

WORKING PAPER

Deepening the “16+1 cooperation” relationship to foster the new growth pole of Sino-EU Trade

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Abstract

The “16+1 cooperation” provides a beneficial supplement to Sino-EU Trade. Against the backdrop of weakening trade relations between China and the EU, the trade relations between China and the CEE countries have gradually strengthened, becoming the new growth pole of China’s economic and trade relations with Europe. However, there are issues concerning the “16+1 cooperation”, including relatively small volume of trade, imbalanced imports and exports, low value-added export goods, and poor environment. However, there are favorable conditions for the deepening of the “16+1 cooperation”: strong trade complementarity, gradually maturing cooperation model with participation of local players guided by the Central Government, and openness, inclusiveness and win-win cooperation advocated by the “16+1 cooperation” being conducive to enhanced economic and trade ties. The paper then puts forward a number of recommendations: the top level design for the “16+1” cooperation should be refined; the multi-sector planning and coordination should be strengthened; the trade environment should be optimized to further develop pragmatic economic and trade cooperation; importance should be attached to the development of investigation and research networks and joint effects should be made to explore the market potential; innovative and diversified cooperation models should be developed to expand the scope of economic and trade cooperation.

Key words: *16+1 cooperation; Sino -EU trade; growth pole*

The “16+1 cooperation” is an important initiative to further promote Sino-EU trade ties. The Chinese Government made it very clear at the beginning that the “16+1 cooperation” is an important component of and useful supplement to China-EU cooperation. As Premier Li Keqiang said, as an integral part of and useful supplement to China-EI ties, the “16+1 cooperation” will help to promote the four major partnerships and five major platforms, thus benefiting the balanced development of Europe and facilitating European integration. Against such a background, this Paper analyzes the trends of and pressing issues concerning the “16+1 cooperation”. It then summarizes the comparative advantages of the “16+1 cooperation”, and proposes a number of relevant and practical policy recommendations, thereby informing the making of decisions for fostering new growth poles of Sino-EU trade.

1. The “16+1 cooperation” as a useful supplement to Sino-EU trade

Trade relations between China and the EU show a weakening trend. In 2008, the EU’s imports from and exports to China grew by 6.52% and 9.02% year-on-year respectively. In 2016, the year-on-year growth of EU’s imports from and exports to China declined to -1.71%

and -0.34% respectively, aggregating to a drop of 8.23 percentage points and 9.36 percentage points respectively (Figure 1).

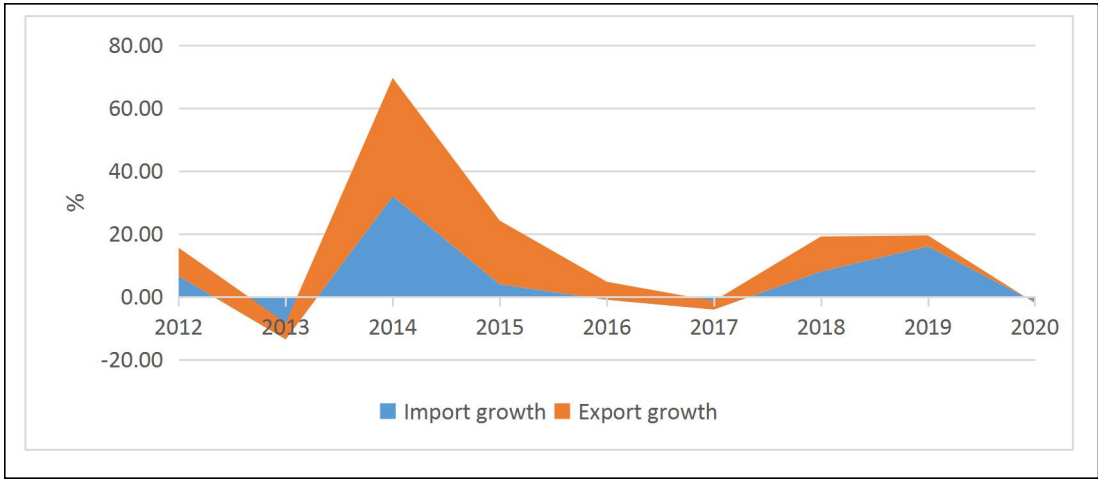


Figure 1: Growth of EU’s imports from and exports to China
 Source: United Nations Comtrade Database

China's trade relations with the CEE countries show an upward trend. From 2010 to 2016, the imports of the CEE countries from China grew to USD65.171 billion from USD53.096 billion, an increase of 22.74%, and the export to China rose to USD9.719 billion from USD6.89 billion, an increase of 41.05%.

