Neo-mercantilism in action: China and small states

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Abstract
This study investigates the relations between the People’s Republic of China and seven small European states with particular reference to China’s Belt and Road Initiative. It highlights the gap between the rhetoric of economic liberalism and the realities of neo-mercantilism with Chinese characteristics. The article analyses China’s geopolitical strategy and its support of infrastructural projects abroad in relation to the “China Dream” as articulated by Xi Jinping. The impact of engaging with a more assertive China for smaller countries is examined. The article concludes that, increasingly, there is a distinction in the EU between liberal and illiberal democracies. China’s preference for bilateral relations with countries on the BRI is informed by its broader geopolitical aims that resonate well with the neo-mercantilist model. The impact of China’s stance seems to be more muted in the more democratic small nations and more pronounced in autocracies.

Keywords  China · Europe · Neo-mercantilism · Geo-strategy · Belt and Road Initiative

Introduction

The robustness of the international global production and distribution system has been queried for some time. Still, the COVID crisis further called into question the gap between the rhetoric of economic liberalism and the realities of neo-mercantilism. A regulated free trade regime resulting in more significant global equity and efficiency has been promoted as the cornerstone of harmony:

… the social contract underlying the success of mainstream political parties in Western democracies in the decades after World War II… [was] based on the promise that liberal policies would generate a sustained and diffused

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improvement in living standards for a large fraction of the population. (Col-antone and Stanig 2019, 128)

In practice, since the 1990s, narrower national and political imperatives have guided policy choices. This article examines the current parameters of foreign policy in small European countries in the context of Chinese neo-mercantilism and the Belt and Road Initiative (BRI). It will explore the core features of China’s bilateral relations with each state and outline the main policy options adopted by the European partner. The principal purpose of the paper is to address a relatively neglected aspect of China’s relationship with Europe while focussing on the BRI and the neo-mercantilist framework.

Recent academic debate has concentrated on the changing relations between major world powers in the light of increased protectionism and the use of trade wars for political purposes (Höppner 2020). In relation to China, in particular: “Its recent history can be viewed as strategic manipulation of global neoliberal relations via a combination of short- and long-game manoeuvres, anchored in a powerful neo-mercantilist model that resonates with rising national protectionism” (McMichael 2020, 28).

China’s policies in Central Asia, the Middle East, Latin America and Africa have received significant analysis. There is a gap in the literature, however, about the policy options adopted by the broader global community. This article, therefore, looks at the implication for small European states of the fundamental change in the logic of global politics as evidenced by China’s BRI and its related policies now accentuated by a pandemic and the war in Ukraine.

The objective of neo-mercantilist policies is not necessarily or primarily short-term gain. Instead, they are informed by an outlook that sees global economics as a zero-sum process. The neo-mercantilist stance conflates economic and national interests, particularly if these relate to strategic assets or supply chains. The advantage goes to those who can sustain a market, technological or resource lead in particular sectors. These can be relatively niche for smaller states, while for global or regional powers, it means broader control.

This article will apply a neo-mercantilist reading to China’s relationship with several smaller European states, particularly in the context of its Belt and Road Initiative (BRI). By examining these case studies, the article will argue that China’s engagement with liberal democratic small states is more muted than those considered “illiberal democracies”. This argument is critical in the context of the Russian invasion of Ukraine, which US President Joe Biden has framed as a part of a broader “battle between democracy and autocracy” (Hamid 2022).

The past 2 years have witnessed dramatic changes in China’s engagement with the world. COVID-19 has seen enormous disruption to the movement of people and goods, economic slowdown and the emergence of more isolationist tendencies among the Chinese leadership. The Russian invasion of Ukraine is an epoch-defining moment for Europe as well as China. The balance of power formed after the Cold War has been upended, and China finds itself challenged to negotiate this rapidly changing world order. At the same time, Xi Jinping is attempting to
remain as leader of the Communist Party and the nation for an unprecedented third term.

**Neo-mercantilism with Chinese characteristics**

The Belt and Road Initiative is the most significant and ambitious economic and international relations policy of the first 10 years of Xi Jinping’s rule. This ambitious project aims to strengthen Beijing’s economic leadership through a vast infrastructure building programme in China’s neighbouring regions and far beyond. It is a project motivated as much by the country’s pressing domestic economic challenges as its foreign policy priorities (Cai 2017).

President Xi announced the BRI in 2013. It refers to a strategy of Chinese investment and joint ventures with other nations in overland routes for pipelines as well as road and rail transportation. There is also a related effort to enhance Chinese investment in global sea routes. Both are potentially significant for small states in Europe. Much of the analysis of the BRI has positioned it as part of a narrower policy approach characterised as neo-mercantilism: “state-directed efforts aimed at making asymmetric economic gains at the expense of competitors” (Ziegler and Menon 2014, 17).

Due to the cultural diversity and the historical differences in the political economy of various states that are perceived as state capitalist, there is no universal or precise definition of the neo-mercantilist model. (Belesky and Lawrence 2019, 1125)

In the early eighteenth-century school of thought, which the current model reflects, mercantilism was:

… a concern for power and plenty. [As originally framed.] [p]ower was both military and economic. Power enabled national security by giving the country the wherewithal to wage and prevail in war. Plenty was an employed, productive and content populace: the average person did not want. (Berdell et al. 2019, 37)

According to Ho (2019), the BRI “has been one central feature of Beijing’s foreign policy. While a number of elements regarding the BRI remain unclear… one objective is certain: the BRI is conceived with the intention of widening China’s international support base through economic statecraft”. For Holslag (2017), China is seen to open up foreign markets by promoting “national champions”, namely, a few large companies controlled, partially or indirectly, by the state. In a similar vein, China provides credit, supports infrastructural projects and enters into free trade agreements that complement its economic foreign policy.

