



CHINA-CEE INSTITUTE
**16+1 COOPERATION
AND CHINA-EU RELATIONSHIP**

Editor in chief: Chen Xin
Editor: He Zhigao

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Telephone: +36-1-5858-690

E-mail: office@china-cee.eu

Webpage: www.china-cee.eu

Address: 1052 Budapest Petőfi Sándor utca 11.

Editor in Chief:

Dr. Chen Xin

Editor:

He Zhigao

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Budapest, November 2018

16+1 Cooperation and China-EU Relationship

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Preface

China has been developed extensive bilateral relationships with Europe. At the EU level, besides the annual China-EU Summit, there are three pillars which support the high-level exchanges, namely Economic and Trade Dialogue, Strategic and Security Dialogue as well as People to People Exchange. There are also more than 60 sector dialogues at the working level between China and EU. At the country level, China has been developed strong and close relationship with major states in Europe, especially with Germany, France and UK. Similar to the China-EU framework, Chinese premier meets his German, French and British counter partner almost every year, and the three-pillar structure is also applicable to China-Germany, China-France and China-UK relationship, nevertheless the sector cooperation.

Central and Eastern Europe was a traditional region for Chinese diplomacy. Some of the countries in CEE were the first ones which had established diplomatic relations with the People Republic of China. China will celebrate 70 years diplomatic relationship with these countries in 2019. During the transition process in 1990s, “Back to Europe” was the priority for CEE countries, and China went to global at the same time, the ties between China and CEE countries had been loosened. After the financial crisis, China and CEE countries “rediscovered” each other, and 16+1 Cooperation was born. The first Economic and Trade Forum between China and CEE countries was held in Budapest in 2011, which had been received strong support from all the stakeholders. In the next year the first 16+1 summit had been held in Warsaw.

The development of the relationship between China and CEE countries is in accordance with the principles of China’s foreign policy, and China treats each country equally in Europe, nevertheless the size of the country. 16+1 Cooperation shows that China not only develop relations with west European countries, but also has the interests to develop relations with CEE countries as well. Thus, it would promote the ties between China and Europe in a balanced way. The voice from CEE region also says: “German would like to get trade deals, why we are not permitted”.

When China is developing a close relationship with Germany, France and UK, takes high level meetings, signs economic and trade contracts, everybody happy and nobody in these countries says it would divide and rule the Europe. But when the 16+1 Cooperation develops, the voices from these countries accuse China would divide and rule the Europe. Do these countries think they are immune from China’s influence, or do they think CEE countries are second class and need to be protected?

Actually 16+1 Cooperation is a beneficial complement to the general China-EU relations. People in CEE countries are getting to know more about China, explore further opportunity with China, and stimulate the trade and investment with China.

This volume proceedings is based on a conference with same title “16+1 and China-EU Relations”, which had been hold in July 2018 in Budapest, organized by the China-CEE Institute, a think tank registered in Budapest by the Chinese Academy of Social Sciences (CASS). More than 60 participants had taken part in the conference with presentations, discussions and debates. Because the length of the proceedings, we can only select some of the papers. I do hope it would provide contribution to the understanding on 16+1 Cooperation, as well as China-EU relationship.

Dr. CHEN Xin

Managing Director

China-CEE Institute

November 20, 2018

The 16+1 Format:
Chinese presence in fragmented markets on the periphery of Europe

Xavier Richet¹

Introduction

The 16+1 Format refers to the association between China and 16 countries of Eastern and South-Eastern Europe: *Cooperation between China and Central and Eastern European countries*, which emerged in the early 2010s and has since developed through the development of numerous projects and major investments in several countries of the region.

The 16 are made up of countries that have recently joined the European Union (2004, 2007, 2013) and others in the process of accession (Western Balkans). All have in common to be former socialist economies of different varieties.

Over the last thirty years, these economies have undergone major institutional, political, economic and even territorial changes. They have been transformed into "dependent capitalisms", by importing the market economy model, by restructuring themselves according to the principles of the "Washington consensus" and programmes imposed by European leaders (privatisation, opening up and liberalisation of markets). Convergence mechanisms, including financial transfers, structural funds on the one hand and the massive inflow of foreign direct investment, mainly from the EU-15, on the other, have helped to transform them substantially. Several economies, notably those of the north (Poland, Hungary, Slovakia), have once again become the hinterlands of Germany. Further south, delays in political process and the nature of investments made under socialism have made adjustment and convergence more difficult (Romania, Bulgaria). The Western Balkans, for their part, with the brutal break-up of the former Yugoslavia, are in the third category and are facing a high blow from the disintegration of their former market with the reappearance of many barriers, the shrinking of their markets and their narrow specialisations. Their joining together in an economic area of the Western Balkans, recently decided at the Trieste Summit in July 2017, looks like a sort of airlock, a test

¹ Emeritus Professor of Economics, University Sorbonne nouvelle, Paris; Jean Monnet chair of European Enlargement and Integration

proof before their possible integration to the EU which no longer seems to have unanimous support among the 27 while the idea of the establishment of a multi-speed Europe is spreading (X. Richet 2018)

In most countries the link with the EU has become a reality; the majority of trade takes place within the EU thanks to the convergence policies led by the EU.

It is in this context that China's entry into this region and these markets is taking place, with specific, segmented, sometimes narrow and highly regulated markets but also close to the more buoyant markets of the EU-15, in particular the most developed (Germany, France, Italy and Great Britain).

The various motivations pushing Chinese companies in the region are beginning to be identified:

1 The economic and geographical area represented by the 16 is first of all a section of the New Silk Road which follows two tracks: in the north, a land arrival in Poland to cross it and reach Germany, in the south, in Greece, a maritime arrival, between the two the development of a section linking the south and the north of Eastern Europe (Piraeus-Budapest).

2 Opportunities for Chinese public firms with overcapacity, particularly in the infrastructure sector, which contribute - mainly through investments financed by Chinese banks - to building motorways and ports in the Balkan countries, which are only partially taken into account in the European Union's pre-accession programmes.

3 A "hub" effect through the investments of the major telecommunications groups already present or under way in other countries of the region; investment in sectors where China has expertise in medium and high technology sectors (nuclear industry), in traditional and declining industries in the region (steel industry in Serbia, coal mines in Bosnia, chemicals in Hungary)

4 An attempt to create a regional value chain around a few sectors (automotive in Bulgaria, Serbia, Croatia).

5 More targeted although limited investments and cooperation in cutting-edge sectors (Baltic countries).

There is therefore a great diversity of motivations which do not lead to a coherent vision, but rather the creation of a framework facilitating trade and

investment and, above all, the materialisation of the BRI initiative in this peripheral area of Europe, which motivates this approach.

Finally, is the presence of China represent a threat to the EU? Does China try to influence the governments of the periphery, to insert itself into the internal affairs of the Union, to circumvent European regulations? For China, the challenge, beyond the success of its establishment in the region, lies in its articulation with its overall European strategy, which is not yet assured because of the opposition that still exists between China and the European Union (absence of bilateral agreement on investment, China not yet recognize as market economy within the WTO).

In our contribution, we intend to analyse

- 1) the different aspects of the Chinese presence in the region,
- 2) the motivations of the countries of the region to cooperate with China
- 3) the likely impact of this Chinese presence in terms of investment volumes (FDI) and trade volumes, the provision of services, and even on the diplomatic level of indirect influence in European affairs.

It will be stressed that the future of the 16+1 Format is ultimately linked to relations between China and the EU.

1 All roads lead to Rome.....

As part of its vast project ***One Road, One Belt***, (OBOR) renamed the ***Belt and Road Initiative***, (BRI) China traces a land route from the western Middle Empire, China's least developed regions, through Central Asia and the former Soviet space to Europe. A maritime route also reaches southern Europe through the Suez canal (Richet 2017b).

Rome is no longer in Rome: the road splits into several destinations in Germany, Italy, France, even Great Britain. Central and South East Europe (CSEE) is a place of passage, it has vocation to become a place of anchorage by attracting the Chinese firms at the same time to trade, to produce, to carry out services of various types there, in particular the construction of port, motorway and railway infrastructures. .

