is enough. Even an oral agreement can do in certain cases. Therefore, we must know what is the OS' culture in this regard. Four types of culture can be identified in this respect:
   - Detailed contract cultures. For them (mostly Western cultures), the contract is the most important result of the negotiations. This means it must be very precise and specify even the smallest of details. However, in this category even the Hong Kong Chinese can be much more flexible than the Germans, for instance.
   - Detailed contracts are seen more as a formality, yet desirable. Such is the attitudes of cultures that value relationships more (most Latin Americans, Koreans, and Singaporeans, with a high share of Chinese as well).
   - Similar weight is attributed to precise contracts and relationships. Here we find India, Russia, South Africa and Ukraine.
   - The Chinese are in the fourth group for which contracts are more of a formality. They are concluded if legally necessary and can contain basic-guiding principles for the cooperation. Relationships are more important.

Apart from China, there are cultures like Indonesia, Malaysia, Mexico, Saudi Arabia, Taiwan and Thailand (for more, see Katz, 2006, 57). Still, mangers must also know that signing of the contract might not be the end of the negotiations. What matters is implementation.

8.2. DEALING WITH THE CHINESE

After identifying some general principles[171] and cultural differences of cross-cultural negotiations, we now indicate how to negotiate with the Chinese specifically given that they are known to be masters of negotiation. Some say they are born to do business. Following the rising importance of China in the global economy, books and articles on how to do business with the Chinese have been mushrooming, especially in the last decade. Therefore, we first look at the general literature on negotiations with the Chinese, with their culture. In the second part, we look into its application from bottom-up into specific Slovenian experiences of dealing with the Chinese. In such a way, we can avoid the frequent over-simplistic or stereotyped approach of Westerners, particularly American businessmen, who have traditionally seen Chinese negotiators as inefficient, indirect or even dishonest. But Chinese culture is so deeply rooted in their rich history and has seen profound changes after opening up and even assimilating some western cultural habits that all of such changes must be taken into account.

As a general rule, Chinese businessmen are usually ambivalent about foreigners, a combination of the Maoist bureaucrat, Confucian gentlemen and Sun Tzu strategist. Confucian ethics is collectivistic, placing values and interests of the collective first. Their most important values are: loyalty, harmony, collectivism, consensus, family, humility, modesty, respect for age and hierarchy, trust, sense of duty, friendships and strong wisdom, sympathy, tolerance, patience, sincerity, tradition, tenacity, patriotism and conscience, avoidance of conflict, importance of interpersonal relationships, moral cultivation, and the importance of face saving/giving[172]. These are some, say, common characteristics yet considerable differences

171 They are indicated only as a guide for negotiations and cannot be generalised.

172 Therefore, the Chinese hardly say No. They avoid it at all costs because saying No is considered as losing face. Politeness is deeply imbedded in their collectivist culture. Face saving is very prominent in their culture. They would rather change the topic in order to avoid saying NO. But, in fact, it means disagreeing although there may be differences between old and young negotiators, those educated abroad or not, with or without international experiences. Internationally experienced managers may say No like the Westerns do. The second nonverbal sign which can be interpreted as No is when they smile at each other.

exist between regions, villages and towns, between big and small cities. It is a combination of guanxi (personal contacts, trading favours, networks) and imported corruption. The Chinese self-perception is based on such a general Confucianist culture. Contrary to this self-perception, they may have seen foreigners in the past (a strong Western stereotype and old exaggeration) as being inferior, corrupt, decadent, disloyal, volatile, barbaric, second-class people[173], even devils. This has changed. Fang (2006) emphasised that the Chinese perceive a foreign party as sincere; they reciprocate by being sincere as well and establish a trusting relationship to substantially facilitate business among the partners.

Another characteristic of Chinese business people is their Yin-Yang dual attitudes. Their behaviour is different when faced with younger or older negotiators. The negotiation strategies of the Chinese changing over time and depend on the context, situation, issues, time and negotiators on both sides of the table. They may at once appear positive and negative. Such Yin-Yang behaviour is known in Western business literature as coopetition, namely, when two partners both compete and cooperate with each other at the same time.