Garlick (2019) takes Holslag to task for understating the framework’s debt to both the international relations theory of offensive realism and the original mercantilist
model. Nevertheless, following Cesaratto (2011, 254), the parallel with mercantilism is useful if it is assumed to indicate both “the set of economic and trade policies pursued by nation states in order to establish their political power. A narrower classical definition of mercantile policies identifies them with pursuit of a trade surplus”.

Similarly, if “offensive” is taken to indicate proactive and vigorous rather than abusive, the framework may be seen to encompass policies that eschew the classical assumption that the international division of labour and free trade “maximises global output with all participating countries sharing in the gains from specialisation and trade. By enabling countries to obtain goods with which they are relatively less endowed at lower than world market price, trade is stimulating overall economic growth” (Kiljunen 1992, 5). Nevertheless, vigorously pursued and proactive policies are presumably orchestrated for national advantage with wider benefits being secondary aims at best (Garlick 2019). In this form, China’s approach matches that embraced by the term “neo-mercantilism”, though it is also influenced by the work of Sun Yat-sen and earlier Chinese thinkers (Helleiner 2021).

**Neo-mercantilism and small states**

The Chinese and other neo-mercantilists may eschew the basic assumptions of a world of limited wealth-producing physical resources. Still, they also appreciate that there are clear winners and losers. The understanding is that the mechanisms of liberal capitalism, while trusted to deliver in the long term, do not serve the needs of the nation-state with the immediacy required by the political imperatives of governing elites. The content citizen is a “reasonable” goal, even if the idea that all states can enjoy a trade surplus reflects “dubious arithmetic” (Laya 2018). As Belesky and Lawrence (2019, 1121) suggest: “The reoccurrence of neo-mercantilism has been facilitated by the failure of neoliberal policies to provide genuine food security, as well as a lack of trust in liberalised markets to provide essential public goods”.

The pressure on the governments of small countries is to satisfy domestic interests while not appearing to undermine the tenets of the liberal economic order. The volatility of international markets represents an opportunity for small states but, as with their larger counterparts, protecting domestic interests is a more immediate imperative. In the USA and some large European Union (EU) countries, the discussion on trade relations with China is often couched in terms of security (Herrera 2020). For smaller states, the military aspects of a neo-mercantilist outlook may be tangential or inaccessible.

**China’s geopolitical strategy**

Chinese geopolitical strategy has been recast from the approach of Deng Xiaoping and his immediate successors, which can be characterised by Deng’s famous aphorism “hide your light and bide your time”, to one of pro-activity and clear direction. While the tone has certainly changed, verification of precise and institutionalised policy coordination is less straightforward. As discussed below, however, China’s
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approach is evidenced by the BRI project (Pepermans 2019). Though Jones and Zeng (2019, 1417) suggest that, while the BRI has unfolded “in a fragmented and incoherent fashion”, it certainly has Xi’s imprimatur.

As Yu (2019, 175) puts it, “China’s neo-mercantilism strategies includes the standard: promoting nationalism and patriotism, stockpiling gold and foreign reserves and striving for favourable balance of payment via exchange rate manipulation, tariff, export subsidies and other trade protections”. But they also extend to wider social controls and the strategic support of infrastructural projects abroad through state-owned financial institutions under the umbrella of the BRI. A core aim is to counter American and Western influence.

A key to the Chinese approach is the role of state-owned enterprises (SOEs). SOEs may compete for infrastructural projects or acquisitions abroad but have the advantage of state support and fewer regulatory constraints that private enterprises cannot match. An analysis of infrastructure projects in the Balkans between 2012 and 2020 concluded that “only 15% of projects could be determined… to have undergone a competitive bidding process, while 93% of projects with Chinese funding or investment also had a Chinese contractor or supplier” (Conley et al. 2020, 12).

China dream: a neo-mercantilist dream?

In November 2012, Xi delivered his “China Dream” speech in which he outlined how the aspirations of China’s citizens are bound to its development as a nation. These dreams can only be realised through the revival of the country as an economic and military power. In the speech, Xi said that China was now becoming the master of its destiny, a process which fully demonstrates the “great national spirit” with “patriotism as the core”: “History tells us”, Xi said “that the future fate of every person is intimately intertwined with the future fate of their country. If the country and the people are doing well, then everyone will do well” (as quoted in Denton 2014).

Yu (2019) argues that what would become the central slogan of Xi Jinping’s leadership, the “Chinese Dream”, integrates national and personal aspirations. Xi’s task is, therefore, to lead the Party and people to realise fully the great dream of reviving the Chinese nation where the emphasis is on economic prosperity, national pride and freedom from foreign domination. The phrase “Chinese Dream” (中国梦) has, therefore, come to symbolise a newly assertive China that is willing to use a highly centralised economic policy to further a broad range of geopolitical aims.

Elizabeth Economy (2019) gives further weight to the mercantilist argument by suggesting that Xi, rather than following the economic reform path in the mode of Deng Xiaoping, is taking Mao Zedong as his reference point:

Yet Xi has revived the methods and symbols of Maoism not in service of a return to the past but in order to advance his own transformative agenda, one that seeks to ensure that all political, social, and economic activity within, and increasingly outside of, China serves the interests of the CCP [Chinese Communist Party].
She suggests that current Chinese practice “progressively erases the distinction between public and private in both the political and economic spheres; and seeks to integrate foreign actors, including private businesses, more deeply into a system of CCP values and institutions” (Economy 2019).

The impact of engaging with a more assertive China for smaller countries may be a level of dependency on Chinese finance that translates into support for, or at least no criticism of, the “One China” policy, the Chinese stance on the Uyghurs, Taiwan relations or the status of Tibet: “The resulting economic and political consequences in ‘BRI’ partner countries debunk the persistent myth of Chinese aid as development assistance ‘with no strings attached’” (Pieper 2020, 3).

Small European states

China is vast by any criteria, so most other nation states are relatively small and less powerful. They may, however, have geopolitical assets that somewhat augment their positions. As Boon and Ardy (2017, 116) suggest, these may include “a propitious geopolitical location; proximity to other bigger markets; abundance in specific resources; or a regional ‘hub’ positioning, that imbues them with international significance disproportionate to their sizes”.