The activation of these rail routes in order to promote and generate trade flows in both directions is based on the existing (national networks), it also requires the construction of new tracks, especially in under-equipped.

The region, in spite of still important differences with its western part (Figure 1) is an important market in terms of consumers (over 100 million) with growing purchasing power. It is a region with significant human capital resources (high skills and low labour costs) which has attracted many direct investments both to serve these markets and those of Europe as a whole (X. Richet 2016a). For Chinese firms that are considering investing, this is the way to join regional value chains in order to get closer to issuing centres (in the heart of Europe), to support the internationalisation of Chinese firms that need to build different spaces (Huawei, ZTE). On the other hand, major investments in the railways, ports, motorways and "infrastructure diplomacy" sectors are mainly financed by Chinese. This abundant supply of projects expresses both the know-how acquired by China at the domestic level and the importance of overcapacities developed in this sector during the last decades in the country. For these companies, a swap between bad debt and BRI credit is a way to continue their business without closing down their business.

The supply of investments by Chinese firms can rely on significant financial resources mobilized: domestic banks, investment funds, international banks (NDB, AIIB) with Chinese capital. The 16 countries benefit from a credit line of more than 10 billion dollars (barely begun to date), of specific funds allocated to project financing in the region (around 3 billions US\$). The fact remains that the modalities of access to this financing, the economic spinoffs and the spin-off expected from this windfall raise many questions: quasi-monopoly of Chinese firms to carry out these projects, opacity of the conclusion of contracts, corruption leading to the interruption of construction sites (Macedonia), not to mention, as a consequence, the high indebtedness of the receiving countries towards China (Bosnia-Herzegovina, Montenegro) countries that join the growing list of countries with high indebtedness to China (Pakistan, Sri Lanka, Laos, Myanmar...).

Last but not least, China's growing presence in the region raises the question of its influence on the countries of the region. Does China offer a plausible alternative to member or acceding countries challenging the European order (*"democratic illiberalism"*), the methods of accession (Balkan countries), does its presence influence the political choices of certain countries on sensible subjects ultimately threatening the unanimity of the European Union's positions.

2 Building cooperation with a new sub-regional bloc

The Chinese presence in CSEE goes back to the beginning of this decade even if, historically, the links between China and the 16 are older and go back to the fifties of the last century at the time of the friendship between socialist countries. After the great Sino-Soviet schism, only small Albania and Romania continued to maintain commercial relations. Thereafter and overall, trade flows have never been very large. As Chinese growth took off, Eastern Europe was plunged into a long economic decline that would lead to the disappearance of the socialist system in the region in 1989 and the implosion of Yugoslavia before facing the shock of transition and integration into the European Union.

In 2012, China created an association with 16 countries in the region to promote exchanges between partners: Cooperation between China and Central and Eastern European Countries (Le Format 16+1). Formally the Association gathers its members alternately in China and in one of the capitals of the 16. It has spread and given birth to a myriad of institutions with diverse concerns (sectoral, academic issues). For the time being, The format is an empty shell, rather a regional institutional gathering that masks the bilateral nature of the relations that are being established primarily between countries (contracts, funding). Moreover, the Format can hardly be mobilised as a political instrument due to the fact that 11 countries belong to the EU and are obliged to follow European regulations.

The member countries make up a heterogeneous whole by size, population, level of development and institutional affiliation (Figure 1). Nine countries belong to the European Union (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, Bulgaria) joined in several waves (2004, 2007, 2013); five are members of the euro zone (Estonia, Latvia, Lithuania, Slovakia, Slovenia) and two (Montenegro and Bosnia and Herzegovina) use the € currency as their currency without being members of the zone, five other countries of the Western Balkans (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, Serbia) are in the process of acceding to the European Union and are therefore subject to European regulations deriving from their status as future members.

Together with Kosovo, not recognised by several EU member states, they are members of a new entity recently created by the European Union, the Western Balkans Economic Area. Two of these countries, Bosnia and Herzegovina and Kosovo, are “states under construction from outside”, (i.e. construction supported and framed by foreign powers) still highly unstable. Serbia which has to manage

politically the secession of Kosovo and Montenegro, marked by corruption, should be the next entrants into the European Union before 2025.

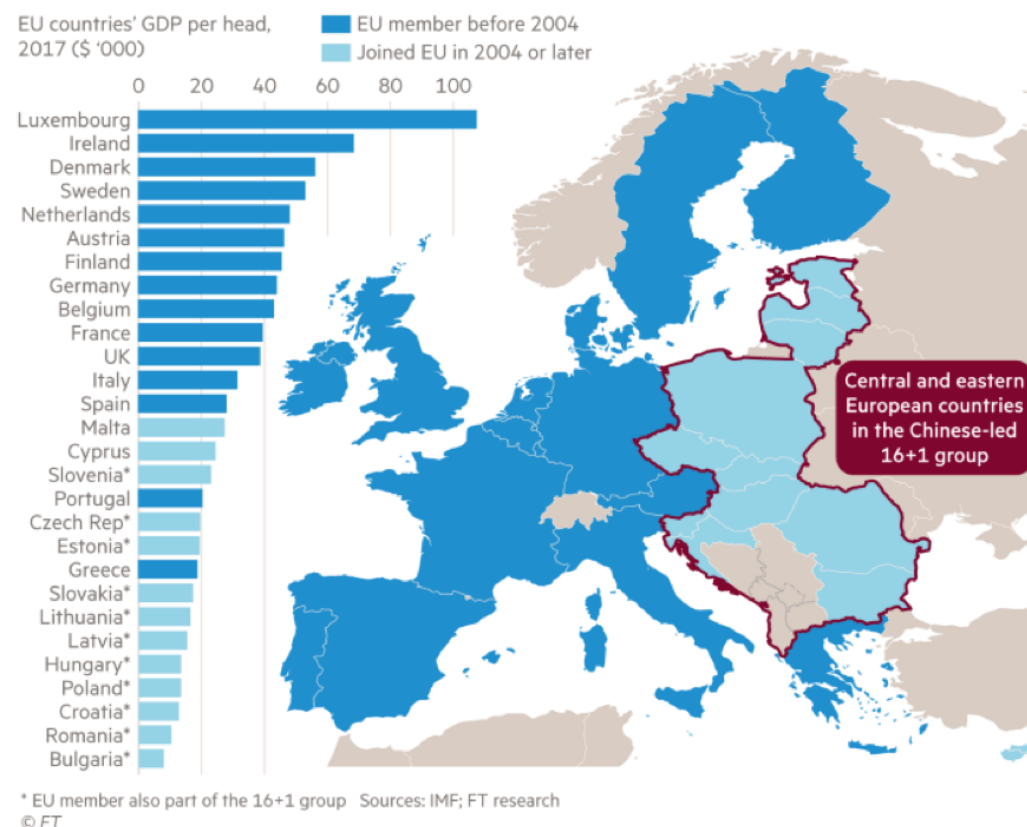
Some countries could have been included in this list: Greece (seniority of EU membership?), Ukraine (instability and conflict with Russia?), Kosovo (secessionist province recognized by few countries and supported by the United States?).

It would therefore, apparently, be the socialist past of the sixteen countries that would be the common denominator at this regional gathering.

The 16 country members can also be classified into sub-regions by taking into account their level of development, size and population, previous affiliation, progress in the transformation of these economies into market economies: one finds the block of Baltic countries (small countries, formerly integrated into the former USSR), the block of the Visegrad Group (Hungary, Poland, Czech Republic, Slovakia), the most developed and the closest to the the EU-15, the laggards in transformation (Bulgaria, Romania), less developed than the previous ones, and , finally the former Yougoslave block (with Albania), the most open economically before the collapse of socialism and political disintegration.

