The Myth of ‘Divide and Conquer’: The Case of Chinese Investment in the CEEC’s Nuclear Infrastructure Projects 2013-2018

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Abstract

China’s burgeoning ties with the CEECs are frequently said to be undermining the unity of the EU. Giving the CEECs’ badly needed money that the Western EU members are reluctant to offer to develop their infrastructure is credited as one of the most efficient means of ‘divide and conquer’. This article uses China’s investment in the CEECs’ nuclear infrastructure projects to show, however, that the anxiety about the Chinese ‘investment in influence’ is unwarranted. The first section examines China’s pledged investments in the Cernavoda project (Romania), Temelin and Dukovany projects (Czech), and its interest showed in participating in the Belene project (Bulgaria) and Polish and Slovakian projects. The second section shows that although the Chinese leaders frequently ‘vow to strengthen cooperation’, ‘pledge closer nuclear power cooperation’, and express their ‘stand-ready[iness] to boost nuclear cooperation’ in the 16+1 summit, various Guidelines (e.g. the Belgrade and Bucharest Guidelines) and the Agenda for Middle-Term China-CEEC Cooperation, many expected investments are not fulfilled. The third section suggests that these unfulfilled promises rather frustrate the CEECs, and pushes them back towards the EU.

Keywords: CEEC, 16+1, Nuclear Infrastructure Projects, OBOR, Silk Road

1. Introduction

In recent years, the development of China’s relations with the Central and Eastern European countries (CEECs) has garnered considerable attention. The Chinese creation of the 16+1 framework together with the $10 billion development fund, and depiction of CEECs as [] OBOR, makes scholars (think-tank analysts and media observers alike) worried about the ‘divide and conquer’ effect. By investing in the CEECs’ infrastructure projects and satisfy their urgent needs to develop energy infrastructure, railway, and ports, China is finally able to acquire leverage over the CEECs, undermine the unity of the EU.

This article examines China’s involvement in the CEECs’ nuclear projects (e.g. Romania’s Cernavoda project) and suggests that in the nuclear sector, far less China investment has been materialized than expected. Indeed, news about Chinese companies’ intent to invest in or bid for the regional projects frequently hit the headline, and the Chinese leaders frequently ‘vow to strengthen cooperation’, ‘pledge closer nuclear power cooperation’, express their ‘stand-ready[iness] to boost nuclear cooperation’, perhaps nothing concrete will come out of the early discussions.
This article is divided into four sections. The first section provides an overview of China’s involvement in the CEECs’ nuclear infrastructure projects and explains why China is increasingly interested in participating in in the CEECs. The next three sections examine in more detail China’s negotiation with the CEECs, particularly China’s involvement in the Cernavoda project (Romania), its interest in Temelin and Dukovany (Czech), Belene project (Bulgaria) and Polish and Slovakian projects.

The fifth section highlights the contribution to the studies on China-CEEC relations. First, while the literature on China’s investment in the CEECs frequently highlights the Chinese involvement in nuclear projects, few have examined the Chinese involvements across several cases in depth (Turcsányi 2017, Vangeli 2017). Furthermore, fewer has conducted a ‘reality-check’ to see if the Chinese pledges to finance and construct the nuclear plants in its bilateral joint statement and the multilateral such as the Belgrade guideline have been delivered. Thus, this article shows that although China repeatedly vows to step up cooperation in nuclear infrastructure and encourage, not a single deal has been struck from 2013 to 2018. All the pledges to make investment in nuclear projects are not delivered/up in the air.

Second, and more importantly, the unfulfilled promise of the Chinese investment into the CEECs’ nuclear infrastructure projects means that the cooperation between China and the CEECs have been exaggerated. The alleged investment – 7 billion euros into Romania’s nuclear project and 15 billion euros into Czech’s nuclear projects – are not genuine. This ‘gap’ between the ‘kind words’ and the reality that the Chinese investment has not yet came into Czech rather makes the CEECs country disappointed.

2. China’s Interest in the CEECs’ Nuclear Projects

Many scholars and observers have noticed that China shows considerable interest in the CEEC’s nuclear power projects (see table 1). Indeed, over the last five years, the Chinese government has signed two NCAs with the CEECs (Romania and Czech, both in 2014) and several MoUs (e.g. Hungary and Poland). China’s state-owned nuclear companies, such as China General Nuclear Power Group (CGN) and China National Nuclear Corporation (CNNC), are actively seeking to finance, construct, and operate (and even design) the CEEC’s nuclear projects. CGN is in the ‘final stage’ of a negotiation with the Romanian state-owned energy company SNN about the Cernavoda project, and in preparation for submitting bid for the Temelin and Dukovany projects (Czech). CNNC is in discussion with the CEECs about the Belene projects (Bulgaria).