Preparing a long-term strategy to build one's relationship with Chinese partners is thus essential because the Chinese are long-term-orientated, stressing personal relations. In so doing, it is crucial to take account of the location within China, the industry, the partner's personal characteristics, hierarchy, age, and seniority. On this basis, three strategies can be conceptualised:

- win-win (Confucianism);
- win-lose (Chinese stratagems[174]: Yin-Yang exists everywhere, therefore stratagems can also be used); and
- a Sun Tzu-like strategist approach based on the principle that the marketplace is a battlefield (mostly in the case of younger negotiators).

When trust is high, the Chinese will negotiate like a 'Confucian gentleman', adopt a cooperation strategy, and take a win-win approach to the negotiations. When they expect and seek long-term relationships (win-win negotiations), Confucian virtues of benevolence and compassion, honesty and righteousness and faithfulness

173 The origin of such negative attitudes can be a reaction to the antinationalistic even racist, xenophobic fears as expressed in the *yellow peril* that emerged at the end of 19th century as a fear of Chinese immigrants, when Chinese labourers were brought to the USA to replace emancipated black communities as a cheap source of labour (see Svetličič, 2020a). Simply put, the Chinese are »non-Caucasian«.

174 There are 36 such stratagems based on winner to take all principle, being mostly attributed to Sun Tzu thoughts. Their goals are to confuse the enemy in order to vanquish him. They involve deception of some kind.

will be amplified. In contrast, when trust is low the Chinese, particularly younger ones, like to win following a competitive strategy and adopt a win-lose approach. Such an approach may change after good *guanxi* has been established. In the case of high hierarchy and power distance, the Chinese negotiators will resort to rites and rituals as a tactic of a more competitive or distributive (win-lose) Sun Tzu negotiation strategy.

Such dualism is based on the importance attributed to the network of relationships, or *guanxi*. *Guanxi* may be described as a Chinese system of doing business based on personal relationships. It literally means connections, relations or relationships. On the firm level, *guanxi* opens dialogues, builds trust and facilitates exchanges of favours, and dominates (business and personal) activities in China. A guanxi network basically consists of your relatives, schoolmates, co-workers, long-term business partners, neighbours and new friends. It is not used only when needed but should be constantly maintained and developed (occasional friendly meetings, dinners, lunches, sport…). One should apply guanxi before the negotiations start in the phase of looking for partners. In this event, you first look for a partner that has a good relationship with your potential partner and then create a guanxi with them in order for them to introduce you to the prospective partner.

Relationships are best developed during informal meetings before the official, formal, negotiations begin. Empirical research confirms that such initial informal meetings with the Chinese are essential as the Chinese tend to develop relationship before actual negotiations take place. Managers must spend some *quality time* with their Chinese partners (lunches, dinners). This is frequently the occasion when some of the most difficult issues are resolved. Developing such relations before the meeting is extremely important, as shown by the fact that noteworthy decisions can actually be made outside of formal meetings. Formal negotiations are frequently seen as window dressing. Nevertheless, one should prepare for formal meetings in detail since relations are more important than business (a meeting might be postponed because an old friend has arrived). This may hold for traditional negotiators, but might not necessarily apply to younger business people in the modern part of China who have traded with Westerners for the past decade or so. They may depart from tradition Confucius culture patterns and be cunning in doing business, *persistent* and inventive, wanting to lead the way. Today, we may also encounter vulgar individualism, like is seen in many other transition economies.

Another important element of preparation is getting to know persons on the OS of the table, their personal characteristics, character, education, status in the firm/society, private life, or hobbies. One reason for this is to avoid making mistakes by stereotyping partners because there may be huge differences between them and they might depart substantially from the learned national stereotypes. An extra problem with their personal characteristics is that the Chinese seldom show any emotions with facial gestures, have a poker face, hide their emotions and are slow in the negotiating process. This makes it only rare that you can comprehend what they are thinking about your proposals, for instance.