Figure 1 : The 16+1 association built around the new EU Member States

China's 16+1 grouping built around EU's newer, poorer members



Source: Financial Times (2017)

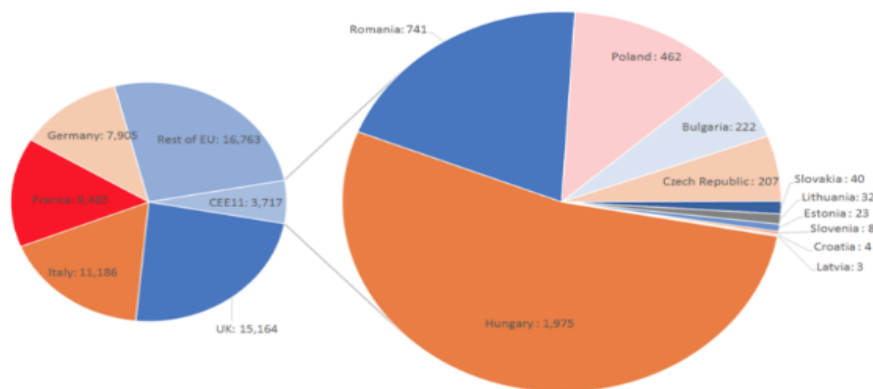
These countries have undergone rapid transformation into market economies following the collapse of socialism, adjustment policies and transformation into market economies. Their integration into the EU followed the systemic changes and structural adjustments that followed. In a few decades, economies have become market economies by meeting the criteria for EU membership, in particular the establishment of market institutions, the ability to sustain competition in return for receiving structural funds. Within this framework, foreign direct investment has entered massively in the form of acquisition of assets or virgin investments, coming almost exclusively from EU-15 countries (almost 80%), the rest coming from the United States, Asian countries (Japan, South Korea). In just two decades, trade within the EU has changed completely. Existing specialisations, qualifications and low labour costs have led to an in-depth transformation of the industrial landscape, with several countries (Poland, Slovakia, Hungary, Czech Republic) becoming major industrial centres in several sectors, notably automotive and electronics. Today, the most dynamic sectors are in the hands of large European foreign groups establishing a relationship of dependence (Richet 2016b). It is clear that the Chinese presence, in terms of FDI volume, by comparison, remains very modest (Figure 2, Table 1) and that Chinese investors have a marked preference for FDI in the most developed part of the EU.

For China, the CSEC is both a gateway, a market of almost 100 million consumers, a springboard to the EU-15, and a part of Europe where infrastructure needs are great. A passage first of all. Poland, to the north-east, is on the overland route from Belarus, the arrival point of trains crossing the Eurasian Economic Union and continuing on their way to Germany. In southern Europe, the sea route, via the Suez Canal, reaches the port of Piraeus in Greece. Other nearby port terminals are of interest to China, notably in Bulgaria and Turkey near Istanbul, the arrival point of another overland route that passes through Iran, Georgia and Turkey, an alternative to passing through Russia.

The attraction of the CSEE is first and foremost the possibility of making a connection and entering the various European markets. This is an opportunity for Chinese construction firms to build infrastructure, including highways in different countries. The flagship project remains the construction of a high-speed railway line between Belgrade and Budapest, increasing the duration of the rail link from more than eight hours to two and a half hours. The line is to be completed later by the Belgrade

sections Skopje in Macedonia, then Skopje-Athens. The work is financed by loans from Chinese banks up to 75%, the rest by states that will repay Chinese banks. The construction of this line obliges Chinese firms and the States concerned to follow European regulations concerning public procurement and environmental constraints. Technically, there are doubts about the profitability of such a train considering the limited number of users of this fast service. But this is not the problem of Chinese manufacturers who are not subsequently linked to the operation of this new service.

Figure 2: Chinese FDI (2000-2015) among EU Member States



Source : Jacopo Maria Pepe (2017)

The search for sovereign guarantees is very important, as many countries in the region are unable to face the risk of non-reimbursement because of their financial situation. European financial institutions (EIB, EBRD) are thus involved in these financial arrangements and guarantee loans granted by Chinese banks.

The shopping list of Chinese investors, moreover, is limited in terms of asset acquisition (Table 1 & 2). The economic opening and integration with the EU, the mode of privatisation, the proximity effect have made the region, first in Central-Eastern Europe, the backyard of the major Western European groups by making these economies dependent capitalisms (Richet 2016).

Table 1: Chinese investments in the 16 Central and South East European countries in 2009 and 2014 (Stock/USD million)

	2009	2010	2011	2012	2013	2014	2009-2014 growth	Share of total Chinese investment in CEE (2014)
Hungary	97.41	465.70	475.35	507.41	532.35	556.35	471.14%	32.79%
Poland	120.30	140.31	201.26	208.11	257.04	329.35	173.77%	19.41%
Czech Republic	49.34	52.33	66.83	202.45	204.68	242.69	391.87%	14.31%
Romania	93.34	124.95	125.83	161.09	145.13	191.37	105.02%	11.28%
Bulgaria	2.31	18.60	72.56	126.74	149.85	170.27	7271.00%	10.04%
Slovakia	9.36	9.82	25.78	86.01	82.77	127.79	1265.28%	7.53%
Serbia	2.68	4.84	5.05	6.57	18.54	29.71	1008.58%	1.75%
Lithuania	3.93	3.93	3.93	6.97	12.48	12.48	217.56%	0.74%
Croatia	8.10	8.13	8.18	8.63	8.31	11.87	46.54%	0.70%
Albania	4.35	4.43	4.43	4.43	7.03	7.03	61.61%	0.41%
Bosnia-Herzegovina	5.92	5.98	6.01	6.07	6.13	6.13	3.55%	0.36%
Slovenia	5.00	5.00	5.00	5.00	5.00	5.00	0.00%	0.29%
Estonia	7.50	7.50	7.50	3.50	3.50	3.50	-53.33%	0.21%
Macedonia	0.20	0.20	0.20	0.26	2.09	2.11	955.00%	0.12%
Latvia	0.54	0.54	0.54	0.54	0.54	0.54	0.00%	0.03%
Montenegro	0.32	0.32	0.32	0.32	0.32	0.32	0.00%	0.02%
Total	410.60	852.58	1008.77	1334.00	1435.76	1696.51	3.13	100%

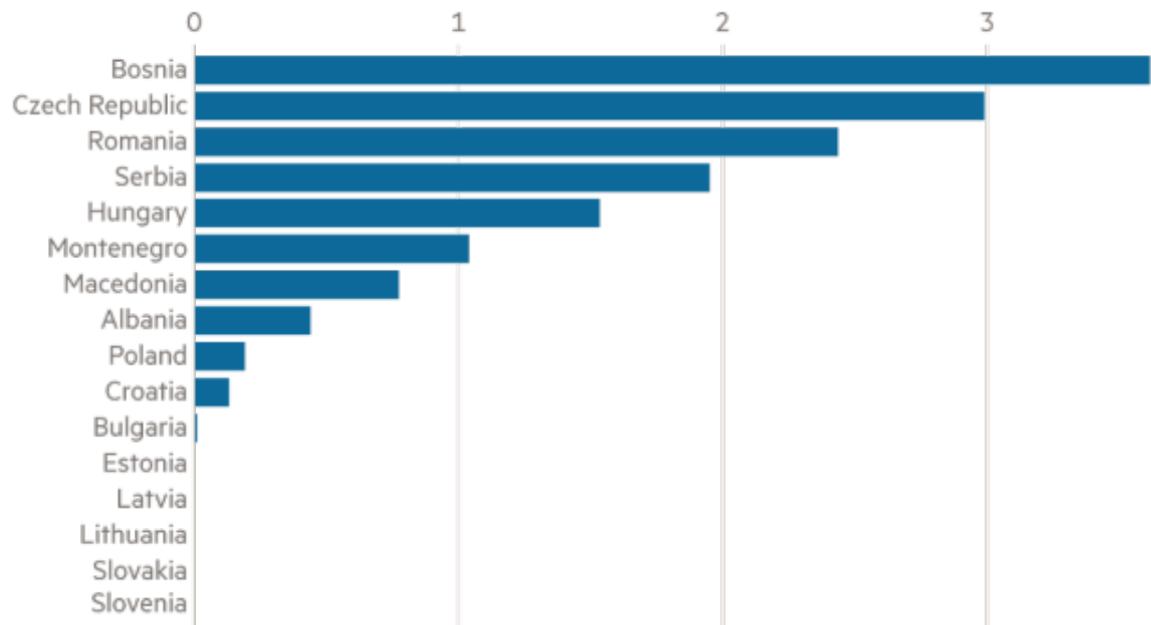
Source : China's Analysis (2016)

The most attractive assets are no longer numerous or even non-existent. Chinese investors often buy companies in difficulty, which cannot be recapitalised by domestic investors, in sectors such as the steel industry (Serbia), chemicals (Hungary) or participate in the modernisation and extension of nuclear power plants (Romania). The construction and expansion of coal-fired power plants are also planned in Serbia, Bosnia and Herzegovina (note that these investments).