<table>
<thead>
<tr>
<th>Country</th>
<th>Project</th>
<th>Capacity</th>
<th>Est Value</th>
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<th>Chinese Company</th>
<th>Progress</th>
<th>NCA</th>
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<tr>
<td>Romania</td>
<td>Cernavoda II</td>
<td>two Candu units</td>
<td>€7 billion</td>
<td>2019</td>
<td>CGN</td>
<td>‘Final Stage’ Negotiation</td>
<td>Yes</td>
</tr>
<tr>
<td>Czech</td>
<td>Temelin</td>
<td>———</td>
<td>€15</td>
<td>2035</td>
<td>CGN</td>
<td>bid</td>
<td>Yes</td>
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| Bulgaria | Belene | 2000 MW | —— | CNNC | Interest expressed | — |
|———|———|———|———|———|———|———|
| Poland | Choosing Sites | 2 units, | —— | 2030 | CGN | Discussion | MOU |
|———|———|———|———|———|———|———|———|
| Slovakia | Slovenské Elektrárne | — | — | CNNC | Interest expressed | — |

Table 1:

NCA=Nuclear Cooperation Agreement, the political and legal foundation for civilian nuclear cooperation

But why are the Chinese nuclear companies entangled in the CEECs’ nuclear projects? First, on the part of ‘demand’, many CEECs want to attract Chinese investment into their infrastructure. For instance, Victor Ponta, the former Romanian Prime Minister, is well-known for his attempt to bring Chinese investment into Romanian nuclear projects. Milos Zeman, the Czech President, is also taking a business-like approach to China, ‘courting’ the country for more investment into its infrastructure. Poland restarted its nuclear projects in 2009 and Andrzej Piotrowski, the Deputy Minister of Energy, is also seeking Chinese investment into Poland (CGN 2017).

Behind the CEEC leaders’ courting activities is the fact that many CEECs are pro-nuclear but lack the fund to develop nuclear projects. On the one hand, they decide to develop nuclear power in order to meet energy demand and combat climate change. Romania has developed a strategic plan to drastically increase the proportion of nuclear power in its energy mix in 2007. Czech’s 2009 and updated 2015 National Action Plan aims to generate 50 percent of its energy from nuclear power, and promises support and acceleration of the negotiating, preparing and implementing processes. Yet on the other hand, the CEECs, in attempting to develop nuclear capacity, also confront a number of challenges, especially in finance. Partly because nuclear power is uncompetitive against the renewable sources, partly because building nuclear power plant require large-scale upfront investment, long-term return, and high risk, the CEECs have had to abandon or delay their projects. The CEECs, therefore, turned to China for investment into their nuclear projects.

Second, on the part of ‘supply’, China is interested in the CEECs’ nuclear projects for two reasons. First, China wants to turn itself into a major supplier of technology and equipment in the market – using the CEECs to gain a foothold in the global market. China’s state-owned nuclear companies want to expand their business overseas: their aim is “going out”. A series of governmental decrees and papers also reiterate the support of their expansion.
The National Energy Commission has approved the National Energy Security Strategic Action Plan (2014-2020), which equates ‘expanding international energy cooperation’ with ‘actively supporting energy technology, equipment and construction to “go out”’ (NEA 2014). The State Council has issued the Guideline Opinions on Promoting International Capacity and Equipment Manufacturing Cooperation, which recommends ‘active communication and negotiation with countries in nuclear sector’ and commits the government to ‘promote export of nuclear equipment and technology’ (GOV CN 2015). The NDRC, MFA and MoC have issued the ‘Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road’, which aims to ‘actively promote’ cooperation in nuclear energy (NDRC 2015). The NEA has also formulated the Implementation Plan for Coordinated Work and for Facilitating Scientific Development of Nuclear Power Companies (NEA 2013). It identifies nuclear export as a ‘national strategy’ and works towards promoting ‘nuclear energy “going out” as an important issue of political and economic bilateral relations between our country and potential nuclear energy import country’. One of the central aims here is to turn China into a supplier of technology and equipment in the market.

