

HEDGING UNDER PRESSURE: PORTUGAL'S FOREIGN POLICY AND THE U.S-CHINA RIVALRY

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Abstract

This study aims to analyse Portugal's position within the Sino-American rivalry, charting its evolution in the context of a 'golden era' of Chinese investment amid a financial crisis and a perceived (partial) abandonment by the United States, Portugal's traditional great-power ally. For a small European state, a member of the European Union and NATO, the central challenge lies in balancing long-standing transatlantic commitments with the economic opportunities offered by China. The fracture between the Global South and the institutional commitments to the EU and the U.S during the Trump era has necessitated subtle political manoeuvring. We argue that Portugal's behaviour towards China from the 2008 financial and economic crisis to 2019 constitutes a case of 'hedging' and consider the question of whether this was the result of a strategy or an ad hoc search for new foreign partnerships. We conclude that while hedging occurred and that there is some indication of strategic thought from Lisbon policymakers, in practice it was always cautious and the country continued to prioritise alignment with the EU and the U.S.. Historical commitments, the liberal democratic legacy, shared values, defence alliances, and the collective European project place Portugal generally closer to this political framework, which tends to constrain its relations with Beijing, without precluding occasional cooperation. However, we also find indications that Portugal's hedging has had a strategic dimension. This question warrants consideration because it is still ongoing: Within the current international framework, does Portugal continue to pursue a hedging strategy toward China, or has it embarked on a gradual and deliberate disengagement from political relations with Beijing?

Keywords

hedging Strategy, Portugal, China, United States.



Resumo

Este estudo analisa a posição de Portugal no contexto da rivalidade sino americana, delineando a sua evolução durante a chamada "era dourada" do investimento chinês, ocorrida em simultâneo com a crise financeira e com a perceção de um (parcial) afastamento por parte dos Estados Unidos, o tradicional aliado de grande poder de Portugal. Para um pequeno Estado europeu, membro da União Europeia e da NATO, o desafio central reside em equilibrar os compromissos transatlânticos de longa data com as oportunidades económicas oferecidas pela China. A fratura entre o "Sul Global" e os compromissos institucionais com a UE e com os EUA durante a era Trump exigiu manobras políticas subtis. Argumentamos que o comportamento de Portugal em relação à China, desde a crise financeira e económica de 2008 até 2019, constitui um caso de hedging, e colocamos a questão de saber se tal resultou de uma estratégia deliberada ou de uma procura ad hoc de novas parcerias externas. Concluímos que, embora tenha ocorrido hedging e exista alguma indicação de pensamento estratégico por parte dos decisores em Lisboa, na prática esse alinhamento foi sempre cauteloso, mantendo o país a prioridade no alinhamento com a UE e com os EUA. Compromissos históricos, a herança liberal democrática, valores partilhados, alianças de defesa e o projeto europeu coletivo colocam Portugal, de forma geral, mais próximo desse enquadramento político, o que tende a limitar a relação com Pequim, sem impedir, contudo, episódios pontuais de cooperação. Todavia, identificam se também indícios de que o hedging português possui uma dimensão estratégica. Esta questão permanece relevante porque o processo continua em curso: no atual enquadramento internacional, Portugal continua a prosseguir uma estratégia de hedging em relação à China ou iniciou uma desvinculação gradual e deliberada dos laços políticos com Pequim?

Palavras-chave

Estratégia de hedging, Portugal, China, Estados Unidos.

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Introduction

Portugal underwent one of the most significant tests of its post-1974 democratic consolidation. Between 2011 and 2015, a period marked by a severe economic decline, social unrest, and political volatility. In 2011, the aftershocks of the 2008 global financial crisis led to a bailout that forced the country to adopt unpopular austerity measures and an array of politically unpalatable reforms under the close supervision of the European Central Bank (ECB), European Commission (EC), and the International Monetary Fund (IMF). While Europe was facing financial difficulties, the United States was shifting its strategic priorities, posing a further challenge for Lisbon. The following year, Washington announced a drawdown of American forces stationed in the Azores, at Lajes Air Base, the cornerstone of the Luso-American relationship since the early Cold War. The much-vaunted idea that Portuguese foreign policy was 'Euroatlantic' thus found itself under question on both counts: the European dimension was strained by the conditions imposed by European institutions, and the American by Washington's unwillingness to rethink the downsizing of Lajes or, failing that, to compensate Portugal with some other military investment in the Azores. It seemed that Portugal had nowhere to turn.

That same year, 2012, Xi Jinping came to power as the Paramount Leader of the People's Republic of China (PRC). Xi quickly made his mark on the PRC's foreign policy. The new leader, wrapped in the political slogan of the "China Dream" and "national rejuvenation" embarked on a wave of nationalist exaltation that promised to re-establish China to the centre of global power. Shortly after becoming General Secretary of the Communist Party of China, Xi embraced the inevitability of China's path of progress: "The tide of the world is surging forward. Those who submit to it will prosper and those who resist it will perish" (Xi, 2013). A systemic rivalry between the U.S and China became a defining feature of the international system. At first glance, no one would doubt that Portugal would remain firmly by the side of the U.S. However, China's global soft-power offensive enticed many European states. For Portugal, the timing could hardly seem better, as the PRC had the resources and the will to provide much needed investment to the Portuguese

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economy and even, perhaps, lend some prestige to Portuguese diplomacy. In 2018, Xi Jinping visited Portugal to much fanfare and resulting in the signature of seventeen agreements, among them a promise of partnership on the Belt and Road Initiative (BRI) (Brito and Villalobos, 2018).

However, the 'golden age' in relations between Lisbon and Beijing appeared to lose its shine after 2019. This deterioration in Portugal-China relations after Xi Jinping's visit seems to be a response to the first Trump administration's (2017-2021) shift in U.S strategy regarding China, which it identified clearly as a 'systemic rival'. Indeed, the intensification of Sino-American competition has become one of the central axes of contemporary international politics, with direct repercussions for Europe and its member states. Portugal now faces a situation in which it must delicately balance its commercial engagements with PRC against its long-standing Atlantic ties. Understanding the position Portugal finds itself in and its options going forward requires understanding the nature of Portuguese behaviour towards China during that golden age.