Other sectors attract foreign direct investment in order to benefit from local know-how with a higher added value content (Northern Central Europe, Baltic countries) or to create a regional resource base in certain areas (information technology in Hungary, Romania) that can serve as a springboard to enter EU-15 markets. In other cases, such as car manufacturing in Bulgaria and electric batteries in Serbia, there is a spin-off effect. The forthcoming participation of Chinese investors in the privatisation of Serbian companies should increase the phenomenon of sectoral diversification without yet being able to measure the coherence of these participations. The effect of "infrastructure diplomacy" can be seen here: after signing contracts for the construction

of roads, motorways, ports and railway lines on favourable terms, Chinese provincial firms from other sectors are invited and encouraged to invest in other sectors (Table 3).

Figure 3: Total (announced) infrastructure investment by country (\$ miads)



Source: Financial Times (2017)

For the receiving countries, the Chinese presence is welcomed with interest but also with a certain scepticism. The countries of the region, as in other parts of Europe, are rolling out the red carpet to welcome Chinese investments that complement those made by EU-15 investments in unattractive sectors. Railway lines certainly provide access to Chinese markets but do not contribute to the creation of many jobs, unlike virgin investments.

Several countries wish to extend cooperation with China to other areas (airways, tourism). Making virgin investments rather than building railways, opening-up the Chinese market to products from the region would contribute more to job creation. Analysts also underline the scepticism of the region's leaders regarding China's real commitment. The governments of the region do not forget that their development is fundamentally linked to the EU and that they cannot ignore the many regulations that oblige them.

Real regional anchorage or sprinkling to facilitate the crossing of this segment? Finally, the Chinese presence in the region remains weak. In percentage terms, Chinese FDI is low, representing only a very small share of Chinese FDI in this part of the EU. In addition, FDI in the WCT is concentrated in a few countries. The sprinkling to which

the government and Chinese firms lend themselves would be the right of entry allowing passage in the region towards the final destination, the heart of Europe.

The geopolitical dimension of the Chinese presence was mentioned, which has resulted, at the institutional level, in the creation of the 16+1 association, which gives rise to an annual meeting, and the establishment, in cascade, of consultative bodies on various aspects of cooperation. Some analyses mention interference, the possibility of nuisance vis-à-vis the EU or, in the Balkan countries (Serbia in particular), the means of countering the Russian presence. It is not certain that Serbia is the object of such a stake. The country is still unstable despite recent progress, the country is heavily indebted, it is still strongly marked by the impact of the Milosevic years (lack of investment, NATO destruction, the Kosovo issue) and, as such, has limited room for manoeuvre to launch into an uncertain diplomatic game.

As the largest country in the Western Balkans, still heavily affected, it has great investment needs in many areas that it cannot provide for itself. It remains more of an economic than a political challenge to welcome Chinese investments in infrastructure.

Table 3: Chinese presence in Central and Southeast Europe

Country	Investment
Albania	Construction of a section of motorway. Financing by China of an industrial park in the coastal city of Durres. Project for the construction of a deep water port. Estimated project value: €2.2 million
Bosnia & Herzegovina	Bosnia and Herzegovina Construction and modernisation by Chinese firms of 3 coal-fired power plants, investment in energy projects in the Serbian part (Srpska Republic). Chinese financing up to 85% (785 million €). Project to build another power plant in the east by a Chinese consortium.
Bulgaria	Infrastructure investment in agro-business. Investment in bus construction by Great Wall. It is China's first vehicle manufacturing company in the EU but the project has failed. Chinese firms' participation project for the construction of the Black Sea motorway linking Varna to Burgas. Chinese participation in the construction of a new nuclear reactor at the Kozloduy power plant.
Croatia	Investment project in the electric batteries sector by the car manufacturer Camel group in the company Rimac Automobili for a value of \$ 30 million. Project to open a Chongching-Zadar airline to transport 25,000 Chinese

	tourists during the summer months
Czech Republic	Investment in financial services in a local J&T company up to €1.4 bn. Otherwise minor investments. Investment projects in the pharmaceutical industry.
Estonia	130 million investment in renewable energies
Hungary	Acquisition of a chemical group
Latvia	Purchase of land to acquire permits to reside in the EU against a minimum investment of 70 000 € recently raised to 250 000 €. Real estate investments represent 40% of Chinese investments. Investment projects in port infrastructure in Riga, in communications infrastructure with the three Baltic capitals. Small investments in the agricultural sector.
Lithuania	Investments made by Huawei, ZTE, Lenovo, China National Petroleum, SAIC Chery Automobile
Macedonia	Construction of two motorways financed by Exim bank for € 680 million. Project to build the country's gas network. Chinese participation in the construction of the Macedonian section of the Athens Belgrade railway line
Montenegro	Construction of a 170 km long highway financed at $\frac{3}{4}$ by China and built by a Chinese firm Renewal of Montenegrin fleet with construction of four vessels Investments in several energy projects: hydroelectric, thermal power plant. Project to participate in the construction of motorway segments as part of the "Blue Corridor" project which will link Italy to Greece along the Adriatic coast.
Poland	The largest country in the region with the largest volume of trade with China, Chinese investment is still low. It should increase soon
Romania	Project for the construction of new units of the Cernavoda nuclear power plant on the Danube for an amount of €6 bn. Several European firms have declined this market. Construction (Rovinari) and modernisation (Mintia-Deva) of two coal-fired power stations and a hydrothermal power station (Tarnita-Lapustesti). Presence in the residential construction, electronics and communications market (Huwei).
Serbia	Construction of a bridge over the Danube, a coal-fired power station, part of the Belgrade ring road. Construction of the Belgrade-Budapest high-speed rail line (already well behind schedule). Construction of a motorway linking Serbia to Montenegro. Investment projects in the construction of electric

	cars, Chinese participation in the privatisation programme of 18 state-owned enterprises.
Slovakia	Very few Chinese investments exceeding \$ 100 minutes. Seems to be forgotten by China

Source: Compilation by the author

The summary of foreign direct investments made (and planned but failed) in Hungary by Chinese firms in recent years (Table 4) illustrates both the preferred modes of entry, the diversity of sectors, their volume and their impact. Sectoral dispersion reflects the approach in terms of market seeking, the creation of (electronic) hubs by resorting to greenfield type investments. Investments of the acquisition type are limited, reflecting the position occupied by the first movers in the most competitive sectors with strong growth potential. They are distinct from infrastructure investments that fall into another category and that benefit from specific financing lines.

Table 4: Entry mode and sectoral distribution of Chinese FDI in Hungary

Company	Sector (Target company)	Mode of investment	Year of first mention or investment	Total value (estimate, EUR million)	Result
Changshu Standard Parts Factory	Screw factory (Ongai Csavargyártó Ltd.)	Acquisition	1997	NA	Success
Yanfeng Automotive	Automotive	Greenfield	2004	25	Success
Hisense	Electronics (joint venture with Flextronics)	Joint venture	2004	3	Success but closed in 2010
Huawei	ITC	Greenfield	2005	300	Success
ZTE	ITC	Greenfield	2005	15	Success

Lenovo-Flextronics	ITC	Greenfield	2009	NA	Success
Sevenstar	Solar panels (EnergoSolar Ltd.)	Acquisition	2009	NA	Success
Wanhua Group	Chemicals (Borsodchem)	Acquisition	2010	1600	Success
Comlink	ITC	Greenfield	2012	NA	Success
BYD	Electric buses	Greenfield	2016	20	Success
China-CEE Fund	Telecommunication (Invitel)	Acquisition	2017	200	Success
BBCA	Citric acid factory	Greenfield	2012	80-200	Still in progress
China Railway Group	Railway reconstruction (Belgrade-Budapest)	Infrastructure investment	2015	1500	Still in progress
Tianshan Industrial Group	Aviation industry	Joint venture	2016	30	Still in progress
RZBC	Citric acid factory	Greenfield	2014	100	Likely failed
HNA	Airlines (Malev Hungarian Airlines)		2004	NA	Failed
Livan biodegradable Product	Biotechnology	Greenfield	2007	18	Failed
Shanghai Construction Group	Cargo Airport	Greenfield	2009	NA	Failed
Orient Solar	Solar panels	Greenfield	2011	NA	Failed
Canyi	Lighting technology	Greenfield	2011	30	Failed
China Railway Construction	Railway construction (airport to downtown)	Infrastructure investment	2012	150	Failed

Corporation					
VO	Railway constrxution (ring around Budapest)	Infrastructure investment	2013	NA	Failed

Source: Matura (2017)

3 Implementing the project in the 16 countries area: Some remarks

For its designers, the Initiative is not a plan, the materialization of a concept, of an idea that must be realized quickly in time. Like the great works in the past, their usefulness, their full use can prove to be profitable only in the long term even if one must consider that the motivations behind the launching of such programs are part of a more reduced temporality.

