

# 1. The historical links between China, Europe and the developing world

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In order to assess the recent evolution of the respective influences of China and Europe in the various regions considered by this book, it is necessary to understand their respective histories of expansion in the world and the types of economic, political and cultural links they have developed in this process. The exceptional growth of the Chinese economy over the last three decades has clearly made China an indispensable world player and one that now has an impact in all the regions of the world. However, this impact varies and it affects the relations of these regions with Europe in very different ways. Long-term historical trends also explain why the means used today by China to develop its relations with regions around the world are different from those used by Europe. This chapter provides a comparative long-term view of the relations between the different regions of the developing world and, respectively, Europe and China.

## THE EUROPEAN HEGEMONY ON THE WORLD ECONOMY AND THE ISOLATION OF CHINA

Until the 16th century, the world was divided into relatively inward-looking subcontinents, what Braudel and Wallerstein refer to as ‘world-economies’ (*economies-mondes*) (Wallerstein, 1974; Braudel, 1993). The Americas were completely isolated from the rest of the world. The regions of the Mediterranean and the Middle East hosted trade routes that linked Europe with South and East Asia and Sub-Saharan Africa but this international trade remained extremely limited, accounting for less than 1 percent of GDP (Braudel, 1993: 197). There was therefore no significant interdependency between these world-economies. In the 15th century, China was the largest economy in the world and was, with some neighboring tributary feudal states, a world-economy in itself. Nevertheless, the Chinese Empire’s impact beyond the East Asian region was still marginal. During the same period Europe was divided

into hundreds of different feudal entities in a quasi-permanent warring state. The European continent clearly had a limited impact on the world economy due its relative size in terms of GDP, the modest development of international trade and the low degree of interdependency between the world-economies.

A major change occurred in the 15th century with the interconnection of different world-economies through the improvement of technology in sea transport. In the first decade of the century, the imperial China of the Ming Dynasty was far more advanced technologically, militarily and commercially than the largest and most developed kingdoms of Europe (Abu Lughod, 1991; Braudel, 1993; Jacques, 2010). The Chinese could build larger ships that could carry much more military equipment and travel further than any European fleet. In the early 15th century, while the Portuguese ships started to explore the Western coast of Africa some 4000 km away from Portugal, the Chinese imperial fleet had already reached Zanzibar, more than 12000 km from southern Chinese harbors, and developed trade and diplomatic links across the Indian Ocean (Bairoch, 1997; Wills, 2011). The Chinese economy was also more advanced in many ways. Printing and paper money had been generalized for centuries. The transport network and the imperial institutions had created a much better degree of economic integration than on the European continent, stimulating trade and proto-industry (Abu Lughod, 1991). Given China's lead over Europe, the rise of European powers and their capacity to colonize the majority of the globe and to dominate international trade from the 16th to the late 19th century may come as a surprise.

The sudden rise of European powers in the 16th and 17th centuries was not accompanied by a brutal decline of the Chinese economy. It continued to grow and remained by far the largest economy in the world until the mid-19th century (Maddison, 1995). Nevertheless by the mid-15th century, Chinese overseas expeditions in the Indian Ocean were suddenly stopped and the development of long-distance trade with China halted (Wills, 2011). Trade with China's neighbors continued, albeit at a much lower pace.

China's turn towards isolationism is explained by various factors. On the geopolitical side, the threat from Mongol invaders in the North forced a reorientation of the military effort away from the maritime forces in the South Seas and towards the land forces on the northern borders (Mote, 2003). In this context, the cost of the imperial expeditions to South Asia, the Middle East and Africa was perceived as prohibitive. Internal factors were clearly decisive as well. Long-distance trade led to capital accumulation among some Chinese merchant families whose local influence rose quickly. It also generated disturbing social effects such as inflation and

land speculation. Because of these effects, long-distance trade was seen by the imperial authorities as a destabilizing force that could undermine the mandarin state system (Abu Lughod, 1991). The imperial state reacted by imposing drastic restrictions on such trade and thereby reduced the influence of the merchants (Wills, 2011). The consequence was that the mandarin system was not challenged by the economic power of the merchants. The Chinese mandarin society thus remained characterized by conservatism. The political system and ecological constraints checked the expansion of the capitalist economy to maintain social and economic stability (Abu Lughod, 1991; Pomeranz, 2000). Despite a vast internal market that was relatively integrated for pre-industrial times, the Chinese economy did not experience the dramatic technological changes witnessed in Europe from the 16th century to the 19th century. The Chinese imperial leadership was not pressed for change. It perceived China as the center of the world and Europe as a distant barbarian land. The Chinese empire did not face a direct external challenge to its sustainability until the British penetration of East Asia in the late 18th century.

The rise of European powers in the world economy through the colonization processes of the 16th and 17th centuries had a profound effect on the economic, political and institutional developments of Europe and the rest of the world. European powers changed completely the pattern of long-distance trade with the adoption of what some have called the 'merchant warrior' model which became institutionalized with chart companies such as the *Verenigde Oostindische Compagnie* or the East Indian Company (Wallerstein, 1974; Smith, 1991; De Vries, 1996). Due to centuries of incessant feudal wars, European powers had experienced a rapid development of military technology in the late Middle Ages, which Parker called a 'military revolution' involving the use of artillery, new fortification techniques and the creation of long-standing professional armies (Bean, 1973; Parker, 1988). Europe's edge in military technology allowed it to colonize other continents or impose indirect rule with military coercion. European powers dominated the terms of international trade and used forced labor massively in Africa, the Americas and Asia.

The exploitation of colonies generated an unprecedented acceleration of flows of goods and bullion to Europe. The quantitative effects of these flows from the rest of the world should not be overestimated. Most of the European economies were still inward looking and based on local trade and, to a lesser extent, intra-national trade. Bairoch and O'Brien consider that the trade between Europe and its colonies amounted to no more than 2 percent of Europe's GDP and 20 percent of gross capital formation in the 18th century, meaning that most European economic growth

was directly generated by local production and trade (O'Brien, 1990; Bairoch, 1993). Nevertheless, in pre-industrial economies characterized by low productivity gains, limited savings and rapid capital depreciation, even 2 percent gains in the GDP meant that the accumulation of wealth in Western Europe generated by colonization and the merchant warrior trade was very significant (Pomeranz, 2000).

Moreover, the international inflows had decisive qualitative effects on the European economy and technological capabilities. The inflow of bullion generated an upward trend in prices that stimulated intra-European trade and manufactured production. Long-distance trade and the increase in the money supply generated innovations in science, such as mathematics for navigation or accountancy, in technology, such as navigation and military equipment, and in institutions, such as insurance and the diffusion of banknotes that would eventually reinforce the Western European powers' hegemony on the rest of the world.

Another significant effect was the social transformation of Western European societies caused by the rise of capitalist merchants that changed the nature of the state and created institutions that would foster the accumulation of capital and the launching of industrialization. The bourgeoisie of Western Europe became bolder and imposed a sharing of state power with the incumbent absolute monarchs and aristocracy. The first to be affected were the Habsburg Empire with Spain, the Low Countries and Germany. After decades of conflict with the Habsburg monarchs, the Low Countries were the first state in Western Europe whose leadership comprised merchants and relatively weak local aristocrats (Wallerstein, 1974; Tilly, 1990). The struggle followed in Britain throughout the 17th century until the compromise of the Glorious Revolution of 1688 and for France between 1789 and 1830.

Regions located in the economic periphery of Europe (Eastern Europe) or where the monarchs managed to restrain the political and economic rise of the merchants and guilds through military might (as in Spain after the crushing of the *Comuneros* rebellions in 1519–20) did not experience this drastic change and were left behind in terms of the technological innovation and social and institutional transformation that were preconditions of industrialization (Anderson, 1996; Tilly, 1990).

The main difference between the Chinese and Western European monarchies was that European monarchs needed the income from international trade and manufacturing activities in order to finance their long-standing armies. Western Europe was characterized by centuries of incessant costly wars that regularly emptied the royal treasuries and weakened the military capacities of the absolutist states. To maintain bullion, Western European powers adopted the mercantilist trade and industrial policies that also

facilitated the rise of the national bourgeoisie. Long-distance trade organized by chartered companies, and alliances between merchant capitalists and their respective monarchs became an essential feature of the mercantilist policies that characterized the Western powers from the 16th to the 18th century (Wallerstein, 1974; Smith, 1991). Despite fears regarding the rising economic and political influence of the bourgeoisie, some Western absolute monarchies considered their national bourgeoisie as a necessary evil to finance their wars against European rivals. This tolerance eventually forced them to share state power.

The Chinese imperial system had a totally different configuration in which the development of international trade was not considered as essential to the survival of the system. On the contrary, the rising economic influence of merchants was considered to be a factor of social instability that had to be contained, even at the cost of isolation. The Chinese imperial society was not transformed by the dramatic effects of international trade and by the primitive accumulation that strengthened national bourgeoisies and fostered industrialization in Western Europe. China remained an inward-looking rural feudal society that experienced much slower growth until it was surprised by the expansion of industrialized Western powers in the 19th century.

Finally, according to Pomeranz's argument, the colonization of the Americas and the triangular colonial trade enabled Europe to escape the land and population pressures that constrained further industrialization in Asia by creating a division of labor in which Western Europe, and mostly Britain, could import an increasing quantity of land-intensive goods (notably cotton, sugar and timber) by exchanging with its New World colonies manufactured production from Europe and also trade with Asia, the latter being paid for by the European economies with the silver extracted from the Americas (Pomeranz, 2000).

This great historical divergence between Western Europe and China had lasting effects on the relations of these regions with the rest of the world. While Western European powers enjoyed a hegemonic position in the world until World War I (WWI), the Chinese empire failed to modernize its institutions and to industrialize when it was challenged on its own territory by colonizing European powers. It submitted for decades before disintegrating, leading to a weak republic, riddled by internal wars and foreign occupation until the revolution of 1949.