Their perception of time is completely different. They have all the time in the world. Accordingly, negotiations progress slowly and may take a long time because the Chinese are repetitious, cautious, patient yet also thrifty. They negotiate step by step in an unhurried manner, looking beyond the deal, prioritising mutual trust over the longer term. This makes it difficult for Westerners to keep calm, to not rush them to make a decision or speak in a loud voice to hurry them up. Such behaviour could erode the trust and create mistrust between the partners. Negotiations may also be seen by the Chinese like a scholarship. Therefore, the team may be changing so that many people have the advantage of learning. Although Confucian ideology emphasises the need to invest time and energy in relationship-building, time is an increasingly rare commodity, even for traditional Chinese negotiators faced with the pressures of globalisation and influence from the West.

The Chinese place values and principles above money and expediency. Therefore, putting too many eggs in the basket called logic is a mistake. A combination of courtesy with firmness and showing humility and respect for age and rank is a must.

8.3. HOW ARE THESE GENERAL PRINCIPLES ECHOED IN REAL-LIFE NEGOTIATIONS?

Pfajfar and Małecka (2020) looked at the bottom-up experiences of six Slovenian multinationals of various industries, sizes and diverse international strategies but with a strong presence in China[175].

Their first conclusion was that, surprisingly, there are some similarities in the two cultures. Relationships labelled as *guanxi* in China are similar to what Slovenians would call ‘connections and acquaintances. This may be understood as a similarity of the two cultures. *Guanxi*, as one of the main features of Chinese cultural identity, has two parts: *Guan* (the door) and *Xi* (to tie and which can be interpreted as coming through the door and remaining connected, but also not being

175 This subchapter is largely based on their research conclusions.

trusted if you are outside the door (a foreigner). The Slovenian version relates particularly to getting things done easier and faster if possessing a high level of this characteristic and especially arises from the previous socialist regime, when knowing government officials helped people move forward in their daily life.

The second similarity is that both value the importance of long-term relationships, being polite and modest and hard working. In China, strong competition in the workplace sees a large share of workers putting in overtime, which is not nearly the case in Slovenia. Still, Slovenians like to label themselves as a hard-working nation by European standards. The third similarity is that both cultures are proud of their national identity and origins and that gender equality as an important Slovenian value is also present in Chinese society.

Their research confirmed that negotiations in China are contextually- and geographically-based and may differ substantially in terms of the location within China, the industry, or business partner characteristics. Most interviewees claim that negotiations in China are very connected with the hierarchy, which is usually tied to the age of one's counterpart. The most important and biggest decisions are always made by the firm owner if the firm is private, or the highest-ranked business person in state-owned firms, sometimes even by politicians.

Guanxi has been confirmed to be very important. In China, one can achieve much more through personal acquaintances and good interpersonal relationships compared to any contractual agreement. When the trust of your Chinese business partner has been gained, business will run more smoothly. However, *guanxi* can also be understood as negative since as it may (especially in public tenders or while cooperating with a public company) increase the bureaucracy, limit any direct approach to the market and extend the supply chain (also in terms of additional costs). In general, it still holds that long-term relationships are supported in China by mutual trust and friendship.

Based on the six case studies in this paper, the Chinese negotiation style varies depending on the age of the negotiator, the place at which one is negotiating, the industry you are in, and the *guanxi* you possess. More importantly, it changes over time, again showing the dynamic nature of the culture and the need to permanently study it. Their study confirms the paradoxical nature of the Chinese negotiating style (Fang, 2006) where the Chinese negotiator can be both sincere and deceptive (Yin-Yang) depending on the situation, context and trust between the negotiating partners. This means that studies on negotiations with the Chinese that were published a couple of years ago, not to mention a decade, are already outdated.

The research confirms that the importance of *guanxi* clearly depends on context, situation and time. It has proven that in the case of high hierarchy and power distance, Chinese negotiators will resort to a more competitive and distributive (win-lose) negotiation strategy. However, when they expect and seek long-term relationships, Confucian virtues of benevolence and compassion, honesty and righteousness and faithfulness will be amplified.