The implementation of this project raises numerous questions on institutional, technical, financial, economic and geopolitical aspects.

At the institutional level, the 16+1 Format remains a curious construction: a regional institutional structure that masks a network of bilateral relations that apparently does not serve to unify the various projects. The choice of bilateralism reflects the absence of an overall vision of the Chinese presence in the region around structuring programmes.

From a technical point of view, some of them are those which fall into the category of services, irreversible investments (railways) the use of which will continue to compete with other means of transport (particularly maritime) in terms of costs. For the time being, on existing lines, the utilisation rate remains low, the cost of transporting goods is high (and subsidised), between two and three times the cost of goods transported by sea. On the other hand, the construction of motorways in the Balkans meets much-needed infrastructure needs, which until recently have been neglected by the European Union. However, the implementation of these projects puts the receiving countries in difficulty (indebtedness of BiH, Montenegro to finance their share of the investments), induces corruption leading to the termination of some projects (construction of a motorway in Macedonia). Moreover, and this is a criticism that can be found in several countries, these investments, in proportions ranging from 60 to 80%, are made by Chinese firms and labour, so they have little impact on the economies concerned in terms of employment, activity.

The heterogeneity of the 16+1 Format also has consequences on the nature of investments in the infrastructure sector, as shown by the difficulty of the construction

of the Belgrade-Budapest railway project (tender obligation). It leads the Chinese firms, within the framework of this project to concentrate among the 5 countries not yet members. To date, the implementation of infrastructure projects remains limited despite the size of the available funding. The EU's recent decision to launch projects could limit China's supply in this sector.

In financial terms, the opening of a credit line and the establishment of a specific fund do not yet seem to attract many projects. Most of the available funds have not yet been committed. On the one hand, there are not many investment projects to be financed, and on the other, European funding is also, if not more, competitive. Here we see one of the limits of the initiative: a supply policy does not automatically attract Chinese or local investors. The result, if we consider the projects carried out or in the process of being carried out, is rather an “archipelago approach”: investments made with the help of Chinese financing are part of the region's landscape but they do not contribute to the emergence of local growth poles structured around a few activities with strong implications in terms of economic spinoffs. For example, there are no Chinese firms involved, with the exception of a few (Huawei in Romania), large Chinese firms with regional or even European projects. The acquisition of local firms in Bosnia and Herzegovina (coal), Serbia (steel), Hungary (chemicals) reflect the limited (declining sectors) and risky opportunities (the Serbian steel company acquired by an American company was sold to the Serbian state for a symbolic dollar), the investment in the coal industry violates the environmental commitments made by the receiving country. The weakness of local attractiveness reflects both the still limited opportunities of these still converging economies within the EU, especially in the South, and the strong attraction of the heart of Europe to Chinese investments. It would be tempting to say that pitting China's least developed parts, which are supposed to be actors and beneficiaries of the Initiative, against the least developed part of the EU necessarily leads to a thwarted dynamic in terms of trade and investment development.

This leads us to the last point, geopolitical, induced by the Chinese presence in this region. Can China rely on this growing presence to influence the European Union? To quote a Polish analyst, the Chinese presence presents an opportunity, an alternative, a threat. Opportunity in terms of the development of new activities (trade, investment, provision of services), an alternative for host countries in need of infrastructure, outlets, jobs that European integration cannot fully provide (member countries) or could not provide (countries in the accession phase) but limited due to European

constraints, often easier access to sources of financing from the EU, finally because of the selective nature of investment operations carried out by Chinese firms which first see their own interest or are not motivated to finance projects desired by host countries (for example, the construction of motorways in Romania). As for the threat posed by the Chinese presence, it seems limited for the moment. The "illiberalism" displayed by some countries (Hungary, Poland) has its limits linked to the strong dependence of these economies on the EU. The structural and cohesion funds received by Hungary from the EU amount to almost 6% of the country's GDP. Further south, recurrent political instability (Bosnia-Herzegovina, Serbia-Kosovo) certainly does not encourage China to interfere in these cases. However, China can introduce divisions on certain outstanding issues with the EU, as shown, for example, by the refusal of the Hungarian Ambassador in Beijing to sign a joint declaration with his peers on cooperation between the EU and China.

Conclusion

The BRI project is still in its infancy, and many investments have not yet been completed or are not yet fully mature and used, particularly with regard to the development of land routes, with accompanying investments enabling their optimal use.

However, we see the outlines of this ambitious project taking shape and taking shape, which, according to Chinese specialists, is more a state of mind, a new concept of exchanges based on cooperation than a rigid framework imposed on the participating partners.

Several interesting lessons can already be learned.

Recycling financial surpluses from trade by creating new trade channels centred around China's interests: supply and securing of resources, access to new terminals, new ports at regional level.

A market penetration logic favouring Chinese firms, especially state ones, in sectors where China possesses skills and overcapacities, where it extends abroad what it has achieved on its territory (motorway and railway line networks).

This strategy is served by substantial financial resources and favourable allocation terms to borrowers, almost to Chinese companies, particularly from its political banks in support of its expansion strategies.

The implementation of these projects has an integrating and structuring effect; their implementation leads to important asymmetries between partners (countries,

firms) both close and far, as we have seen on this section of the Route, to China's advantage. In Asia, the implementation of this project reflects China's growing power and fuels tensions between BRICS partners (Russia, India). In Europe, the Chinese presence is less important, the CSEE remains a place of passage and not yet of anchorage: the EU-15 market and in particular those in the heart of Europe are more important but more difficult targets to reach .

There are risks associated with this project. First, those related to its profitability: will the infrastructure generate enough activities to ensure the profitability of investments? Is China assured of generating annually, through its exchanges, the level of resources needed to finance the projects? Will the external investment control policy not direct investments towards less profitable investments? The most pessimistic observers in Beijing draw a parallel with the Great Leap Forward.

Finally, there are political and financial risks not to be neglected, particularly with several receiving countries (some of which will be unable to repay), with neighbours worried about China's rise to power and about not benefiting from this project presented as a "win-win" by its promoters.

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16+1 Initiative in China-EU Relations: 'Golden Opportunity' or 'Divide and Rule'

Evangelia Sali¹

Abstract

Concerns and scepticism have accompanied the cooperation platform between 16 Central and Eastern European Countries and China (16+1 Initiative) since its inception in 2012, with the public debate revolving around two major strands. On the European side, the 16+1 Initiative is primarily viewed as "divide and rule" tactic aimed at eroding EU norms, values and unity, whereas Beijing promotes it as a "golden opportunity" focused on win-win cooperation and harmony. Yet, the reality of the Initiative is far from being either of the two, as the Initiative is still a work in progress and many of the promises have yet to materialise. This paper sums up some of the debates surrounding the 16+1 Initiative and examines the implications for the China-EU relations. It argues that despite tensions, the Initiative is supportive of China-EU cooperation. Additionally, China can be a complementary partner to the CEECs. The future of the Initiative however will very much depend on China living up to the high expectations created.