## EUROPE'S RELATIONS WITH THE DEVELOPING WORLD: THE INCUMBENT

Colonization created strong economic, political and cultural links between the European powers and the rest of the world albeit with various degrees of intensity and longevity.

### **European Relations with Latin America**

#### **From decolonization to US hegemony in the Americas**

The Americas were certainly the continent where European influence was strongest due to the length of the colonization process, the scale of emigration from Europe and the tragic effect of coercion on native populations. North America saw the elimination of more than 90 percent of its indigenous population, their forced concentration and marginalization<sup>1</sup> (Ferro, 2003). In Latin America, the calamitous effects of slavery, forced labor and epidemics spread by European colonizers (and made worse by the social and demographic disruption generated by the imposition of the colonial system) claimed tens of millions of lives. As a result of the tragedy, European settlements dominated the coastal areas and native cultures were only preserved in their substance in remote areas. European culture dominated political and religious institutions, reflecting the feudal characteristics of the Iberian colonizing powers.

American colonies were submitted to international trade controls, unfavorable terms of exchange<sup>2</sup> and heavy taxes that generated tensions. This resulted in the independence of most of the British colonies in America and the creation of the United States in the late 1770s. When Spain was occupied by Napoleon's troops, local Latin American elites, the Creoles, saw the opportunity to break away from the colonial system (Skidmore and Smith, 1997).

During the revolutionary period of the struggle for independence in the early 19th century, the conservative forces of the *hacienda* owners and the Catholic Church prevailed over urban liberal forces in part inspired by the modern state and economic system of the revolutionary republics of the United States and France (Thual, 1996; Butler-Thomas, 2003). This favored political decentralization and the four vice-kingdoms of Spanish Latin America eventually disintegrated into smaller national states that followed the former imperial administrative entities below the vice-kingdom level (Thual, 1996; Skidmore and Smith, 1997). This fragmentation became an important obstacle to industrialization in Latin America. Only the largest economies like Brazil, Mexico and Argentina would develop a significant manufacturing sector in the mid-20th century

(Maddison, 1992). The Latin American economies remained essentially rural, with an agricultural sector dominated by feudal *haciendas* and a few mining or energy industries often managed by foreign investors. These features determined the relations of Latin America with Europe (Skidmore and Smith, 1997).

Throughout the 19th and early 20th centuries, as under the Iberian colonization, Western Europe would remain the main trading partner of Latin America, exporting manufactured products and importing raw materials (mineral ores such as copper, silver and tin, guano, oil) and agricultural products. The main difference was that the Iberian Peninsula's compulsory intermediary position in the trading system was suppressed. Great Britain and other industrialized economies of north-western Europe could therefore directly trade with individual, independent Latin American countries. The tariffs raised by Latin American economies in the 19th century were not so much aimed at protecting the infant industries but rather at generating a tax base to pay back the public debts that quickly emerged after independence (Butler-Thomas, 2003). The trade between Latin America and Europe remained based on Ricardian comparative advantages. In terms of finance, British banks were very influential as the weak fiscal base of the new states and chronic public deficits generated financial dependence of the Latin American states vis-à-vis the City of London (Skidmore and Smith, 1997).

The first half of the 20th century witnessed two major changes in the economic relations between Latin America and Europe. The first was the rise of the US, which progressively became the dominant economic and military power in the region. US multinational enterprises (MNEs) emerged in the final decade of the 19th century and expanded across Central America, realizing resource-seeking foreign direct investment (FDI) in mineral ores, transport, utilities and banking (Wilkins, 1970; Chandler, 1994). US military incursions in Latin America expanded in parallel with trade (Lens, 2003; Skidmore and Smith, 1997). While the Monroe doctrine was more virtual than real<sup>3</sup> when it was first asserted in the 1820s, by the turn of the next century, the US had developed a substantial overseas military force as demonstrated by the wars in Cuba and the Philippines (Thual, 1996; Skidmore and Smith, 1997). The protectorate over Cuba and the intervention in the Mexican civil war confirmed the status of the US as the regional power of the American continent (Julien, 1968; Lens, 2003). The rising size of the US economy and its flows of FDI progressively pushed Great Britain into second place in the interwar period in terms of trade and investment in Latin America. After WWI, the share of investment from Europe remained substantial but European economies never recovered the place they enjoyed in Latin America during

the 19th century (Defraigne, 2003). The gap in terms of geopolitical and economic influence between the US and the old continent widened faster after World War II (WWII). The US MNEs had grown much faster than their European counterparts. By the 1950s an automobile firm like GM would have sales ten times greater and profits one hundred times greater than a firm such as France's Renault, one the largest European producers in the sector (Defraigne, 2004). US FDI flows outpaced European ones across the globe and Latin America was no exception (Rouquié, 1998; Defraigne, 2003).

Geopolitically, the strategy of containment against the spread of communism adopted in the late 1940s translated into a division of the military burden between the US and Western European powers (mainly France and Great Britain) in which European powers were in charge of many of their former colonies in Africa while successive administrations in the US considered Latin America as their 'backyard' (Santander, 2008). The military influence of the US in Latin America grew in importance following the Cuban revolution and the rise of the radical left across Latin America as the US relentlessly supported anticommunist military juntas through financial aid and civilian and military advisors, such as the notorious 'School of the Americas' founded in 1946 (Fontaine, 1983; Skidmore and Smith, 1997; Robin, 2004). Some European states like France cooperated with the US strategy of containment<sup>4</sup> but their influence was marginal compared to the US (Robin, 2004). Apart from some specific circumscribed interventions (the Falklands War or the San Jose Dialogue), European influence was limited in the so-called US backyard until the end of the Cold War. This geopolitical context favored the US commercial penetration of Latin America at the expense of European interests as the commercial diplomacy of the Latin American economies was constantly under the scrutiny of Washington (Holland, 2002).

### **The impact of import-substitution industrialization strategy on European–Latin American relations**

The second major change was the industrialization of the largest Latin American economies after the 1930s. The collapse in the price of primary products during the depression of the 1930s and the trade diversion effect of WWII<sup>5</sup> provided the impulse for Brazil, Mexico and Argentina to launch import-substitution industrialization in the 1930s and 1940s (Skidmore and Smith, 1997; Butler-Thomas, 2003). This industrialization was made possible thanks to there being a sufficiently large domestic market to benefit from some economies of scale, but required the support of a reinforced state (such as those led by Peron or Cardenas or Vargas' *Estado Novo*), often at the expense of traditional elites in the agricultural

sector or even in some cases foreign investors, such as the oil nationalization in Mexico by Cardenas. After WWII, many Latin American economies continued on the path of import-substitution industrialization (ISI) (Skidmore and Smith, 1997; Haber et al., 2008). They maintained high tariffs and some refused to join the GATT in 1948. The five biggest economies of Latin America in 1960 had average tariffs ranging from 61 to 168 percent against only 13 percent for the EEC (Butler-Thomas, 2003: 271) This new policy prevented direct imports and changed the pattern of trade between Latin America and Europe (as well as with the US) but did not mean an absence of European firms in Latin America. ISI strategies implied a preference to develop production capacities domestically in what were typically capital-intensive and high-tech sectors (for example the automobile industry, machine tools, chemicals and household electric appliances); these operations were controlled by subsidiaries of foreign MNEs. Sheltered behind high tariffs, these subsidiaries could produce old models of commodities with obsolete equipment relinquished by their mother firm in their country of origin (Kolko, 1988; Oman, 1994). For MNEs, ISI provided easy rents to extract in protected markets. ISI in Latin America strengthened the US position vis-à-vis Europe as US MNEs were much bigger in terms of capitalization and less hurt by the effect of WWII than their European counterparts. Some European MNEs were nevertheless present in the large Latin American economies but their presence remained less important than that of their US counterparts (Wilkins, 1974).

Throughout the 1970s, criticism rose against some of the practices of foreign MNEs such as transfer pricing and current account deficit, and against the loss of national sovereignty. Western countries were perceived as weaker following the US defeat in Vietnam and third world governments gained more political autonomy, demanding more beneficial terms of trade.<sup>6</sup> National governments and economic elites in many developing countries, notably in Latin America, attempted to impose stricter conditions on foreign-based subsidiaries. This harder line against MNEs enabled such governments to counter the risk of leftist anti-imperialist subversion by adopting a nationalistic rhetoric. It also enabled the local economic and political elite to capture some of their rent through what some economists called the new forms of investment (NFI). NFI included rules such as the creation of a negative list,<sup>7</sup> ceilings for maximum foreign ownership, compulsory joint-ventures or export targets. European and US FDI in Latin America were faced with NFI demands throughout the 1970s (Oman, 1993; Haber et al., 2008).

As mentioned, this phenomenon took place in the largest economies which accounted for the largest share of Latin America's GDP. Other,

smaller Latin American economies did not have a domestic market large enough or a bargaining position strong enough to adopt ISI policies on a significant scale. Such smaller countries' economic development was therefore restricted to their comparative advantages in primary products.