This article will look particularly at smaller states in Europe to examine the impact of Chinese neo-mercantilism. For the most part, these nations are viewed by China as potential partners in the push for a greater presence in Europe. The analysis examines the structure and process of relations with China, paying particular attention to formal arrangements and practised strategies.

Despite the potential synergy between EU and People’s Republic of China (PRC) projects, there are many areas of friction between the two, such as the regulation of trade and investment. At the BRI Forum in 2017, France, Germany and the UK signalled their concerns on several aspects of the project. On the other hand, Italy signed a BRI memorandum of understanding (MoU) with China in 2019.

In the EU context, Holslag (2017) identifies several Chinese strategies that include leveraging disunity between member states and marketing cheaper Chinese goods as beneficial to an individual country’s consumers. Similarly, he points to forging favourable terms in deals with European companies in the transport, retail, financial and infrastructural sectors. For Holslag, the essence of offensive mercantilism is short-term profit in a global zero-sum game dominated by China—the obverse of the “win–win” scenario proffered in Chinese rhetoric. From this perspective, the BRI is a ploy to bring Europe into the Chinese sphere of influence (Marisi and Wang 2019). Nevertheless, it should be noted that, in terms of trade and investment linked to the BRI, most of it is in Asia.
In this article, the focus is on the impact of Chinese neo-mercantilism on smaller European states and on their policy responses.\textsuperscript{1} The analysis includes countries across Europe rather than simply those in the centre and east which have been examined in earlier studies (Matura 2019). The sample of nations selected all have populations of under 6 and above 2 million. They are:

| Country | Population  |
|---------|-------------|
| Denmark | 5,806,081   |
| Finland | 5,517,919   |
| Slovakia| 5,450,421   |
| Ireland | 4,904,240   |
| Croatia | 4,076,246   |
| Lithuania| 2,794,184   |
| Slovenia | 2,080,908  |

All are categorised by the World Bank (2020) as “high income”. Each has full diplomatic relations with the PRC, while five are also members of a group of Central and Eastern European (CEE) states that in 2012 joined the “16+1” initiative with China.\textsuperscript{2} The arrangement is essentially an exercise in “multilateral bilateralism”—apart from annual joint meetings and other largely ceremonial occasions, there is no separate organisational structure. The programme covers economic, cultural and educational activities and China is the principal actor. According to Jakimów (2019, 370), “while Western European countries and EU institutions see this engagement in security terms, the CEE states view it as a benign force bringing with it economic investments without political strings attached”.

The engagement of individual CEE countries has been markedly different. Serbia, the largest non-EU country in south-eastern Europe, has, for instance, successfully attracted a particularly high level of Chinese investment in recent years (fDi Intelligence 2017). Serbia also stands out in the level of its political support for China at both elite and popular levels (Conley et al. 2020, 5). The PRC invests heavily while bypassing EU regulations and displays the infrastructural benefits of close relations to other small states. Serbia was the only CEE state to support China’s policies in Xinjiang at the UN in the latter half of 2019 (Putz 2019). Of the small European states examined here, Denmark, Finland, Ireland and Lithuania criticised China while the others remained silent. However, according to Karášková et al. (2020, 19), “the silence… can be attributed to long-term under-representation of these issues in their foreign policy, rather than an outcome of Beijing’s explicit or implicit pressure”.

\textsuperscript{1} Denmark and Croatia are not members of the Eurozone. Ireland is not a member of the North Atlantic Treaty Organization (NATO) while Finland applied to join in May 2022 along with Sweden following the Russian invasion of Ukraine.

\textsuperscript{2} Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia. Greece, the seventeenth, joined in 2019.
Denmark

Denmark was among the first states to recognise the PRC, but its initially close relations were affected in subsequent decades by predictable issues such as criticism of China’s human rights record and a visit by the Dalai Lama (Brødsgaard 2010). Nevertheless, Denmark is the only Nordic country with a comprehensive strategic partnership with China and was a founding member of the Asian Infrastructure Investment Bank. Yan (2019, 75) sums up Denmark’s approach based on a 2018 government report: “Denmark should tie up with US closely in political and security areas; and Denmark should take advantage of China’s rising for its economy and trade interests while it must remain vigilant on China’s impact on its security”.

Geographically, Denmark may be considered remote from China but in terms of the latter’s global ambitions in the Arctic, Denmark’s self-governing territory Greenland is a particular concern for its domestic and foreign policy agendas. In 2018, China outlined its ambitions to extend the BRI to the Arctic by developing shipping lanes in a “Polar Silk Road” (Wen 2018). Denmark, as a member of both the North Atlantic Treaty Organization (NATO) and the Nordic Council, has a strategic interest in this development. In 2018, the Danish government vetoed a Chinese plan for airport developments in Greenland on strategic grounds, in part because of a US military presence in the area. For China, the territory is a source of rare earth elements, iron and uranium with several mining projects already underway. According to Dosenrode and Raftopoulos (2020), in “autumn 2019 the Danish Military Intelligence warned the Home Rule Authority explicitly against large Chinese investments… there was a risk of political interference and blackmail due to the small size of the Greenlandic society”.

Denmark’s interest in the BRI is conditioned by the fact that China is its largest trading partner outside of Europe and the USA (OEC 2020a). Its main exports are pharmaceuticals, mineral fuels (including oil), livestock and dairy products. China is the fourth largest source of imports after Germany, Sweden and the Netherlands. The biggest individual category of imports is passenger and cargo ships (OEC 2020b).

Tourism is the one sector to experience a beneficial increase in activity. According to VisitDenmark, Denmark’s tourist board, Chinese tourist numbers have shown strong growth in recent years with numbers increasing from 161,000 in 2014 to 262,000 in 2017 (as quoted in China Daily 2017).