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APPENDIX 1: VISITS BY SLOVENIAN HIGH REPRESENTATIVES TO CHINA

1992 – Minister of Foreign Affairs Dr Dimitrij Rupel
1994 – Deputy Prime Minister and Foreign Minister Lojze Peterle
1995 – Prime Minister of the Republic of Slovenia Dr Janez Drnovšek
1996 – President of the Republic of Slovenia Milan Kučan
1999 – Minister of Foreign Affairs Dr Boris Frlec
2002 – Minister of Foreign Affairs Dr Dimitrij Rupel
2003 – Prime Minister of the Republic of Slovenia Anton Rop M.Sc. in Economics
2006 – President of the Republic of Slovenia Dr Janez Drnovšek (Boao Forum)
2007 – Prime Minister Janez Janša and Ministers Dr Dimitrij Rupel, mag. Andrej Vizjak, Zofija Mazej Kukovič
2008 – President of the RS Dr Danilo Türk
2010 – Prime Minister Borut Pahor and ministers Dr Franci Križanič and Dr Ivan Svetlik
2010 – Minister for Slovenians Abroad Prof. Dr. Boštjan Žekš
2010 – Minister of Transport Dr Patrick Vlacic
2011 – President of the National Assembly Dr Pavel Gantar
2011 – Minister of Defence Dr Ljubica Jelušič
2011 – Minister of Justice Aleš Zalar
2011 – President of the National Council mag. Blaž Kavčič
2014 – Minister of Economic Development and Technology Metod Dragonja
2015 – President of the National Council Mitja Bervar
2015 – Deputy Prime Minister and Minister of Agriculture, Forestry and Food Dejan Židan
2015 – The Prime Minister of the Republic of Slovenia Dr Miro Cerar (top 16 + 1)
2016 – Minister of Economic Development and Technology Zdravko Počivalšek
2016 – Minister of Education, Science and Sport Dr Maja Makovec Brenčič
2016 – Deputy Prime Minister and Minister of Agriculture, Forestry and Food mag. Dejan Židan

On the Chinese side:

1993 – visit by Deputy Prime Minister and Foreign Minister Qian Qichen
2000 – visit by President of the Standing Committee of the National People's Congress Li Penga
2002 – visit by the President of CPPCC Li Ruihuan
2006 – visit by the state councillor (in government) Tang Jiaxuana
2008 – visit by Minister of Foreign Affairs, Yang Jiechi
2008 – visit by CPPCC President Jia Qinglin
2009 – visit by CPPCC Du Qinglin Vice-President

2009 – visit by Vice President of the Government of Hui Liangyu
2009 – unofficial visit by Deputy Prime Minister Zhang Dejiang
2011 – visit by member of the Politburo Committee of the Central Committee of the Communist Party of China Li Changchun
2013 – visit by Minister of Defence Liang Guanglie
2013 – visit by Deputy Prime Minister Zhang Gaoli
2014 – visit by Vice Prime Minister Wang Yang
2017 – visit by special envoy of the President of the PRC, Meng Jianzhu