### **The agricultural problem**

While some Latin American economies raised their tariffs on manufactured products and barriers to investment after the 1930s and 1940s, Europe also became increasingly protectionist in agriculture in the 1950s. When the devastating effects of World War II on European agriculture were overcome in the 1950s, European governments turned back to protectionist measures. In 1958, the EEC adopted very protectionist tariffs on agricultural products and Great Britain was still developing its preferential treatment with the Commonwealth countries. With the establishment of the Common Agricultural Policy (CAP) in the early 1960s, the EEC embarked on a self-sufficiency strategy based on minimum prices and massive subsidies. This strategy was partly based on geostrategic reasons in the context of the Cold War but was also due to the important agricultural lobbies in the two largest Member States of the EEC: France and Germany (Gillingham, 2003; Dinan, 2005). The CAP became and remains a source of tension with the Latin American agricultural exporters (Butler-Thomas, 2003). The Yaounde and Lomé conventions that instituted preferential access to the EU for former European colonies in Africa, the Caribbean and in the Pacific (known after Lomé as the ACP countries) increased trade frictions with Latin American economies (Holland, 2002). Despite the opposition of the German government that had no colonies left and saw the risk of alienating the governments of Latin American economies which constituted more important markets than former African colonies, France imposed this preferential system as a *sine qua non* to ratify the Treaty of Rome because of its colonial lobbies (Carbone, 2011). Most of the large Latin American countries became members of the Cairns group<sup>8</sup> when they joined the multilateral rounds of trade negotiations in the 1980s. The tensions rose as the European Commission established export subsidies in the 1980s to try to offset the effects of the CAP that had generated an excessive supply of agricultural products that risked destabilizing Europe's system of minimum prices. More specifically, another important agricultural trade tension came from the banana disputes which lasted decades and resulted in bilateral *ad hoc* agreements with the various producers of Latin America in the 1990s and 2000s (Hoekman and Kostecki, 2010). Agricultural trade continues to be a source of tension and has been one of the main obstacles to bilateral and

multilateral trade agreements between the EU and many Latin American economies.

### **The debt crisis and the opening of Latin American economies**

Latin American ISI strategy induced trade deficit and borrowing. Most of the resulting manufacturing capacity produced obsolete products that could not be exported to the developed markets such as the EEC, the US or Japan. Exports from Latin America were still essentially primary goods. Nevertheless, ISI required an increasing quantity of imports in terms of machine tools and high-tech equipment (Oman, 1994; Adda, 2006). During the first stages of the ISI, production capacities were developed in light manufacturing, such as textiles and basic consumer goods, and did not require expensive equipment imports. However, as some economies began to shift towards more capital-intensive industries such as oil refining, chemicals, metallurgy and automotives, ISI required increasing costly imports of equipment and maintenance services that deteriorated current account balances. Furthermore, NFI regulation that imposed joint-venture with local partners or minimum participation of national ownership were often circumvented by MNEs who resorted to transfer pricing in order not to share their rent with local investors. In the intra-firm trade, inputs sent by the mother firm of the MNE to its subsidiaries in developing countries that adopted NFI would be artificially raised. Such practice deteriorated further the current account balance of Latin American countries engaged in NFI and ISI strategies (Defraigne, 2013).

The current account deficits deepened throughout the 1970s and were not corrected because of external borrowing. With the development of the deregulated financial market of Eurocurrencies (mainly in the City of London), the emergence of petrodollars after 1974 and the slowing down of the world economy after the so-called golden sixties, international financial markets were submerged by liquidity (Helleiner, 1995; Adda, 2006). Combined with a double-digit rise in the inflation rate, there was a dramatic fall in real interest rates, which became negative in the mid-1970s. Banks from Europe and the USA adopted a policy of aggressive loans to developing countries engaged in ISI (Kolko, 1988). They were welcomed by the authoritarian governments (often military dictatorships) that ruled Latin America, as borrowing enabled them to avoid the painful and politically risky adjustments needed to correct their current account deficits. In some instances, corrupt officials, such as military officers in Argentina, borrowed even more to speculate on the difference between their national regulated interest rates and the LIBOR (Teubal, 2008). By lending irresponsibly to governments pursuing unsustainable economic policies, European and US banks share a responsibility in the emergence

of the debt crisis. In the 1970s, Latin America's external debt increased from US\$27 billion to US\$231 billion (Skidmore and Smith, 1997: 58).

Between 1979 and 1982, to counter inflation and restore interest rates to sustainable levels for the financial sector, the US Federal Reserve Board and Western European central bank adopted a restrictive monetary policy in order to force up real interest rates. The international macroeconomic shock was too much for the developing economies and Latin America in particular. This radical change of monetary policy generated a severe recession in the US and Western Europe, reducing demand for the commodities exported by developing countries. International prices for commodities plummeted throughout the 1980s, provoking a fall in the revenues of countries exporting primary goods, notably in Latin America. At the same time, borrowing to serve the interest of the existing external debt became increasingly costly because of the rise in real interest rates and because most of the Latin American countries' debts were denominated in dollars (Kolko, 1988). The rising debts and falling export revenues further increased interest rates on loans made to Latin America and other developing countries. In 1982, Mexico became the first Latin American country to default and it was followed by many others (George, 1990; Lustig, 1998). US and European banks were exposed and many had to be rescued by their governments who took back the debt owed by developing countries to the Western private banking industry; the club of Paris, comprising governments, replaced the Club of London, comprising private banks, to handle the debt of the developing world (Adda, 2006). The restrictive monetary policies of most of the OECD economies and the default of Mexico triggered a massive credit crunch that plunged Latin American as well as other developing economies into macroeconomic chaos that lasted until the end of the 1980s. This became known in Latin America as the lost decade. Real incomes collapsed across Latin America and by the mid-1980s levels were lower than in the 1960s (Kolko, 1988; Lustig, 1998; Maddison, 1995).

During this period of macroeconomic instability, private capital flows from Europe and the US to Latin America plummeted and were partly replaced by public ODA flows (OECD). These flows were monitored by international financial institutions like the IMF and the World Bank or directly by Western governments who imposed conditions on benefiting countries regarding structural reform to restore creditworthiness and current account equilibrium. During this period, Latin American governments adopted neoliberal policies, lowering tariffs and technical barriers to trade, giving up on many of the NFI regulations, deregulating capital movements and privatizing state-owned national champions developed in the ISI framework. The result was that once the macroeconomic situation

stabilized in the early 1990s, one could observe an acceleration in foreign private capital flows, both FDI and portfolio investment, mainly from Europe and the US (Bradford, 1993).

Debt-equity swaps<sup>9</sup> were put in place to pay back the debt and many European MNEs seized the opportunity to take over former state-owned companies that often enjoyed a dominant position on the local market (IRELA, 1996). The relaxation of FDI rules generated a new climate that reassured MNEs that they would not have to share their rent with local elites or local governments. The lowering of tariffs and the creation of regional integration schemes, notably Mercosur meant that some subsidiaries of US and European MNEs, like VW or Danone, began to consider a regional strategy for Latin America, trying to benefit from new economies of scale (UNCTAD, 1997). The EU supported regional integration schemes such as Mercosur and the Community of Andean Nations (CAN) notably for this reason (Santander, 2009). These factors explained the resurgence of European FDI flows to Latin America in the 1990s.

Portfolio investments from Europe and the US also poured into Latin America as governments deregulated their financial markets. Some countries adopted dollar-denominated government bonds (Mexico's tesobonos) or gave up their sovereign monetary policy by pegging their currency to the dollar and adopting a currency board, for example Argentina's Menem government, which suppressed the exchange rate risk and made portfolio investment more attractive at a time when the US and Europe were facing a severe recession (1991–1993). This constituted a radical transformation of these large economies which affected the patterns of trade and investment flows between Latin America and Europe.

Despite these changes, Latin America was not seen as an essential partnership for the European Union in the 1990s (Holland, 2002). There were, however, clearly some developments generated by the accession of Spain and Portugal to the EEC in 1986. There were some initiatives specifically targeting Latin America, like the *facilités Cheysson* (financing agreements by national investment companies from EU Member States to foster EU FDI) or the trade preference agreements, 'to combat drug production and trafficking' (known as the Drug Arrangements), but their effects remained limited (Hoekman and Kostecki, 2010; Defraigne, 2013). The main priority for the EU, driven by Germany, was to react to the collapse of the so-called 'Soviet bloc' and to organize the transition of the Central and Eastern European economies toward capitalism and eventually membership of the EU.

Among the Member States, the main exception was the Iberian Peninsula for which economic ties with Latin America remained a priority. Anticipating the intensification of intra-EU competition generated by

the creation of the Single Market in 1993, Spanish firms had developed an external growth strategy that mainly targeted the newly privatized formerly state run companies in Latin America in sectors such as energy (YPF acquired by Repsol), utilities, banks and transport (Aerolinas taken over by Iberia) (IRELA, 1996; Guillén, 2005: 114). Latin American operations account for a much larger share of the global turnover of the large Spanish firms than any of their European counterparts. As for Portugal, its firms were mainly taken over by its European competitors (in Spain, Britain, France, Germany and the Netherlands) and it has made only limited FDI in Brazil (AICEP, 2014). Portugal was actually the destination of FDI flows from Latin America with the acquisition by Brazil's Embraer (jointly with EADS) of the Portuguese defense firm OGMA in 2004 (Brainard and Martinez-Diaz, 2009: 208).

In the 2000s, Latin America remained a secondary objective compared to the development of relations with China or the United States but it has regained some importance due to Europe's fear of being marginalized in the region by the United States and more recently by China. The effects of NAFTA were clearly visible, creating an economic interdependency between Mexico and the United States that jeopardized European economic influence in the Mexican economy. The US had been promoting their Free Trade Area of the Americas (FTAA) project. They were also pursuing, under the direction of Robert Zoellick, a 'competitive liberalization' strategy that fostered bilateral free trade agreements between the USA and its trading partners, notably in Central (Central America Free Trade Area; CAFTA) and South America (Columbia, Chile, Peru, Ecuador). The EU attempted to respond to this challenge by actively supporting alternatives to the US FTAA such as Mercosur or CAN and also by proposing bilateral free trade agreements with these two regional bodies and with individual countries such as Mexico, Chile and recently Columbia (Santander, 2009). The rise of Sino-Latin American trade relations became obvious to the EU authorities in the mid-2000s. As further chapters will highlight, this trade is essentially Latin American primary goods versus Chinese manufactured goods.