The “16+1 cooperation” established in 2012 has played a significant role in enhancing China’s trade ties with the 16 CEE countries. In 2012, the CEE countries’ imports from and exports to China stood at USD55.211 billion and USD73.33 billion respectively, down 9.14% and 19.09% respectively. In 2013, the imports and exports showed a significant growth to USD57.785 billion and 10.545 billion respectively, up 4.66% and 43.84% respectively (Figure 2).

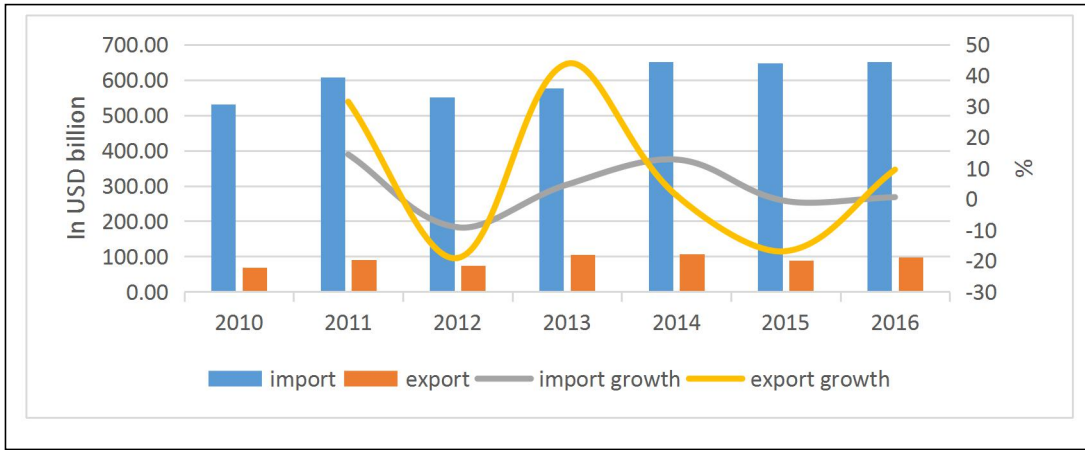


Figure 2: Growth of CEE Countries’ imports from and exports to China
 Source: United Nations Comtrade Database

It can be seen from the above analysis that enhanced trade cooperation between China and the CEE countries is a beneficial supplement to China-EU trade ties, and helps to foster a new growth pole in China-EU economic and trade relations and promote the effective improvement of the economic quality.

2. Potential barriers to enhanced the “16+1 cooperation”

2.1 Relatively small trade volume

In 2010, the total imports and exports between China and Europe amounted to USD584.204 billion, and those between China and the 16 CEE countries stood at USD59.987 billion, representing a share of 10.27%. In 2016, the total imports and exports between China and Europe amounted to USD836.844 billion, and those between China and the 16 CEE countries stood at USD74.89 billion, representing a share of 8.95%. Although the trade volume between China and the CEE countries showed an upward trend from 2010 to 2016, its share in the trade volume between China and Europe displayed a downward trend, down 1.32 percentage points (Table 1).

Table 1: Trade between China and Europe VS Trade between China and CEE Countries (in USD billion; %)

	2010	2011	2012	2013	2014	2015	2016
Trade volume between China and Europe (A)	5842.04	6701.85	8132.76	8121.37	8768.71	8515.58	8368.44
Trade volume between China and CEE (B)	599.87	698.29	625.44	683.30	758.56	736.45	748.90
B/A	10.27	10.42	7.69	8.41	8.65	8.65	8.95

Source: United Nations Comtrade Database

2.2 Significant trade imbalance

The CEE’s trade deficit with China has been expanding. The trade deficit increased from USD46.206 billion in 2010 to USD55.452 billion in 2016, up 20.01% (Figure 3).