While International Relations (IR) are often centred on the distribution of power among major actors, they frequently overlook an analysis of smaller or less powerful states. However, examining the positioning of small states – both in size and in power -- such as Portugal, is of great importance if we hope to understand the dynamics of the international system (Long, 2022), if for no other reason than that and even "Great powers' positions in the world are constituted in large measure by their relationships with small states..." (Long, 2022, p. 170). Specifically, the ways in which small states behave will lend or withhold dominant powers the legitimacy, or authority, to act as rule-makers in the international arena (Lake, 2009, pp. 7-11). Small states may adopt different strategies in their asymmetric relations with great powers: balancing, bandwagoning, and hedging. In the first case, small states pursue alliances with other actors to preserve their autonomy and security without compromising independence. In the second, the state seeks a close external alliance, accepting the influence and leadership of a dominant power and subordinating itself to its strategic orientations.

Hedging is more common in uncertain or volatile geopolitical contexts, where the balance of power remains fluid. In this third scenario, the state opts for an intermediate solution, avoiding the extremes of balancing and bandwagoning. Relations are maintained flexibly with multiple actors, and partnerships are diversified. The intelligent management of strategic options may enable a small state to navigate, rather than merely endure, the rivalries among great powers. It need not necessarily act as a pawn, but rather as a pivot in the strategic games of larger powers, capable of choosing among various strategies, including alignment with a third power, the maintenance of neutrality, or hedging to ensure its survival as an independent unit while pursuing mutual gains (Efremova, 2019).

The central question of this paper is thus to analyse Portugal's positioning within the framework of tensions between China and the U.S.. Given the current competitive international landscape, has Portugal been following a hedging approach toward the PRC, or has it engaged in a gradual and intentional political decoupling from Beijing? To tackle this question, we call upon diplomatic and economic data points such as instances of defence cooperation, state visits, foreign investment, statements from policymakers, and strategic documents. These are presented as part of an interpretative narrative of the



relationship of Portugal with the U.S. since the end of the Cold War, Portugal within the EU since 2008, and Portugal with China since 2012.

The paper proceeds as follows: first, we define hedging behaviour and identify some of its main characteristics; second, we provide a cursory history of Luso-American relations since the end of the Cold War until the Euro area crisis, namely the period during which Portugal was under bailout conditions (2011-2014); third, we turn to the Portugal-China relationship between the crisis and COVID-19; finally, we consider the position of Portugal vis-à-vis the U.S.-China rivalry and whether its behaviour can be classified as hedging.

The Politics of Ambiguity: Hedging in an Era of Great Power Rivalry

As Max Weber noted, power consists in the “probability that one’s own will can be imposed... even against any resistance” (Weber in Han, 2017, p. 18). Yet power does not necessarily require an act of command, and the acceptance – or refusal – of obedience is itself an act of freedom. In other words, a small actor may possess both the interest and the willingness to be commanded (Han, 2017). The less powerful may be constrained by their structural conditions, but they often still have a choice. Tom Long (2017) identifies three main sources of small-state influence in world politics: (1) particular-intrinsic, which results from the small state’s own geography, economy, military might, and other assets, (2) derivative, which stems from its relationship with a great power, and (3) collective, which is harnessed when small states band together to achieve greater influence.

IR theory has concerned itself mainly with the second type, derivative power. Traditionally, it found that small states can shape their alliance behaviour towards great powers in two main ways. These two different kinds of alignment behaviour that states adopt when faced with shifts in the balance of power: *Balancing* and *bandwagoning*. States can either side with the stronger power or coalition (bandwagoning) or with the rising, but as yet weaker, power (balancing). While the choice is often dictated by the desire to avoid or counter a threat, even unthreatened states can balance or bandwagon as they seek new opportunities in the international realm (Schweller, 1997). This model of alignment behaviour seemed well suited to the Cold War system, when the central strategic question for small and medium powers was often seen as a choice of whether to align with either the U.S. or the Soviet Union (Ciorciari & Haacke, 2019, p. 367).

However, these two types of alignment have proved less useful to explain the post-Cold War world. Consequently, in the 1990s and especially the early 2000s IR scholars developed the concept of *hedging* to define a new and increasingly common type of behaviour (Kuik, 2016, pp. 500-501). As Asian states adapted to the rising power of the PRC, many noted how they opted to ‘hedge their bets’ by engaging with China in various policy areas while attempting to keep their relationship with the U.S. intact (Chung, 2004; Goh, 2005; Medeiros, 2005). By the mid-2010s, it could be argued that hedging was “the central tendency in Asian international relations” (Jackson, 2014, p. 331). Rather than a straightforward choice between bandwagoning with the U.S. and its allies against a rising China *versus* joining China to balance against American predominance,



many small and medium powers adopted a more complex alignment strategy, especially in Southeast Asia (Chung, 2004; Goh, 2005; Kuik, 2008; 2016; 2021; 2024; Lim & Cooper, 2015; Murphy, 2017; Ciorciari, 2019; Liao & Dang, 2020). As American retrenchment became more evident and PRC's economic influence extended farther afield, the dynamics of hedging were also identified in the Middle East (Salman, Pieper & Geeraerts, 2015; Telci & Rakipoğlu, 2021; Bakir & Al-Shamari, 2025). More recently, some authors have posited the existence of hedging behaviour in Europe (Wivel, 2008; Song, 2022; Zaborowski, 2024; Tunsjø, 2025).

Some of the themes common to these studies are a shifting balance of power, multipolarity, the increasing uncertainty in strategic affairs, and the fear of abandonment by the traditional great-power ally, the U.S.. They also share the assumption that states behave as rational actors. Nevertheless, there is considerable theoretical plurality in the IR literature about hedging. The wider debate around 'alignment strategies' is important for neo-realists in the mould of Waltz (1979), for whom the distribution of military power in the international system is the main factor influencing state behaviour. However, the alignment lens is not exclusive to the structural variant of realism. Balancing, bandwagoning, and hedging are also useful categories for scholars employing a *relational*, rather than structural, view of power relations; one in which states are seen as engaging with each other across multiple networks, not all of them related to military capability (Hafner-Burton, Kahler & Montgomery, 2009).