Despite the recent rise of China as an economic player, Europe is still a major partner for Latin America and an exporter of services and technology. The EU-Latin American trade relations are still characterized by an asymmetry in terms of technological content and knowledge-based services. Nevertheless, some of Brazil's or Mexico's national champions are managing to generate Outward Direct Investment (ODI) to the EU even if this phenomenon remains limited so far.

## **Europe's Relations with Asia**

### **The European colonization of Asia**

Contrary to Latin America, European colonization lasted throughout the 20th century in other parts of the developing world. After Latin America, Asia was the first region to be progressively colonized by Western powers on a massive scale, with Spain and Portugal in the 16th century being followed by the Netherlands, Britain and France. The Western colonization altered fundamentally the patterns of trade in East Asia. Intraregional trade was replaced by colonial trade between the European power and its Asian colony. In the first centuries of colonization, that is until the late 19th century, European merchants were mainly motivated by securing cheap access to exotic products like spices, silk, tea or porcelain. Asia did not face the degree of extermination suffered by the American Indians and there were no colonies in which the European settlements accounted for a large share of the population. Local social organization in Asia was certainly transformed by the European colonization process but it was not completely reshaped by the colonial system. Colonizing powers co-opted local feudal elites and preserved existing social relations and local religions and ideologies, as long as they remained compatible with the colonial structure. For these reasons, European culture has been less influential in these regions than in Latin America.

From the 19th century onward, Asia became a significant outlet for Western manufactures and attracted more FDI flows. In the late 19th century, during the period of the Great Depression from 1873 to 1995, a wave of protectionism spread around European countries and the US. Even Britain which had been the main advocate of free trade policies since the 1840s began to show protectionist tendencies, with ministers like Chamberlain pushing for a system of imperial preference and the development of a 'buy British' campaign to resist competition from the US and other Western European industrialized countries (Lloyd, 1996; Beaud, 1985: 207). Some countries like Germany adopted dumping export strategies (Maschke, 1969). This context of protectionism and intense international competition for manufactured products gave a new importance to the colonies and reinforced the drive to deepen colonial ties in Asia. Great Britain increased its grip on India, China and Southeast Asia. France colonized Indochina under the government of Jules Ferry. Ferry justified the colonization of Indochina as an outlet to reduce national production overcapacities, as European markets were considered saturated. Ferry explicitly claimed that Indochina was a door for French producers to enter and penetrate the vast Chinese markets that, 'belong to Europeans' (Beaud, 1985: 208). Western presence in East Asia grew in the

late 19th century, with the exception of Japan and the Korean peninsula. The Chinese empire, riddled by internal contradictions, was incapable of transforming its feudal society in order to launch an industrialization strategy and to modernize its military capacities. It finally collapsed in the early 20th century under the rising tide of foreign penetration and its most prosperous coastal areas became *de facto* colonized with the international concession regime (Gray, 1994).

Western European colonizing powers faced competitors in their race to increase their respective spheres of influences in East Asia. The United States pursued its Western expansion through the Pacific. They imposed the opening up of Japan to maritime and economic interest with the ultimatum brought by Commodore Perry in 1854 and colonized the Philippines in the bloody war of 1898–1902 (Lens, 2003; Kolko, 1994). Their ‘open door’ policy aimed at opening up the Asian economy, notably China, to American trade and investment and challenged the hegemonic position of Western European powers. Another challenger was Tsarist Russia, coming from the North and strengthening its influence in northern China (Harbin) and the Korean peninsula, but it saw its expansion blocked militarily by Japan and by its internal struggles. Japan was the last contender after it successfully resisted colonization through a radical modernization of its state apparatus, institutions and military capacities (Hunter, 1989; Jansen, 2000). Japan became itself a colonial power, not only to have its own outlets and sources of raw materials, but also simply to deter Western powers from treating it like China. Until the 1930s, Great Britain was the dominant economic and military power in the region and could act as a referee, as for the settlement of the Nippon-Russian war. Bilateral trade between the colonial powers and their respective Asian colonies became more important than Asian intraregional trade (Petri, 1993; Defraigne, 2006).

The acceleration of the industrialization of Japan changed this situation. With the crisis of the 1930s and the return to protectionism, Japanese exporters lost their access to Western markets and also to Western colonies in Asia.<sup>10</sup> The Japanese economy faced an unprecedented crisis. The political current in favor of multilateral free trade in Japan was progressively and violently silenced by the military and those who supported imperialist expansion in Asia (Jansen, 2000). Imperial Japan attempted to defeat Western colonial powers to create a regional economic bloc (the notorious Great East Asia co-prosperity sphere) in which Japanese firms would enjoy a dominant position, as explained by the so-called flying geese metaphor developed by army economist Akamatsu (Hunter, 1989; Jansen, 2000; Terry, 2004). Despite an anti-colonialist rhetoric, the Japanese imperialist project quickly revealed the brutal means used by the

Japanese army to impose their own hegemony. The Japanese imperialist government was responsible for more than 20 million casualties across East Asia, the majority in China. The Japanese army's harsh treatment of the local populations has generated long-lasting resentment in most East Asian countries (Margolin, 2007). The Japanese expansion in East Asia nevertheless showed that Western powers could be defeated. In the case of French-Vichy-controlled Indochina, it had also shown that the French settlers were ready to submit to the Japanese army demands for food at the expense of the local population's health in order to protect their own investment. These phenomena, combined with the economic effects of WWII, exacerbated anti-colonialism in East Asia (Church, 1995; Jones, 1997; De Koninck, 2005).

Weakened by the war and by the military expansion of the Soviet Union across Eastern Europe, Western European powers were progressively forced to give up their colonies in East Asia. Their attempt to restore their colonial links in Asia through force in the late 1940s and early 1950s proved costly from financial, human and geopolitical perspectives. In 1947, after its intervention against the Greek communist resistance organization in the civil war, the British government explicitly told the US that it did not have the financial strength to keep the global military position it enjoyed before the war (Fontaine, 1983). The Dutch government first tried to contain the independence movement in Indonesia but quickly gave up. The French government was to be far more obstinate in Indochina, spending billions of dollars until their humiliating military defeat in Dien Bien Phu in 1954. The United States and their Western European allies were unable to prevent the seizure of power by the CCP's People's Liberation Army (PLA) between 1945 and 1949. The Korean War again showed the limitation of Western military power in Asia. The Western coalition prevented the taking over of the Korean Peninsula by the Soviet and Chinese-backed North Korean forces but it could not defeat these forces once the PLA intervened in the conflict (Fontaine, 1983; Hopf, 2012). After 1954, of the former European colonial powers, only Britain continued to play a significant role in Asia with its military presence in Singapore, interventions in Malaysia and Indonesia to contain communist expansion, and its sovereignty over Hong Kong (Jones, 1997; De Koninck, 2005). The US strengthened its military presence in East Asia with numerous permanent bases, and its massive engagement in Indochina in the 1960s dwarfed the UK's interventions and marginalized the role of the former colonial powers (Fontaine, 1983; Joyaux, 1988; Kolko, 1994).

**Europe's declining presence since decolonization and Asia's industrialization**

From an economic perspective, European countries also became progressively marginalized in East Asia following the decolonization process. European investments were inexistent in the Japanese former colonies (in Taiwan and the Korean peninsula). They were nationalized in most of the other East Asian countries as their governments adopted a state-led economy based on the Stalinist socialist model, as was the case in mainland China, Vietnam, Cambodia and Laos. This was accompanied by ISI and restrictive policies regarding FDI with negative lists, for example in India, Indonesia, Malaysia, Philippines, South Korea, Thailand and Taiwan. In the 1950s, East Asian markets were seen as limited and not easy to access due to the ISI and NFI policies pursued by many governments (Yoshihara, 1988). The GDP per capita of a country like South Korea remained lower than that of some Sub-Saharan African economies, and the rising military tensions of the Cold War in the region increased the level of risk in East Asia in the eyes of European and US investors (Jones, 1997; Cha, 2013). Asia was not a priority for European investors from the 1950s to the 1980s.

With the normalization of economic relations between Japan and the US allies in East Asia in the 1950s, Japanese firms outpaced their Western competitors in terms of market-seeking investment (Yoshihara, 1988; Yamamura and Hatch, 1997). Some European investors remained mainly in resource-seeking investment (notably oil companies like Royal Dutch Shell, rubber and tyre companies like Dunlop or detergent producers like Unilever) (Yoshihara, 1988). For market-seeking and efficiency-seeking investment in manufacturing, European firms remained mainly in the two city-states that did not adopt ISI policies but chose the option of opening widely to FDI and transforming their economy into a flexible export platform and regional hub for services, that is Singapore and Hong Kong. For example Philips kept substantial manufacturing capacities in Singapore in the 1960s (Hobday, 1995).

In the 1980s many East Asian economies gave up some of their ISI policies and adopted an export-led growth based on attracting FDI through the creation of export-platforms. With the phenomenon of the Endaka<sup>11</sup> and the acceleration of the regionalization of the production processes of Japanese firms across East Asia in the late 1980s, European economic presence was marginalized further in relative terms during the early 1990s. In the 1990s Japan was clearly the regional economic power as the effects of China's opening up were only starting to be felt and very few predicted the speed of China's regional economic expansion in the two decades that were to come. Many authors at that time re-used the flying geese metaphor

coined by Akamatsu to emphasize the role of Japanese FDI spill-overs in the remarkable economic growth experienced by the newly industrialized countries of East Asia (Yoshihara, 1988; Hobday, 1995; Yamamura and Hatch, 1997). In less than three decades, East Asian economies had overtaken the rest of the developing world and the most advanced, namely South Korea, Taiwan, Hong Kong and Singapore, had caught up with some Western countries in terms of standard of living and technological capacity. The World Bank acknowledged this exceptional growth by publishing its report on the so-called East Asian miracle in 1994 (World Bank, 1994). It was at that time that European MNEs began to regain interest in this region where East Asian MNEs (mostly Japanese) had developed strong ties and effected a regional division of labor (Yamamura and Hatch, 1997).

