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PORTUGUESE STRATEGIES TOWARDS CHINA DURING THE COVID19 PANDEMIC

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Abstract

Small states, despite their power deficits, are able to influence large states. This paper explores how Portugal appears to have selected strategies to modulate yet improve its relations with China during the Covid19 pandemic. According to the Theory of Asymmetrical Negotiations (TAN) advanced by Habeeb, small states adopt soft strategies when they have high levels of commitment, worse alternatives available to them, and a low degree of control. During the pandemic, an increase in deficits drove Portugal's government to seek to expand exports, attract investment, and improve its competitiveness. The authors find that Portugal has exhibited different behaviour regarding commitment, seeking alternatives, and exerting control in issues related to investment, export, and competitiveness. Portugal has flexibly employed soft strategies towards China during the pandemic, while reacting to external intervention from the US and maintaining internal compliance within the EU. With these strategies, Portugal has successfully, and without conflict, defended its interests, maintained its EU status, and limited the intensity of competition between the US and China regarding Portugal.

Keywords

Portugal-China relations; small states; covid19; Theory of Asymmetrical Negotiations; strategy choices

Resumo

Os pequenos estados, apesar dos seus défices de poder, são capazes de influenciar os grandes estados. Este artigo explora como Portugal parece ter selecionado estratégias para modular mas melhorar as suas relações com a China durante a pandemia de Covid19. De acordo com a Teoria das Negociações Assimétricas (TAN) avançada por Habeeb, os pequenos estados adotam estratégias suaves quando têm altos níveis de compromisso, piores alternativas disponíveis, e um baixo grau de controlo. Durante a pandemia, um aumento dos défices levou o governo português a procurar expandir as exportações, atrair investimento, e melhorar a sua competitividade. Os autores constatam que Portugal tem demonstrado comportamentos diferentes no que respeita ao compromisso, à procura de alternativas e ao exercício do controlo em questões relacionadas com investimento, exportação e competitividade. Portugal tem utilizado de forma flexível estratégias brandas em relação à China durante a pandemia, ao mesmo tempo que reage à intervenção externa dos EUA e mantém a conformidade interna dentro da UE. Com estas estratégias, Portugal tem defendido com sucesso, e sem conflitos, os seus interesses, mantido o seu estatuto na UE, e limitado a intensidade da concorrência entre os EUA e a China em relação a Portugal.

Palavras-chave

Relações Portugal-China; pequenos estados; covid19; Teoria das Negociações Assimétricas; escolhas estratégicas

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PORTUGUESE STRATEGIES TOWARDS CHINA DURING THE COVID19 PANDEMIC

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1. Introduction

While previous studies concerning relations between Portugal and China have tended to focus on the strategies that could be ascribed to China, this article makes of use of the Theory of Asymmetrical Negotiations (TAN), advanced by Habeeb in 1988, to analyse how three factors - commitment, alternatives, and control – can be said to have influenced Portugal's strategies towards China during the Pandemic. The paper tests the effectiveness of TAN in explaining the strategy choices made by small states towards large states, and thereby enriches our understanding of Portugal's ongoing diplomacy, and the diplomatic possibilities available to small states.

In this paper the term *commitment* refers to the extent to which small states need to achieve their own defined goals, and *alternatives* refers to the range of choices available to small states, other than relying on a large state, to achieve its defined goals. The expression *control* refers to the ability of a small state to mitigate the costs of declining to cooperate with an involved larger state, to achieve its goals. The Theory of Asymmetrical Negotiations holds that when a small state has a high level of commitment, unfavourable alternatives, and limited control over a single issue in its relations with a large state, it is at a disadvantage in terms of the 'balance of power', and resorts to soft negotiation strategies. Conversely, when a small state has a degree of advantage, it tends to adopt hard negotiation strategies. This article tests this supposition and argues that small states generally adopt mixed strategies since the 'balance of power' is always in flux.

Portugal is taken here as a case study, and not without reason. Portugal was engaged for years in negotiations with China over the return of Macau to Chinese sovereignty in the 1990s, and as Mendes noted, "The Sino-Portuguese negotiations demonstrate how complex it is for a small, weak country with a tangled political bureaucracy to define strategy, aims and alternative scenarios when negotiating with a large and relatively strong state." (Mendes, 2013:114). Lewis (2009: IX) argued that small states have three specific vulnerabilities. Firstly, they suffer from a resource vulnerability that derives from the physical location of the state. Secondly, they experience socio-political vulnerability that arises from the management of the state's policy operations and the stability of its decision-making processes. Thirdly, and contestably most important of the three in today's world, is the economic vulnerability that a state experiences, as an economic unit of a specific geographical size in relation to both its domestic resources and the networks of international transactions in which it is involved.

Portugal clearly presents an example of all three vulnerabilities. According to World Bank data, Portugal has a relatively small population of only 10.3 million citizens, thus ranking in 88th place in world ranking. Its territory of a little over 92 thousand km^2 gives it a world ranking of 109th position in size. Portugal's relatively small population and limited territory have resulted in an economic structure that has led to persistent fiscal deficits and generally low economic activity. The result has been that the divergences between the main political parties over fiscal policy have led to a low level of policy continuity.