Finland

On his first visit to Finland as leader of China in April 2017, Xi Jinping pledged to increase cooperation between the two countries. In an opinion piece for the Helsinki Times, President Xi praised Finland’s “development philosophy that values diligence and innovation”. He pointed out that many Finnish companies have
had great success in China, hailing “the win–win nature of our economic, scientific and technological cooperation”. He called on Finland to take an active part in the BRI (Xi 2017).

One area of development identified is the Arctic Corridor. The Chinese have stressed the development of infrastructure along the Arctic sea routes and Nordic countries as a group have engaged with this ambition. In the Finnish case, agreement with China covers Arctic geology, maritime safety and related areas: “given the vulnerability of the Arctic environment, the two sides shared the view that economic activities in the Arctic area should take into full consideration the protection and sustainable use of its natural resources” (as quoted in Liu 2018, 58).

Even more ambitious is a plan to dig the world’s longest tunnel from Finland under the Baltic Sea to Estonia. Public funding from both the Finnish and Estonian governments is insufficient for such a giant project, while solely relying on the EU would not be viable either (Chen 2020). Chinese investment, however, could bring about this highly ambitious project. Peter Vesterbacka, a Finnish business entrepreneur, is spearheading efforts to raise Chinese funding to contribute to the costs of the tunnel. One of the construction partners is CREC, China Railway Engineering Company.3

Even without the establishment of an Arctic Corridor, transport links between the two countries have been expanding in recent years. Helsinki Airport is closer to China than any other in the EU, with only seven and a half hours flying time to Beijing. The number of passengers flying from Helsinki to China grew 16% from 2016 to 2017 (Breum 2018). In addition, Cinia, a Finnish IT company that is 77.5% owned by the state, is leading efforts to develop a high-speed internet cable from Finland to Asia with Chinese and other foreign funding, and the government in Helsinki is actively promoting the project (Breum 2018).

Finland’s management of its relations with the Soviet Union gave rise to the term “Finlandisation”, a policy of adjusting policies to avoid conflict with a big and powerful neighbour. Some commentators see reflections of this stance in Finland’s relations with China and contrast them with those of Sweden and other Nordic countries that are more assertive on issues of human rights (Gaens and Kallio 2020).

Though no direct pressure from China seems evident, the Finnish political and economic elite are cautious. As Gaens and Kallio (2020, 63) report: “Despite a more negative public image of and negative publicity about China, Finland has maintained good working relations with China… this much is clear from discussions with various Finnish stakeholders, both within and outside government bureaucracies”. Finland was, however, a member of the group of 22 states that signed a letter to the UN Human Rights Council and Commissioner for Human Rights calling on China to end its “re-education” programme in Xinjiang.

3 https://www.railtech.com/infrastructure/2022/02/08/helsinki-tallinn-tunnel-can-open-up-rail-in-finland-and-estonia-we-love-competition/?gdpr=accept.
Slovakia

Slovakia has seen relatively little development of political relations with China since the establishment of the 17+1 format (Karásková et al. 2020). Some opposition politicians have suggested that Slovakia might leave the 17 + 1 group. However, the Slovak government is keen to stress its enthusiasm. In an interview with China Daily in 2019, Deputy Finance Minister Dana Meager said that Slovakia was “one of the first countries to understand the potential of BRI”. She said the BRI is “all about connecting” and Slovakia’s strong geographical position has made it ideal for a diverse transportation network that can connect people, governments and investors in the BRI. Meager pointed out that delivering cargo from Asia to Europe (or vice versa) through the maritime route usually takes 40–45 days. But a railway network can cut the travel time to 10 days, and that Slovakia is targeting reducing that to eight (as quoted in Sarmiento 2019).

As a builder of more cars per capita than any other country in the world, Slovakia has a particular focus on export-oriented manufacturing, making the BRI especially attractive. The state of 5.4 million aims to position itself as a critical transport hub along the New Silk Road, placed as it is between the seaports of southern and northern Europe. Before COVID-19, Slovakia’s economy was among the best performing in the Eurozone. It had an average annual GDP growth of 1.9% since its adoption of the euro in 2009 and is the best-performing Eurozone member in the 17 + 1 group (Sarmiento 2019).

In addition to its car industry and growing electronics sector, which has seen Chinese companies set up bases in the country, Beijing is attracted to Slovakia because of its strategic location as an inland hub connecting Europe with China over three transit corridors—the Trans-Siberian transit (Slovakia-Manchuria), the Kazakh transit (Slovakia-Alashankou) and the Trans-Caspian transit (Slovakia-Alashankou via Azerbaijan and Georgia). An MoU covering transport and logistics was signed in November 2015. Slovakia thus became one of the first countries to sign up to the BRI.

However, the relationship has not gone as well as the two countries had hoped. The value of bilateral trade has actually decreased since 2014. There has not been any China-funded infrastructure in projects in Slovakia before or after the announcement of the BRI. Although Slovakia has tried to promote itself as an alternative route, with a target to process 50% of China–Europe rail cargo, its share has remained negligible (Karásková et al. 2020).

Slovakia stands out among the small nations examined here as having among the lowest levels of trust in liberal democratic institutions. For example, 86% of the citizenry agree that “oligarchs and financial groups have strong control over the government in their country”. It is possible that the Chinese model may be attractive as an alternative, particularly as 41% of Slovaks also “perceived the US as a threat to the country”. Only 23% saw Russia as a threat, though Slovakia is heavily dependent on Russia for energy (Hajdu and Klingová 2020).
Ireland plays a significant role in the economy of the West given its relative size. It is one of the world’s most economically globalised economies. Further, Ireland is regularly among the highest recipients of foreign direct investment (FDI) of all the small EU member states. It hosts many of the globally significant multinational enterprises. In the past 50 years, the major investors have been from the USA, UK and other developed countries. China has, however, recently joined as a significant FDI source with a 56% increase in 2019, bringing the annual sum to €130.5 million. In part, the increased Chinese involvement in Ireland reflects the work of state agencies and diplomatic representatives in Beijing. It also fits with Chinese neo-mercantilist imperatives about reliable supply chains for food products, geopolitical positioning and promoting “national champions”. The image of Ireland as a source of high-quality agricultural products is well established and, with the US placing extra tariffs on EU imports, 2019 saw a concerted effort to increase exports to China.