The crisis that hit East Asia in 1997 was considered by some Western officials and MNEs as an opportunity to force the opening of these economies to Western FDI and services, notably through the conditionality imposed by the IMF bail-out program (Beeson, 2000; Higgott, 2000). This generated some resentment of the IMF as it was perceived as setting an agenda dictated by the Western economies. After the crisis and by the early 2000s, the EU MNEs had strengthened their foothold in the region. Nevertheless, the dynamic of regional integration accelerated with the rise of the Chinese economy. Competitive liberalization also affected East Asia with China proposing a free trade agreement (FTA) with Association of Southeast Asian Nations (ASEAN) and Japan negotiating bilateral Economic Partnership Agreements with most Southeast Asian economies. The EU has remained an essential market for East Asian countries since their move to export-led growth. However, the trade relations between East Asia and the EU remained asymmetrical, with a strong trade surplus in favor of East Asia and a relatively more limited economic presence of EU MNEs in the region when compared to that of Japanese MNEs (Defraigne, 2013).

Because of its socialist economic system, China was different from the rest of the region, with the exception of Vietnam, as it opened up to FDI only in the 1980s, very gradually at first and faster after 1992. This time Japanese firms were not in the forefront, as they had been in other parts of East Asia. European MNEs were among the first large MNEs established in China, such as Germany's Volkswagen or France's Carrefour (Luo, 2000). The potential size of China's market and its vast pool of cheap labor attracted both market-seeking and efficiency-seeking FDI from the largest European companies. Progressively, the trade and investment relations between the EU and China accelerated, generating a degree of interdependency never experienced before, a fact acknowledged by the creation of an EU–China strategic partnership in 2003 (Casarini, 2009).

European investors, mostly British, never completely left India as the latter adopted more limited state control of the economy and a less confrontational diplomacy with Western Europe than China. UK investors remained present but were seriously constrained by the NFI and ISI policies adopted by the Indian government from the 1950s until the 1990s (Jaffrelot, 2006). As for many other developing countries, the limitations of the ISI and NFI policies became manifest as India experienced extremely severe difficulties regarding its balance of payments. Reforms to reduce state control on trade and investment were attempted in the 1980s and accelerated after the collapse of its hard currency reserve in the early 1990s (Jaffrelot, 2006; Sharma, 2009). After its opening up, India was perceived by some in the EU as the potential next China, that is, a huge emerging market with vast pools of cheap labor and some highly skilled workers. With a much lower GDP per capita and serious bottlenecks in the infrastructure which hamper the development of export platforms in manufacturing industries, India attracts far less FDI and its trade with the EU is far more limited than China's (Sharma, 2009; Jaffrelot, 2012). India's remarkable export growth in IT and business process outsourcing (BPO) services is often considered as the sign of the Indian economy's modernization, but they affect only a small part of the economy (6.4 percent of the GDP in 2011) and of the labor market (2 million people employed in 2011) with spill-over effects limited to the cities which harbor these business clusters (Tomlinson, 2013: 221). The growth rate of Indian trade with the US and Europe has been quite impressive prior to the global financial crisis, but cannot compare to the importance of China.

Overall, since the 1990s, Asian markets, and particularly East Asian ones have become increasingly important for the EU, reflecting their growing share in the world economy. The EU commercial presence in East Asia is less important than the most advanced local economies such as Japan and South Korea while the European geopolitical presence is extremely limited, and negligible compared to that of the US. Nevertheless, EU trade has experienced a redirection in favor of East Asia at the expense of transatlantic trade relations over the past two decades (CEPII, 2013: 82).

## **Europe's Relations with Africa and the Middle East**

### **The impact of European colonization**

The impact of European colonization in Africa is as profound as it is in Latin America. It also began in the 16th century with the triangular trade that negatively affected the development of the coastal areas of Sub-Saharan Africa. The loss of manpower, the disintegration of some traditional societies, the disastrous long-term effects of the economic reliance

on the slave trade followed by some African feudal states have been analyzed by a vast literature (Suret-Canale, 1973; Ferro, 2003).

The completion of the colonization of Africa took place in the final decades of the 19th century and early in the 20th century (with Libya in 1911 and Ethiopia briefly from 1936 to 1944). There were significant differences in the respective colonial systems of the different European colonial powers, ranging from simple protectorates, such as in Egypt, Syria, Iraq, Palestine or Morocco, more indirect rule, as was often the case in the Commonwealth African territories, and some more centralized operations, as in French-controlled Africa. Nevertheless, in all European colonies, African traditional societies were radically transformed but without the creation of a modern local elite that had the managerial skills to engage in manufacturing or the high-tech services of the 20th century. The impact of WWII and the rise of anti-colonialist movements in Asia and Africa imposed a decolonization that had not been adequately prepared for. Despite brutal repression of independence uprisings in for example Algeria, Madagascar or Cameroon, European powers realized that their colonial empires were not sustainable. Granting full citizenship to the indigenous population of African colonies was far too costly now that the European states had developed welfare systems, and maintaining the status quo would imply a strengthened military repression that would not be politically or financially acceptable, as demonstrated by the French intervention in Algeria or the Franco-British raid for control of the Suez canal in 1956.

### **Europe and Sub-Saharan Africa: from independence to Cotonou**

In Sub-Saharan Africa, the independence of the newly-formed states in the 1960s was more formal than real as their room for maneuver proved extremely narrow. Firstly, the colonial powers did not hesitate to interfere directly during and after the independence process to select local governments that would preserve a privileged relationship with them and that would protect their economic interest. Most of the new African leaders were co-opted by their former colonial power. In the context of the Cold War, a division of labor existed in the Western camp against the Soviet Union and its satellite states, whereby the US considered Latin America as their backyard and carried out many military interventions in East Asia and the Middle East but delegated the 'containment of communism' to the former Western European colonial powers in Africa and to South Africa (Fontaine, 1983).

Secondly, the extremely limited or inexistent pool of indigenous highly-skilled labor *de facto* created a technological and management dependency in former colonies. African states in the 1960s could not autonomously

operate their energy and transport infrastructures, their administrations or large-scale manufacturing production units (notably the processing of raw material and agricultural products). European firms and technical advisers continued to play a decisive role in key sectors of these newly-independent states. After the first decade of independence in 1970, non-African investors were still responsible for 70 percent of the capital stock invested in processing industries (Hugon, 2009: 11). Some African governments tried to limit their reliance on their former colonizers by developing ties with other European economies or with other Western powers. The governments that were not co-opted, which meant that they may often have seized power after an anti-colonialist military struggle or coup, for example Algeria, Angola, Egypt or Mozambique, enjoyed a greater room for maneuver and developed ties with the Soviet camp, sometimes using these ties to improve their bargaining positions against their former colonial power, such as in Algeria or Nigeria. Nevertheless, even for the governments that attempted this strategy, the economic and political ties with the former colonial power often remained the most important.<sup>12</sup>

Thirdly, colonial powers often encouraged political disintegration as they gave up their formal colonial control. French, Belgian or British colonial territorial entities were divided into smaller independent states. Given their limited domestic market,<sup>13</sup> the new African economies could not benefit from economies of scale in modern manufacturing, public services and infrastructure (Brunel, 2004).

In Europe, at the end of the negotiations of the Treaty of Rome, the French government imposed on its partners the principle of giving privileged access to the EEC market to its African colonies as a *sine qua non* for ratification. The German and Dutch governments who had no colonies in Africa were opposed to that preferential trading system as it weakened their position vis-à-vis other parts of the developing world, but finally gave in in order to be able to complete the Common Market on schedule (Holland, 2002). This was formalized with the Yaoundé convention in 1964 and extended to the former British colonies in 1975 with the Lomé convention that was signed by 46 countries (the famous ACP group). This preferential system enabled European investors and traders that had operated in Africa within the colonial system to maintain their operations after independence. The Yaoundé and Lomé conventions could not overcome the serious obstacles that the new African states faced in their economic development in terms of education, technology and management and their limited autonomy vis-à-vis entrenched lobbies from the former colonial powers. Furthermore, although the EU institutions were formally in charge of trade policy and a European development fund, individual Member States that had been former colonial powers in

Africa (mostly France and the UK) pursued their own independent and often opaque foreign, trade and development policies in order to maintain influence over their former colonies vis-à-vis other Member States (Belligoli and Defraigne, 2010). The most striking example is probably the so-called *réseau Foccart* throughout the 1960s and 1970s that developed a parallel secret diplomacy between France and its former African colonies (Verschave, 1998; Calmettes, 2001).

In the 1970s, due to the international geopolitical context characterized notably by the US defeat in Vietnam and by the ability of oil-producing countries to impose a more advantageous share of the oil rent on major Western MNEs, some African governments attempted to grab back more of the benefits of their national commodities by nationalizing or creating state-owned enterprises in mining or food-processing, such as Ghana and the Ivory Coast for cacao or Zaire in mining (Braeckman, 1992; Brunel, 2004; Laven, 2008). These attempts proved expensive as the African economies did not possess the technological capacity to build the necessary machine tools. Most of these projects necessitated the importation of maintenance services and turnkey factories, to the detriment of the current account of these countries. Many projects were overambitious and not suited to the level of development of the economies but instead provided an additional outlet for European firms, eventually coming to be known as the notorious 'white elephants' (Braeckman, 1992; Hugon, 2009). Such attempts to develop autonomous industrial capacity were short-lived as the African economies were also hit in the 1980s by the debt crisis, the credit crunch for developing countries, and the fall of commodities prices (George, 1990; Brunel, 2004).

