China Buys Up European Assets to Push Back Against U.S. Free Trade Deals

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In late July, State Grid Corporation of China—the world's largest state-owned electric utility company—bought a 35 percent stake in Italy's CDP Reti for $2.8 billion. CDP Reti, itself a state-owned energy holding company, has its own 30-percent controlling stake in the Italian natural gas giant Snam and power grid company Terna, giving the Chinese company major interests in Italy's energy market. State Grid's Italian purchase added to a portfolio that includes a 25 percent stake in Portugal's REN, which controls the two main Portuguese power grids. The purchases were the latest sign that Europe has become a battlefield for China, though Beijing, of course, is not putting boots on the ground. Rather, it is buying up prized assets throughout the continent, most of all in the energy and infrastructure sectors.

The Sino-Italian partnership has strengthened over the past year, with Beijing securing minority stakes in Italy's state-controlled energy companies ENI, ENEL and Ansaldo Energia. Like many other debt-ridden countries within the European Union, Italy is opening its strategic assets to Chinese investors to slash its huge sovereign debt, which topped $2.8 trillion in June. And like other European economies struggling to recover from the 2008 global financial crisis, Italy hopes to get cash infusions from Beijing while gaining space in China's vast market for its export-oriented small- and medium-sized enterprises.

As Chinese exports to Europe are on a downward trajectory, China's foreign direct investments in the EU are steadily growing. They were worth $11.9 billion in 2012, more than twice as much as the previous year.

Beijing is clearly searching the European market for economic opportunities and sustainable returns, as well as ways to improve its commercial knowledge and get its hands on Western technologies. But Beijing wants more than good returns. The underlying force driving Chinese investments in Europe is geopolitics: namely, the desire to push back against two major U.S. free trade deals on the table with the EU and the Asia-Pacific region.

The acquisition of minority stakes in several Italian energy enterprises does not, by itself, have great economic allure. For this reason, a number of Italy's media outlets have raised the possibility that China might obtain some sort of political compensation in exchange, specifically when it comes to trade cooperation.

On July 29, a leading Italian daily, Corriere della Sera, remarked that the budding entente between Rome and Beijing was the product of both extensive financial and diplomatic efforts. A few days later, Staffetta Quotidiana, an Italian newspaper dedicated to covering energy, warned against Italy selling public assets to China's state companies; Rome, it said, ran the risk of being taken hostage by Beijing.

Beijing's aggressive commercial strategy in Europe gathered momentum in June, when Chinese Premier Li Keqiang visited France, Britain and Greece. His visit came after Chinese carmaker Dongfeng, in May, bought a 14 percent stake in France's struggling automaker PSA Peugeot Citroen for $1.07 billion. During Li's U.K. visit, China Development Bank, the key driver of Beijing's economic development policy overseas, came to an agreement with the British government to invest in the next generation of its nuclear power stations, high-speed rails and telecommunications, for as much as $23 billion.

In Greece, Li signed business agreements worth about $5 billion on exports, shipbuilding and other fields. He also expressed Beijing's interests in taking a majority stake in the Piraeus port, where China Ocean Shipping (Group) Company, known as COSCO, already operates two piers.

As in Italy, signs point to Beijing making these purchases for geopolitical reasons beyond simple trade cooperation. China appears motivated to buy up European assets to insulate itself from the U.S.-led Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP), two multilateral free trade agreements that Washington is negotiating with a dozen Asian-Pacific nations and the EU, respectively.

As Fred Bergsten and William Krist put it, the TPP and TTIP are instrumental in mounting economic pressure on China to comply with the "safety measures they enforce on behalf of the U.S." From China's perspective, the TPP and TTIP could amount to the West dictating trade and investment standards to Beijing. Even if China does not want to become a responsible stakeholder in such a U.S.-led international community and instead prefers to carve out its own rival position, it will be hard-pressed to do so given the attraction of these massive trade deals.

Nevertheless, as a major global lender, China is progressively extending its range from Asia and Africa to Europe. By placing Chinese managers in the governing bodies and boardrooms of large European companies, Beijing will make its voice heard in the ongoing negotiations on the TTIP between the U.S. and EU. That deal is the first brick to build a prospective Euro-Atlantic free trade area, a kind of economic alter ego for NATO, and China could gain leverage to influence the debate on its creation.

In this regard, China's leadership still has some leeway, as Washington and Brussels strive to devise common rules on nontariff trade barriers, the services market, public tender processes and product safety standards, with both the U.S. Congress and several EU countries champing at the bit. It is worth noting that while China's asset purchases across Europe go substantially unnoticed, even when they affect state holdings, public opinion across Europe has so far reacted with a mix of worry and indifference toward the TTIP negotiations—a fact that plays into Beijing's hands.

But behind those negotiations and China's asset purchases looms a potential confrontation: It pits Washington's use of free trade agreements to incorporate China in the postwar global system —largely directed by Western powers and promoting economies based on Western trade standards —against Beijing's exploitation of foreign direct investments to pursue its own geopolitical strategies and counter American dominance. As Beijing's financial stakes in European industry and infrastructure grow, Europe is emerging as the soft underbelly of the Sino-American trade rivalry and Washington's grand strategy to build a unified free trade area linking the Pacific and Atlantic rims.

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