Keywords: *16+1, Central and Eastern Europe Countries, China, EU, cooperation, narrative*

1. Introduction

Nearly 6 years on from its introduction and the 16+1 Initiative is still raising concerns in Europe. The EU and especially Western European countries remain suspicious of China's outreach to Central and Eastern European Countries (CEECs), albeit Chinese efforts to alleviate concerns and render the platform open, transparent and more inclusive. The Initiative has often been characterised as controversial, whereas for others it constitutes a 'divide and rule' tactic by China against the EU aiming at eroding EU norms, values and unity. China, for its part, has repeatedly

¹ PhD candidate in International Politics, Fudan University, China

dismissed these concerns as unfounded stressing that the 16+1 cooperation does not go against the EU but rather is an important part of and useful complement to the China-EU comprehensive strategic partnership.

In the meantime, the framework for China's engagement with the CEECs has significantly grown since its creation and has brought tangible outcomes in the areas of trade, investment, finance, infrastructure, tourism, people-to-people exchanges and education. Yet, the benefits delivered lag behind the expectations. In effect, the Chinese economic presence in the CEECs is still limited, thus rendering any claims about significant influence irrelevant at present. Whether this situation will change in the future, either towards 'golden opportunity' or 'divide and rule' remains to be seen.

The paper at hand examines the perception of the Initiative by diplomats and policy-makers both in China and in Europe (western countries and CEECs). We look at the declaratory goals, the challenges and the achievements on the ground. Lastly, we view the 16+1 Initiative in the framework of the China-EU relations and their respective foreign and economic policies. Ultimately, we essay to identify potential implications for the future of the China-EU cooperation and the comprehensive strategic partnership. To showcase the linkage between interaction, perceptions and reality, we have opted for Poland as a case study country.

Contrary to narratives on both sides, which view the Initiative as a 'golden opportunity' or a 'divide and rule' tactic, we argue that reality is to be found in the middle of the two extremes. This is to say that, despite tensions, the Initiative is supportive of the China-EU cooperation. Additionally, China can be a complementary partner to the CEECs, which lack infrastructure and investments. The future of the Initiative however will very much depend on China living up to the high expectations created.

2. Analytical Framework

Literature Review

There exists abundant and quite substantial literature examining the nature and the dimensions of the Sino-EU relations. A large part of it focuses on the evolution of the Sino-EU relations and the Strategic Partnership over the past decades, whereas a large amount of studies is sector- or level-specific. The literature on the 16+1 Initiative however is quite limited. There is thus need to strengthen the existing literature and incorporate actor-related literature, for in most studies the EU and China

are dealt with as unitary actors. Indeed, the EU is viewed as a dyadic form of governance wherein attention is paid to the EU institutions and the member states.

Fox and Godemont (2009) reveal the deeply different approaches between the MS with respect to their approaches toward China, whereas Mattlin (2012) shows the changes in their normative view. Holslag (2011) take a critical stance with regard to what he calls pretensions of the EU's foreign policy to become a norm-setter and the future of the partnership. Heilmann/Schmidt (2014) examine China's foreign policy and economic relations arguing that it is an unconventional global power to be. Earlier, Noesselt (2012) discussed the role of China in international relations and Lanteigne (2009) delved into the foreign policy making and the changes it had undergone.

The Strategic Partnership (EEAS; 2016 & 2016a) has attracted broad attention from scholars ever since its announcement in 2003. Shambaugh (2013), Casarini (2006), Men (2007), Men & Balducci (2010), Geeraerts (2013) look at the characteristics, the content and the significance of the partnership. Geeraerts & Weiping (2016), Wouters et al. (2015), and Voght (2012) adopt a more global perspective and examine the role of China in the handling of the 2008 financial crisis, economic security, and the interaction with the EU in Africa. Regarding theories, Cottey & Gottwald (2015), Chen (2013), and Pan (2010) take constructivist and institutionalist approaches identifying normative and conceptual gaps, expectations/perceptions shifts and institutional framings.

By contrast, the literature on the 16+1 Initiative remains very limited and mostly country-specific. This is partly due to newness of the Initiative and the still vague nature thereof. Another distinction in the body of literature is the attitude towards the Initiative. Unsurprisingly, Chinese scholars hold a more positive view of the progress of the Initiative compared to other scholars. Citing macroeconomic indicators, they stress that CEE-China trade was 86% higher in 2014 compared to 2009. Agatha Kratz (2016:7) shows that by 2015 bilateral trade had reached the target of \$100 billion set in 2012 in Warsaw, view which is contested by other experts in the field (Zeneli; 2017). Ji (2016) offers the most positive assessment claiming that, since the initial announcement 'differences and misunderstandings have been eliminated and the train of China-CEE cooperation is pragmatically heading at full speed'.

However, assessments vary largely, with scholars from CEE countries being more critical of the Initiative. Turcsanyi (2015) asserts that there is a mismatch between Chinese offers and needs in the region. Kaczmarek and Jakóbowski (2015) call 16+1 'not fully satisfying', with only parts of Beijing's objectives been fulfilled.

Stanzel (2016: 3) argues that bigger states profit disproportionately from the Initiative, whereas smaller states find it hard to implement infrastructure projects under "16+1" framework. Turcsanyi (2017) insists that only the small non-EU member states could have noticed a palpable increase in Chinese investments.

Overall, the Initiative has attracted the attention of scholars, but being a work in progress, the conclusions drawn are at best semi-conclusive. In this context, it appears meaningful to explore the different narratives and realities on the ground. It is noteworthy to look at the role of the Initiative in the Sino-EU relations, topic that this paper aims to pore over with a view to offering a valuable contribution to the literature in the field upon which future research will, hopefully, build.

Methodology and Data

The method chosen to carry out this research consists in a qualitative analysis based on a single case study research design and historical analysis. "Qualitative research involves the studied use and collection of a variety of empirical materials – case study, [...], historical, interactional, and visual texts – that describe routine and problematic moments and meanings in individuals' lives" (Denzin & Lincoln, 1994:1-17). This method permits us to answer the research question, as well as to make inferences about the future of the Sino-EU relations that might go beyond current the state of affairs.

Moreover, the single case study design allows us to go in depth and thereby achieve a better understanding of the role of the member states and their influence on the relationship of the two global players over time. According to Bryman (2008:51), a single-case study design entails "the detailed and intensive analysis of a single case", which serves as a unit of analysis (Ibid, 2008:54) and can vary from a place, a time period or event, to a policy context (George & Bennett, 2005:17) etc.. The added value of a case study lies in that it enables the exploration and detailed description of causal relationships (George & Bennett, 2005:29). The case in question is Poland. Largest participating country and a self-proclaimed and perceived leader of the 16 by the Chinese.

The data for the study of the Sino-EU relations consists of a range of information sources; this is to say both primary and secondary. As primary resources statistics, documents issued by the Chinese government and the EU Institutions shall be used. An extensive literature review will serve as the basis of secondary sources. These sources are to be complemented and updated by newspapers' articles. These

information sources allow for cross-checking, verification and comparison of data with a view to eliminating possible subconscious selectivity bias. Regarding limitations, the major ones are the insufficient knowledge of Chinese and the inherent difficulty of tracing back announced investment and completed works.

3. The Chinese ‘promise’

In 2012 the new framework for China’s engagement in Central and Eastern Europe (CEE) was introduced by the then Chinese Premier Wen Jiabao during a visit to Warsaw. The project Cooperation between China and Central and Eastern European countries, which preceded the launching of the One Belt One Road Initiative, was put forward to foster trade and political relations with the sixteen countries that partook in the Initiative. The project, also known as 16+1 Initiative promised to provide affordable Chinese-made infrastructure and investment. The offer proved more than appealing for the emerging markets in the region and was thus received enthusiastically. Beijing hailed it as a ‘golden opportunity’ and a win-win cooperation (Xinhua 2015), whereas Brussels was cautious.

In 2015, Xinhua described the project as “infrastructure-led all-round cooperation” referring to its focus on infrastructure. Indeed, the catalyst for the CEE countries is China’ s ability to finance and build the roads, railways, power stations and other infrastructure that some poorer central and eastern European countries need. It is the focus on the need for infrastructure and development that constitutes the common denominator of the pairing. China's own path and focus on development render it sympathetic to CEECs wish to catch up with western member states (Turcsányi; 2014).