Portugal may be small, but it is not weak since it has at its disposition rich diplomatic resources, and promotes economic and technological issues to its advantage. In the diplomatic dimension, Portugal is a European Union (EU) member-state, an ally of the United States (US), and active in establishing a coalition with Portuguese-speaking Countries (PSCs) within the Community of Portuguese-speaking Countries (CPLP). In the economic dimension, Portugal's renewable energy industry can be considered to be at an advanced level. In the technological dimension, Portugal occupies a position at the medium level within the EU, particularly with regard to its initiatives in renewable energy, space technology, new materials, and biotechnology (OECD, 2013). China, the US, and the EU itself have been the three principal sources from which Portugal could borrow financial resources to enable it to address the increased vulnerabilities that it faced during the pandemic. Portugal, as the small state that it is, experienced a high fiscal deficit, social unrest, and even political crisis, thus demonstrating its vulnerability to external shocks. The Portuguese administration took attracting investment, expanding exports, and enhancing its international competitiveness as its key goals to address its vulnerabilities, and consequently has a high commitment to them. When considering whether there were choices available to Portugal, there were few other possibilities, and on top of that it was a fact that, leaving aside the EU, Portugal would face the two dominant economic powers. Ultimately, "For a small country, negotiations with a power require a lot of preparation in order to keep a good level of intervention during the talks. It also demands the understanding of the real intentions of the power so as to conclude whether an issue is really vital for the strong state." (Mendes, 2013: 114)

In March 2019, Brussel launched ten strategic actions aimed at China in its *EU-China: a Strategic Outlook*, and requested EU member-states to strengthen their monitoring and regulation of Chinese investments in the region. The US and EU both exerted pressure on Portugal and offered it alternatives in attempts to reduce any increased commitment on Portugal's side to China. As support, Portugal has access to EU's funds and the internal market as a member-state, while the US provides access to the export market, investment, and technology. Support has come with conditions. The US has defined China as a strategic competitor and has clearly stated that American liquefied natural gas (LNG) would not be allowed to enter the European market through the Portuguese port of Sines if the port were to accept Chinese investment, or if Portugal cooperated with Huawei in the 5G field (DN/Lusa, 2019; Ferreira and Gaudêncio, 2020; Lusa, 2020; Machado, 2020). Furthermore, if China were to obtain stakes in the Portuguese electric utilities company *Energias de Portugal* (EDP), the company would experience constraining limitations in the US. Under these conditions, in its diplomatic exchanges with China, Portugal principally used an interest-linkage strategy by offering benefits to Chinese investors to attract Chinese financial support, and a balancing strategy by borrowing simultaneously from China and other actors, in an attempt to maintain EU integration and ally itself with the US, to which Portugal gives priority over its relations with China. Portugal also implemented a control-risk strategy on 5G by not taking any clear stance, despite it being an issue on which the US and EU attempted to reduce Portuguese commitment to China. In this way, Portugal managed to 'borrow power' from multiple western allies, and also non-western friendly states, to achieve its goals.

In the following sections, we analyse the factors that influenced and influence Portugal's strategic choices. The first of these sections briefly explains the theory and methodology of the Theory of Asymmetrical Negotiations (TAN). The second section clarifies why Portugal has defined attracting investment, export expansion, and competitiveness as its goals during the pandemic. The third section analyses how commitment, alternative(s), and control on investment-related issues directly influence Portuguese strategies, and the fourth section takes up export-related issues. The fifth and final section focuses on issues related to competitiveness, and concludes with the power resources Portugal uses in its strategy towards China, and the effects that they have.

2. Theoretical framework and methodology

Strategies refer to consciously designed efforts to accomplish previously defined goals within outcomes. The goals and the 'influence capacity' — i.e. the resources available to a small state's government and its capacity to employ the resources — together determine how specific strategies are designed. There are different definitions of what constitutes a small state's goals and its capacity to exert influence. Some scholars focus on the quantitative characteristics of small states, considering them straightforwardly as actors possessing a small population size, limited gross domestic product, a restricted territorial area and a small trade volume, or as having a combination of all these four features (Cooper and Shaw, 2009). For hard-line realists, small sizes are indicators that measure the material power resources of a state. The difference between the sizes of small states and of large states directly explains the deficits of material power resources that small states experience. Hard-line realists view material resources specifically as available resources that are able to produce influence. They argue that small states, as actors with a deficit of material power, take survival as their fundamental strategic goal, and do not really exert any influence on large states.

