



Weekly Briefing


**Lithuania External relations briefing:
Following the China Import Expo Lithuania increases the
engagement with China in pursuing a free trade**

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Following the China Import Expo Lithuania increases the engagement with China in pursuing a free trade

Amid the growing concerns raised in the global media about China's increasing and accelerating engagement with the Central and Eastern European (CEE) countries economically, Lithuania's Government continues to chart a steady course by taking a pragmatic if somehow cautious approach in pursuing the relationships with China. The evidence of that is the recent visit of Lithuania's President Dalia Grybauskaitė to China on the occasion of the first China International Import Expo that took place in Shanghai on 5-10 November with participation of government officials, businesses and the promoters of the free trade from around the world.

A meeting of President Grybauskaitė with Chinese President Xi Jinping and the high-level talks between the two leaders at the Import Expo on 5 November have become the highlights of this new China policy of Lithuania. "The world economy is slowing down, the system of the multilateral trade is being questioned or even being destroyed. Thus, given the circumstances the fact that China is trying to open up and is organizing the first import exhibition...is a unique opportunity...and it would be unwise and unforgivable not to take this opportunity",- said the President in the interview for the national broadcaster prior to her visit to Shanghai.

The high-level meetings during the Import Expo and a close attention paid by the hosts to the President of Lithuania have helped to find the shared ground for building bilateral economic relations. On one side, both sides emphasized and extolled the adherence to the principles of the free trade globally, and, on the other, the two leaders commended the business opportunities for both countries in a number of sectors with higher added-value activities, including e-commerce, financial technology, renewable energy, lasers and agriculture. Thus, Lithuania has committed itself to the joint agenda with China in promoting the international free trade while keeping the economic cooperation with China as part of the bilateral relationships at the sectorial level.

Why Lithuania has preferred a bilateral rather than a multilateral approach in engaging with China even when using the multilateral policy instruments (such as the participation in the summits and the policy fora as part of the "16+1" cooperation)? The analysis below attempts to explain some of the pre-conditions, which make this modus operandi of Lithuania's diplomacy towards China the most likely, if not the only possible, option.

The relationships between Lithuania and China are only at their earnest; no observable path dependencies have yet pre-determined the bilateral relations under development. Yet the relationships are starting not from the clean slate. The geopolitical environment within which the relationships between the two countries have been taking place is highly complex and characterized by the set of opposing and even adversary interests and uneasy power relationships. Each country is part of the political-economical alliances with other countries, which set the limitation and (to some extent) provides the opportunities for pursuing the relations bilaterally or as part of those alliances.

The main international alliances that define Lithuania's role in the global system are two: the North Atlantic Treaty Organization (NATO) with 29 member states from North America and the European Union (EU) and the EU, which brings 28 member states from Europe. China has a network of alliances but the one, which is the most relevant in this context, is the Shanghai Cooperation Organisation (SOC), a Eurasian political, economic, and security alliance. SOC, which came in effect as of 15 June 2001, includes three types of members: China, Kazakhstan, Kyrgyzstan, Russia, Uzbekistan, India are full members, Afghanistan, Belarus, Iran, Mongolia have the observer status and Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka and Turkey have the status of the dialogue partners. Neither Lithuania nor China are involved in these alliances where each of them have a membership. To some extent, the exception is the EU which has formal diplomatic ties with China already since 1975 and today the EU-China relations include regular summit and ministerial meetings at different levels, the latest being the 20th EU-China Summit which took place on 16 July in Beijing.

The membership in NATO mostly defines the national security issues and the geopolitical alignment between Europe and its North American allies (the United States and Canada). The membership in the EU defines the political and the economic agendas in harmonization with the rest of the EU and (in case of the membership in the Eurozone) also the fiscal policies vis-à-vis the Eurozone members. The membership in those alliances leave only few international policy areas where Lithuania can define and pursue its own policies towards non-EU countries, including China. Those are, mainly, the policies related to the internal development (pursued multilaterally through the United Nations system, as part of the EU external actions initiatives or bilaterally) and certain aspects of the foreign trade relations. Though the EU largely defines the trade relations with non-EU countries by negotiating agreements with individual countries on behalf of the Union, yet each member state is free to pursue unilaterally or in a group of other countries the sectorial export promoting policies and the policy support actions to attract the foreign direct investment. Recently, though the EU has moved on to engage also in the sectorial policies through the so-called "sectorial

dialogues” with a number of BRICS countries, yet this field of economic diplomatic activity is still the prerogative of the national governments.