The weak new African states were more seriously hit by the debt crisis and the fall in export revenues than most other countries in the world. In some extreme cases, as in Somalia, Sierra Leone, Liberia or Zaire, spending cuts to serve the debt and the rise of corruption generated a collapse of the state and the rise of warlords. The other African countries all experienced a brutal slowdown in the economy and a deterioration in their balance of payments. As in Latin America, structural adjustment plans designed by the IMF and adopted by local governments imposed a contraction in public spending that reduced investment, education levels and public sector jobs. The macroeconomic and political instabilities frightened foreign investors except for those in the traditional commodities industries. Compared to the rise of East Asia and the opening of Eastern Europe and Latin America, the African economies were seen as a marginal objective for European business. The end of the Cold War also reduced the importance of Africa geopolitically, notably after the settlement of the Angolan conflict, which involved South Africa and Cuba. Dictatorships

that had been artificially maintained during the Cold War by the support of Western powers, such as Zaire or Somalia were left to collapse, generating wars and further instability in the surrounding regions. Africa's share of the EU's external trade fell by half between 1970 and 2008. By 2000, only 2 percent of EU ODI flows were directed towards Africa, including North Africa (Hugon, 2009: 46). These evolutions further marginalized the African continent in the eyes of European governments and EU institutions.

The first decade of the 2000s witnessed a renewal of interest in Africa by new and big players such as the US, China or India. With the acceleration of industrialization and the rise of purchasing power in China and other emerging economies, the increase in demand for commodities intensified the race to access these resources, notably in Africa. Firms from emerging economies that began to internationalize their operations in the 2000s considered the neglected African markets as a potential stepping stone in a learning process to acquire the necessary intangible assets in order to penetrate more developed markets. The end of the Cold War also challenged the backyard status of Africa vis-à-vis its former colonial powers, notably France and the UK. The US highlighted its interest in the region when it passed the African Growth and Opportunity Act and China launched its Forum on Africa-China Cooperation in 2006 (Sutter, 2008; Moyo, 2010).

During the 2000s the EU developed a complex diplomacy toward Africa. First it modified its preferential system toward African economies with the ratification of the Cotonou agreement. Cotonou had various objectives. Firstly, it aimed at making the EU-ACP preferential system compatible with WTO rules and creating economic partnership agreements with FTAs (Crawford, 2005). Secondly, it encouraged regional integration processes in Africa and promoted interregional liberalization. The economic rationale behind this support of regionalism in Africa was to encourage FDI by increasing the size of African domestic markets. The narrowness of African markets came to be considered as impeding their integration to the global economy and the development of EU subsidiaries in Africa, notably in utilities and services. After the Cold War and throughout the 2000s, the EU institutions also put a higher emphasis on political conditionality (such as on human rights and good governance) in its aid programs and trade preferences, but EU diplomacy was not easily readable as some of its individual Member States that had been colonial powers pursued bilateral relations based on far less conditionality (Belligoli and Defraigne, 2010).

The strengthening of the commercial and diplomatic presence of new powers, notably China and the US but also India and Brazil, has weakened the leverage of EU diplomacy in Africa as the local economies now

find alternative sources of aid flow and additional export markets for their commodities. Nevertheless, the EU remains by far the largest investor on the African continent, and the largest donor. The military presence of France matches the US (5000 troops in 2012) and Britain has maintained a more limited presence in Kenya and Sierra Leone while China, Brazil or India have no permanent base or troops engaged in Africa apart from in UN operations, although India has developed military cooperation schemes with some countries of Eastern and Southern Africa (Holslag, 2009). The long colonial and post-colonial relationship between Europe and Africa continues to explain the resilience of the economic and political networks between the two continents despite the recent penetration of other major powers, including China.

### **The European and the MENA regions**

The Arab world and the rest of the Middle East were also colonized by European powers, directly or through protectorates and mandates, mostly from the late 19th century<sup>14</sup> or after the collapse of the Ottoman Empire. Nevertheless, the Ottoman Empire and North African feudal societies were far more developed economically and militarily than the Sub-Saharan region. After its defeat in WWI, the army and the elites of the center of the Ottoman Empire proved capable of creating a truly autonomous new country under the leadership of Kemal Ataturk. The decolonization and the weakening of the two main European powers in the region have generated stronger national elites than in Sub-Saharan Africa that could benefit from the support of the USSR and/or the USA. As Chapter 9 of this book, dedicated to this specific region, outlines, the relations of the Arab countries (as well as Turkey and Iran) with Europe have been largely determined by the capacity of the national elites to gain military and political autonomy from the former European powers and from the US. There was no clear-cut division of the Middle East across Cold War lines, as some sought to alternate or combine their support from the superpowers, but, nevertheless, governments generally lacked legitimacy and the control of their military apparatus was usually under the influence of the former colonial power and opposed to the Soviet Union.<sup>15</sup> With these countries, the European economies maintained important investments, technological transfers and military alliances. With countries that adopted a more nationalist and anti-Western military regime, such as under a Pan-Arabic or Islamist ideology for Iran after 1979, economic and political relations were maintained but were more uncertain as these economies were most often closed to FDI, sometimes developed ties with the Soviet bloc, and were opposed to Western support of Israel (Stora, 1995; Troin, 2006; St John, 2011; Malti, 2012). Like other parts of the

developing world, most of these countries were severely affected by the debt crisis and the fall of commodities prices in the 1980s. In response, many engaged in a reduction of ISI, privatization of state-owned firms and, for some, a greater opening up to FDI, notably from EU investors. In that context, the EU decided in 1995 to launch a regional trade agreement with the Euro-Mediterranean Partnership (aka the Barcelona process) and with the Gulf countries (Khader, 2009). Nevertheless, these rapprochements have been slowed down by the political problem of the Palestinians<sup>16</sup> and by the rise in energy prices in the 2000s that enabled the main energy exporters to delay their economic liberalization process. The political instability of the MENA region aggravated by the effects of the so-called war against terror since 2001, the eruption of the global financial crisis in 2008 and the Arab Spring uprising might have affected political relations with the EU but the EU's economic relationship with countries in the region has not been fundamentally modified, except naturally for those whose economy was ravaged by war, like Iraq, Libya or Syria. Despite the US being the main political and military power in the region, the EU remained the largest investor and trade partner in many countries of the MENA region (Khader, 2009).

## CHINA AND THE DEVELOPING WORLD: A NEWCOMER THAT CANNOT AFFORD ISOLATIONISM

### **China's Isolation and Modernization**

The option of relative isolation chosen by the Chinese empire and its China-centric perception of the outside world prevented China from making any impact on international relations except for in its neighboring territories with which it maintained a tributary system. Following the penetration of Western powers into East Asia and the collapse of the empire in the early 20th century, the new Chinese Republic was too weak to play a significant role in international affairs, having lost national sovereignty in some parts of its territory including over trade policy, with power being divided between warlords, and then experiencing a revolutionary period during the 1920s (Gray, 1994; Bianco, 2007). When in the late 1920s, the Kuomintang (KMT) leadership managed to betray its communist allies and centralize power against local warlords, it proved to be a corrupt and inefficient state apparatus that was unable to organize an effective resistance to the Japanese invasion in the 1930s (Fairbank, 1989; Gray, 1994;

Kolko, 1994). It was only after WWII that KMT-ruled China regained an important international status, notably thanks to US support and diplomacy in East Asia. Nevertheless, the weakness of the KMT state, riddled by corruption and challenged by the guerrilla war of the CCP's People Liberation Army meant that China's diplomatic influence on global affairs remained limited until the seizure of power by the CCP in 1949.

In just a few decades, the CCP leadership managed to create a modern state apparatus by destroying the traditional feudal aspects of Chinese society and considerably strengthened China's national sovereignty. The CCP leadership followed a nationalist policy that not only opposed the Western traditional powers but that was also ready to break its alliance with USSR in order to keep its political autonomy and to pursue its own diplomatic goals. Nevertheless, the People's Republic of China (PRC) in the early 1950s was facing extremely serious military and economic challenges. The KMT's claim to the Chinese mainland and the PRC's engagement in the Korean War forced China to adopt a costly military expenditure. The economic situation of the PRC in the 1950s was disastrous. It had among the lowest standards of living in the world, a massive rural population with high mortality and illiteracy rates, a weak and fledgling industry and an underdeveloped infrastructure network (Lardy, 1989; Gray, 1994). It also faced catastrophic hyperinflation (Lardy, 1989). With immediate military threats in its immediate neighborhood and such economic challenges, the PRC's economic impact on the rest of the world could only be limited.

After the PRC broke away from the so-called Soviet bloc in the early 1960s, China pursued an 'anti-imperialist' diplomacy to foster resistance in the third world against Western powers, and subsequently also against the Soviet Union (Fejtő, 1978; Nakajima, 1989). This radical anti-imperialist rhetoric did not prevent China from pursuing its own national objectives, sometimes opposed to other developing countries, as its difficult relations with India and Vietnam have clearly highlighted (Domenach and Richer, 1995). It also very earnestly pursued diplomatic recognition and its status as the sole legitimate Chinese government as opposed to the Taiwan-based KMT government.