This multi-dimensional perspective offers the possibility that states may align with a stronger power on security issues but diversify away from it on other topics, such as economic and cultural ones (Jackson, 2014; Kuik, 2016). The usefulness of considering non-security issues is reinforced by the fact that, as mentioned above, states align with others in pursuit of goods other than security. Just as balancing and bandwagoning behaviours can occur even when there is no immediate or foreseeable threat to a state (Schweller, 1997), so too can states hedge to pursue opportunities to increase their power and pursue non-security goods (Wivel 2018). Indeed, hedging may be less common on security-related issues, since that could lead to the incumbent great power pressuring the hedging state to declare its allegiance and abstain from dealing with a rising great power.

Such an outcome would defeat the purpose of hedging, which is essentially about avoiding a stark choice. The verb 'to hedge' has its origins in the idea of building a fence, or a palisade to shield oneself from possible losses or risk (Online Etymology Dictionary, 2025). It is most commonly used to name a financial strategy in which "one makes an investment to offset a potential loss in a companion investment" (Morewedge, Tang & Larrick, 2016, p. 983). The idea is to diversify an investment portfolio in such a way as to protect "an individual's finances from being exposed to a risky situation that may lead to loss of value", since "the losses will be mitigated by gains in another investment" (CFI, 2025). Kuik (2008; 2016) notes that in international relations, hedging involves not only the 'risk-contingency' aspect familiar from financial strategy, but also a 'returns-maximising' dimension. The crucial point of hedging is that states try to do both at the same time (Kuik, 2016, p. 505).



In line with this view, we define hedging as a type of behaviour in which a small or medium power diversifies its diplomatic relationships by deepening political, economic, or security ties with a great power other than that with which it is already aligned, while attempting to preserve that traditional great-power relationship. Hedging need not be a well thought out strategy, but even when it is, there will still be a desire to avoid opposition from the traditional ally. This both explains why states rarely declare they are hedging (Kuik, 2021, pp. 301-302), and distinguishes it from other alignment behaviours (balancing or bandwagoning), allowing the state to obtain something from a third power that it would be unlikely to get from its traditional ally without having to make a dangerous all-in bet on the future distribution of power. In this way, hedging allows a state to deal with systemic uncertainty. There are thus at least three interesting questions when considering a possible case of hedging: First, is a given state exhibiting hedging behaviour? Second, if so, is there strategic intent behind the hedging behaviour, and if so, what is that intent; i.e., what is the strategic effect desired? Third, what is driving the hedging behaviour?

First, assessing whether a behaviour constitutes hedging is a demanding analytical exercise. Since states rarely if ever admit to hedging, scholars will have trouble finding confirmatory evidence in the form of strategic documents, speeches, or interviews by policymakers. This is why we prefer to look at hedging as a *behaviour* rather than a *strategy*, which would presuppose a conscious plan, rather than being the result of *ad hoc* actions. For example, a European state may seek Chinese investment simply because it needs that investment for domestic political reasons, without anticipating that the U.S. might perceive those deepening economic ties as a problematic action. Such a misunderstanding is more likely to happen when governments function without bureaucratic structures that effectively give strategic direction to their actions, allowing, for example, the Minister for Economic Affairs to act autonomously without due consideration to the foreign-policy issues that lie outside its are the remit. In such cases, hedging behaviour results not from a 'grand-strategic' decision, but from disparate sectoral policies.

When there is a strategic design, hedging may be intended to keep open the possibility of *switching* allegiance if the balance of power ever shifts decisively. We could call this an "insurance" strategy (Kuik, 2016; 2021), designed to kick in only after the traditional great-power ally falters (Ciorciari & Haacke, 2019, p. 368). Alternatively, hedging may be thought of a means of *signalling* dissatisfaction to the traditional great power ally (Lim & Cooper, 2015, pp. 697-698). Using the network lens mentioned above, state A would be leveraging its ties with state B in order to show state C that has more value than C presently accords it. It is also conceivable that decision-makers think of hedging in both ways: simultaneously as an insurance policy against the risk of 'abandonment' (Snyder, 1984) by a great power, and as a way of signalling their value as an ally and therefore reduce the likelihood of being abandoned.

Regardless of the strategic intent behind hedging behaviour, the relationship between small /medium powers and great powers remains central to the concept, which leads us to the question of the systemic drivers of hedging. It is especially when a revisionist great power is making its impact felt on the international system that states of more limited means are incentivised to engage in hedging (Murphy, 2017). Thus, Kuik (2021) regards



the behaviour of great powers as the origin of hedging, as “it is the uncertainties stemming from their actions that push the weak to hedge” (Kuik, 2021, p. 300). However, great-power behaviour may also push in the opposite direction: Today, the room for manoeuvre that allows states to pursue a hedging strategy appears to be shrinking, as many small and medium states face greater pressure from great powers to declare their alignments and stick to them (Korolev, 2017).

Indeed, the general absence of hedging during the Cold War can be ascribed to the ‘tightness’ of the distribution of power in the bipolar world (Wagner, 1993). The unipolar order of the post-Cold War world may have created incentives for hedging, as the lack of great-power rivals to the U.S. made the hegemon less anxious to control the relationships of weaker states, resulting in a ‘loose’ distribution of power. Today, an increasing multipolarity can be thought of as expanding the menu for states looking to diversify their relationships; alternatively, however, the same dynamics can make the U.S. more intent on preventing its traditional allies from allowing rivals, particularly China, to gain influence in their economies or infrastructure networks.

