

WORKING PAPER

European Union and the “16+1 Cooperation” - Is Cooperation under the “Belt and Road” Initiative Feasible?

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Abstract

Central and Eastern Europe region is becoming a more important and a more strategic element in China – EU relations. However, there seems to be differing views in China and in the EU regarding the actual motivation and contents of the “16+1 cooperation”. According to Chinese authorities, “16+1 cooperation” mechanism complements and reinforces China-EU cooperation and relations, while providing a consultation mechanism for China’s economic projects for the region. On the other hand, according to some prominent figures in Europe including Germany’s Foreign Minister Sigmar Gabriel, “16+1 cooperation” may be about China trying to use its economic power to implement a ‘divide and rule’ policy. To address these concerns of Germany and the other EU member states, the “16+1 cooperation” should be an open and diverse platform just like the Belt and Road Initiative where Central and Eastern Europe region is a crucial part. Furthermore, “16+1 cooperation” will most likely be affected to some extent by European Union’s rapidly evolving approach, so it is important to integrate the EU’s concerns and interests into the “16+1 cooperation”. A very efficient cooperation framework to integrate European Union’s concerns and interests is the Belt and Road Initiative. There are many possible cooperation areas between China and Germany in Central and Eastern Europe within the framework of the Belt and Road Initiative such as policy coordination, facilities connectivity, unimpeded trade as well as others.

Keywords: “16+1 Cooperation”, China, Central and Eastern Europe, “Belt and Road” Initiative

Introduction

China and Europe have close links in trade and investment. China is the EU’s second largest trading partner after the United States, and the EU is China’s largest trading partner.¹ China and the European Union also have similar positions in terms of world’s political economy, such as multilateralism and economic protectionism. These commonalities and links create a good basis for the two sides to further their relationship in different fields.

After Chinese president Xi Jinping proposed the “Belt and Road” Initiative in 2013, many new train lines between China, Central Asia and Europe were opened. By the end of

¹ European Commission, Directorate-General for Trade, “European Union, Trade in goods with China.” (2017-11-17) [2018-1-20]. http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf

2016, 31 Chinese cities such as Chengdu, Chongqing, Xi'an, Wuhan, Harbin and 28 cities in 15 European countries and regions including Germany, Spain, and Poland became linked by direct train services.

Although not as grand as the "Belt and Road" Initiative, the "16+1 cooperation" mechanism is also seen as an important initiative. Initiated by China and 16 CEE (Central and Eastern European countries) in 2012 with the aim to intensify cooperation between China and 16 CEE countries of which 11 of them are European Union countries and 5 of them Balkan countries.² The establishment of "16+1 cooperation" mechanism helped make progress in strengthening dialogue and cooperation between China and CEE countries.

"16+1 Cooperation" Mechanism

Beginning with the first "16+1 cooperation" mechanism meeting in Warsaw in 2012, China and CEE countries have jointly launched major plans to revitalize and develop bilateral exchange programs. The presidents of the member countries meet annually and the results of each meeting are finalized on a list of agreements. During the fifth summit held in Riga in 2016 Chinese Premier Li Keqiang launched a 10-billion-euro investment fund to finance infrastructure and production capacity projects.

CEE countries still represents a relatively small proportion of China's trade relationship with Europe. CEE countries, however, is increasing becoming a focal point for China. This is partly due to the slowing demand from Western Europe in the aftermath of the 2008 global financial crisis. Exports from CEE to China grew by a whopping 173 percent between 2009 and 2014 which is nearly doubling the 91 percent increase in exports from the EU to China.³ China-CEE trade actually grew faster than China-Europe trade during the same period.

Chinese investments in the region have also increased significantly since the global financial crisis. China's direct foreign investment in 16 CEE countries rose from about 400 million USD in 2009 to about 1.7 billion USD in 2014.⁴ Within the framework of Belt and Road Initiative, infrastructure projects such as railway lines, highways, ports have increased in the CEE region. It is worth noting that China's investment is not just related to infrastructure but also industrial and service sectors such as manufacturing, energy and tourism.

China's economic participation has gone beyond the classical trade and investment patterns recently. For example, China was in close cooperation with Hungary to promote internationalization of the RMB. In September 2013, the People's Bank of China signed a 10 billion yuan currency swap deal with the country. Bank of China opened its first branch in Hungary in 2014. And in 2015, Hungary bought the sovereign debt of China. Such

² 11 EU countries: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia; and 5 non-EU countries from the Balkans: Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia.