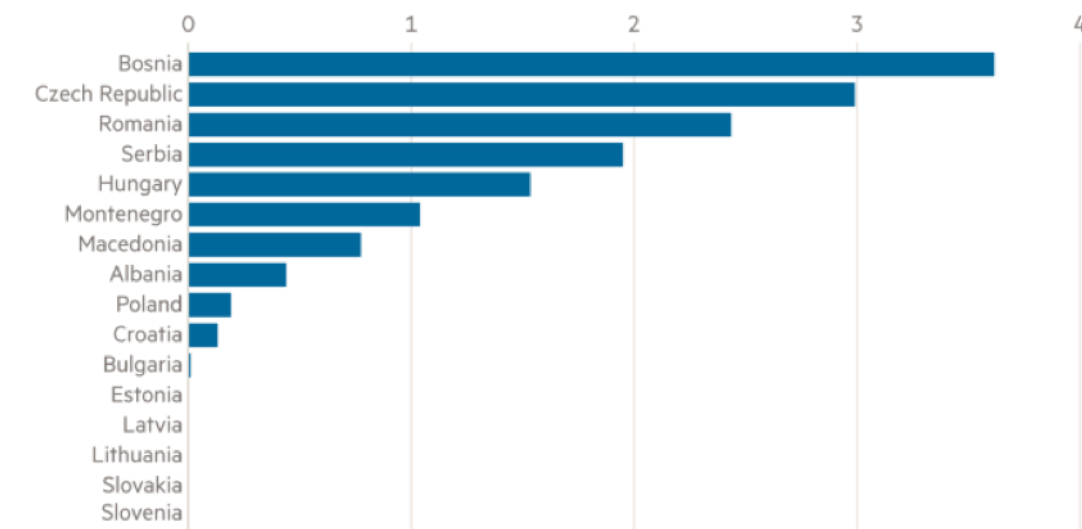
China's promise consists in a win-win cooperation. In line with own development goals, Chinese capital expansion serves to establish a presence and new markets for Chinese products in the CEECs. Contrary to western member states, the 16 countries in the region are much in need of investment and capital. It is exactly this need that China seeks to fulfil by exporting heavy industrial products such as nuclear power and railway technology.

However, the scope of its operations has spilled over into political and strategic areas, thereby breeding mistrust among some of the western European powers. Closely linked with the 12th five-year plan (2011-2015), China is seeking to acquire strategic assets. As such are considered IT and nano-technology, the automobile and aviation companies in the CEECs (Jakóbowski 2015). The region also offers

profitable businesses at affordable prices for Chinese conglomerates in quest of opportunities to diversify their portfolios.

China's infrastructure investments in the 16+1

Total infrastructure investment (announced) by country, 2012-16 (\$bn)



Sources: CSIS; FT research
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Although infrastructure constitutes the highlight of Chinese involvement in the 16+1 countries, progress has been rather slow, at least in the first years since its launching. Recent years however have seen an increase in infrastructure projects financed by Chinese banks and built by Chinese companies. Interestingly, the most prominent initiative is the North-South fast railway connection between the Polish city of Łódź to the North and the Greek port of Piraeus, which is run by the Chinese Overseas Shipping Company (COSCO) in the South (Richet et al. 2017, 109). COSCO, which is a Chinese state-owned enterprise, acquired the majority stake in the Piraeus Port Authority in 2016. Today the port is considered as the main entry point for Chinese exports into the EU, as well as the key hub for maritime transportation across the Mediterranean Sea. The acquisition has resulted in further increasing concerns among western member states, which fear a decrease of trade volume in other big ports in the north such as in Rotterdam and Hamburg.

Another major project which has created considerable tensions was announced in 2014, the construction of the high-speed rail route of 370 kilometres between Belgrade and Budapest. It was agreed by China, Serbia and Hungary in December 2014 and is expected to cost € 3.2 billion. Its completion however has been stalled following claims that Union procurement rules had not been respected. Other projects

concern Corridor 11, a highway that connects Romania with Montenegro and Italy, and Corridor 8, which links North Macedonia with Western Europe.

Besides some major projects, tracing back investment projects is rather difficult, thereby rendering challenging any attempt to qualify and quantify Chinese investments in the region. According to sources from the Chinese Ministry of Commerce, the amounts invested range between \$6 and \$8 billion. It is clear however, that trade is highly concentrated on five EU countries, namely Poland, Hungary, Czech Republic, Slovakia and Romania. In the Western Balkans, Serbia is China's strategic partner and the country that received the most investment and trades the most with China.

Yet, promises of large Chinese capital flows are still to be translated into reality. Contrary to claims that China has shifted focus from western to eastern Europe, trade with CEE countries represents only a small portion of the trade balance with the Union and only 2.7% of the Chinese outward investments globally and a very small proportion compared to the \$65 billion China is investing in the EU (mostly in western Europe). Chinese investment in the region had not reached the \$100 billion objective by 2016, despite a sharp increase over the past years from \$32 to \$52 billion. In the meantime, CEE exports to China have increased but they remain imbalanced in favour of China. To support the deployment of Chinese investment in the region, the \$500 million-worth China-CEE Fund was created.

Notwithstanding the willingness of the Chinese side to deliver on promises made, the 16+1 Initiative remains a massive endeavour, at least in terms of administration, and certainly more difficult than China had initially anticipated. Building cross-border infrastructure in the EU is an ambitious task on its own, but combined with public tender laws, health and safety and labour regulations, and the legal double layer of Union and national law, it is even more challenging. In this context, it is not surprising that several announced projects have not been completed or are yet to start. During the "16+1" Summit that took place in November 2017 in Budapest, Chinese Premier Li Keqiang conveyed the message that more efforts were needed to accelerate the building of the Hungary-Serbia high-speed railways. Li also announced the establishment of China-CEEC Inter-Bank Association and additional financing under the China-Central and Eastern Europe Investment Cooperation Fund.

4. Brussels' concerns and reaction

The timing of the announcement is crucial for understanding the reactions. The European Union was struggling to cope with the financial crisis and the potential exit of Greece from the Eurozone. The efforts to avert a spill-over of the crisis in other Eurozone countries had somewhat distracted western member states (Millner 2012). The state the EU was in, weakened and tormented by a multi-layered and structural crisis, led the western European leaders and observers to suspect ulterior motives both in the timing and the format. Several of them saw the Initiative as an attempt to 'divide and rule' the EU at a moment of weakness. In their eyes, China chose to deepen its cooperation with the CEECs when they would rather favour a unified European approach towards China as part of a long-term strategy (Kaczmarek and Jakóbski 2015, p. 4).

Six years later, the European Union is viewing the 16+1 Initiative with scepticism. In Brussels there are mounting concerns about a concerted effort by China to 'divide and rule' the Union. The main concerns are: first, that China may attempt to capitalise on the influence built to frustrate EU's common China policy. Secondly, the EU fears that some "16+1" countries may utilise their stronger ties with China to enhance their bargaining position and defy Brussels.

This holds true for Poland and Hungary. In light of the incoming Chinese investment in the country, the current government has been emboldened in the 'battle' with the European Commission (EC) over the respect of rule of law in the country. Poland has remained firm and defied any threats for the EC to cut structural funds, if the former proceeds with the reforms in the judiciary, deemed unconstitutional by the Polish Constitutional Court and the EC. The discord between the EC and the Polish government further escalated when the latter announced its plan to build its first two nuclear reactors.

Among European diplomats, there is fear that such dynamics could further undermine Brussels' effectiveness in relation with its second-largest trade partner, China (Kynge & Peel; 2017). One major concern is that the rules governing the single market could be undermined by China's demand for guaranteed contracts for its companies. The case of Hungary is raising concerns both in Brussels and in other member states. Its failure to open its section of a high-speed rail line from Belgrade to Budapest to competitive tender has triggered an investigation by the EC into whether the project violated EU laws (Bogusz; 2017).

A third major concern is the influence China is building in the Western Balkans, namely the EU's own backyard. Four countries are candidates for EU membership (Albania, Macedonia, Serbia, Montenegro) and one (Bosnia and Herzegovina) is a potential candidate. Not only are they not bound by EU law, excluding the Copenhagen criteria, which they must meet in order to start and progress in the accession process, but also are in great need of investment and infrastructure. Brussels fears that an increased Chinese presence and clout would eventually bring about issues of loyalty.