Even if the international system is slipping from unipolarity to multipolarity, that need not equate to a ‘looser’ distribution of power. As power becomes more evenly distributed, the former hegemon faces incentives to pressure weaker states to align more closely with it, not just in security-related matters, but also in other areas of policy in which its rivals may begin to chip away at its influence. Hence the current trend of “geo-economics”, a post-Cold War concept created to account for the use of economic tools in the service of strategic objectives (Luttwak, 1990; Blackwill & Harris, 2016). The U.S.-China rivalry has been increasingly seen as a geo-economic struggle playing out in the domains of foreign investment (Beeson, 2018), infrastructural control (Munn, 2020), and technological innovation and diffusion (Zhang, 2024).

On the receiving end of these great-power outreaches are the small and medium states who accept investment in their economies, let third parties build or own critical infrastructure in their territories, and participate in the development and diffusion of leading-sector technologies. Again, these decisions are not necessarily made on the basis of a grand-strategic vision of how the state should position itself in the international system. Domestic drivers can be just as important; after all, as Kuik (2021) puts it, “Creating jobs, delivering economic growth, ensuring stability, managing internal conflicts, and/or winning elections are (...) vital pathways to preserving the ruling elites’ legitimacy and enhancing their authority” (p. 310). *Ceteris paribus*, these domestic goals become more difficult to achieve under certain systemic conditions, namely when the international system is characterised by a high degree of uncertainty, which amplifies the risks that states must reckon with when devising policy.

Luso-American relations from the end of the Cold War to the financial crisis

Derivative power (Long, 2017) – originating from a small state’s relationship with a great power – has been essential for Portugal’s survival over nine centuries. The country’s limited means and exposure to Atlantic politics via a long coastline and two oceanic



archipelagos has historically made it particularly keen to adapt to the policy of whichever great power dominates Atlantic sea lanes, often perceiving that alliance as a counterweight to excessive dependence on continental powers, especially Spain (Teixeira, 2010). For a long time, that meant siding with Great Britain, with whom Portugal could draw on an alliance said to date back to the 14th century. After World War II, the focus shifted to the U.S., and the careful management of the Luso-American relationship became a central concern of policymakers in Lisbon. During the Cold War they were generally successful in that task: It is perhaps impossible to explain how Portugal managed to hold on to vast colonial possessions in Africa until 1975 without accounting for the political, financial, and at times military support extended by the U.S., mainly in return for access to Lajes Air Base, in Terceira Island (Gomes, 2025).

The end of the Cold War and the beginning of America's unipolar moment (Krauthammer, 1990/1991) in 1989-1991 brought widespread uncertainty about the role that the U.S. would play in the world. Portuguese decision-makers had reason to worry, as Lajes Base, in the Azores, had been instrumental to American force projection and maritime surveillance for decades (Mendes, 2018). In return for basing access, Portugal received American economic and military assistance in non-trivial amounts (Cooley & Spruyt, 2009). Lajes was seen as the "cornerstone" of Luso-American bilateral ties (Lima, 2016, p. 85), which were believed by many in Lisbon to amount to a "special relationship" (Vasconcelos, 1990, p. 51). As Robinson (2016) put it, "Any potential removal of Lajes from this relationship" would be "an existential crisis for Portugal's role in NATO" (p. 137), a key pillar of its foreign policy.

As the Cold War ended and Soviet submarines disappeared from North Atlantic waters, the Azores immediately lost much of its relevance to American and NATO maritime surveillance (Cooley & Spruyt, 2009, p. 133). If a hegemonic U.S. could also dispense with Lajes as an enabler of force projection, then there would be little to differentiate Portugal from other European allies and – particularly worrying for Lisbon – from Spain, its larger neighbour which was now also in the EU and NATO and hosted U.S. forces at important military bases (Gillespie & Youngs, 2000). The situation was similar in many ways to the danger of irrelevance that threatened Portugal in 1907, after Great Britain and Spain signed the Pact of Cartagena (Teixeira, 2017, pp. 441-442, 469).

This time, however, decisionmakers in Lisbon had more options. In a unipolar world, hedging was not a real possibility, since there were no great powers other than the U.S. with which Lisbon could engage. But deepening European integration meant that the European Union (EU), as it became in 1993, could perhaps provide Portugal with security, prosperity, and diplomatic agency. Two main schools of thought came to dominate foreign-policy debates in Lisbon: Atlanticists and Europeanists (Teixeira, 2017, p. 570). Others saw the Lusophone world as a third strategic vector: By acting as a *bridge* between these three regions, they believed, Portugal could not only maintain these three strategic orientations simultaneously but even increase its profile in all three (Robinson, 2016, pp. 144-145). Regional crises often motivated American military intervention, offering Lisbon opportunities to assert its status as a trusted ally by extending diplomatic and, via Lajes Base, logistical support. Such was the case of the 1990-1991 Gulf War, during which Lajes provided a platform for American tankers (Cruz, 2019, p. 217) and cargo aircraft (Matthews & Holt, 1992, pp. 125-126).



At the same time, the 'Europeanisation' of Portugal continued apace. Since joining the European Economic Community in 1982, integration had gradually pulled the focus of Portuguese foreign policy to the Old Continent, creating the potential for friction between Lisbon and Washington whenever there were serious transatlantic disagreements. Besides being a member of the EU, Portugal also supported initiatives to deepen integration, including in the realms of security and defence through frameworks such as the Common Foreign and Security Policy (CFSP) and the Western European Union (WEU) (Vasconcelos, 1990, 53; Teixeira, 2017, pp. 570-71) and later the Common Security and Defence Policy (CSDP) However, Portugal resisted "supranationalism" its security and defence policy, insisting on an intergovernmental approach to these matters within the EU and continuing to bet on NATO's as the main framework for defence issues (Robinson, 2016, p. 143).

The financial *quid pro quo* model of American basing access to the Azores, which in the 1980s had delivered some \$40 million yearly to Portugal (Cooley & Spruyt, 2009, p. 133), was finally abandoned in 1995. The U.S. Congress was keen to phase out its 'rent-for-access' deals as it thought these allowed countries such as Greece, Turkey, and Portugal, to squeeze American coffers by periodically threatening with the expulsion of U.S. forces (Clarke & O'Connor, 1993, p. 441). A new framework, the Defence and Cooperation Agreement, was signed by the U.S. and Portugal in 1995. It completely replaced financial compensations with a process of regular consultations through meetings of a Permanent Bilateral Commission, in which representatives from the U.S., Portugal, and the autonomous government of the Azores would seek ways to deepen cooperation in the realms of the military, defence industry, commerce, and scientific research (Diário da República, 1995, arts. III, VI, VII).