Second, the Chinese government wants to develop its relations with the CEECs, and are willing to provide financial and political support. Financially, the China-CEEC (16+1) development fund provides $10 billion credit line. The OBOR initiative also provides funds for the CEECs to apply. Politically, the Chinese leaders explicitly stress the importance of cooperation in nuclear infrastructure, and frame the issue as a crucially political part of China-CEEC relations. The Bucharest Guideline states that “the Chinese side stands ready to step up cooperation with CEECs on nuclear power” (China-CEEC 2015). The Belgrade Guideline “encourages China and CEECs to develop nuclear energy project” (FM 2014). The Medium-Term Agenda for Cooperation between China-CEECs reiterates that “China and CEECs are encouraged to develop joint nuclear power projects” (FM 2015). As Matthew Cottee (2017), and Nicholas Miller and Tristan Volpe (2018) suggest, China is indeed “using infrastructure exports to build strategic relationships” with the CEECs and “trade in civil nuclear technology [provision of finance, technology and expertise] to gain influence in regions of strategic value, notably Eastern Europe”.

The combination of these factors makes China interested in the CEECs’ nuclear projects. The next three sections show, however, that there is not a deal struck between China and the CEECs despite the CEECs’ courtship and China’s much talk about ‘nuclear cooperation’.

3. China-CEECs Cooperation in the Nuclear Sector: Unfulfilled Promises?

3.1 China-Romania

China and Romania’s negotiation about the Cernavoda II project is by far the most advanced one within all the negotiations. It is also the most ‘valuable’ project (worth 7 billion euros).

To begin with the background, the Cernavoda II project is an extension of the Cernavoda I: in 2007, the Romanian government decided to build a pair of new units (3 and 4) following the construction of the first pair (units 1 and 2) (Bratt 2006, 151-4, 179-82). CEZ, Eon, RWE Group, Iberdrola, and GDF Suez formed a consortium to invest in the project, but withdrew
from the project one by one in 2011. This made the Cernavoda project eventually unable to proceed. The Romanian government was also unable to carry on alone and had to look abroad for new investors.

Then CGN showed interest in this project. Since CGN started to negotiate with SNN in May 2011, the China-Romania negotiation can be seen as developing along two lines.

At the commercial level, China’s involvement seems to have dashed the Romanian’s hope rather than materialized it: after eight years’ involvement, CGN and SNN was still unable to strike a deal. CGN’s chief executive, who accompanied Li Keqiang during the visit to Bucharest, signed a letter of intent in November 2013. The company was also backed up by the two governments first signed a MoU on Civilian Nuclear Cooperation, which ‘encourage CGN and SNN to cooperate over the new built in Cernavoda NPP’ (NEA, 2013), and later on signed an intergovernmental agreement on the peaceful use of civilian nuclear energy in August 2014. In December 2015, CGN signed a MoU (“framework agreement”, agreement in principle) (FM 2015-Ro). In December 2016, news reports that CGN and SNN would conclude their deal soon. But in 2016, the two companies announced that they would extend their negotiation for another period. Until now, there are few indications that CGN and SNN will complete this deal by 2018. Thus, instead of satisfying Romania’s urgent need, China’s negotiation actually dashes the hope that by 2019 the project can be put into use.

At the political level, however, the rhetoric of unrealized potential of cooperation – ‘the kind words’ –dominates China’s statement. The two Chinese leaders who are in charge of this – the Premier Li Keqiang and Vice Premier Zhang Gaoli – had frequently pledged to ‘strengthen cooperation’.

Li stated in his address in December 2013 that ‘we should work together to build a number of large infrastructure projects. […] China is ready to step up cooperation with CEE countries in ... nuclear and other power generation, […] we need to launch a number of large projects as soon as possible[…]’. Li stated, in September 2014, that both country should ‘turn the bilateral friendship into tangible fruits of cooperation better benefits the two peoples’, and ‘promote cooperation in the field of energy including nuclear power’. In the Riga meeting, 2016, Li ‘enhance cooperation on nuclear energy’ (Xinhua 2016).

Zhang Gaoli stated in his March 2014 meeting with D that the two sides should ‘promote cooperation in energy’ (Xinhua 2014). In September 2014, Zhang visited Romania, during which he stated that ‘the two sides should make closer cooperation, and speed up the construction of the projects’ (Xinhua 2014, Sep). “furthering close cooperation” and “speeding up project construction” after making “important progress” in nuclear energy cooperation.

Given this situation – the Chinese government’s pledge to strengthen cooperation and the inability to conclude a deal – the Romanians seem rather disappointed. The PM Grindeanu, for instance, urged in 2017 that ‘in the future, concrete steps will be made’(Business Review 2017a). Robert Tudorache, State Secretary with Ministry of Energy, complained that ‘negotiations have been going on for too long and it is time to get closer to a decision’ (Business Review 2017b).“Despite the seemingly ideal momentum in the 2012-2015 period”,
an expert in the nuclear sector complains, ‘none of the projects that were supposed to form the second wave of Chinese investments came to fruition’. Interviewed, Kesiding ‘expressed his hope’ that ‘, and achieve tangible results’ (CRI 2015).