As the USA is Ireland’s largest source of FDI, it is interesting that, when asked about America’s dependence on China as a source of biopharmaceutical supplies, President Trump’s reply in a Fox News “townhall” interview was: “It’s not only China, you take a look at Ireland… We’re bringing that whole supply chain back… We’re all about America first” (Lynch 2020).

In this context, the BRI is an infrastructural development of such potential magnitude that it may significantly alter Ireland’s current geopolitical profile. As an island, 98% of its trade by volume is handled by its ports (O’Keeffe et al. 2020). This reliance has been fortuitous in the past because of the dominance of maritime powers and systems of global economics that have favoured shipping technologies. The balance in cost and time in accessing China between sea, land and air could change radically. During the COVID-19 crisis, rail traffic between China and mainland Europe increased significantly both westwards and, more notably, eastwards. Simultaneously, with flights reduced considerably, the supply chain reliant on planes was severely interrupted. It is possible that, in the longer term, there may be a boost to railway traffic as a result of customers’ crisis experience. The cost advantages of maritime supply routes are, however, likely to remain substantial. While Europe to China BRI rail projects increase and are subject to much Chinese publicity, the cost of a standard container from Europe to China is about €3000 more by train than by sea (Kastner 2020). Also, a large ship can carry over 20,000 containers, compared to a few hundred on a train. From the Irish perspective, the overland BRI is currently not a significant issue, and maritime investment is more meaningful.

For China, however, increasing its interest in Ireland may be more political than economic at a time of tense relations with the USA. Ireland is a common law foothold for investors in the EU, which may be an advantage for financial services companies in the light of Brexit. In addition, in the field of technology, it has welcomed Huawei’s substantial investment despite misgivings from larger Western countries. The SOE China Metallurgical Group Corporation has also begun to compete for infrastructural projects in Ireland.
The importance of China may be increasing, but Ireland wishes to promote that relationship as a two-way process. It increasingly seeks to situate itself as a producer of quality products, especially food and agricultural items for the Chinese market, rather than a quantity producer, and logistic supply chains are vital to this. It is also keen to take advantage of its position post-Brexit. Ireland seeks to position itself as a main entry point into the EU for Chinese businesses rather than as the “backdoor” it has been seen as previously. English is the language of business in China; therefore, Ireland, as the largest English-speaking EU country, will become increasingly important to China.

While Ireland does not have a demand for large-scale infrastructure projects, which form a major element of the BRI, it is keen to take advantage of the logistical opportunities offered by the initiative. When it comes to engaging with China on issues such as human rights, Ireland is firmly aligned with the EU. It is through the EU that Ireland can address such issues. In July 2019, Ireland was one of 22 countries that wrote to the United Nations High Commissioner for Human Rights calling on China to end “mass arbitrary detentions and related violations” in Xinjiang (Wescott and Shelley 2019). Collective commentary has the advantage that Ireland will not be singled out for criticism by China.

Croatia

The collapse of communism marked the end of the Cold War and the start of democratisation for the CEE countries, most of which are now members of the EU. In the case of Croatia, however, access to the EU only occurred in 2013. The country was not part of the 2004 or 2007 enlargements, and this delay coloured popular commitment to the earlier “return to Europe” narrative. As with all new members, Croatia was obliged to go through a process of democratisation and alignment of its economic and security interests with those of other member states. For Croatia, however, the period between the “fall of the Wall” and joining the Union was marked by war and widespread unrest. Even now, many observers doubt the commitment of the Croatian political elite to the values of the EU. The authoritarian political and social heritage is still believed to have a significant impact (Maldini and Paukovi 2016).

The measures taken to enhance the authority of the state during the COVID-19 crisis are reminiscent of earlier times. Some Croatians feel that membership of the EU is economically and socially burdensome. They fear the loss of identity implied. Some Croatians also look back on the disappointing level of European support during the War of Independence (1991–1995). Others think of a marginalised Croatia as part of an EU “Yugoslavia”. Nevertheless, membership of the EU is seen by many as a marker of international acceptance.

In geopolitical terms, Croatia sees the BRI as offering it a role in the maritime Three Seas cooperation project championed by Poland at the Riga summit in 2016. This concept stresses infrastructural developments between the Baltic, Adriatic and Black Seas “to counterweight Russian and Germans influences in Central Europe” (Mierzejewski 2020, 92).
In this context, the Pelješac Bridge project has an important role. The structure will link the southernmost portion of Croatia with the north of the country and bypass the Neum corridor, a 12 km strip of land belonging to Bosnia-Herzegovina. The bridge will have important economic benefits and is largely financed by EU Cohesion Policy funds. It will also strengthen Croatia’s plan to join the Schengen area. It is, however, being constructed by a Chinese company that won an EU tender. For China, the Pelješac Bridge is a BRI success story but “its success is disputed as a possible case of unfair competition, since the European companies who bid for construction were outcompeted by a Chinese state enterprise that was able to charge a lower price” (Poggetti, as quoted in Prtoric 2020).

Other infrastructural projects in which China has an interest are the modernisation of the Zagreb-Rijeka railway and the planned Banja Luka-Split motorway. Nevertheless, Bieber and Tzifakis (2019, 12) indicate, in relation to the Western Balkans as a whole, that suggestions that China is using its primarily infrastructural investment for political purposes are misplaced:

Chinese engagement is embedded in a wider strategy of improving physical connectivity in Afro-Eurasia… China may in the future attempt to use these economic linkages to extract concessions… on national interest matters (e.g. on Taiwan)… [to date] China has not so far advanced any political vision for the region… Beijing has confined itself to the role of an economic partner… without promoting its own path to development, or interfering in the recipient countries’ domestic affairs.