Focusing on the qualitative natures of small states, Keohane (1969) regarded small states as those with weak influence. He considered that both material and normative power resources are effective in producing influence, and argued that the goal of small states is to strengthen their interdependence, and that this situation explains the two strategy choices of small states, e.g. constructing alliances with one large state to influence another, and participating in an international system in which they obtain equal rights to make their voices heard. Goetschel (1998) adopts a relational view of power, defending three types of resources to create influence, namely material, normative, and relational recourses. He argued that the goal for small states was to maximize influence, and minimize or compensate for the power deficits. In this article we adhere to Goetschel's view and maintain that small states mobilize all their available resources to achieve their goals. The types of resources mobilized can be observed in their real bilateral exchanges. Small states use strategies to grow their internal power resources and borrow resources from large states, or enter coalitions with other small states, to increase their own influence.

Some commentators regard small states as actors with inherent vulnerabilities. Vulnerabilities here refer to high exposure to external shocks such as invasions, externally directed coups, mercenary attacks, and economic setbacks (Payne, 2004:626; Briguglio, 2014). Correspondingly, resilience refers to the extent to which an small state can withstand or recover from the negative effects of external shocks (Briguglio, 2014). Briguglio regards resilience as an ability 'that may be inherent or nurtured' in small states. However, other scholars consider that resilience derives from the goal of the internal development policies of small states and their foreign policies (Payne, 2009). On this point we follow Payne's point of view and regard that the goal of small states as being to construct resilience, and that their strategies are efforts to address the underlying causes of their vulnerabilities. To sum up, we maintain that the diplomatic goals of small states can be classified in two categories. One is external, and consists of reducing their power deficit in the existing international power relation network. The other is internal, and focuses on addressing inherent vulnerabilities. The strategic goals of small states are dynamic, and alternate between the two categories. The more resilient a state is to external shock, the more importance it places on reducing its external power deficits. The less resilient it is, the more priority a small state will give to addressing its vulnerabilities. The power resources that small states use can be material, normative, and relational. Small states, despite their small size, once they have employed effective strategies, can gain resilience and influence, and consequently are not invariably vulnerable and weak.

A number of case studies reveal that the strategy choices small states make in their relations with large states are constrained both by inherent vulnerabilities and external power deficits, but few commentators explain the relationship between the two contextual settings and strategy choices. We consider that the Theory of Asymmetrical Negotiations (Habeeb, 1988) coherently explains how inherent vulnerabilities and external power asymmetries moderate the strategies of small states. Following Habeeb's reasoning, we maintain that the perception of inherent vulnerabilities, and related benefit-cost calculations, by the main political parties in a small state determine what diplomatic goals small states will have, and the extent of their commitment to achieving these goals. Their perception of external power relations determines what alternatives will be considered better when borrowing from external power resources. Both vulnerabilities and power asymmetries, by limiting available internal and external power resources to small states, determine to what extent they have control over the issue, or in other words, the ability to achieve their goals without cooperating with a large state.

Small states have at their disposition a wide range of strategies to achieve concessions from a large state. They may request aid using a 'weakness' narrative as a negotiating tool (Keohane, 1969); construct a capacity priority in issues of strategic importance to the large state (Habeeb, 1988; Dinar, 2009); create a coalition with other small states that have common interests in their relations to a large state (Lieberfeld, 1995; Ourbak and Magnan, 2017); draw on the strength of other large states (Keohane, 1971; Cha, 2010; Kuik, 2010; Klöck, 2020); or employ the rights pertaining to their memberships of international institutions, such as voting, participating in consultations, and initiating proceedings (Lee, 2009). The strategies by which small states bring benefits to large states can be seen as soft, and those that bring costs as being hard. From this perspective, we identify a number of examples of the strategies used by small states towards large states in different cases, classifying them on a scale from soft to hard:

i. Interest-linkage strategy: establishing linkages between small states' issues with advantage to their strategic importance to large states (Haggard and Moon, 1983; Kuik, 2010).
ii. Balance strategy: drawing on the strength of other large state(s) (Cha, 2010; Keohane, 1971; Klöck, 2020; Kuik, 2010)
iii. Issue-linkage strategy: using concessions on one issue in exchange for the counterpart's concession on another (Zahariadis, 2017)
iv. Control-risk strategy: entering into agreement with the large states in an ambiguous and flexible manner, fostering good relations with the large power while providing room for the small state to manoeuvre (Yoffie, 1983; Pacheco Pardo and Reeves, 2014).
v. Coalition strategy: cooperating with other small states to alter the existing power balance in the favour of small states (Lee, 2009; Ourbak and Magnan, 2017).
vi. Institutional strategy: using membership in international organizations (Betzold, 2010).
vii. Threat-causing strategy: creating escalating tensions, military conflict, or even 'defecting' to the opposing camp to force a great power partner to address the concerns of the small state (Schelling, 1960).

In terms of methodology, in this paper we have used standard Documentary Research methods to collect Portuguese official documents, the speeches made by key politicians, and texts on Portuguese-Chinese relations available on the websites of government and mainstream media. Our aim has been to assess the perceptions held by elites of vulnerabilities and power deficits, and thereby Portugal's overall commitment to Portuguese-Chinese relations. The sources we have used include critical articles found in academic libraries, databases and media, and we have made use of the Deductive Reasoning method to undertake qualitative analysis of the collected texts.