As concerning China’s alliances, as mentioned above, the one that is the most relevant for the cooperation with the CEE countries in general and Lithuania in particular is China’s membership in SOC. The membership in SOC creates certain international policy limitations for China for engaging with CEE countries due to the conflicting geopolitical interests of some of the SOC members and the alliances, of which the majority of the CEE countries (including Lithuania) are members. For example, SOC includes Russia, for which the economic sanctions have been imposed by the EU (as of July 2014) and by the United States (the latest sanctions by the US imposed as of August 2017) with the counter-sanctions against the CEE countries members of the EU by Russia followed. The economic sanctions against Iran, a member of SOC, reinstated earlier this year by the US also pose the challenge. Even if those relations do not directly affect China’s bilateral relations with the CEE countries (including Lithuania), yet they create a context within which issues are becoming political, thus requiring a great deal of diplomacy in forging the bilateral relationships with the win-win outcomes for all.

However, the involvement in different alliances might also provide an opportunity for a go-between. For example, Turkey being the member of NATO and a long-standing if unsuccessful applicant for the EU is also a member of SOC. Recently the country has developed close economic relationships with China. This helped Turkey attracting China’s investments in the manufacturing sector and boosting the economy’s resilience.

Clearly, the involvement of Lithuania and China in the geopolitical and economic alliances which include members with the different and altogether opposite interests creates the challenges of navigating the complex web of relations of individual countries and country blocs with which each country is aligned. The cooperation with China has attracted the criticisms, which are based on the concerns that mainly originate from the *raison d'être* of Lithuania’s participation in the existing alliances, namely the issues related to the national security concerns. Yet President Grybauskaitė has taken a more pragmatic line towards China, taking into account the economic interests of the country though not neglecting the commitments to the allies.

Lithuania’s openness to the world stems in general and in China in particular from the fact that Lithuania has always sought to play an active role in the international politics and the engagement with China economically provides an important global dimension to Lithuania’s foreign policy. So far, Lithuania has successfully used the membership in the UN and in NATO to promote itself as a global agent for change. In 2013-2014 Lithuania was elected a non-permanent

member of the UN Security Council and twice presided over the Council. In the Security Council Lithuania continuously raised the issues of responsibility for war crimes and crimes against humanity, illegal arms trade, violations of international humanitarian law, sexual violence, the protection of women and children in armed conflict. Lithuania introduced a variety of innovations in the work of the Council's subsidiary bodies, promoted transparency in its working methods and reached out to the countries under sanctions regimes, neighbouring countries, and regional actors. As part of the NATO efforts to stabilize the situation in Afghanistan Lithuania been involved providing the special operation forces to that country and has the military experts deployed in Mali and Central African Republic. In terms of the international economic relations, Lithuania has sought to strengthen bilateral relationships with fast-growing economies such as Singapore, signing an agreement on cooperation in the field of financial technologies.

The membership of the EU has not seen much of Lithuania's involvement in the global policy agendas and has been mostly limited to the agenda of the EU Eastern Partnership, a policy initiative which involves six Eastern European Partners: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. Half of them are involved in SOC as full members (Belarus) or observers (Armenia and Azerbaijan). Lithuania's ambition to play a role in extending the economic ties of the EU towards, the countries which also collaborate with China economically, creates an opportunity for both Lithuania and China to cooperate as go-betweens.

The cooperation with China, which is the major economy but still a developing country, opens up the possibilities for Lithuania to further continue with the international political agenda, which would see the country as an active member of the international community promoting the principles of the free trade. Hence, during the talks with the Chinese President and other high officials Lithuania's President emphasized the international dimension of the relations with China. President Grybauskaitė, specifically, pointed out that transparent investment and strict compliance with international agreements were the best response to the slowing world economy; therefore, China's proposed reforms to open its market were very welcome.

The President reiterated that China is sending a signal of opening up to the world by holding a huge international import exposition and that China announced about measures to lift restrictions on financial services, and unveiled a shortened negative list for foreign investment and it eased conditions for imports.

However, President Grybauskaitė said, that needs to be done to open up towards the free trade on both sides. She reminded about the EUs' proposal that

China should intensify the opening-up measures to waive the requirement for foreign companies to invest only through joint ventures with local businesses, to ensure the protection of intellectual property and to open its public procurement market to foreign investors.

This send out a signal that Lithuania would increase the engagement with China economically (especially in certain sectors) while searching for a role to play in the international community of the free trade promoters.