2.3 Low added value of traded goods

China’s exports to the CEE countries are mainly low-end goods with low added value. For example, toys and clothing products account for a bigger share. In addition, the 16 CEE countries export a small amount of hi-tech products to China, accounting for 8.93% of their total exports to China in 2016. Hi-tech goods account for the smallest share(0.65%) in Albania’s exports to China and the largest share (14.04%) in Hungary’s exports to China. (Figure 4).

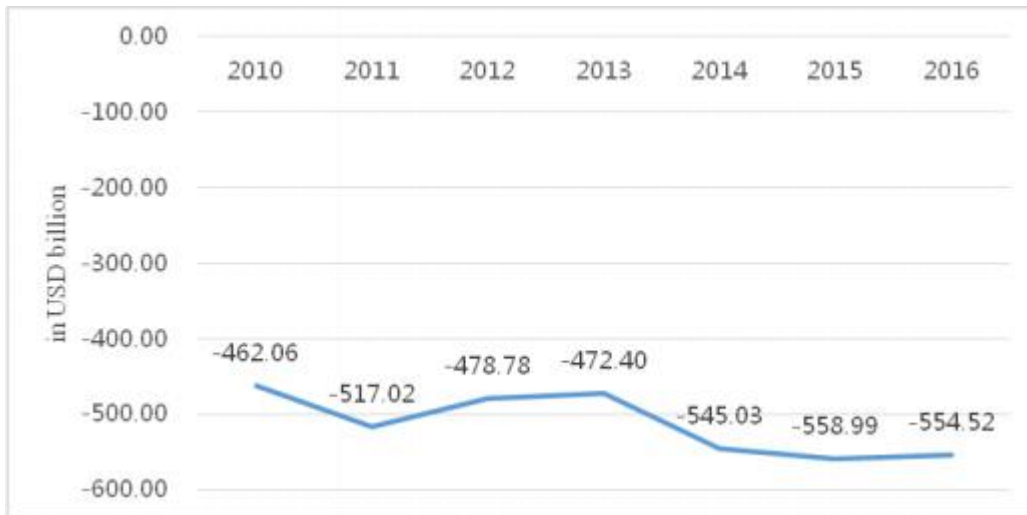


Figure 3: CEE's Trade Deficit with China

Source: United Nations Comtrade Database

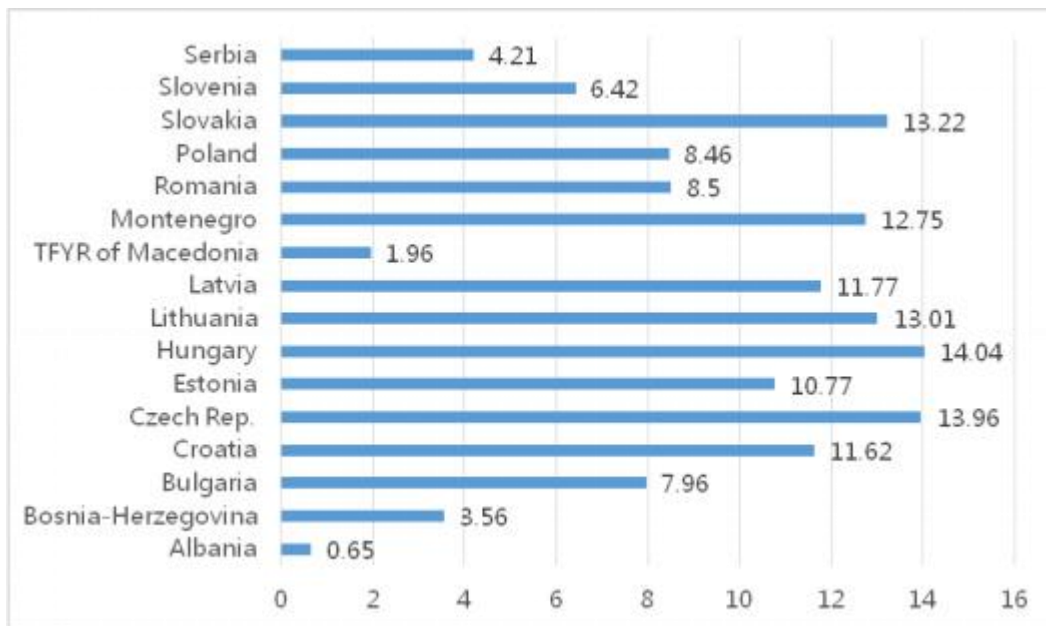


Figure 4: Share of Hi-tech Goods in Exports to China by Country in the CEE Region (%)

Source: Wind

2.5 Trade environment needs to be further optimized

The infrastructure is not well established. In each of the 16 CEE countries, the share of private transport infrastructure investment in GDP is smaller than 1% in 2016, and the mean value is 0.33%. Poland has the largest share, while Latvia has the smallest share. (Figure 5).