Croatia is, according to this reading, maximising FDI without compromising its commitment to the EU as a whole. For China, it is unlikely it would risk its wider relations with the EU for the sake of short-term advantages in Croatia’s not very dynamic economy, in which its share of trade is declining. Nevertheless, Croatia has welcomed Huawei investment and is keen to stress its geopolitical advantages as a link to various regions of Europe. Even so, Croatia’s role in the EU will remain an important influence.

**Lithuania**

China’s relationship with Lithuania was plunged into crisis over the seemingly innocuous naming of a small office in the capital Vilnius in July 2021. The opening of a “Taiwanese Representative Office” was not unusual, similar offices exist in most European capitals, but such offices in Europe and the USA use the name Taipei to avoid references that would imply the island’s independence from China. Taiwan’s Foreign Ministry said the opening of the “Taiwanese Representative Office in Vilnius” would “charter a new and promising course for bilateral relations between Taiwan and Lithuania” (McGee 2022). This followed on from Lithuania’s withdrawal from the 17 + 1 group that May. At the time of its withdrawal, Lithuanian foreign minister Gabrilius Landsbergis called on other EU countries to also abandon the initiative. “From our perspective, it is high time
for the EU to move from a dividing 16 + 1 format to a more uniting and therefore much more efficient 27 + 1”, Landsbergis said. “The EU is strongest when all 27 member states act together along with EU institutions” (Lau 2021).

In September, the Lithuanian Defense Ministry officially advised consumers not to buy Chinese smartphones—and suggested that people who had already bought these cellphones should throw them away saying it had found that the phones contained a censorship feature that could be activated at any time (Syta 2021). China reacted to these developments with undisguised rage. China’s foreign ministry said Lithuania had “undermined China’s sovereignty and territorial integrity” and created a “bad precedent internationally” and that it would reduce its diplomatic engagement with the country to the level of charge d’affaires, one rung down from an ambassadorship (Lau and Montaz 2021).

Chinese FDI in Lithuania had been concentrated on distributional infrastructure such as ports and railways. For Lithuanians, it means support for a sector that is considered a competitive advantage for the country, as Lithuania dominates in service exports. So, continuous Chinese investment in transport services should lead to the faster development of the Lithuanian economy (Larçon 2017).

Nevertheless, China is seen as less of a potential threat to Lithuania’s interests than either Belarus or Russia. Although it values its position as part of the Euro-Atlantic partnership, President Nausėda (as quoted in Eriksonas 2019, 3) suggests that:

Lithuania does not see any obstacles for developing a constructive dialogue and bilateral economic ties with China, if they are not used to increase political tension. It cannot work against our national security and the common interests of the European Union.

In Lithuania’s geopolitical calculations, distance is an essential element. In 2016, Lithuania and China signed a MoU on the BRI. Ričardas Degutis, Lithuania’s Vice-Minister of Transport and Communications, told The China Daily in 2019: “We put priority in our cooperation with China in transport and logistics, trade and investments, financial cooperation, culture, as well as people to people contact”. He added that:

… increasing train numbers between China and Europe have started to face big capacity challenges in neighbouring countries… With our new capacity, we are able to offer very attractive services for China-Europe trains. We have only 30-minute border-crossing formalities for container trains at the [EU/Commonwealth of Independent States] crossings, with simplified administrative procedures… (As quoted in Zheng 2019)

While the country has an attractive business and investment climate, trade with China is relatively low and Russia remains Lithuania’s main trading partner. Lithuanian law is set up to protect “objects of importance to ensuring national security”
and requires vetting of investments in sensitive areas of the economy (Karásková et al. 2020).

In relation to infrastructural projects, China has expressed interest in the construction of Rail Baltica and other ventures, but so far has not taken part. Lithuania has also been more cautious than its Baltic neighbours in relation to Huawei technologies, preferring to take its lead from NATO and the EU. In contrast, Lithuania has proactively sought Chinese involvement in its plan to be the FinTech gateway to Europe.

**Slovenia**

According to the European Commission (2016), the “level of state involvement [in the economy] in Slovenia is amongst the highest in Europe”. SOE debt and productivity levels in Slovenia are problematic. Nevertheless, “among all the post-communist countries, Slovenia has been the fastest to catch up with the rest of Europe… only Slovenia and the Czech Republic had a per capita income above 80% of the EU 27 average” (Nared et al. 2019, 184).

In June 2018, Slovenia’s main port of Koper and Ningbo Zhoushan Port Group signed a MoU. Ningbo port is one of the largest in the world and a key hub of the Maritime Silk Road (Szunomár 2017). The MoU aims to strengthen trade between China and the CEE countries through Koper port (Kavalski 2019). Nevertheless, “Slovenia [has] not experienced any significant change in the previous trajectory of the relationship [with China]” (Karásková et al. 2020, 18).

The visit in late 2019 of Wang Yi, China’s Minister of Foreign Affairs, is seen by some, however, as signalling a change, but Slovenia remains influenced by the cautious approaches of NATO and the EU. Potential infrastructural projects include improvements to the existing Krško nuclear power plant and the Divača–Koper railway line but no development has occurred to date.

**Liberal and illiberal democracies**

Increasingly, there is a distinction in the EU between liberal and illiberal democracies. Lithuania, Croatia and Slovakia are in the latter group termed by the Economist Intelligence Unit (EIU) as “flawed democracies”. Slovenia is not an EU member, but its political system is also in the same EIU category. The remainder—Denmark, Finland and Ireland—rank as “full democracies” (EIU 2019). In the small nations examined here that emerged from the Soviet space, dealing with China is part of an elite-led developmental modernisation process. The BRI offers quick political and economic gains mostly through infrastructural investment with fewer conditions than EU or other sources. On the other hand, China’s sensitivities on core political

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4 The classification of states is based on scores in five areas, namely: (1) Electoral process and pluralism; (2) Functioning of government; (3) Political participation; (4) Political culture; and (5) Civil liberties.
issues have been seen in each of them. China’s preference for bilateral relations with countries on the BRI is informed by its wider geopolitical aims that resonate well with the neo-mercantilist model. The impact of China’s stance seems to be more muted in the more democratic small nations.

