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Exit of the dragon. Lithuania – China diplomatic dispute

September 14 marks 30 years since the establishment of relations between Lithuania and China. On the eve of the upcoming anniversary, the relationship between the two countries has been enflamed. Chinese authorities warn that “there is only one China in the world,” and they recalled China’s ambassador in Vilnius, which they have never done before in relation to a European Union member state. A similar step from Lithuania is expected in return. This follows the announcement the opening of a Taiwanese representative office in Lithuania. Such a decision has its economic repercussions. China has already cancelled direct freight trains from China to Lithuania.

Taiwan’s Representative office in Vilnius. Taiwan (officially the Republic of China) is an entity unrecognized by most countries, including the EU member states, which thus do not maintain official diplomatic relations with it. In practice, however, many of them have special institutions facilitating contact with the Taiwanese authorities. Firstly, they do not have the status of diplomatic missions, and, secondly, their names do not contain the word “Taiwan”, which would be tantamount to recognizing the status of a state. Many countries (including Poland) use the term “Taipei” – referring to its capital.

On July 20, 2021, the Taiwanese foreign minister, Joseph Wu, announced the opening of a representative office in Vilnius, which – as the only one in Europe – would contain the word Taiwan in its name. This proposal induced a harsh reaction from China. In a statement published on August 10, 2021, by the Ministry of Foreign Affairs, the Chinese authorities notified Lithuanian official the recall of its ambassador to Lithuania and demanded a similar decision from the Lithuanian government in relation to its ambassador to China. At the same time, China warned that “there is only one China in the world”. As a result, on September 3, the Lithuanian ambassador to China was recalled to Lithuania for consultations.

Background of Lithuanian-Chinese and Lithuanian-Taiwanese relations. According to Lithuania, the opening of Taiwan’s representative office in Vilnius does not mean the establishment of official diplomatic relations because the new office would still be only a representative office. Lithuania has been supporting the ‘One China’ policy since establishing bilateral diplomatic relations with China in 1991. It is a widely recognized norm in international relations, according to which maintaining diplomatic relations with one of the Chinese government means that the other one is not recognized. However, despite the fact that Lithuania recognizes Taiwan as part of the sovereign territory of China, for several years Lithuania has clearly tightened relations with Taiwan primarily at the regional level and within economy sectors, including advanced technologies. Support for Taiwan’s independence aspirations as part of Lithuania’s “values-based foreign policy” was on the agenda of the liberal government of Ingrida Šimonytė as well.

The intensification of Lithuanian-Taiwanese relations should also be linked to the deterioration of relations between Lithuania and China. In 2018, for the first time Lithuania identified Chinese espionage as a threat to national security and was suspicious of Chinese 5G technology. Then, a report by the State Security Department in 2019 stated explicitly that “As Chinese economic and political ambitions grow in Lithuania and other NATO and EU countries, activities of the Chinese intelligence and security services become increasingly aggressive”. In addition, Lithuania withdrew cooperation with some Chinese companies because of branding

disagreements, arguing that it was not possible to trade with companies whose activities were supported by an authoritarian regime.

Lithuania's scepticism towards the 17 + 1 format (an initiative to connect the countries of Central and Eastern Europe with China) has contributed to the split in Sino-Lithuanian relations, too. During a meeting in February 2021, Lithuania, like Estonia, refused to attend the highest level of representation. Importantly, Chinese President Xi Jinping participated in the summit, while President Gitanas Nausėda was represented by the Minister of Transport and Communications, Marius Skuodis. Ultimately, in May 2021, Lithuania decided to withdraw completely from the 17 + 1 format because, in its opinion, the goals on which it decided to participate have not been achieved. Lithuania had hoped that the Chinese market would become more open to Lithuanian exports. The market expansion, however, only increased marginally, as opposed to imports from China.

The impact of the diplomatic dispute on the Lithuanian economy. The official message from the Lithuanian side in the face of the diplomatic dispute is that mainland China remains a marginal economic partner for Lithuania. To confirm this thesis, on August 20, 2021, the Bank of Lithuania published a report which analysed the consequences of the so-called "extreme scenario", that is, a complete interruption of mutual trade relations. The bank predicts that Lithuania's economic growth would slow by only 0.1% in 2021 and 0.2% in 2022. As evidence of China's low economic importance for Lithuania, export data are also presented – in 2020 China took 22nd place as Lithuanian export partner. A similar, reassuring signal comes from Lithuanian Railways, which indicates that the share of Chinese cargo is still a small part of the total rail traffic.

However, Lithuanian producers, and even entire industries, which base their activities to a large extent on cooperation with China, are not so calm. It should be noted that 2020 was a record year in terms of cargo transport from China to Lithuania – the volume of Chinese cargo reached 53,000 TEU and was almost five times higher than in 2019. Also, imports from China in 2020 reached a record value of EUR 1.2 billion (over a quarter more than in 2019), which placed the country in 7th place in the list of the most popular import partners. It is worth pointing out that these imports were largely electronic equipment – and in this industry, China was ranked high, 3rd place.

In this context, the Chinese reaction to Lithuania's decision on Taiwan, which is not limited to the diplomatic dimension, could have severe consequences. China already cancelled some freight train journeys to Vilnius in August and September. The head of the Lithuanian Confederation of Industrialists, Vidmantas Janulevičius, pointed to the rising costs of deliveries from China – the price of importing one container only during a week increased from 14,000 to 16,000 dollars, which, according to him, should be associated with the political tension between the states.

Conclusions. Lithuania's decision to open a Taiwanese representative office in Vilnius seems to be motivated by two things. On the one hand, it stems from disappointment with the current relations with China, both in terms of economic cooperation (efforts to deepen economic relations, including in the 17 + 1 format, in Lithuania's opinion, have not brought significant results) and diplomatic relations (Lithuania does not approve of the Chinese method of diplomacy, based on attempts to exert influence and taking over key infrastructure; as a result, Lithuania is increasingly perceiving China as a threat). On the other hand, the decision to have a Taiwanese office is part of the current government's general foreign policy strategy, in which transatlantic relations remain the basis of state security. Lithuania has already received support in this matter from the United States (Senator Marco Rubio) and the European Union (Nabila Massrali, Spokesperson for Foreign Affairs & Security Policy of the EU). However, at the same time, China's first retaliatory actions appeared, not only in the diplomatic, but also economic dimensions. The long-term consequences of breaking cooperation with China may turn out to be significant for the Lithuanian economy.

In recent years, there has already been a decline in the dynamics of trade with Russia, traditionally the largest market for goods from Lithuania, mainly as a result of sanctions imposed by the EU in 2014 and retaliation by the Russian embargo on products imported from the EU ("IEŚ Commentaries", no. 219). Moreover, in response to Lithuania's active actions against the regime of Alyaksandr Lukashenka, Belarus introduced sanctions involving the redirection of cargo transport to Russian ports ("IEŚ Commentaries", no. 250, "IEŚ

Commentaries”, no. 419). In this context, the consequences may be particularly serious when, as announced by the *Global Times*, published under the aegis of the Communist Party of China, there is joint economic pressure from Belarus, Russia, and China to “punish” Lithuania for its independent policy and cooperation with Taiwan.

An alternative for Lithuania is to try to strengthen cooperation with other partners in the Asian region in order to search for new markets for Lithuanian entrepreneurs. For this reason, on September 1, 2021, the Lithuanian embassy in Seoul was opened (previously Lithuania was represented in the Republic of Korea by the Lithuanian embassy in China), and an embassy in Singapore is also planned to open next year.