3. Portuguese goals during the Pandemic

Our analysis of government documents and the speeches of key-politicians strongly suggests that the Portuguese elites share the idea that attracting foreign investments, expanding exports, and improving competitiveness should be prioritized goals for Portugal, after the setbacks caused by the pandemic.

Prior to the pandemic, according to the Portuguese National Statistics Institute (NSI), the national resource vulnerability lay in the country's small and ageing population, which had labour market of only 4.8 million workers, the limited diversity of natural resources, and a lack of natural gas and oil reserves. The limited labour market led to low production volumes and low revenues, and the limited diversity of natural resources could not support a well-structured industrial system (Cardoso & Rua, 2019). Limited energy storage led to a high dependence on strategic imports, with Portugal's energy dependency rising steadily from 73.5% in 2013, to 78.3% in 2015 (MCC, 2021). Limited revenues resulted in low investment to develop Portugal's competitiveness through improving industrialisation, increasing production volume and added value, developing transport networks, and training highly skilled labourers (Blanchard & Portugal, 2017; Lopes & Antunes, 2018; OECD, 2013, 2021).

The result was that Portugal needed to purchase strategic energy resources and expensive value-added products while exporting limited quantities of low value-added products, with high transport costs. Expenditure consistently exceeded revenue. Since the establishment of the Republic in 1974, Portugal has always had to deal with fiscal deficits and only achieved 0.1% positive fiscal returns once, in 2019. Low wages and high unemployment have caused frequent strikes and political struggles between political parties, resulting in politico-social vulnerability. Portugal's two main political parties have long been divided over their fiscal policies. The Socialist Party (SP) has emphasized fiscal expansion while the Social Democrat Party (SDP) has advocated fiscal austerity (Lopes & Antunes, 2018). During the European debt crisis, austerity policies implemented by the 20th SDP-led administration saw the imposition of wage cuts on Portuguese citizens. The SP-led 21st and 22nd administrations from 2015 onwards increased public spending, but were unable to undertake tax relief (De Giorgi & Santana-Pereira, 2020; Moury et al., 2021; Teixeira et al., 2019). The pandemic had a severe economic and social impact on Portugal, and saw fiscal deficits reach 5.8% in 2020. Since the implementation of an austerity policy in 2011, citizens have repeatedly launched strikes and protests, and caused social unrest (De Giorgi and Santana-Pereira, 2020; Moury, De Giorgi and Barros, 2020). This sort of social unrest escalated during the pandemic. Rising fuel prices in late-2021 intensified popular resistance to the government led by Socialist Party (SP). Other political parties took advantage of this situation and voted against the 2022 budget which led to the dissolution of Parliament and early parliamentary elections. Regarding inherent vulnerabilities as the causes of these conflicts, the ruling Portuguese government gave priority to addressing economic vulnerability. It considered that once the existing economic problems were dealt with, revenues could boost Portugal's investment capacity to purchase resources, recruit new members of the workforce from abroad, upgrade wages, and thus resolve socio-political vulnerabilities.

Apart from its economic goals, when considering its strategies towards China during the pandemic, Portugal also aimed to fulfil the requirements of its EU membership and maintain its alliance with the US. The focus of Portuguese diplomacy since the establishment of the Republic in 1974 has been toward three axes, namely the EU, the Atlantic Alliance, and the PSCs (Fernandes, 2018; Silva, 2020; Teixeira, 2010). China became an import diplomatic alternative to the EU and the US first after the European debt crisis (Miguel and Faria, 2020). In the context of the European debt crisis, Chinese SOEs and private companies were able to acquire large volumes of shares in Portuguese companies by offering preferential terms during the privatisation process under the financial intervention of the Troika, consisting of the European Commission, the European Central Bank, and the International Monetary Fund (Ribeiro & Cardoso, 2016; Romero, 2017). In the aftermath of the crisis, Portugal accorded strategic importance to China, but still prioritized the EU and the US. Although China offered markets and provided investments that Portugal needed, and still needs, Portugal's trade deficit continued to grow. Compared to relying more heavily on China, as an EU member-state, Portugal has a stable source of funds and its main trading partners are all countries within the EU. The US provides security, and potential military assistance, to Portugal within the framework of the North Atlantic Treaty Organization (NATO). Furthermore, Portugal has a trade surplus with the US, and imports Liquid Natural Gas from the US, which is a strategic energy supply. Nevertheless, Portugal has remained lacking in a significant volume of investment, particularly foreign direct investment (FDI).

This article chooses funds in public sector, share purchases in private sector, and Sines port project as investment-related issues, E-commerce as export-related issues, and 5G and new energy as competitiveness-related issues. These issues are the key areas in which US and other EU member-states compete with China in Portugal by offering alternatives during the Pandemic, and Portugal has different degrees of commitment and control. Comparing the similarities and differences in Portugal's strategic choices on these issues contributes to our distinguishing how the three variables of commitment, alternative(s) and control have influenced Portugal's strategies. Basically, except on the 5G issue, where the US has reduced Portugal's commitment by raising the cost of Portuguese cooperation with Huawei, Portugal has a high level of commitment to China on other issues due to its domestic needs. Therefore, Portugal uses control-risk strategy on 5G issue, while on other issues Portugal combines interest-linkage and balance strategy due to its high commitment.