In the late 1960s and 1970s, Chinese anti-imperialist rhetoric became increasingly meaningless as the CCP leadership accepted the proposition of the US to normalize their bilateral relations after secret talks between 1969 and 1971. In 1972, the US ceased to oppose the recognition of the PRC by the UN. In less than a decade, China normalized its relations with most of the US allies (Europe, Japan and then most other East Asian anti-communist regimes) and joined global multilateral institutions (the IMF, the World Bank and it applied to join the GATT in the mid-1980s). This

normalization process was the primary objective of Chinese foreign policy in the 1970s (Fejtő, 1978; Gray, 1994; Domenach and Richer, 1995). In matters of economic development and multilateral institutional governance, China continued to develop a discourse in favor of the developing world versus the developed countries (the Soviet Union included) but it kept a low profile, abiding by the established diplomatic rules, a behavior that broke away from the revolutionary years of the 1950s and from the Cultural Revolution. Until the mid-1980s, China maintained a very hostile policy towards the USSR, often supporting developing countries that were opposed to the USSR and its satellite states.<sup>17</sup>

Thus, the PRC experienced radical shifts in foreign policy in its three first decades of existence: pro-USSR until the late 1950s; anti-imperialist against both the USSR and Western powers until the late 1960s; and normalizing its relations with the US and its allies against the USSR after 1971. Nevertheless, these policies had only limited effects in the developing world.

Firstly, a poorly developed industrial base meant that the PRC did not have the capacity to project troops overseas. With no real navy and a limited air force with second-rate planes, China could not claim to rival the global military reach of the two superpowers or even that of the Western European powers. The short but disastrous war against Vietnam in 1979 proved the limited fighting capacities of the PLA outside Chinese territory (Robinson, 1991; Kissinger, 2011). The PRC had developed nuclear military capacities with the support of the USSR in the 1950s that guaranteed its territorial integrity in the aftermath of the Korean War. Nuclear knowledge helped China to strengthen its alliance with Pakistan against India when the latter got closer to the USSR. Nevertheless, overall, the capacity of the PRC to provide military assistance to distant developing countries remained extremely limited and not comparable to that of the USSR or the western powers. From the 1950s until its reconciliation with the US after 1971, China's military impact outside its immediate neighboring region, namely in the Korean Peninsula, India, Vietnam and USSR, was limited, confined to delivering light military equipment and technical advisers to some anti-imperialist and pro-communist guerrillas in the third world.

Secondly, China's low level of economic development also limited its relations with the rest of the world. After the Korean War, China suffered an embargo from Western powers and only had access to Soviet technology until the breaking of their alliance in the early 1960s. With a limited industry, China could export mostly primary products. As relations with the Soviet Union deteriorated and China pursued a nationalist development strategy, the CCP leadership attempted to accelerate its industrial-

zation with the so-called Great Leap Forward (Lardy, 1989; Naughton, 2007). This extreme strategy of autarkic industrialization, intended 'to catch up with Great Britain within fifteen years', as Mao claimed in 1958, was characterized by unrealistic targets, limited management resources and a lack of skilled engineers. It imposed an excessive burden on the agricultural sector. The Great Leap Forward was a disastrous strategy, based on voluntarism rather than on a proper scientific assessment of the actual economic capacities of China, and it generated one of the most costly human tragedies of the 20th century, claiming between 16 and 27 million casualties in the famine that it provoked (Lardy, 1989: 372; Gray, 1994: 316). The destabilizing political and social effects of the Great Leap Forward disaster, combined with the intensification of the US policy of containment in 1965,<sup>18</sup> convinced Mao to launch the so-called Cultural Revolution. This move led to an extreme militarization of Chinese society in order to contain domestic opposition and external military threats in a context of extreme political and economic isolation from the rest of the world (MacFarquhar and Schoentals, 2009). The PRC experienced a quasi-economic autarky until the mid-1970s as shown by the shrinking share of China in international trade (Naughton, 2007).

In this context, China remained a poor inward-looking developing economy with limited manufacturing, technological and export capabilities and with only extremely limited trade links to the industrialized countries (Lemoine, 1994). Most developing countries' economies were competing with rather than complementary to the PRC. Apart from the least developed economies such as Burma, Mongolia or some African countries, few valued Chinese technology which was mainly concentrated in light industry (Fejtö, 1978). In parallel, the PRC economic development strategy was essentially self-contained. Commercial and technological ties with the developing world from the 1950s to the end of the 1970s were therefore strictly limited with the exception of its anti-Western neighbors, such as North Vietnam until the 1970s, the Red Khmers' Cambodia, Burma and North Korea, and Pakistan as a way to contain Indian influence in South Asia. China also developed projects in Sub-Saharan Africa like the famous TAZARA railway between Zambia, Tanzania and the Indian Ocean, to promote its image as a champion of the third world but also to secure access to some key raw materials like copper (Fejtö, 1978; Cabestan, 2010; Shambaugh, 2013). In the least developed countries Chinese aid, military and technological expertise remained attractive given the scarcity of capital and technological skills, but compared to other major powers it remained marginal.

China's impact was far more important in the field of ideology and global politics than in economics. Although it is not possible to assess

precisely the influence of Maoism in the third world in the 1950s, many elements clearly indicate that the size of China, its capacity to oppose Western powers during the Korean War and its virulent anti-imperialist rhetoric impressed various politicized segments of the population of some developing countries<sup>19</sup> – radical local elites in favor of more national sovereignty or intellectuals or radical left groups who would not abide by the peaceful coexistence doctrine of the USSR (at least until the normalization of China's foreign policy and its policy of pacific-coexistence with the US). In the mid-1960s, the ultra-radical rhetoric and the chaos brought to the PRC's foreign affairs services by the Cultural Revolution discredited Maoist diplomacy among numerous developing world governments (Fejtö, 1978; Robinson, 1991).

After Mao's shift in favor of normalization with the US and its allies, generating a *de facto* alliance against the Soviet Union, the Cultural Revolution was ended and the domestic political situation was stabilized with the neutralization of Lin Biao and the Gang of Four during the 1970s. The new leadership of Deng Xiao Ping opted for a low-profile pragmatic diplomacy, trying to avoid open conflicts in order to concentrate on the economic modernization of the domestic economy which became known by the adage, 'bide its time, hide its brightness, not seek leadership, but do some things' (Shambaugh, 2013). Overall these changes did not alter the fact that China's political influence was limited given its economic, technological and military weakness which prevented it from backing its rhetoric with concrete actions.

The focus on the economic modernization was a necessity after two decades of economic and technological isolation. The attempt to hastily build an autonomous industrial base with the Great Leap Forward ended in dismal failure. In contrast, because of the Cold War and their alliance with the United States some of China's direct neighbors, such as Japan, South Korea and Taiwan, benefited from a privileged access to the US market, financial aid and technological transfer and FDI spill-overs (Lanzarotti, 1992; Friedman and Samuels, 1993; Hobday, 1995; Hatch, 2000; Defraigne, 2006). These factors contributed significantly to the high growth rate and to the development of capital-intensive industries in these countries. Mao, Zhou en Lai and Deng Xiao Ping could not ignore this widening of the technological and industrial gap and its geopolitical consequences (Vogel, 2011). The PRC needed to break from its diplomatic isolation from countries holding prized industrial technology in order to enable the import of machine tools and technology, as well as to benefit from FDI spill-over and to facilitate the sending of students abroad. The PRC adopted its own open door policy, progressively relaxed its control of international trade and opening up to FDI by creating special economic

zones, first to attract priority Chinese investors from Hong Kong, Macao and Taiwan, and then from the rest of the world.

### **China's Reinsertion in the World Economy**

The opening up of China did not *per se* generate the exceptional growth rates enjoyed for three decades. Despite its pitfalls and human cost, the so-called Maoist period of the 1950s and 1960s built the necessary conditions for the success of the 1980s–2010s.

First, the Chinese revolution of 1949 destroyed many of the outmoded feudal structures of Chinese society, enabling the creation of a modern society, notably regarding women's status, the labor market, education and health policy, and a state apparatus that could adapt to the necessary technological changes and provide a level of security, despite the shocks of the Korean War and the Cultural Revolution, not enjoyed in the 19th and early 20th centuries. The state central planning generated a heavy industry sector and an energy and transport infrastructure far more advanced than countries with similar levels of development (Defraigne, 2012). Despite the tragic mistake of the Great Leap Forward, Chinese agriculture recovered in the 1970s using new technologies that significantly improved productivity even before the reforms engaged under Deng Xiao Ping's leadership (Aglietta and Bai, 2012), creating the necessary conditions for the shift of Chinese labor from agriculture to industry.

China provided foreign investors with not only an abundant and cheap labor force, but also a relatively well educated, as China had high levels of literacy relative to its level of development, and docile one, given the level of repression against independent labor movements. The Chinese economy could also offer political stability<sup>20</sup> and security. The fast-developing manufacturing sector could count on state-driven development of the energy and transport infrastructure to limit important bottlenecks in production and distribution. An exchange-rate policy that pegged the RMB to the dollar (or a basket of currencies from China's largest export markets) guaranteed export competitiveness and fostered outsourcing to Chinese export platforms. The control over international capital flows provided some macroeconomic and monetary stability, sheltering the Chinese economy from the financial crises that hit emerging economies in the 1990s (Aglietta and Landry, 2007). Finally, China experienced a very favorable demographic context from the 1980s to the 2010s, with an abnormally large share of the population being of working age due notably to the one-child policy (Naughton, 2007).

It was this exceptional combination of favorable factors that generated three decades of high growth, mostly based on industrialization, especially

from the 1990s to the 2010s. As China transformed into one of the most important industrial centers of the world in the 1980s and 1990s, the low-profile foreign policy adopted by Deng Xiao Ping could not be maintained given China's rising share of world trade, global energy, food and raw materials consumption, as well as in currency reserves. China's impact on the world economy and the need to secure outlets for its exports as well as access to energy, raw materials and food forced the CCP leadership to develop a more proactive diplomacy. China has developed a degree of interdependency with the rest of the world economy without historical precedent, in terms of trade, technology access, human capital and financial flows. Inward-looking strategies are not an option anymore. China is therefore a newcomer among the global powers and its relations with the developing world are much more recent and far less deep than Europe's, except for its close ties to neighboring countries in Eastern and Central Asia.