Thus, it seems that ever since CGN started its negotiation with SNN in 2011, no tangible results have been produced despite the Chinese government’s repeated ‘pledge to strengthen cooperation’ and media’s depiction of the ongoing negotiation as a project of ‘friendship’.

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### 3.2 China-Czech Negotiation

China’s involvement in the Czech Republic’s Temelin and Dukovany projects is another example. In 2008, the Czech government decided to develop nuclear power in order to decarbonize energy supply. In 2009, CEZ launched a tender for a plan to expand the Temelin nuclear plant. The tender called for selecting a reactor supplier/design to build two units (3 and 4) at Temelin and sign a construction contract by the end of 2013. The tender attracted bids from three candidates. Areva’s bid, based on its EPR, was disqualified, and a legal challenge against this decision was made by Areva. A Rosatom-led consortium and Westinghouse, who based their bids on MIR1200 and AP1000, were left to compete. Westinghouse and Rosatom competed against each other so forcefully that the competition was turned into a Cold War in which the American and Russian governments soon declared their political support (The Economists 2014). Under heavy political pressure, the government announced the cancellation of tender in 2014, but citing reasons for market price. The Chinese companies ‘missed’ the first round of competition from 2009 and 2014.

CEZ launched another tender in 2014. The new tender called for constructing each unit in Temelin and Dukovany. Following CEZ’s tender, China’s involvement in Czech projects can also be seen as developing along two lines.

At the commercial level, CGN is involved in the Czech projects, but the prospect of a Chinese win of bid was less secure. In August 2014, the Chinese vice premier Zhang Gaoli, expressed CGN’s interest in making a bid on their behalf during a visit to Prague. Zeman used a visit to China in October 2014 to confirm that the Czech side is interested in bringing Chinese nuclear companies into the projects (CEZ 2014). In November 2014, Chinese nuclear companies expressed interest in submitting its own bid for the projects. In March 2016, CGN’s CEO He Yu, who accompanied Xi during a state visit to Czech, signed three documents with the Czech companies.

One is a MoU between CGN and the Czech Energy Alliance that prepares the way for integrating the local companies into CGN’s supply chain. The MoU stated clearly that both side would establish “long-term collaboration in nuclear energy”, like Škoda Praha, Czech Power Industry Alliance, ranging from supply chain support, power station upgrade, and joint development in other markets, to information and experience exchange on the procurement. The Czech companies could become subcontractors for a significant part of the work should CGN win the tender to build the units at Temelin and Duvokany. The second is a contract
between CGN and Skoda. CGN signed a contract with Škoda Praha for consultancy on certification of Hualong One/approval from EUR. As CGN had already made the application to European Utility Requirements organization (EUR) for certifying Hualong One in September 2015, CGN also wants to gain access to the Central and Eastern European market.

While the MoUs and the contract show that CGN has boosted cooperation with Czech counterparts, the fact that the Temelin and Dukovany projects have attracted not only the Chinese but also Russian and Korean companies indicate that China-Czech is still far away from making a deal. Furthermore, the Czechs repeatedly doubt if the Chinese nuclear companies can finance, design and construct the planned projects, and question why the Chinese promised investment failed to materialize ['rings hollow two years on' [two years after Xi’s visit] (Radio Prague 2018)]. For them, there are obviously technological, economic, and political hurdles.

Technologically, it seems that the Chinese contender remains less competitive than the Russian and French, Korean companies. Economically, the government itself has been hesitant towards the financing method, and there is much uncertainty in return. Sobotka was against the plan of price guarantee. Furthermore, KIZEKOVÁ (288) disclosed that there is ‘a widespread opinion’ within Czech that the selected will strengthen cooperation with the Czech firms in developing third-party market, a condition that Rosatom are willing to accept, but the Chinese companies ‘surprised’ to know and prefer to use Chinese suppliers.

Politically, there are also three obstacles standing in the way. First, the Czech government is somehow cautious about China’s participation in its nuclear projects. Even the Social Democratic Party government is concerned with nuclear projects as the strategic sector and as ‘critical infrastructure programs’. Second, there is no guarantee in the long-term that Czech will not return to its position as a leading critic of the mainland Chinese government. A right-wing government will turn Zeman and Sobotka’s China policy upside down. Third, the EU may play a decisive role. The EU has refused Hungary’s request when considering the Russian influence.