4. On FDI

We have noted that on the crucial issue of FDI, Portugal mainly uses an interest-linkage strategy, combined with a balancing strategy, towards China. The result is that, while actively receiving Chinese capital, Portugal has also vigorously sought for, and seeks, other sources of foreign investment. During the pandemic, Portugal had a high commitment to FDI, worse alternatives within the EU to offers of Chinese investment, and overall low control. Portugal has a high commitment to Chinese investment because Chinese investments appear to be a better choice for three reasons. Firstly, despite having financial support from within the EU, Portugal is still unable to achieve fiscal balance, and therefore needs investment from outside the EU. EU financial support for the decade 2000-2010 was mainly invested in infrastructure, and little funds were used to address other issues related to the improvement of Portugal's low economy activity and international competitiveness (Czuriga, 2009; Teixeira & Pinto, 2019). Consequently, Portugal has a high exposure to external shocks, as exemplified by the pandemic which resulted in high fiscal deficits of 5.8% in 2020, and 2.8% in 2021.

Secondly, we note that under existing EU regulations, the available policies for down-grading wages and borrowing through loans harm Portugal's economic sustainability. As an EU member state with no autonomy regarding adjustment of monetary policy and public debt, Portugal has attempted to achieve competitiveness in exports by down-grading wages in the labour market (Rathgeb and Tassinari, 2018). Down-grading wages weakens domestic consumption, and boosts exports at the expense of domestic sales. In addition, the resulting protests and strikes caused by wage cuts produced production shut-downs. Besides wage cuts, Portugal has had to borrow to support development plans, with the result that public debt levels have increased consistently. However, according to the EU fiscal regime, once Portuguese fiscal deficit exceeds 3%, the EU mandates the implementation of austerity measures, which may offset the growth brought by borrowed loans, leading to higher debt and continued economic downturns (Hancké & Rhodes, 2016). In this way, the institutional framework of the EU favours the development of export-oriented economies to the detriment of domestic demand-oriented economies such as Portugal (Molina & Rhodes, 2007; Regan, 2017). Based on Eurostat's demographics, with only 2.3% voting weight in the EU Parliament, Portugal cannot trigger any significant economic regime reforms within EU that might favour Portugal's development.

Thirdly, Chinese investments were considered as having the most favourable terms among other choices during the European debt crisis, and received positive comments from the Portuguese elites from influential companies and political parties. According to the CEO of *Electricidade de Portugal* (EDP), Miguel Stilwell D'Andrade, during their partnership, China Three Gorges (CTG) assisted EDP in weathering the European debt crisis. The CTG and EDP jointly identified opportunities for growth, particularly in Latin America, by investing jointly in hydropower projects, and jointly developed new technologies. The Portuguese Prime Minister, António Costa, and Former Foreign Minister, Augusto Silva, considered that China's economic conduct in Portugal was in line with Portuguese and EU legal norms. Some political parties — mainly the right-wing party *Centro Democrático Social-Partido Popular* and the left-wing party *Bloco de Esquerda* — resisted permitting Chinese investments. Their concerns were that issues of importance to the Portuguese state could be controlled indirectly by a foreign government if Chinese firms held too many shares in strategic companies. They urged the government, led by Socialist Party, to exercise prudence in opening the Portuguese economy to Chinese investment (Gaspar & Ampudia de Haro, 2020). But, overall, those opposing Chinese investment remained in a minority.

During the pandemic, Portugal has had more investment alternatives in the public sector, but worse alternatives to Chinese investments in the private sector. In the public sector, in addition to the regular EU Structural Investment Fund support, in August 2021 Portugal received from the European Commission €2.2 billion in pre-financing, under the *NextGenerationEU* initiative. In the private sector, in the case of EDP, Chinese CTG remains the largest shareholder, followed by the American enterprise Blackrock with 9.37%. Blackrock has been working to increase its shareholding but thus far has failed to shake CTG's leading position. In the case of Bank Millenium Banco Comercial Português