Henceforth, Portuguese decision-makers had to be particularly attentive to American handling on regional conflagrations, but by the end of the 1990s they appear to have made a series of mistakes. They seemed to undervalue the lessons from NATO's first out-of-area operation, the enforcement of a no-fly zone over Bosnia and Herzegovina in 1993, and misread later American interventions, first in the Middle East in 1998 and again in the Balkans in 1999, as confirmation of the usefulness of Lajes Base, when in fact they could be seen as showing the exact opposite (Monjardino, 2001). In hindsight, the belief in the usefulness of Lajes and the strength of the supposed 'special relationship' with the U.S. may be interpreted as a manifestation of the Portuguese policy elite's fear of 'abandonment' (Snyder, 1984) by its great-power ally. By refusing to face facts and retaining a belief in the ability of its diplomats to persuade American decisionmakers, Portugal worked itself into a vulnerable position.

Given all of this, it is not surprising that Portugal should be emphatic in its support after the U.S. suffered the traumatic attacks of 11 September 2001. In the ensuing invasion of Afghanistan, Portugal not only allowed Lajes Base to be used by the U.S. Air Force for transport and tanker operations but also contributed to the war effort with military equipment and civilian personnel, and special ops units (Tirpak, 2003, p. 27; Lima, 2013a, pp. 67-68). The 2003 invasion of Iraq proved a more contentious issue in transatlantic relations and within Portuguese society and political elite, but Portugal still adopted a proactive stance in support of U.S. plans to topple Saddam Hussein without a UN mandate. In March 2003, Portuguese Prime Minister José Manuel Durão Barroso



managed to position the country as a relevant ally by hosting a summit in Lajes Base that brought together the heads of government of the U.S. and its leading backers in Western Europe: the UK, Spain, and Portugal (Guardian, 2003). Portugal did not send troops to Iraq, but members of its military police (GNR) helped to train the new Iraqi police force.

The assessment of Portugal's role would prove contentious given the unpopularity of the Iraq War (Lança, 2017). However, its support of the U.S. may have averted the risk of Spain staking out a position as the preferred Iberian ally of the U.S., a scenario akin to that of the 1907 Pact of Cartagena (see above) and one which Portuguese diplomacy had always feared (Sá, 2016, p. 561). The rift caused by the Iraq War and the global war on terror continued to cause irritation between the U.S. and its European allies until the 2008 election of Barack Obama to the White House helped to generate goodwill towards the U.S. in Europe. The incoming president's promise of a more multilateral approach to foreign policy came as a relief to European capitals, and his approval ratings remained high in the Old Continent for years to come, even if U.S.-European divergence continued on many crucial issues (Nielsen, 2013).

The high hopes for transatlantic relations during Obama's tenure were somewhat dented by his administration's announcement of the 'pivot to Asia' – the idea that the rise of China and other Asian economies meant that the U.S. would from then on transfer its foreign-policy energies from the Atlantic to the Pacific (Clinton, 2011). In January 2012, the 'Asian pivot' was translated into defence policy in the Defence Strategic Guidance, which stated the aim of "reducing defence spending by about \$487 billion over 10 years", with the savings to be achieved partly through "a shift in geographical priorities toward the Asia and the Pacific region (...) while retaining emphasis on the Middle East" (Dale and Towell, 2013, pp. 1-2).

Despite that and other signals that the 'Asian pivot' was not a theoretical exercise, but rather an actual strategic shift, Portuguese decision-makers still showed themselves shocked and surprised by the American decision in November 2012 to downsize the U.S. forces based at Lajes (JN, 2012a). With an expected reduction of military personnel from around 760 to just 169 by 2014 (GEE, 2016, p. 17), the downsizing was perceived as shaking the very foundations of the Luso-American relationship. The fear of 'abandonment' had finally come to pass in a concrete, unignorable manner. Lisbon's diplomatic strategy was to attempt to revert the decision or at least obtain from the U.S. the installation of some alternative military infrastructure on the island. It achieved neither, managing only to delay the drawdown by a year (Gomes, 2025, pp. 311-313). It finally went ahead in 2015, to the general alarm of Portuguese and Azorean authorities over the impact on the economy of Terceira Island, where U.S. forces at Lajes Base employed more than 700 locals and generated significant economy activity (GEE, 2016, p. 36).

The blow to Luso-American relations and to Portugal's prestige could not have come at a worse moment, as the country had been embroiled in a financial and economic crisis for some years. The crisis had first broken out among U.S. financial institutions in 2007 and had gone global by the following year. In the Euro area it took the form of a sovereign debt crisis lasting from 2009 to as late as 2018 (in Greece). In Portugal, the worst of the



crisis was felt between 2011 and 2014, when the country implemented austerity measures, government budget cuts, and public sector reforms to meet the conditions for a €78 billion bailout. The painful fiscal adjustment programme, enforced partly by European institutions, was deeply resented by the majority of the Portuguese public (Moury and Freire, 2013).

With other European partners also beset by financial and economic difficulties – especially Spain, Portugal's main trade partner (INE, 2014) – it is natural that Lisbon should turn to the U.S. for economic opportunities. By 2013, Portugal had a €1156 million trade surplus with the U.S. (Leão and Nogueira, 2014, p. 5) and most of its exporting sectors were well placed to benefit from increased access to the U.S. market if the proposed U.S.-European trade agreement, the Transatlantic Trade and Investment Partnership (TTIP), went ahead (Leão and Nogueira, 2014). Since trade negotiations are long and complex processes, those benefits might not come in time to help Portugal out of its crisis, but in any case, the TTIP foundered when Donald Trump became president in 2017 and quickly initiated a trade dispute with the EU (Bilal and Imran, 2019, pp. 3-4, 16-17). With no help coming from either Europe or the U.S., Portugal decided to look farther away for investment and economic growth.