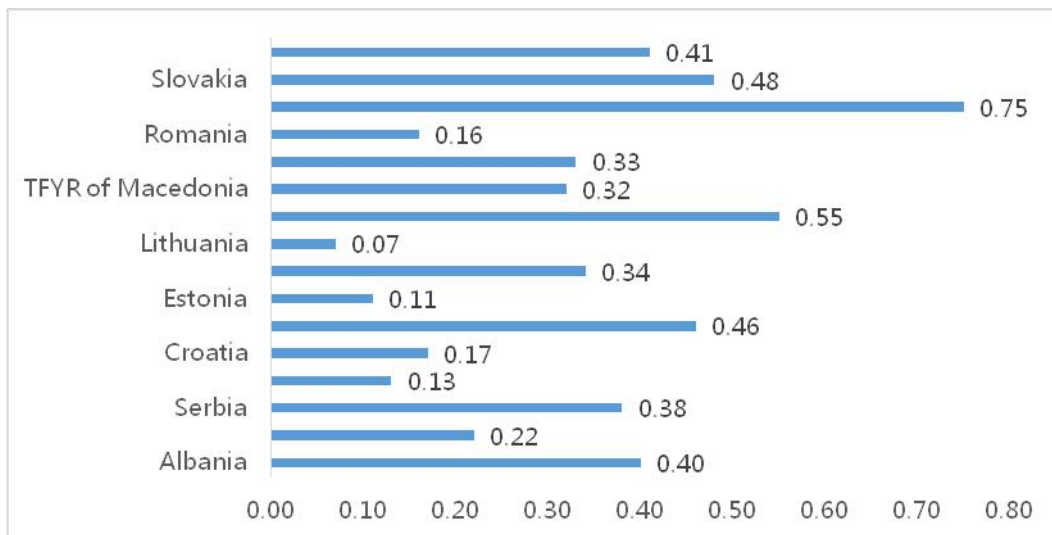


Figure 5: Share of Private Transport Infrastructure Investment in GDP by Country in the CEE Region (%)

Source: Wind

The institutions need to be further improved. In 2016, the average value of the integrated doing business index for the 16 CEE countries was 35.44, and the average rankings of doing business index in terms of business incorporation, building permit, property registration, protection of small and medium investors and contract enforcement were 63.31, 72.69, 45.94, 46 and 48.25 respectively. Countries with lower rankings include Bosnia and Herzegovina; (174th), Albania (106th), Slovakia (87th), and Slovenia (119th) respectively. It can be seen that the doing business index of the 16 CEE countries are at the low to medium range, indicating that their institutions are not sound and their business environment needs to be optimized (Figure 6).