(BCP), although the Angolan oil company Sonangol, which is the second largest shareholder, does not want the largest shareholder, Chinese Fosun, to acquire more shares, Sonangol itself has gone through a restructuring process due to the fall in oil prices before 2016, and its disorderly investment policy. It is apparent that Portugal has a low degree of control to be able to reject Chinese investment. The Portuguese government itself, because of its high debt and deficits, needs EU funds to invest in public services and cannot renationalise strategic private companies. Foreign capital is unable to change the dominant shareholder position of Chinese capital. With high commitment, worse alternatives, and low control of the issue of FDI, Portugal has adopted interest-linkage and balance strategies. On the one hand, Portugal, in the private sector, permits the growth of shares held by Chinese enterprises in Portuguese companies. In March 2021, Fosun enlarged its shares in Millenium BCP to 30%. In May 2021, the Chinese company China Communications Construction Co., Ltd. (CCCC) purchased 32.4% of Mota-Engil stakes. In the public sector, in October 2020, according to the Portuguese government, Chinese investors who make gains from the sale of Panda bonds issued by the Portuguese government in 2021, will continue to be exempt from IRS and IRC (the income tax that went into effect in the Portuguese tax system on January 1st 1989). These tax exemptions are used to attract Chinese investors to continue buying Portuguese national bonds, issued in Renminbi. As a result, according to *Banco de Portugal*, the Chinese investments stock in Portugal reached 2,923,01M€ in 2021, an increase of 8.5% year-on-year. At the same time, Portugal continues to actively search for other sources of foreign investment.

The Sines port project is a typical case of Portugal's combination of interest-linkage and balance strategies towards China during the pandemic. The Portuguese Foreign Minister, Augusto Santos Silva, has actively encouraged the US and other EU countries to participate in the bidding, stating that the project will allow the US to increase its gas exports to Europe, and reduce the energy dependence of Portugal and the EU on Russia. But Silva has also said that Portugal will keep seeking to attract Chinese investment to expand trade and develop tourism (Wise, 2020). After the visit of US Energy Secretary Dan Brouillette to the Sines port in September 2020, Portuguese Infrastructure Minister Pedro Nuno Santos said that the US interest and potential investment in the Sines port are an opportunity that Portugal must seize. However, thus far the Sines port has not received any investment from any Chinese or American companies, although on April 18th 2022, an international company, consisting of a partnership between the Portuguese Madoqua Renewables, the Dutch company Power2X, and the Danish company Copenhagen Infrastructure Partners (CIP), announced an investment of 1 billion euros to implement the project titled Madoqua Power2X in the Industrial and Logistics Zone in the Sines port, with the aim of producing green hydrogen and green ammonia.

5. On export-related issues related to E-commerce

Generally, in terms of export expansion, Portugal accords significant importance to the Chinese market. In fact, compared to the EU, China is a small trade partner for Portugal since its main trading partners are member states within the EU. The weight of the intra-EU countries exports and imports increased in 2020, reaching 71.4% (+0.7 p.p.

compared to 2019) and 74.7% (+0.9 p.p. compared to 2019) respectively, according to the European National Statistical Institute (NSI, 2021). Compared to the US, China does not provide Portugal with any strategic energy resource but rather with products for daily life, while it is the US that provides LNG. China offers no security support to Portugal while the US does so within NATO. Portugal's trade deficit with China is increasing and reached 2,500 million euros in 2020 while the US was Portugal's 2nd largest trade surplus country in 2020. But, as already mentioned, even these trade revenues are not sufficient to cover its deficits, and since 1974 Portugal has only once demonstrated a trade surplus, in 2019. The present trade network, with its high dependence on the market within the EU hinders resilient construction, and the Portuguese government needs to diversify its export markets. Portugal's exports to China are increasing, and Chinese tourists, although not perhaps as numerous as could be wished, rank first in terms of their spending in Portugal. For this reason, the Chinese market demonstrates the potential to enable Portugal to achieve a balance of trade surplus at some point in the future. During the pandemic, Portugal's overall exports fell by 10.3% in 2020 mainly due to weakened intra-EU trade (NSI, 2021: 9). Looking back over the last ten years, Portugal's trade deficit reached its highest level, after 2010, in December 2021. In this context, the trade volume between Portugal and China has grown against the trend of the global backdrop. Portugal's exports to China increased by 64% in the first five months of 2021 compared to the same period in 2020, and by 18.3% compared to the same period in 2019, the year before the pandemic (Falardo and Sequeira, 2021). China is thus a market that offers a positive possibility to enlarge the volume of Portugal's exports.

During the pandemic, the most important export-related issue was E-commerce, for the global lockdown policy encouraged the development of this sector. The WTO has stated that e-commerce is expected to save the global economy. On the e-commerce issue, according to the World Economic Forum, the epidemic has made e-commerce platforms in China grow faster than anywhere else in the world. In 2020, the China's share of online sales in all retail sales increased to a projected 44%, whilst the UK and US reached 27.7% and 14.5% respectively (Buchholz, 2021; Falardo & Sequeira, 2021). Portugal has a high commitment to Chinese e-commerce platforms, as one means to expand exports to the Chinese market. Portugal currently has Amazon as an alternative to Alibaba. Alibaba and Amazon each offer different advantages. Alibaba's C2C mode and internationalisation strategies help the platform to reach more consumers both within and outside China. Amazon has a better cloud computing system, i.e. Amazon Web Services (AWS) (Abdulrahman & Oreijah, 2022; Wu & Gereffi, 2018). AWS cloud services are more developed than Alibaba cloud services in massive data calculation and open storage (Wang, 2021). Overall, Portugal has a low control over its e-commerce. Two officials of the Portuguese Agency for Investment and External Trade (AICEP) stated that, during the pandemic, the inability of Portuguese companies to connect to their customers was hampered by an underdeveloped online sales model, which hindered their internationalisation (Falardo and Sequeira, 2021, p. 18). Portugal successfully adopted both interest-linkage and balance strategies on e-commerce issues. On the one hand, the Portuguese Trade & Investment Agency (AICEP) acted to improve the sale of Portuguese agricultural products on Alibaba, and invited Alibaba to visit Portugal and offer e-commerce trainings. Specifically, in October 2021, the AICEP negotiated with