³ Yao Ling, "Background research on the current state of trade cooperation and development prospects between China and CEE countries" (中国与中东欧国家经贸合作现状及发展前景研究), *International Trade(国际贸易)*, no:3, 2016.

⁴ Liu Zuokui, compiled from the data obtained from Chinese Ministry of Commerce and Bureau of National Statistics of China.

agreements have made cooperation between China and CEE countries more institutional.⁵ This may also lead to increased anxiety in other EU countries' capital, specifically Germany's capital Berlin. According to Prof. Liu Zuokui, to be successful, the "16+1 cooperation" mechanism should thus be an open platform on the same model as BRI, and as diverse a mechanism as possible, including initiatives at the national and local, official and business-oriented level.⁶

On the other hand, some experts believe China's cooperation with CEE countries has not been equally beneficial. Some countries benefited substantially while others did not benefit much. This resulted in a lack of desire in some countries to continue further cooperation. Belt and Road Initiative can create a good framework to also engage those countries which feel left behind.

Although relations between China-CEE countries are improving rapidly, CEE countries do not consider China to be a priority in their diplomatic agenda.⁷ In the case of Poland, experts seem to have a consensus that because of domestic and international reasons, Poland's foreign policy started to prioritize relations with the countries to the east of Poland. Economic opportunities outside of the EU market on which they had long depended is another incentive for some of the CEE countries such as Poland. This paves the way to closer relations with China and being an active member of "16+1 cooperation" mechanism.

A sizable portion of Chinese academics and experts believe that the EU and to a large extent Germany have an important role to play in China-CEE relationship. According to them, EU's objective of boosting economic growth and employment would be an important catalyzer to cooperate. EU's competitive advantage, its operational experience in building and financing infrastructure and investing in equipment manufacturing or distribution channels in the CEE region would be some of the valuable tools for cooperation.

The China-EU 2020 Strategic Agenda for Cooperation that was published during the 16th China-EU Summit in November 2013 can be instrumental to facilitate China-EU cooperation in the CEE region. The document includes strengthening collaboration to improve smart, upgraded and fully interconnected infrastructure systems, collaborating on interoperability of uninterrupted supply chain logistics networks between Asia and Europe, maritime markets and lines, rail services, logistics, safety and energy efficiency.

China's political liberalization and regulatory reforms will make the country a driving force in the global over the next decade. The projections show that China has raised its global assets by 20 trillion dollars by 2020, which will have significant effects on the economies of host countries and global markets. The countries in the European Union, particularly those that are closely linked to China after the integration of trade and the significant investments of European enterprises in China. should adjust economic policy structures regarding China to gain both the benefits of this next phase of global integration and minimize potential new risks.

⁵ Jurica Simurina, China's Approach to the CEE-16, Short Term Policy Brief 85, Europe China Research and Advice Network (ECRAN), Jan 2014.

⁶ Angela Stanzel, Agatha Kratz, Justyna Szczudlik & Dragan Pavličević, China's investment in influence: the future of 16+1 cooperation, European Council on Foreign Relations, December 2016.

⁷ Liu Zuokui, "Directions of Polish Foreign Policy and Poland-China Relations"

The annual investments of Chinese companies in the EU member countries increased from almost zero in the mid-2000s to 14 billion euros in 2014. In the ongoing period from 2000 to 2014, more than 1,000 Chinese projects and acquisitions in the European Union together count over 46 billion euros. The sectors that attract the most Chinese capital are; energy, automotive, food and real estate.

Germany is the second largest recipient of Chinese ODI (Outbound Direct Investment) in Europe, with total investments being 6,9 billion euros between 2000 to 2014. Starting in 2011, annual investment levels have increased to 1-2 billion euros per year and remained at these levels which is different from the changing Chinese investment levels to other European countries. Chinese investors are mostly interested in Germany's manufacturing industry especially automotive and industrial equipment. They account for more than 65% of total Chinese investment since 2000.

Many believe that in the decades to come, China's relationship with the EU will be determined to a large extent by Germany's rapidly evolving bilateral relationship with China.⁸ Today, Germany is China's biggest trade partner in the EU. The increase in trade between China and Germany during the last decade has exceeded all expectations.