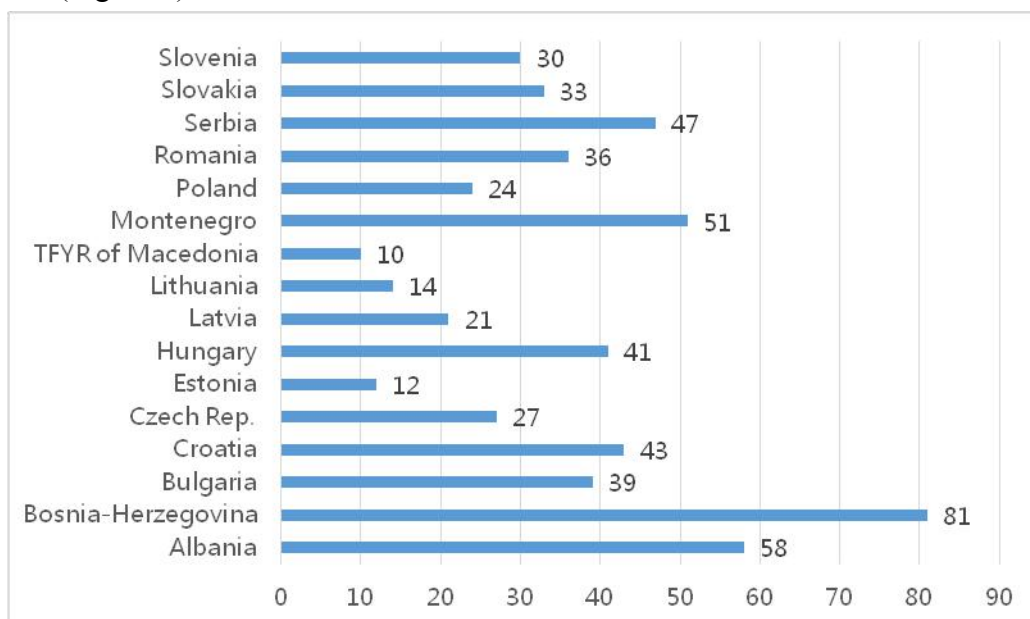


Figure 6: Doing Business Index by Country in the CEE Region

Source: United Nations Comtrade Database

3. Favorable conditions for deepening the “16+1 cooperation”

3.1 Strong trade complementarity between China and the CEE countries

The trade between China and the 16 CEE countries is more complementary than competitive, implying a bigger room for trade expansion. In 2016, using China as the benchmark, the average trade complementarity index between China and the CEE was 0.3733, with the most complementary country being Czech, with which the trade complementarity index was 0.4712, and the least complementary country being Albania, with which the trade complementarity index was 0.2926; the average trade specialization coefficient was 0.2409, with the most competing country being Czech, with which the trade specialization coefficient was 0.3983, and the least competing country being Montenegro, with which the trade specialization coefficient 0.0729 (Table 2).

Table 2: Coefficient of Specialization (CS) and Trade Complementarity Index (TCI) of Trade between China and CEE Countries (2016)

Country code	Country	CS	TCI
8	Albania	0.1404	0.2926
70	Bosnia-Herzegovina	0.1929	0.3389
100	Bulgaria	0.2667	0.3654
191	Croatia	0.2708	0.4098
203	Czech Rep.	0.3983	0.4066
233	Estonia	0.3101	0.4712
348	Hungary	0.3359	0.4122
428	Latvia	0.2843	0.3679
440	Lithuania	0.3068	0.3547
499	Montenegro	0.0729	0.4333
616	Poland	0.379	0.3296
642	Romania	0.3111	0.4181
688	Serbia	0.0761	0.3008
703	Slovakia	0.3251	0.459
705	Slovenia	0.0328	0.3104
807	TFYR of Macedonia	0.1505	0.3021

Source: United Nations Comtrade Database

3.2 Gradually maturing cooperation model with participation of local players guided by the Central Government

Since the establishment of the “16+1 cooperation”, the Central Government has introduced a range of policy incentives. A number of places including Chongqing, Suzhou, Ningbo and Hebei have actively engaged in economic and trade cooperation with the 16 CEE countries. Some positive results have been achieved. Firstly, trade passages have developed rapidly. Currently, there are a variety of direct flights and freight trains. What’s more, feasibility studies have been conducted for several other direct flights and freight trains. Secondly, economic and trade exchange has been on the rise. For example, Ningbo organized over 1,000 people to visit the CEE countries. Chongqing has established cooperation with the CEE countries in the fields of electronic, IT and automobile manufacturing. Sichuan has started cooperation projects with Czech and Poland. Thirdly, people to people exchange has become more frequent. For example, a range of cultural events have been held, including the art dialogue held by Beijing and Hungary, the gourmet and entertainment event organized by Beijing and Slovakia, the Culture Festival hosted by Shanghai and Slovenia, dance exchanges between Suzhou, Zhengzhou and the CEE countries, tea culture exchange held by Tianjin and Rhodes of Poland, and oil painting exhibition hosted by Hangzhou and Bulgaria.