In the early hours of 24 February 2022, Russia invaded the sovereign nation of Ukraine on the pretext of defending itself against NATO expansion along its borders. Just weeks before, when President Vladimir Putin was visiting Beijing for the opening of the Winter Olympics, the two nations issued a joint statement in which they affirmed that the friendship “between the two States has no limits” and that “there are no ‘forbidden’ areas of cooperation”. The statement came alongside an announcement of plans to collaborate in a host of areas, including space, climate change, artificial intelligence and control of the Internet. (Osborn and Trevelyan 2022).

Since the invasion, China has attempted a tricky balancing act of not criticising its ally in the face of worldwide outrage and condemnation. While the war’s outcome is far from clear at the time of writing, certainly, it has not gone according to Putin’s plans. A mostly unified response from the EU and USA, along with the application of Sweden and Finland to join NATO, may indicate a severe strategic error by Russia. Notably, countries categorised as “full democracies” have been among the strongest in criticising Russia, while some of those termed “illiberal democracies” have shown much more hesitation. US President Joe Biden has framed the war as a part of a broader “battle between democracy and autocracy” (Hamid 2022). In this battle, the USA and China are clearly on opposite sides.

The war in Ukraine has significantly altered the geopolitical calculations for China in terms of supply chains and infrastructural investment in Europe. The importance of BRI-related assets, such as the port of Porteaus in Greece and the trans-Caspian corridor via Kazakhstan, is affirmed. The war in Ukraine is causing a reassessment of relations with China in liberal and illiberal democracies. The investment in Croatian infrastructure, such as the Pelješac Bridge, mentioned above, and wind-energy plants, does seem to have fulfilled China’s “win–win” promise. The bridge opened in May 2022. The wind-energy investment is also timely given EU sanctions on fuel imports from Russia. Croatia’s close ties with China are reinforced by its support of the “one China” policy. Despite recent events and their coverage in popular media outlets:

…these shifts have not sparked a serious debate on Croatia’s cooperation with China among political elites, and they have had limited impact on bilateral cooperation.5

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5 Branimir Vidmarovic, “Croatia: A bridge too far or a sea of opportunities?” In John Seaman, Francesca Ghiretti, Lucas Erlbacher, Xiaoxue Martin and Miguel Otero-Iglesias, eds., Dependence in Europe’s Relations with China: Weighing Perceptions and Reality, Paris: French Institute of International Relations, pp. 62–69, p. 65.
In contrast, Lithuania’s failure to do so to Beijing’s satisfaction continues to provoke Chinese retaliation. In this case, however, the greater cohesion of the EU’s foreign policy stance since the Ukraine war may result in the closing of ranks to support Lithuania as the notion that Taiwan may be the next Ukraine gains momentum in Europe and the West generally. Such a change in the EU would call into question the bilateral basis of China’s relations with small European states.

In the case of Denmark, the recent debate about China has seen security issues become more prominent. Chinese investments in Greenland and Huawei’s position in its digital infrastructure have prompted Denmark to adopt a more defensive policy position while avoiding identifying China specifically to avoid countermeasures. Again, the EU’s involvement is increasingly sought to reduce the current bilateral modus operandi.

For Finland, traditionally a low profile foreign policy actor, the war in Ukraine has dramatically changed as it applies to joining NATO and ending its long-standing neutrality. The war and the sanctions it gave rise to means that transport routes to China have become an issue. In 2021, the government published its Governmental Action Plan on China, which outlined Finland’s significant involvement in trade with China but warned against overdependence. Finland will likely take a less pragmatic approach to bilateral relations and tailor its approach to China to EU priorities.

In late 2021, Ceann Comhairle (Speaker of the upper house of the Irish parliament), Seán Ó’ Fearghaíl wrote to colleagues reminding them to be cautious of appearing too close to the regime in Taipei. He feared that their interaction could precipitate sanctions from China.

This issue is a very important one for our Chinese friends and I would remind members that Ireland, along with all other EU states, as well as the EU itself, adheres to the One China policy.⁶

The letter elicited some negative comments from human rights advocates, but it was broadly in line with the official Irish approach to Beijing. Following the conflict in Ukraine, Ireland has become more assertive internationally, partly due to its membership of the UN Security Council. Nevertheless, it remains keen not to offend China. It is one of the few countries with a trade surplus with the PRC. In contrast, Slovakia has maintained strong ties with Taiwan, a position likely to develop significantly given the ambiguity of China’s stance on Ukraine.

The changing geopolitics of Europe adds strength to China’s neo-mercantilist imperatives that conflate economic and national interests. The PRC will still prioritise the protection of strategic assets or supply chains. Concerning the smaller European states, however, China’s preference for bilateral arrangement will have to accommodate a more developed sense of unity of purpose in Europe. BRI projects, for instance, will be subject to more scrutiny not just financially and technically but

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⁶ Pat Leahy, “McDowell says Ceann Comhairle warned TDs against engaging with Taiwan”, Irish Times (Dublin), 1 December 2021.
also regarding security. China’s accommodating approach to Russian interests may make individual European states more cautious of engagement.

**Discussion**

In 2020, the *Global Times*, PRC’s English language newspaper, stated: “foreign companies need to realize that their long-term ability to generate profits in the [Chinese] market hinges on their home countries’ political relations with China”. It may be journalistic rhetoric but it points to the link between business and politics. It follows several instances in early 2020 of Chinese sanctions against Canada and Australia following political disputes. In the nations examined here, infrastructural investment and economic and political interaction have varied considerably. So too, with attitudes to security—the narrative varies. Schrader (2020, 1) suggests that “since Xi came to power… [CCP] party officials have more frequently noted that China is a large, powerful country, and that smaller, less powerful countries oppose its interests their own risk”.