APPENDIX 2: MAJOR BILATERAL AGREEMENTS BETWEEN SLOVENIA AND CHINA

1. Decree on ratification of a joint declaration on the establishment of diplomatic relations between the Republic of Slovenia and the People's Republic of China (Official Gazette RS-MP, No. 7-34 / 1992)
2. Decree ratifying the Agreement between the Government of the Republic of Slovenia and the Government of the People's Republic of China on the Abolition of Visas for Diplomatic and Official Passports (Official Gazette RS-MP, No. 10-65 / 1994)
3. Law on Ratification of the Agreement between the Ministry of Defence of the Republic of Slovenia and the Ministry of Defence of the People's Republic of China on Cooperation in the Field of Defence (BCNOP) (Official Gazette RS-MP, No. 12-62 / 2008)
4. Law on Ratification of the Agreement between the Government of the Republic of Slovenia and the Government of the People's Republic of China on the Avoidance of Double Taxation and Prevention of Tax Evasion with Respect to Taxes on Income (BCNIDO) (Official Gazette RS-MP, No. 13-69 / 1995)
5. Act Ratifying the Agreement between the Government of the Republic of Slovenia and the Government of the People's Republic of China on Economic Cooperation (BCNGS) (Official Gazette RS-MP, No. 5-31 / 2007)
6. Act Ratifying the Agreement between the Government of the Republic of Slovenia and the Government of the People's Republic of China on the Promotion and Reciprocal Protection of Investments (BCNSZI) (Official Gazette RS-MP, No. 3-27 / 1994)
7. Regulation on the procedure for obtaining an import licence for imports of certain products originating in the People's Republic of China after the entry into force of the Republic of Slovenia in the European Community (Official Gazette of the Republic of Slovenia, No. 121-5216 / 2003)
8. Decree on ratification of the Agreement between the Ministry of Culture of the Republic of Slovenia and the General Administration of Press and Publications of the People's Republic of China (Official Gazette RS-MP, No. 12-73 / 2012)
9. Regulation on Ratification of the Agreement on Cooperation in the Field of Health and Medicine between the Government of the Republic of Slovenia and the Government of the People's Republic of China (Official Gazette RS-MP, No. 2-2 / 2002)
10. Law on Ratification of the Agreement on Cooperation in Education, Culture and Science between the Government of the Republic of Slovenia and the Government of the People's Republic of China (BCNIKZ) (Official Gazette RS-MP, No. 3-29 / 1994)

11. Act Ratifying the Agreement on Scientific and Technological Cooperation between the Government of the Republic of Slovenia and the Government of the People's Republic of China (BCNZT) (Official Gazette RS-MP, No. 3-28 / 1994)
12. Act on succession of agreements of the former Yugoslavia with the People's Republic of China, which should remain in force between the Republic of Slovenia and the People's Republic of China (BCNNSNS) (Official Gazette RS-MP, No. 20-64 / 1997)
    - Regulation on ratification of the Consular Convention between the Socialist Federal Republic of Yugoslavia and the People's Republic of China (Official Gazette SFRY-MP, No. 2-3 / 1984)
    - Agreement between the Government of the People's Republic of China and the Federal Executive Council of the Assembly of the Socialist Federal Republic of Yugoslavia on Cooperation in Customs Matters (Official Gazette RS-MP, No. 20-64 / 1997)
    - Decree on ratification of the Agreement on Plant Quarantine and Plant Protection between the Government of the Socialist Federal Republic of Yugoslavia and the Government of the People's Republic of China (Official Gazette SFRY-MP, No. 12-68 / 1981)
    - Decree ratifying the Agreement between the Government of the Socialist Federal Republic of Yugoslavia and the Government of the People's Republic of China on Cooperation in the Field of Veterinary Affairs (Official Gazette SFRY-MP, No. 2-3 / 1981)
    - Decree ratifying the Agreement on Cooperation in the Field of Health, Medical Sciences and Pharmacy between the Federal Executive Council of the Assembly of the Socialist Federal Republic of Yugoslavia and the Government of the People's Republic of China (Official Gazette SFRY-MP, No. 8-50 / 1986)

Available at http://www.iusinfo.si/Register/Kazalo.aspx?Src=WF2cfQSVrmEFiqP7n4TjB0XCper cent 2fktawJtS51ui8tI1BbFEKCRper cent 2fVvper cent 2bwyTk-Wper cent 2fA1Hper cent 2fuRpExeper cent 2bxsRCCSGegq9OK80Xdper cent 2fGfper cent 2bx0m6V85smBS7yb2C0teb56Xow1SIPwZper cent 2f9FpELO5ZA-Vmkdk-4clHxJehLodEVR77GXajhBG8oJ1hvPq2F5QAper cent 3d

APPENDIX 3. AFRICA'S SIZE IS DIFFICULT TO COMPREHEND WITHOUT COMPARISONS

Source: Leke, Acha, Mutsa, Chironga, and Georges, Desvaux (2018).

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