Despite its sheer economic size and its weight in international trade, China remains, in the words of Shambaugh (2013), a 'partial power'. On the strategic level, despite its military achievements in the nuclear and aerospace fields, Chinese military capacities are still far from matching the global powers like the US, and also trail Russia, France or the UK who have a blue-water navy, that is, the capacity to project many troops overseas (Shambaugh, 2013). Contrary to the aforementioned powers, China does not have military bases overseas nor has it developed a wide network of allied countries<sup>21</sup> to facilitate the transit of its troops in different regions of the developing world. The so-called string of pearls strategy that seeks allies to secure the Chinese navy's access through the Indian Ocean must be understood as being part of China's long-term global military strategy but it is still far from being comparable to the networks and secured international routes of the US, Russia, France or the UK. China can only develop economic or soft power diplomacy to strengthen its links with the developing world.

In terms of economic complementariness, China also faces increasing problems in its trade relations with the developing world. Despite tremendous progress China has not reached the technological level of the most advanced economies. R&D spending has experienced an impressive rise, from 0.5 percent of the GDP in the 1990s (the level of Bulgaria) to over 1.5 percent in 2013 (the level of Italy), but a large part of the research done in China is actually carried out by foreign firms (Defraigne, 2012; Nolan, 2012). In terms of innovation capacity, Chinese firms are still lagging far behind their competitors from Japan, South Korea or in the advanced Western economies (Defraigne, 2012; Nolan, 2012). For the most advanced technology, developing economies still rely on that coming

from the most advanced economies and notably the EU economies. Apart from some exceptions, like Huawei or Lenovo, most Chinese firms still offer products in the low or medium segments of the market and which are directly competing with the fledgling industry of the developing world (Lemoine, 2012; Nolan, 2012). Chinese products are cheaper and more accessible to developing world consumers with lower purchasing power than those made in the EU or other more advanced economies. Numerous local consumers and governments around the world, notably for procurements of infrastructure, public equipment or defense equipment have shown a clear preference for cheaper Chinese products that might also suit their needs better than more advanced but too complex products offered by Western companies, for which maintenance or repair are costly and which do not facilitate technological transfer. However, since the 2000s the explosion of Chinese imports into developing economies has generated tensions due to the phenomenon of de-industrialization and its social consequences (Michel, and Beuret, 2008; Sharma, 2009; Salama, 2012; Shambaugh, 2013). Furthermore, China's patterns of trade with most developing economies are typical of traditional north–south relations.<sup>22</sup>

Like some EU Member States, Japan or the US, the PRC has also used the mechanism of tied aid to strengthen its economic and diplomatic links with the developing world, especially since the mid-2000s. China's increasing demand for commodities and its large financial reserves offer many developing countries an alternative in terms of outlets and capital access to their traditional links with the EU Member States (Belligoli and Defraigne, 2010; Moyo, 2010).

### **The Shift in the Power Balance between China and the West in the Developing World**

The aforementioned evolutions are changing the balance of influence between China and the EU in the developing world, regardless of any possible hegemonic intentionality from the Chinese government. Securing market accesses and raw materials for a fast-growing Chinese economy will inevitably generate tensions with the large incumbent economic powers, notably the EU. There is presently something of a time lag as Chinese diplomatic and strategic capacities adapt fully to the country's new economic power. The Chinese leadership is learning fast and has developed a better grasp of working within multilateral institutions (Kissinger, 2011; Wouters et al., 2012). Its economic success has in itself challenged the so-called Washington Consensus model of development promoted by the US and the EU in the developing world. Furthermore, the image of Western economic governance has been seriously tarnished by the financial crisis

and the inability of Western governments to restore economic growth and to reduce their national macroeconomic imbalances.

There is a risk that the established powers, namely the US, Japan and the EU, will react defensively to the changes, by trying to delay or to prevent the inevitable adjustment generated by the rapid economic development of China within the world economy, notably in the developing world, as well as in the global governance system. Such defensive strategies would generate tensions and frustration in China. The recent military intervention by France, together with the UK, in Libya and in Mali, supported by African allies and other EU members, as well as the more low-profile interventions in the Ivory Coast and the Central African Republic, are perceived by some Chinese as harmful to their economic interests (Anderlini, 2013). Some might consider that these interventions are motivated by the need to contain China's expansion in regions long considered to be the backyard of Europe. The Chinese position at the UN on possible military intervention in Syria has clearly shown the distrust of the Chinese government for Western military intervention policies.

In the 2000s, the EU has also multiplied its efforts to launch bilateral trade agreements as part of the competitive liberalization drive initiated by the deadlock of the Doha Development Agenda (Blustein, 2009). This proliferation of bilateral trade agreements can be seen as a way to secure market access at the expense of competitors and to strengthen Europe's bargaining position in the multilateral trading system<sup>23</sup> (Defraigne, 2013). In the aftermath of the financial crisis of 2008, the most advanced global economies, that is, those of the US, the EU, Japan and South Korea, launched negotiations to reach FTA agreements between themselves. The TTIP<sup>24</sup> and TPP<sup>25</sup> are two giant FTA projects led by the US. They can be seen as an indirect way to impose standards on the rest of the developing world, including the large emerging economies like China who have resisted some aspects of trade liberalization such as the Singapore issues (Defraigne, 2013). Such moves might also be interpreted by the Chinese leadership as an attempt by the incumbent economic powers to limit its international economic expansion. The TTIP could lead Chinese officials to consider that the EU is transforming itself into a junior partner in a joint transatlantic strategy to contain China. Such a scenario would trigger a more offensive diplomatic approach by China vis-à-vis the EU and the developing world.

The current evolutions could exacerbate the rivalry between China and Europe if both sides adopt a zero-sum game approach to world trade and access to energy resources. The risk is to see China, the EU and the other major powers compete harder for economic influence in the various regions of developing world with potential destabilizing effects, especially

in smaller and least developed countries. These risks are part of the numerous challenges generated by the rise of China as well as other emerging economies and by the relative decline of the incumbent global economic powers – the US, the EU and Japan – in the world economy.

## NOTES

1. Australia's aborigines met a similar fate.
2. The Spanish monarchy imposed a system in which all European products imported by its Latin American colonies would necessarily transit by Spain. This Spanish imperial trade monopoly increased significantly the prices of goods exported to Latin America and helped to balance the current account between the Spanish colonial power and its colonies.
3. The US did not have at that time a military navy capable of dissuading European powers for intervening in the independence process in Latin America and relied mostly on the military capacities of Great Britain to avoid the return of Spanish rule in Latin America.
4. France sent officers who had fought in Indochina and Algeria and who specialized in anti-subversion operations and torture methods, like Paul Aussaresses.
5. As the US and Britain moved toward a full-scale war economy, the Latin American economies as outlets for manufactured exports were considered marginal by the US and British authorities and industries.
6. Like the demand for a New World Economic Order by Algeria at the UN in 1974.
7. A list of industries where foreign direct investment was forbidden.
8. The Cairn group is composed of large agricultural exporters and favors agricultural trade liberalization in the multilateral trading system. Among its 19 members, 10 are from Latin America.
9. The government gives an investor shares from a newly privatized company and in exchange the investor takes a share of the national debt of the country.
10. The Japanese radical left had already been seriously weakened during the anti-communist repression of the 1920s, so by the 1930s the extreme right imperialists had only to neutralize the center right free-traders.
11. The dramatic appreciation of the yen after the Plaza Agreement on international monetary affairs encouraged Japanese firms to relocate production facilities to generate export platforms in neighboring countries whose currencies remained weaker than the yen and therefore more competitive in exporting manufactured goods to Western markets.
12. Angola, Mozambique and Guinea Bissau are an exception in that respect as they developed stronger ties with the USSR and Cuba until the end of the Cold War, notably to defend themselves against the incursions of South Africa backed by the US and Western European powers.
13. Most of the new African states had a GDP comparable to that of an average northern European town.
14. Except for Algeria in 1830.
15. The Gulf countries except South Yemen, Morocco, Jordan, Syria and Egypt until the 1950s, Iraq until 1958, Libya until 1969 or Iran until 1979.
16. Israel has taken part in the Barcelona process.
17. For example, the PRC provided military advisors and weapons to the Red Khmers against pro-USSR Vietnam and to Zaire's Mobutu against Angola (Joyaux, 1988; Braeckman, 1992; Kissinger 2011).
18. See the massive US military intervention in Vietnam after the *USS Maddox* incident, but also the support given by the CIA to the bloody *coup d'état* of General Suharto

- which resulted in the death of half a million KPI communist militants, mostly ethnic Chinese and supported by the PRC (Sardesai, 1997: 272).
19. And even developed countries, especially during the Cultural Revolution, which inspired small groups of students and workers in Western Europe.
  20. The Tiananmen Square movement in 1989 was relatively quickly repressed and did not fundamentally alter the CCP leadership, like previous internal conflicts.
  21. Myanmar, Pakistan and Iran could possibly play this role but so far it remains limited.
  22. China exports manufactured products and imports commodities.
  23. Notably Economic Partnership Agreements (EPAs) in the framework of the Cotonou agreements, FTAs with Mexico, Chile, Israel, Columbia and South Korea.
  24. The Transatlantic Trade and Investment Partnership aims at reaching a 'deep' trade and investment between the EU and the US. It wants to reduce tariffs across all sectors and technical barriers to trade. It also covers intellectual property, services, investment and public procurement (DG Trade, n.d.).
  25. In 2013, Trans-Pacific Partnership (TPP) negotiations included Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam. The aim of the partnership is to reach a 'deep' trade and investment agreement that notably covers intellectual property, cross-border trade in services, temporary entry, environment, market access, state-owned enterprises, investment, financial services, sanitary and phyto-sanitary issues, government procurement, labor, e-commerce, legal issues, technical barriers to trade and rules of origin (Office of the US Trade Representative, 2013).

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