The euro crisis seems to have led to an increased Chinese focus on Germany, it has strengthened China - Germany cooperation on economic issues. China's importance for Germany has steadily increased in the years following the global financial crisis when China remained as the only major market achieving significant growth.

Germany is now by far the biggest European player in China. After the global financial crisis of 2008 as demand has slowed in Europe, German companies are increasingly dependent on emerging economies and above all China for growth.⁹ On the other hand, for China, working with Germany in sectors such as automobiles, renewables and high-technology is very important. These sectors are also included in "Made in China 2025" strategy which also reflects their importance.

In fact, China became the biggest trade partner for the first time in 2016 overtaking the US. The burgeoning economic interdependence between China and Germany lays the basis for a closer political relationship which was upgraded to a new level in 2011 when Chinese Premier Wen Jiabao visited Berlin with 13 ministers and held a "government-to-government consultation" which, according to some experts, was a joint cabinet meeting. It was the first time that China had ever established such a high-level inter-governmental negotiation mechanism with an EU member state.

China's willingness to upgrade the bilateral relations with Germany can be seen in the context of increased economic cooperation between the two countries. This intensification of the bilateral relationship with Germany seems to be part of a longer-term shift by China away from the supranational to the intergovernmental level in its approach to Europe that began after the rejection of the European constitution in France and the Netherlands in 2005.¹⁰

⁸ Hans Kundnani, Jonas Parello Plesner, China and Germany: why the emerging special relationship matters for Europe, European Council on Foreign Relations, May 2012.

⁹ Ibid.

¹⁰ Nele Noesselt, Strategy Change in Chinese Policy Towards Europe: Detour via Germany (Strategiewechsel in der Chinesischen Europapolitik: Umweg über Deutschland?), German Institute for Global and Area Studies, 2011.

China's increased focus on Germany is also a pragmatic response to a shift in the balance of power within the EU as a result of the global financial crisis, which some Chinese analysts say they see as a "new start" for relations between China and Europe. They therefore see Germany playing an increasingly decisive role in EU decision-making and therefore feel they have little choice but to approach Europe through Germany. "If you want something done in Brussels you go to Berlin," says one Chinese official.¹¹

When all identified contributions related to China in 2008 are analyzed, it becomes apparent that more than half of the contributions refer to China only in allegorical and stereotypical forms. In other words, many reports do not reflect China's relationship to the topic at hand, but merely spread images and clichés that appear to be widespread throughout society. There may also be portrayals of China as an "attractive growth market" and "interesting manufacturing location" also occur, especially in business reporting. Overall, however, it can be said that the German media is continuously propagating existing stereotypes based on entrenched symbols and stock phrases. A danger exists of reinforcing those greatly oversimplified and shallow clichés in the awareness of the German public due to the number of reports spreading them.

According to Germany as well as EU, China stepped up its economic and financial diplomacy towards the CEE countries because they seem to be attractive for China's geostrategic role as an entry point to the EU markets. CEE countries also serve opportunities for China in terms of circumventing the EU's high import duties and anti-dumping tariffs. The CEE countries, on the other hand, are in need of new investments and funding to upgrade their infrastructure and modernize their energy and industrial facilities.¹²

Negative perceptions about China, "16+1 Cooperation" Mechanism

Negative perceptions about China creates the obstacles to increasing economic cooperation with Central and Eastern European countries. China is sometimes depicted as a big power trying to "divide and rule" the region. Cooperation with 11 EU member states is perceived by the EU as a sign of China's ability to "divide and rule" Europe.¹³

Germany's Foreign Minister Sigmar Gabriel, "16+1 cooperation" may be about China trying to use its economic power to implement a 'divide and rule' policy. ¹⁴Angela Stanzel, a German Policy Fellow and editor of China Analysis at the European Council on Foreign Relations, believes "16+1 cooperation" mechanism and more broadly China has an image problem because "16+1 cooperation" mechanism is seen as dividing Europe without trying not to antagonize it.

The Central and Eastern European countries and EU institutions have some negative reactions to China's "One Belt and One Road" initiative. Ellis Mathew, the European Union's

¹¹ Hans Kundnani, Jonas Parelo Plesner, China and Germany: why the emerging special relationship matters for Europe, European Council on Foreign Relations, May 2012.

¹² European Parliament, China, the 16+1 cooperation format and the EU, March 2017.

¹³ Angela Stanzel, Agatha Kratz, Justyna Szczudlik & Dragan Pavličević, China's investment in influence: the future of 16+1 cooperation, European Council on Foreign Relations, December 2016.