3.3 Openness, inclusiveness and win-win cooperation advocated by the “16+1 cooperation” are conducive to enhanced economic and trade ties

The “16+1 cooperation” is an important part of the “Belt and Road” initiative. Thanks to the principle of “joint contribution and share benefits” put forward by the “Belt and Road” initiative, the “16+1 cooperation” enjoys a more solid foundation and a more promising prospect. So far, the “16+1 cooperation” has invited the EU, Austria, the European Bank for Reconstruction and Development, Switzerland, Greece, and Belarus as observers to participate in the discussion of the related issues, thereby making the platform more open and inclusive. In addition, when participating in the “16+1 cooperation”, China always eyes on enhancing the China-EU relations, so the “16+1” cooperation is conducive to balanced regional development in the Europe. In order to ensure win-win development, China and the CEE countries hold an annual meeting of leaders, and routine meetings are held for the China-CEE Cooperation Secretariat and its members as well as the CEE embassies to China to communicate on a regular basis, with a view to constantly enhancing the economic and trade coordination mechanisms and functional platforms.

4. Suggestions for deepening the “16+1 cooperation”

4.1 Refine the top-level design of the “16+1 cooperation” and strengthen multi-sector planning and coordination

China and Central and Eastern Europe have already established top-level designs. In further improving this process, emphasis should be given to the results of implementation. The 16 countries in Central and Eastern Europe are quite different in economic development, national structure, and the relationship with the EU. Therefore, we should consider each country of their respective characteristics as a whole, and formulate detailed implementation rules for top-level design as well as cooperation plans, and at the same time expand the

functions of the China-Central and Eastern European Cooperation Secretariat, establish a normalized central multi-party exchange mechanism to provide guidance on local participation, strengthen the overall coordination of economic and trade cooperation and the role of industry associations, to guide enterprises to carry out economic and trade exchanges in accordance with market demand.

4.2 Further optimize trade environment and further develop pragmatic economic and trade cooperation

Continue to strengthen the hard trade environment. The infrastructure construction of railways, highways, bridges, and ports in the Central and Eastern Europe generally lags behind. According to the competitiveness index of the World Economic Forum, nearly half of the 16 countries in Central and Eastern Europe are not listed among the top 80 countries in terms of infrastructure competitiveness. Therefore, cooperation between China and the countries of Central and Eastern Europe should continue to strengthen in terms of infrastructure construction, so as to provide better security and environmental protection for economic and trade cooperation. Pay attention to the construction of a soft trade environment, and strengthen the coordination and communication between China, Central and Eastern Europe and other countries in the EU on visas, inspection and quarantine, transportation, currency, credit, among other areas, provide services for multilateral trade associations to set up branches, and jointly strengthen the protection of intellectual property rights and provide support for market entities participating in economic and trade cooperation.

4.3 Focus on the construction of investigation and research networks and jointly explore the market potential of products

From the current researches, most of the economic and trade cooperation between China and the 16 countries in Central and Eastern Europe remains at the macro level, lacking detailed market analysis conducted on the applicability of the product structure, and achievements with international influence. Therefore, the next step proposes to use the role of China-Central and Eastern European countries' think tanks cooperation network to jointly conduct a comprehensive and objective investigation and analysis of the market, and a scientific judgment on market demand to formulate more targeted economic and trade cooperation plans, especially to increase the export market share of high value-added products. At the same time, China-Central and Eastern European think tanks network will be promoted to effectively link with international organizations such as the World Bank, EU, and the United Nations. Based on the "16+1 cooperation" initiative, efforts will be made to expand the market space to a larger extent and promote greater regional win-win results.

4.4 Pay attention to innovation and diversified cooperation mode and expand the scope of economic and trade cooperation

Raise the networking level of the "16+1 cooperation" platform. Based on the existing traditional economic and trade cooperation model, mutual development zones should be built, with industrial parks, and other enclave economies in various regions to promote the effective use of resources. Innovate industrial cooperation model, and build one of economic and trade cooperation based on the extension of the industrial chain, in particular strengthening the trade cooperation between the upstream and downstream industrial chains in agriculture,

high-tech manufacturing, and tourism. Innovate financial cooperation model, co-construct and share a mechanism for early warning and disposal of financial risks based on the principles of joint venture, strengthen cooperation between multilateral financial institutions, and that between financial institutions and enterprises, innovate investment and financing tools to effectively reduce market risks for economic and trade cooperation.

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