These obstacles that stand in the commercial way do not seem to have prevented the government from repeatedly vowing to ‘strengthen cooperation’. Thus, at the political level, while the Czech side seems to be rather skeptical towards the Chinese involvement, the Chinese government has framed CGN’s intent as part of the fact that will soon bring ‘billions of euros’ into Czech. Chinese nuclear companies are trying to expand into the nuclear strategic sector in CEECs; politicized the commercial intent into/the rhetoric of unrealized potential of cooperation – ‘the kind words’ – dominates China’s statement.

First, throughout the whole process, leaders have repeatedly encouraged the two sides to ‘strengthen nuclear cooperation’. Li Keqiang hoped that ‘both sides could boost cooperation in nuclear power’ during his meeting with Sobotka in the 2014 CEEC summit (Xinhua 2015). Li and his counterpart ‘pledged to boost cooperation in nuclear power’ during Sobotka’s first official visit to China in November 2015 (China Daily 2015). After the 2016 MoU was signed, Li said that ‘deepen mutually beneficial cooperation in various areas, especially in boosting mutual investment by accelerating cooperation in civilian nuclear power’ (China-UN 2016). In his speech, Xi stated that China is ready to work with the Czech Republic to advance their
strategic partnership to a higher level’, ‘urged stronger cooperation’ in nuclear power (China Daily 2017).

China’s involvement in Czech’s projects is another example of how commercially the reality of the deal is far from the rhetoric.

3.3 China- Bulgaria, Poland, Slovakia

China’s involvement in Bulgaria, Poland and Slovenia is unlikely to produce any result in the near future either.

First is Bulgaria. CNNC shows an interest in the Belene project. In December 2016, CNNC representatives visited Bulgaria and had meeting with Prime Minister Boiko Borisov (Mofcom 2016). In March 2018, “China’s state nuclear company CNNC has sent a letter, declaring its interest in the Belene nuclear project,” Petkova told parliament, adding that the letter was sent to state energy company NEK last month.

Second is Poland. In July 2017, the Chinese and Polish governments signed a MoU on peaceful use of nuclear energy. Global Times ‘Poland, China General Nuclear discuss power project as part of strategic cooperation’ (Haper 2017. China Daily 2017).

Third is Slovakia. In June 2015, CNNC is considering to make a bid for a stake in Slovakian power generator Slovenske Elektrarne held by Enel (Reuters). But in 2015, Enel sold its stake to EPH, a Czech consortium. Although failed to, CNNC did sign a MoU on cooperation: the MoU was mainly about cooperation in the nuclear fuel cycle. When, the Slovakian part suggested that CNNC also expressed its interest: "The Chinese partners confirmed their interest in cooperation with the Slovak nuclear energy industry in the whole nuclear fuel cycle, i.e. from nuclear fuel supply through the construction and management of nuclear installations to decommissioning of nuclear facilities."

In all the three projects, however, the Chinese nuclear companies are only in the early stage. They are far away from becoming ‘tangible results’. First, most of these activities are still early discussions about the possibilities of the deal. Usually these projects will attract more than one candidate to make bid and contend. Although China may be financially strong, its nuclear companies may not necessarily be able to outbid others in terms of technology and international experience. Second, there are also significant safety and security concerns in the CEECs. Many countries worry that China is turning the CEECs into a ‘testing ground’, as if the China’s nuclear technology is not competent and thus using the CEECs to ‘demonstrate’ that its indigenous technology is competitive enough to export. Third, there are also significant political hurdles. The fear of Chinese investment is still somehow pervasive.

4. Conclusion

Scholars and observers have suggested that China is investing in influence: by financing, constructing and operating the CEECs’ nuclear projects, China intends to exercise leverage over the CEECs, bring them into its own orbit, and undermine the unity of the EU.

This article argues that this view – the myth of ‘divide and conquer’ -overlooks the facts that the Chinese investment are more pledged than materialized. First, China’s pledged
investment in the Cernavoda project (Romania), Temelin and Dukovany projects (Czech), and its interest in participating in the Belene project (Bulgaria) and Polish and Slovakian projects.

Second, despite the Chinese leaders frequently ‘vow to strengthen cooperation’, ‘pledge closer nuclear power cooperation’, and express their ‘stand-ready[iness] to boost nuclear cooperation’ in the 16+1 summit, various Guidelines (e.g. the Belgrade and Bucharest Guidelines) and the Agenda for Middle-Term China-CEEC Cooperation, many expected investments are not fulfilled.

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