¹⁴ Gabriel warns Europeans against China's division (Gabriel warnt Europäer vor Spaltung durch China) Handelsblatt, 30.08.2017.

foreign affairs commissioner, stressed that the existing projects of the “Belt and Road” Initiative should meet the requirements of the European Union. So, the EU is concerned that China may not comply with EU rules. The EU hopes to play a leading role in infrastructure development in Central and Eastern Europe through the advancement of pan-European transportation network planning.

To change the unfavorable opinion and prejudice in Europe towards “16+1 cooperation” mechanism and the BRI, the mutual understanding and research in “16+1 cooperation” mechanism should be increased. China can acknowledge the negative reports by European intellectuals and think-tanks and try to build a stronger and more positive image in the region, let the countries in the region have a better understanding of Chinese policies.¹⁵

According to experts, there is a lack of understanding in CEE countries about China. One of the important reasons is that they get the information about China through the Western media, and therefore they only receive, which can usually be classified as, one-sided views of China. To reflect a precise view about China, the authorities should focus on increasing public understanding of Chinese culture and values that have universal appeal. This is crucial to gradually eliminate the negative perceptions and prejudices.

Think-tanks play a valuable role in informal exchanges between China and the EU. China and the CEE countries have focused more on think tank exchanges in recent years. After the foundation of “16+1 cooperation” mechanism in 2012, the China has been supporting academic exchanges and cooperation between China and CEE countries through the "China-Central and Eastern Europe Relations Research Fund" which has a yearly budget of two million RMB. Since these academic exchanges between China and Central and Eastern European countries have started late, BRI can further increase these exchanges that would eventually improve relations between China and CEE countries.

“16+1 Cooperation” Mechanism as a Part of the BRI

“16+1 cooperation” has also become a crucial part of China's "Belt and Road Initiative" (BRI). Some CEE countries such as Poland are trying to understand the “real motivation” of BRI. Some of those countries argue that the main target of the BRI is political, that is to make China a global power, the Silk Road is merely a beautiful "package" for that aim. Some of them also think that China is trying to build a new international order under Chinese leadership using BRI. Furthermore, some countries are concerned about the limited benefit from BRI due to competition between the regional states.

Michael Clauss, German ambassador to China, says that “Germany fully supports the belt and road initiative, particularly its potential in the areas of connectivity and free trade. The idea was originated by China. We should now start to develop it into a joint project, with co-ownership for all participants.”¹⁶ According to many German elites, on the other hand BRI

¹⁵ Nele Noesselt, Strategy Change in Chinese Policy Towards European: Detour via Germany (Strategiewechsel in der Chinesischen Europapolitik: Umweg über Deutschland?), German Institute for Global and Area Studies, 2011.

¹⁶ Wendy Wu, Where the rubber meets the ‘Belt and Road’ – German ambassador answers the big questions, 13 May, 2017 <http://www.scmp.com/news/china/diplomacy-defence/article/2093707/german-ambassador-answers-belt-and-road-questions>

is “the only geo-strategic initiative in the world”, they believe it is hard to understand China’s intentions. They state that they need more information to take part in BRI.

As part of the "Belt and Road" Initiative, Belgrade-Budapest high-speed rail will be financed and build by Chinese companies. However, due to the implementation of certain standards of the EU, the implementation of the project has slowed down.

China and the CEE countries can cooperate with each other within the framework of BRI as they take China-Europe relations in consideration. It is very important to strengthen cooperation with the EU because EU countries concerns may increase as China improves its relations with the CEE countries within the OBOR framework.

As Long Jing of the Shanghai Institutes of International Studies, points out, CEE countries responded to BRI in three ways: first, through high-level bilateral and multilateral meetings; second, research and strategic planning to develop BRI; and third, supporting documents outlining specific policies, such as memoranda of understanding.¹⁷ However, there are some CEE countries that still have not made any specific commitments to BRI.

To move in the direction to have a international community of a common destiny, Germany and China can cooperate with CEE countries and with other EU countries and institutions for improving transport connectivity and economic modernization, particularly in CEE countries. It should be of utmost importance that the “16+1 cooperation” mechanism framework effectively incorporate Germany and the EU in decision making and to some extent implementing concrete projects. It is also important to set common rules and standards for joint projects.