Alibaba to enlarge the sale of Portuguese agricultural products, diversifying product categories and sales destinations (Dinheiro Vivo/Lusa, 2021). In February 2022, a Portuguese private commercial association, the Portugal-China Chamber of Commerce and Industry (CCILC), jointly with AICEP, organised a visit by Alibaba representatives to Portugal, aimed at involving more Portuguese companies in the Chinese marketplace. In May 2022, Alibaba gave a free course in English intitled "Alibaba Netpreneur Masterclass" through AICEP to Portuguese, Spanish, and Italian entrepreneurs. On the other hand, the Portuguese Ministry of Economy and Digital Transformation signed a MoU with Amazon Web Services (AWS), in preparing the "More Digital powered by AWS" initiative, which aims to accelerate small business growth with AWS Cloudstart, train the next generation of cloud builders in Portugal with AWS Educate and AWS Academy, and support a start-up community in Portugal with AWS Activate. Interestingly, AICEP has also cooperated with Amazon in providing training webinars to assist Portuguese businessmen in using the platform for internationalization. In this way, Portugal is successful in deepening its interdependence simultaneously with both China and the US, and maximising the benefits of cooperation with both e-commerce platforms.

6. On competitiveness-related issues

As concluding examples, we take renewable energy and 5G as two cases that exhibit the phenomenon of competitive-relatedness. On renewable energy, Portugal exhibits a high commitment, has equal alternatives, and a high control on this issue. Portugal's high commitment stems from the fact that it is one of the European countries most affected by climate change. Climate change phenomena such as rising temperatures, shifting rainfall patterns, rising average sea levels, and extreme weather events, exacerbate the pressure on Portugal's coastline, as well as bringing threats of fire, drought, and floods (Government of Portugal, 2020). Portugal has worse alternatives to China. China is the world's largest investor in renewable energy while Portugal possesses advanced technologies. As previously noted, the base of cooperation between EDP and CTG is that EDP contributes technology in a joint research project and expands its reputation in exploring third markets (especially in Africa and Latin America) while CTG provides funds to invest jointly in third markets. In 2013, EDP and CTG jointly acquired shares in the companies that own the rights to develop the *Cachoeira Caldeirão* hydroelectric project (219 MW) and the *Jari* hydroelectric project (373 MW). Although CTG holds a large stake in EDP, the two companies have each acquired shares in other companies in Brazil and Chile to develop their markets. In this way, both sides benefit from this cooperation to develop their internationalization, and as funds are the goal of EDP, Blackrock as the second largest shareholder is a worse alternative to CTG.

Portugal has high control of its renewable energy, and has established technological priority in renewable energy. EDP is the fourth largest wind power company in the world and the largest hydroelectric company in Europe, with operations in thirteen countries, including Belgium, Brazil, Canada, France, Greece, and the United States. The *European Scalable Offshore Renewable Energy Project* (EU-SCORES) will participate in Portugal with a total investment of €45 million to create the world's first offshore energy array, combining wave energy with offshore wind energy. China, for its part, gives priority to developing new renewable technology and industry, particularly with wind power and smart grids. This is an initiative to reduce China's dependence on strategic energy imports, and to promote China's image as a responsible global power in combating climate changes (Zhao et al., 2020; Zhao et al., 2011). China maintains that in the next five years, its share of non-fossil energy, in total primary energy consumption, will increase to around 20%. This is to say, Portugal has the capacity for high-end renewable energy technologies, as well as the researchers to undertake independent research, but lacks financial support. China seeks breakthroughs in renewable energy technologies and has the capacity to invest. Hence, Portugal has relatively high control in the issue. The main Portuguese actors who cooperate with China on renewable energy are EDP and REN. During the pandemic, EDP, as a representative of Portugal, made use of interest-linkage and balance strategies at the same time. On the one hand, EDP renewed the strategic partnership agreement with CTG in December 2021, and continued to jointly invest with CTG in Latin American and Africa. On the other hand, EDP's renewable energy arm, known as *EDP Renovável* (EDPR), acquired a Singaporean company active in the solar energy sector, Sunseap, thus diversifying its alternatives to CTG while exploring Asian markets.