China and Portugal after the 2008 Economic Crisis

The 2008 global financial crisis placed Portugal in a state of economic fragility that persisted in the following years. It was marked by high indebtedness, prolonged recession, and growing dependence on external assistance. As the EU proved unable to find effective solutions to the financial predicament – particularly in the peripheral regions of Southern Europe – countries such as China emerged as alternative sources for economic revitalization. Since the mid-1990s, the EU had been setting the rules for the West's relationship with China, in an example of the 'Europeanization' of Member States' foreign policies (Michalski, 2013). After Tiananmen, these were the years of "constructive engagement", a concept used by the European Commission in 1995 (Möller, 2002). Bilateral relations followed this pattern, with ties dominated by the economic agenda rather than political issues.

In this, Brussels revealed structural weaknesses. In its relationship with China, the EU's position was dominated by the major European powers, particularly Germany. Germany assumed the role of the "engine of Europe," driving massive exports of machinery and automobiles to China while purchasing cheap oil from Russia. Berlin became the indirect decision-making centre of the European economy, leaving Portugal and other Southern European countries in a vulnerable position, with diminished competitiveness (Münchau, 2024). Later, in the context of the sovereign debt crisis, Europe became a preferred destination for Chinese investment in the West, with Portugal standing out as a major recipient of capital inflows (Le Corre & Sepulchre, 2016).

The "wave of Chinese investment" across Europe gained momentum and reached Portugal mainly through the acquisition of equity in state-owned or private companies, primarily in the banking, insurance, and energy sectors (Ferreira-Pereira and Duarte 2021). Between 2011 and 2014, quantitative data indicate that Portugal ranked among



the top five European countries in terms of Chinese investment relative to the size of the economy (Araújo, 2024). Despite some analysts' surprise, Portugal also signed a strategic partnership with China, with its ties to the wider Lusophone world – encompassing over 220 million Portuguese speakers – regarded as geopolitically significant for Beijing (Le Corre, 2018).

Diplomatic ties between Portugal and China had always operated within a framework of good relations and this was strengthened by the successful transfer of Macau's administration to China in 1999. High-level meetings continued, even though economic exchanges between the two sides remained relatively modest, in contrast with other European countries such as Germany. The investment bubble changed these circumstances. In 2011, it was announced that China Three Gorges (CTG) had acquired a 21.35% stake in Energias de Portugal (EDP) for around €2.7 billion; the following year, State Grid (SG), part of the same group, purchased a 25% stake in Redes Energéticas Nacionais (REN) for approximately €387 million (EDP, 2011; Campos and Vicente, 2016). The investment from CTG, a Chinese state-owned energy company established in 1993 during the construction of the Three Gorges Dam on the Yangtze River, marked the beginning of Portugal's 'golden era' of Chinese investment (Silva, 2020).

Xi Jinping's visit to Portugal on 4–5 December 2018 served to consolidate bilateral cooperation. Portugal and China signed 17 bilateral agreements, with a focus on business and financial cooperation, at the Palace of Queluz. The Prime Minister, António Costa, sought to attract Chinese investments for partnerships with Portuguese companies, particularly in the industrial sector, rather than for asset acquisitions. Portugal was also indebted to China for its support of António Guterres' candidacy for UN Secretary-General in 2016. The Portuguese Prime Minister considered this support "decisive," personally expressing gratitude to the Chinese head of state during his official visit: "I take this opportunity to thank the People's Republic of China for its clear and firm support for António Guterres' candidacy for the position of Secretary-General of the United Nations" (Portuguese Government, 2016).

The 2018 visit also resulted in a memorandum of understanding on the BRI, particularly the "21st Century Maritime Silk Road" component, in which Portugal showed interest in participating. In the business sector, agreements were signed between Banco Comercial Português (BCP) and UnionPay. Another agreement signed was between Huawei and the Altice Portugal, the largest telecommunications provider in the country, for the roll out of 5G cellular networks. Huawei, founded in the late 1980s by Ren Zhengfei, a former officer of the People's Liberation Army, had become one of the world's most influential technology companies. Competing with major global players such as Cisco and Ericsson, Huawei's ascent has significantly intensified competition in the sector (Li, 2017). In higher education, plans were made to open a new Confucius Institute at the University of Porto and to establish a Chinese Studies Centre at the University of Coimbra. In late April 2019, President Marcelo Rebelo de Sousa reciprocated Xi's visit with a two-day trip to Macau, where he met the Chief Executive, Chui Sai On. His visit also included participation in the second Belt and Road Forum, a clear signal of Portugal's engagement in the Chinese mega-project (Silva, 2020).



Another area of mutual interest was the Atlantic, where Portugal's main source of geopolitical leverage lies. The 'Portuguese sea' holds enormous potential – energetic, commercial, logistical, financial, and, above all, political (Lima, 2016). Naturally, Portugal sought to attract investment into its maritime-port sector. For this purpose, the Minister for the Sea, Ana Paula Vitorino, undertook a trip to China in June 2018. In May the following year, Minister Vitorino accompanied a delegation that included the Minister of Natural Resources of the People's Republic of China, Lu Hao, to the Port of Sines. This visit, which took place within the framework of the Oceans Meeting 2019, aimed to showcase the operations and potential of this port infrastructure, the new investment opportunities at the port of Sines, and the potential role of Portugal and Sines in the BRI (Silva, 2020). Promoting the port of Sines to Chinese investors, the minister emphasized that "[it is] impossible for China to reach Europe without passing through the westernmost country of Europe," highlighting the need to extend the Maritime Silk Road to this final piece of the puzzle (Silva and Pereira, 2020). The aim was to enhance the future second container terminal, named Vasco da Gama, at the deep-water port of Sines, as well as to expand the existing Terminal XXI – developments that would allow the Portuguese port to accommodate even larger container ships. Portugal's strategy was to establish Sines as a leading port at the strategic crossroads between the Mediterranean Sea and the Atlantic Ocean.