Moreover, it is also important for China to cooperate with CEE countries in non-economic areas such as culture, education and science which most probably lead the basis for increased cooperation. China can consider allocating funds these kinds of exchanges. Strengthening the communication between thinks-tanks, joint conferences and research projects to further improve the BRI framework in CEE countries.

The EU recognizes that the "16+1 cooperation" and the infrastructure development under "Belt and Road" Initiative’s framework will in principle have a lot in common with the EU's Juncker Plan and also meet the priority development goals of several Central and Eastern European countries.

European Commission’s Chairman stated that Juncker's investment plan and the "Belt and Road" Initiative can interact and connect in many ways. According to this plan, EU will continue to invest in the construction of interconnection facilities. The 'Belt and Road' Initiative is not only beneficial to China itself, the EU will also rely on Asian economies with strong economies benefit from closer ties.¹⁸

At the initial stage of the "Belt and Road" Initiative, the EU agencies have not issued any statement on how to cooperate with China on the "Belt and Road" Initiative. Furthermore,

¹⁷ Long Jing, “Opportunities and Challenges of the Belt and Road Initiative in Central and Eastern Europe”, (‘一带一路’倡议在中东欧地区的机遇和挑战), *International Observation (国际观察)*, No:3, 2016, 118-130.

¹⁸ Shuai Rong(帅蓉), Yan Lei(闫磊), Seek interaction between Juncker's investment plan and the “Belt and Road” – Interview with European Commission President Juncker 《寻求“容克投资计划”与“一带一路”的互动对接——专访欧盟委员会主席容克》, *Xinhua*, 2015-06-28, <http://politics.people.com.cn/n/2015/0628/c1001-27218836.html>

from the outset, the EU has been wary of China's investment in the Western Balkans. With the progress of the deepening and cooperation between China and the EU, the EU has begun consultations with China. The EU hopes that both sides will play their respective advantages. China and the European Union have strengthened cooperation in infrastructure construction in the Western Balkans.

At the 17th China-EU Summit held in 2015, Li Keqiang emphasized that “China is willing to dock with the European investment plan and make breakthroughs in the construction of infrastructure. China has the ability and willingness to actively participate in this investment plan. We support strong and reputable Chinese companies to participate in infrastructure projects such as the Pan-European transport network, the China-European Luhai Express Line, the New Eurasian Continental Bridge, and European companies are also actively involved in the construction of the “Belt and Road” initiative. The interconnection and cooperation projects between China and the countries of Central and Eastern Europe can be fully integrated into the framework of Sino-European infrastructure cooperation. This will not only help accelerate the development of Central and Eastern Europe and achieve a balanced development of the eastern, central and western regions of Europe, but will also effectively promote the process of European integration.”¹⁹

Conclusion

Some CEE countries appreciate China's successful development style and achievements. They want to study China's reform and development experience which lays the ground for improving relations between the parties. Driving on this common ground, China and the CEE countries are working on a medium-term cooperation plan lately, which is believed to make China-CEE cooperation to a new level. “16+1 cooperation” mechanism and the Belt and Road Initiative are to be the two most important parts of the future relations between China and CEE countries.

This may trigger more concern for Germany and may require China to make more efforts to alleviate those concerns. It is important to acknowledge Germany's concerns into cooperation with CEE countries. In particular, China should focus on implementing the EU-China 2020 Strategic Agenda to address the concerns of the EU. It is of utmost importance that Chinese approach both by the government and the firms should be towards using existing platforms such as “16+1 cooperation” mechanism and BRI and strengthening them.

In conclusion, Germany needs to approach Chinese involvement in Central and Eastern Europe from a mutually advantageous perspective. This will help Germany to take advantage of triangular relations with CEE. The understanding that the BRI would enhance connectivity and help modernize economy of the countries in the CEE region would help Germany to approach positively to the “16+1 cooperation” mechanism. It is fair to state that BRI can be a catalyzer for Germany to be a part of “16+1 cooperation” mechanism. China should work

¹⁹ Li Keqiang, “Join Hands to Create a New Situation in Sino-European Relations: Keynote Speech at China Europe Business Summit” 《携手开创中欧关系新局面——在中欧工商峰会上的主旨演讲》, China Daily, 2015-6-30, https://world.chinadaily.com.cn/2015-06/30/content_21138078.htm

more on explaining itself, BRI and “16+1 cooperation” mechanism in Europe and specifically in Germany where the coverage of China is not sufficient and precise.

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