On the 5G issue, Portugal has low commitment, equal alternatives, and low control. Portugal's low commitment to 5G originates in external pressure that increased the cost of its working with the Chinese company Huawei on 5G in the commercial sector. Portugal needed to improve competitiveness in the 5G area and Huawei was seen as the leader of 5G developments. However, the US maintained pressure on the Portuguese government from 2019 onwards, linking 5G to security issues. In December 2019, Mike Pompeo warned Portugal that Huawei threatened national security and invades privacy. US government spokesman Robert Strayer, on his first visit to Portugal in February 2020, warned that Huawei was suspected of human rights violations in Xinjiang, and that Huawei could steal confidential NATO data, as well as the daily data of Portuguese residents. Finally, the US Ambassador to Portugal George Glass, in September 2020, threatened that the US would consider stopping LNG exports to Europe through the Sines port if Portugal continued to cooperate commercially with Huawei in 5G.

Portugal has equal alternatives to Huawei 5G after 2021. In December 2021, the world-renowned data analytics and consulting company in the ICT industry, GlobalData released its research titled *5G Mobile Core: Competitive Landscape Assessment*. According to their findings, Huawei's 5G Core portfolio was the strongest, and it was rated as the "leader" among all the 5G core product producers from the world's major telecom equipment vendors such as Cisco, Ericsson, Nokia, and ZET. However, only months later, in April 2022, GlobalData released a new report that identified the company American Affirmed Unity as the "leader" among 5G core products, followed by the American companies Mavenir, Casa Systems, and the South Korean company Samsung. It remains at present unclear whether these companies have caught up with Huawei's 5G advanced technology, or the US ban against Huawei has prevented it from being included in the GlobalData rankings of April 2022. The result is that it is noticeable that Portugal has low control on the 5G issue, facing a lack of competitive companies, products, and professionals. According to a report made by the European 5G Observatory in July 2021, Portugal and Lithuania were the only two EU countries without 5G services at the end of June that year.

Portugal has adopted a control-risk strategy on the 5G issue. After sustained US pressure, the Portuguese Infrastructure Minister, Pedro Nuno Santos, revealed on July 30th, 2020, that a group created by the Portuguese government to assess risks and cybersecurity issues relating to 5G had completed its work, and had not drawn any conclusions directed against any supplier, including Huawei (Gonçalves, 2020). In responding to US threats linking LNG to Huawei 5G, the former Portuguese Foreign Minister, Augusto Silva, and President Marcelo, stated that Portuguese government would take its own stance (Lusa/PÚBLICO, 2020). Finally, the decision not to take Huawei into consideration for the installation of 5G networks came from Portugal's three largest operators, namely Altice, Vodafone, and NOS, but not from the government (Moreira & Malta, 2020). In this way, the Portuguese government was able to maintain an ambiguous attitude, without taking any clear stance. This control-risk strategy does not harm the US-Portugal alliance at the governmental level and leaves space for domestic non-state actors to maintain their cooperation with Huawei. Portugal makes efforts to avoid any escalation of tensions, but of the six telecom operators licensed to operate 5G in Portugal, only Vodafone Portugal has signed a 5G supply contract with US-based Mavenir. Altice and NOS have declared that they will not use Huawei 5G core, but they and the other three telecom operators, which are Dixarobil, Novo and Dense Air, have thus far not decided upon the provider of their 5G Core products. As an indicator of future trends, it can be noted that the University of Aveiro in Portugal recently jointly constructed with Huawei a 5G+AI Networks Reliability Centre (5GAINER), transforming the entire Huawei 5G issue from being a commercial problem to a technological issue.

7. Conclusion

During the pandemic, politicians and researchers have agreed that that economic setbacks Portugal experienced required increased investment, export, and competitiveness. These were the three key issues to address Portugal's vulnerabilities, and the Portuguese government appears to have accepted these issues as its primary goals. Three strategies were adopted, namely an interest-linkage strategy to attract Chinese investments and gain market access, a balance strategy to obtain alternative support within EU and from the US, and a control-risk strategy to avoid conflict between the US and China. By doing so, without noticeable overt friction, Portugal managed to maximize its interests, control US-China tension regarding Portugal, and intensify simultaneously its partnership with China, its alliance with US, and maintain its adherence to the unity of the EU. During the pandemic, Portugal has used material power resources to develop interest linkages and has not mobilized "normative power" against China. For example, when down-scaling its involvement with Huawei, the Portuguese government has avoided discussion of political issues regarding Huawei as a Chinese enterprise, or suggested that involvement with Huawei poses any economic threat to Portugal's autonomy. Portugal has rather returned cooperation with the world leader to the field of technical development, and not noticeably exerted any normative pressure on China in an attempt to influence Chinese actions. Instead, by avoiding taking any clear stance between China and Western allies, Portugal manages to continue to project its image as an EU member-state and US ally while maintaining a friendly attitude towards China. It has cautiously, yet successfully, availed itself of power resources from all parties involved, through its balanced diplomatic relations, and managed to take steps to maximize its interests. In other words, Portugal has provided us with an example of the use of relational power resources during the pandemic to achieve its goals.

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