Rogelja and Tsimonis (2020, 103) refer to this as the European “China Threat” narrative, “characterised by a distorted representation of Chinese economic activities abroad”. In their view, “this narrative produces a distorted notion of European politics where pluralism is weakness and disagreement dissent, promoting a view of the EU where ‘responsible’ core countries must contain the periphery’s ‘opportunism’”.

Clearly, the small EU member states looked at here would be in the “opportunism” category. Still, only Croatia and Slovenia have secured significant infrastructural investment, though other projects are under review. Similarly, Slovakia hopes to gain BRI-related FDI and Finland may also engage in a significant joint venture. The common denominator in this aspect of China-small nation relations would seem to be geography. Each fits well into the logistical imperatives of the BRI—access to larger markets and alternative routes that reduce dependence on Russia. In Serbia, the only non-EU nation considered, commitment to China is more political and pronounced. Cooperation extends to military and security purchases which concern other European countries. China remains Serbia’s largest non-European trading partner.7

The EU authorities are increasingly wary of China’s influence on member states. In June 2020, following a videoconference with Xi Jinping and Prime Minister Li Keqiang, President of the European Council, Charles Michel, and the President of the European Commission, Ursula von der Leyen, issued a press statement:

> Engaging and cooperating with China is both an opportunity and necessity. But... we have to recognise that we do not share the same values, political systems, or approach to multilateralism. We will engage in a clear-eyed and confident way, robustly defending EU interests and standing firm on our values. (European Council 2020)

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7 Source: EU Delegation to Serbia 2022, accessed at https://europa.rs/trade/?lang=en.
Each of the small member nations examined here will tailor their relations with China to resonate with the broader EU stance. Among the critical issues raised by the EU are asymmetries in market access and security in the context of digital technologies.

If, in the economics maxim, profit is proportional to risk, the COVID-19 pandemic may have strengthened the argument in smaller countries that lower economic returns may be an acceptable price to pay for secure supply lines. Interruptions to the global supply chain caused by the actions of powerful nations or pandemics may encourage neo-mercantilist responses that value the local over the global model of development. As Ng (2020, 166) posits, “ultimately what is sought through the BRI is the pursuit not only of international standing and power for China but a complete reconfiguration of geopolitical relations”.

The neo-mercantilist framework looks beyond the notion of mutually beneficial exchange between equal sovereign partners to one of distinct asymmetry of power. This prioritising of secure supplies may be accentuated by the pandemic: “[it] may trigger the four-decades long inertia of neoliberal globalization to slow down or even retreat… potentially driving states to onshore production of key strategic and critical products, thus emphasizing resiliency and security over cost-cutting” (Ishii 2020).

In the countries examined, China has supplemented its official policies by “deploying soft power precisely because it makes political intentions and processes appear as ‘natural’ and ‘neutral’, normalising China’s actions with the aim of convincing international audiences of China’s benevolence” (Jakimów 2019, 369). It also augments its financial support, predominately via loans, with aid. China’s aid funding, Dreher et al. (2022) suggest, is often used to address the political interests of the governing elite via projects that enhance their local prestige.

The emphasis in the narrative China employs is on mutual benefit and non-interference with each country’s sovereignty. The implied contrast is with EU and larger member state policy initiatives that often come with human rights or similar conditions: “Like most investors, China shows little interest in disrupting local power dynamics as long as its interests are protected” (Conley et al. 2020, 10).

The most noticeable feature of the relations between China and the countries looked at here is an asymmetry of economic resources. For most small EU member states, China is an important but not indispensable trading partner, a relatively minor source of public debt and a peripheral factor in their security profile. While, in the short term, a disruption in political or economic relations would be unsettling, they each have alternative partners that are more readily accessed and supply chains that could be redirected. Nevertheless, each state’s role in China’s neo-mercantilist global strategy is a function of its interdependence level.

The literature on neo-mercantilism draws particular attention to the role of SOEs and sovereign wealth funds. In the small nations examined here, such businesses may be expected to be more in step with the state’s political imperatives than their private sector equivalents. Among the small European states, the SOE footprint is more significant among those transitioning out of communist-era legacies; the range varies, with Slovakia having the lowest presence of SOEs and Croatia the highest (Böwer, 2017). The impetus for divesting the state of companies through privatisation, which was marked after the fall of the Berlin Wall, has declined as the pressure...
to sustain enterprises with large workforces or sub-national significance may seem more convincing than the benefits of the open market. So, even in countries with low SOE involvement levels, such as Ireland, during the financial crisis of 2008, governments became involved in the banking sector (European Commission 2016). Despite the development of a more competitive EU framework, Atkinson (2020) suggests that for some member states, including some EU15 countries, “neo-mercantilism spoke and still speaks to short-term, popular sentiment, and national supremacy, even as efforts continue to guide nations toward a collective mindset”.

Neo-mercantilism is a political and economic model that assumes power’s centrality. The reality for major and minor players is the ability to gain long-term advantages through the use of economic, political and military power while using the rhetoric of free trade, sovereignty and mutual respect. In the short term, it may be necessary to accept setbacks, but the aim is to establish a place in the global order that maximises the benefits for the state. Given the inherent asymmetries, the tactics of small states must involve accommodating the interest of the powerful while leveraging their own geographical, technical and resource advantages. This article examines the relationships between a preeminent player, China, and a selection of small European states during a time of considerable fluidity and uncertainty. It shows how, while trumpeting mutual advantage, the larger entity seeks to use bilateral relations with lesser powers to ensure its security, territorial integrity and economic interests through ready access to resources, markets and reliable supply chains. It also shows how the smaller states play the game within the parameters of liberal and flawed democratic institutions to maximise their niche advantages.

Declarations

Conflict of interest  The authors declare no conflict of interest.

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