Chinese interest in the Azores was also evident, though not openly acknowledged due to China's competitive stance with the U.S. (Rodrigues and Silva, 2020). Since 2012, there were clear signs – although cloaked in traditional Chinese diplomatic symbolism – that indicated China's interest in the Azores, even if political actors cautiously denied this. That year, Chinese Premier Wen Jiabao made a five-hour stop in Terceira Island, where Lajes Base is located. The discussions paved the way for the potential creation of a Portuguese-Chinese research center focused on marine sciences, involving the University of the Azores. In 2014, Xi Jinping also stopped in Terceira, where he met the President of the Regional Government of the Azores (Lusa, 2014). In 2016, Premier Li Keqiang made a two-day visit, which reportedly led to "worries" among Washington policymakers (Ames, 2016).

In 2017, a delegation from the Chinese Ministry of Science and Technology and the Chinese Academy of Sciences visited the Azores to assess the islands' potential for the development of joint projects (Macao Forum, 2017). Among the scientific, business, and political sectors, a dynamic network of contacts and interactions emerged, although the results fell short of expectations initially raised. Specifically, the International Atlantic Research Center (AIR Centre) was established, involving the regional government, the University of the Azores, and the Foundation for Science and Technology (FCT). The AIR Centre brought together several international partners from the Atlantic basin, but left out China, which did not invest in the project (Silva, 2020).

The post-financial crisis period of deepening bilateral ties between China and Portugal had its high-water mark in 2019. Regarding the state of bilateral relations in that year, Ambassador José Augusto Duarte stated:

In a single word: Excellent. To elaborate, despite Portugal and China having a long-standing relationship of dialogue and mutual understanding, initiated



in 1513 and without a single military conflict, it has been in the past 40 years that contacts between the two countries have intensified substantially, with all Presidents of both countries exchanging bilateral visits since 1980, the successful negotiations for the return of Macau, and more recently, the growth of economic relations—both in trade and investment (Duarte, 2019).

However, 2020 would bring new challenges for Europe-China relations due to a global pandemic that disrupted the flow of globalization. COVID-19 not only interrupted routine foreign-policy initiatives, but also introduced contentious issues in interstate relations, including vaccine development and provision, disparate travel restrictions and lockdown policies, and even giving rise to a 'blame game' over the origins of the SARS-CoV-2 virus (Cabestan, 2022; Loh and Loke, 2024). Nevertheless, trade with China still provided Portugal with an expanding outlet for exports in 2021 (p. 88).

Dancing with the Powers: Lisbon between Brussels, Washington, and Beijing since 2019

If we take Portuguese foreign policy to be predominantly "Euroatlantic" since 1976, when it became a liberal democracy, then there could not but be a sense of existential crisis in 2012-2015. This period saw the coincidence of America's Asian pivot – made very real for Portugal with the downsizing of the forces at Lajes Field – and the rigorous treatment at the hands of European institutions during the Eurozone crisis. The acronym TINA – standing for "There is no alternative" was used for austerity policies in several EU countries, Portugal included, but it seemed to also apply to foreign policy. But perhaps there *was* an alternative, and investment and prestige could be found elsewhere. Given that, as we have seen, the alternative came in the shape of China, a rival great power to the U.S., making Portugal's receptiveness to Chinese advances a case of hedging.

Thus, it was within the constraints of a small state whose traditional diplomatic alignments are faltering that Portugal sought to diversify its diplomatic economic partnerships, albeit without any desire to burn bridges with its Euro-Atlantic partners. As a member state of the EU and a founding member of NATO, Portugal has tended to align closely with the U.S. in strategic, political, and military terms, but both in 2012-2015 and in the post-pandemic period this alignment has recently proven contextual and moderate. Uncertain that it could continue to draw on a supposed 'special relationship' with the U.S. as a source of derivative power, Portugal has increasingly valued European "strategic autonomy", an idea also supported by Chinese diplomacy. But European policy towards China has also shifted following COVID-19 pandemic, increasingly framing China as a systemic rival, a perspective in many ways justified by China's global ambitions and by Trump's own 'America First' agenda, which ushered in frequent great-power clashes.

In this context, China – its role in the international system and its relations with different states – quickly became the focus of public debate, while at the same time its image in many parts of the world began to deteriorate (Pew Research Center, 2020). This increasingly negative perception of China resulting from the COVID-19 'blame game' was also evident in the Portuguese case, though not to the same extent as in U.S.. This may



have influenced the Portuguese government to adopt a more cautious approach in its relations with China (Fernandes et al., 2022). Even before the pandemic, the EU had been on the same path as a response to the pressure from the Trump administration. The European Commission's EU-China Strategic Outlook stated clearly that:

China is, simultaneously, in different policy areas, a partner for cooperation with whom the EU has aligned objectives, a negotiation 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 in promoting alternative governance models (European Commission, 2020).

In practice, however, Portugal and other states did not adhere completely to the EU's new line on China. The rift started to become noticeable in the Euro area crisis. As shown by Raimundo, Stavridis and Tsardinidis (2021), the perception of a harsh treatment at the hands of European institutions led to a relative 'de-Europeanization' of Portuguese foreign policy. The authors demonstrate this precisely through Portugal's approach to China, which started to diverge from the EU mainstream by deepening ties with China, albeit not as overtly as Greece and always attempting to separate political and economic issues (p. 444).

Indeed, Portugal's hedging behaviour was carefully limited, as it continues to prioritize its relations with liberal democracies that have pluralistic political systems, hold free elections, and uphold the rule of law. It does not make its privileged presence in Macau over the centuries a differentiating factor, instead following the same diplomatic line as the EU. It remains committed to defending the liberal international order and the institutions that support it, and does not support revoking the current international order, promoting illiberal values, or advocating for global "dedollarization". Despite this, Portugal maintains important economic relations with China, even though China has a one-party authoritarian regime, with strong police control and very limited individual freedoms. Beijing has reintroduced the 'strongman' leadership model in the figure of Xi Jinping, to the detriment of political institutionalization (Tsang, 2024). Lisbon has stepped back from its initial cooperative stance, now expressing some reservations. One example is Lisbon's more cautious position regarding certain technologies, such as 5G.

European institutions adopted a cautious approach to China, balancing engagement with security and emphasizing coordinated transatlantic strategies. Technological competition became one of the main focal points, as the U.S. and China compete over next-generation wireless networks and the development of leading-edge Artificial Intelligence. China has invested heavily to achieve strategic leadership and develop a self-sufficient domestic tech industry, while collaborating with foreign partners for expertise and market access. These technologies raise concerns about data security, espionage, and manipulation, especially since Chinese private companies are legally aligned with state interests, including intelligence and military objectives, at a time when societies seek to limit digital disinformation.

In Portugal as in many other European countries, Huawei became the focus of the tussle between the U.S. and China over communications infrastructure (Tang, 2022). Portugal's



leading telecoms operator signed a memorandum of understanding for the development of 5G networks in the country (Huawei, 2018). In a visit to Portugal in December 2019, U.S. Secretary of State Mike Pompeo warned the country against the “security risk” of allowing Chinese Huawei into its telecommunications system, to which Chinese diplomacy responded by accusing the U.S. of “Cold War mentality” (DN, 2019). The U.S. stepped up the pressure over the following year, with several U.S. officials, including the Ambassador, prodding Portugal to reject Huawei involvement in any part of its communications network (Lusa and Público, 2020). Eventually, Lisbon bucked to American pressure and aligned with European policy on the issue through a 2023 deliberation of the High Council for Cyberspace Security² declaring 5G technology to be a “high risk” matter from which countries not belonging to the EU, NATO, or the OECD should be excluded as partners (PCM, 2023).

Thus, Portuguese hedging was curbed as the government clearly began to shift its previous relationship with China, aligning more closely with the Euro-Atlantic axis. Reports began to be published, and information disseminated about the dangers of Chinese technology, fuelling public concern. The 2018 Global Cybersecurity Index (GCI, 2019) ranked Portugal 42nd globally and 25th in Europe, a relatively modest position. By comparison, Spain ranks 7th globally and 5th in Europe; the U.S. is 2nd worldwide, following the United Kingdom, while China ranks 25th globally. The 2020 Annual Internal Security Report (RASI), submitted to the Portuguese Parliament in March 2021, mentioned an increase in state-sponsored cyber-espionage originating from China and Russia (Portuguese Government, 2020).

Conclusion

Framed by the chronology of Portugal’s relationship with the U.S. and of Portugal’s difficult relationship with the EU during the Euro area crisis, the ‘intensification’ of Portuguese-Chinese dialogue certainly appears to be prompted by the simultaneous failure of the two pillars of Portugal’s Euroatlanticist foreign policy; in other words, a case of hedging. Thus, Portugal’s position in the contemporary world is divided between its long-standing diplomatic commitments and the new opportunities for cooperation with rising powers. In a context marked by competition between China and the U.S., smaller and less powerful actors such as Portugal are compelled to carefully manage their external relationships. The country’s alignment with the liberal democratic sphere, and particularly with Washington, forms the foundation of its foreign relations. Due to the physical, political, and cultural distance – despite centuries of interaction – Portugal’s relationship with Beijing is less evident and close. It does not appear that it has ever been China’s intention to converge with Western political values and models, and for that reason, the relationship will always remain of secondary importance.

The Euro area crisis, which coincided with a difficult period in Luso-American relations, created the conditions for the country to pursue a somewhat different path. Its closer relationship with China, however, was one of occasional and transactional opportunities rather than a structural partnership. The two nations belong to distinct political spheres

² Conselho Superior de Segurança do Ciberespaço.



that are now on a collision course, even though Lisbon's openness to the Global South remains intact. This outcome appears to support the idea that hedging is becoming more difficult to carry out in a world where great-power conflict is more intense. Portugal did not abandon any of its traditional relationships, and the dominant narrative about its foreign policy remained that of 'Euro-Atlanticism'. However, Portugal also welcomed China's soft-power advances, receiving investment in areas critical to national security, such as the electric grid, potentially sowing the seeds of future vulnerability to pressure from the rising systemic rival of the U.S.. From these circumstances, it appears that the main driver of that hedging behaviour was the economic and financial crisis. If that were all – if Portugal was only seeking resources for domestic reasons – the idea that Portugal was not strategic about its hedging would be strengthened.

However, it should not be forgotten that in 2012-2015 the U.S. had downsized their military presence in the Azores and showed little openness to the attempts of Portuguese diplomacy to find alternatives to it. If the feeling of being (at least partly) abandoned by its traditional great-power ally influenced in Portugal's decisions regarding the deepening of ties of China, then an external driver is added to the more obvious domestic motivation. One indication of this is the way in which the outreach to China was used by policymakers to improve their negotiating position vis-à-vis the U.S. over the Lajes Base issue. After the announcement of the American drawdown, national newspaper *Público* retroactively interpreted Wen Jiabao's visit a few months earlier as a useful demonstration of Chinese interest in using the base themselves (Lourenço, 2012). After diplomatic efforts failed and the downsizing went ahead in 2015, the President of the Azorean Regional Government, Vasco Cordeiro, gave an interview to national broadcaster *RTP* where he was asked whether if the country might "think about delivering Lajes to China as a way to put pressure on the Americans". He rejected any military use by Chinese forces but pointedly did not do so for civilian uses (RTP, 2015), suggesting that China had indeed become a trump card in negotiations with the U.S..

In this account, hedging appears as a conscious, and therefore strategic, choice. Whether that strategy was one of 'signalling' to the U.S. that Portugal had value as an ally, or one of seeking an 'insurance policy' against complete abandonment for the U.S. – or indeed both – is a question worthy of future scholarly attention. Answering it matters not only for the burgeoning academic literature on hedging and its use by European small states, but also because, after COVID-19 and now faced with a more unilateral U.S. foreign policy, Portugal may be tempted to resume its hedging behaviour towards China. If Prime Minister's Luís Montenegro's trip to China in September 2025 is any indication, this question will continue to demand an answer in the coming years.

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