An additional reason accounting for the EU's concerns about 16+1 lies in the fact that the Initiative targets the most politically unpredictable member states with the youngest and most fragile democratic institutions. Once again, the cases of Hungary and Poland stand out. After a significant 'authoritarian shift' in recent years in the two countries, the EU believes that the Initiative is undermining its efforts to get them to return to the liberal democratic model the Union was founded on.

Overall, Brussels' attitude is characterised by suspicion and mistrust. Yet, there is little if at all that the EU is doing with respect to China. Aside from raising the issue during diplomatic engagements, the EU remains surprisingly complacent in comparison to its expressed concerns. Strikingly, there has not been a common EU strategy towards China in this respect. Rather, its response takes the form of legal procedures and investigations it initiates against member states that do not comply with EU law.

An exception to this is the recent calls from Germany. In September 2017, the German vice-chancellor and foreign minister, Sigmar Gabriel, called on China to respect the concept of "one Europe". Pointing out to the implications emanating from the lack of a strategy, he said that "if we do not succeed in developing a single strategy towards China, then China will succeed in dividing Europe" (Psaropoulos; 2018). This was the clearest statement made by a western European government.

5. 'Golden Opportunity' or 'Divide and Rule'?

The 16+1 framework constitutes a key component of Chinese President Xi Jinping's signature foreign policy, namely the One Belt One Road Initiative, whose final frontier is Europe (Prasad; 2018). It aims at fostering economic cooperation in the infrastructure and energy sectors in the CEECs based on a grouping of bilateral relations through which China can more easily streamline its activities and enhance influence on the recipient countries. At the same time, the Initiative serves domestic

interests related to exploring new markets for Chinese products and acquiring strategic assets abroad. All in all, the Initiative represents an effort to increase Chinese presence in and influence on CEE countries which are thirsty for infrastructure and investments.

However, the criticism most often attributed to China is that through the 16+1 Initiative it is trying to buy friends and install a Trojan Horse of political sympathisers within the EU. However, as Pavlicevic (2015) observes, China does not need a Trojan Horse or any other bridge to enter the European market. Citing the much higher trade and investment statistics with western EU member states, he asserts that China is 'already there' and that denying Eastern member states the same exposure to Chinese investments would be unfair.

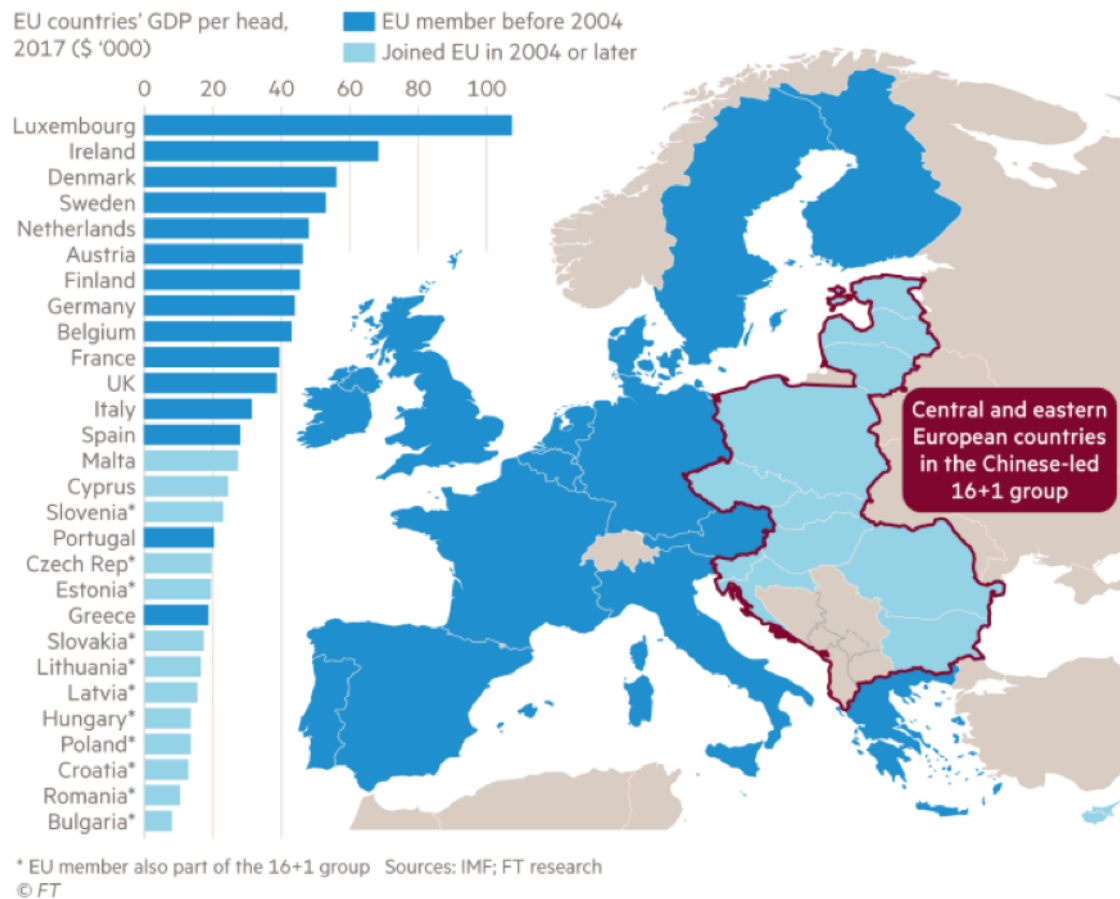
China from its side claims that the Initiative is beneficial to the EU. "The 16+1 cooperation and China-EU cooperation are not mutually exclusive," China's Foreign Ministry cited Chinese State Councilor Wang Yi as telling Bulgarian Foreign Affairs Minister Ekaterina Zaharieva in May (Euractiv; 2018). "Objectively, it helps with the European integration process", he added in an effort to dismiss concerns about a 'divide and rule' tactic.

Earlier in 2017, Chinese Premier Li Keqiang had pointed to the opportunities the Initiative can bring. He said that the EU and China have a rare chance of combining two huge economic powers with their initiatives. Doing so would enable the two actors to advance on a multitude of projects. "The more projects we realise, the more the region will be prosperous and competitive", he said, as quoted by Xinhua. Lastly, the Chinese Premier appealed for integrating the Chinese One Belt One Road Initiative with the EU strategies in Central and Eastern Europe and the Western Balkans, trying to reassure his western European counterparts that China does not intend to sow divisions in Europe.

Despite concerns in western European countries, central European states are very welcoming and supportive of Chinese presence and investment. They support the One Belt One Road Initiative and wish to promote more infrastructure projects under the framework. This holds true not only for Poland and Hungary, which maintain rather tense relations with Brussels in the past years, but also for countries such as Bulgaria. During the latest Summit in Budapest, Hungarian prime minister Victor Orbán praised China and encouraged CEECs to take this opportunity for development, "in line with the spirit of equal treatment and mutual respect" (Euractiv; 2017). He added that they would actively participate in the One Belt One Road Initiative to create a better

environment for Chinese companies investing and developing in the region. Similarly, Bulgaria enthusiastically welcomes the 2018 "16+1" Summit.

China's 16+1 grouping built around EU's newer, poorer members



Notwithstanding reassurances, China's focus on Greece and Serbia, but also other countries in the Western Balkans is not always viewed positively. Although the two countries, as well as others, are benefitting from low-interest Chinese loans for infrastructure projects, European diplomats maintained that Chinese involvement in the Western Balkans was "provoking second thoughts in northern Europe and especially in Brussels" (Euractiv; 2017). What accounts for increasing suspiciousness pertains to what is seen as a race to the bottom to attract Beijing's attention and subsequently capital. The recent developments in some CEECs testify of a worrying trend. Czech President Milos Zeman characterised his country as an "unsinkable aircraft carrier for China in Europe". In 2016, pressure from CEE diplomats resulted in watering down an EU statement on China's actions in the South China Sea. A year later, Budapest refused to sign a letter condemning human right abuses in China.

More recently, Greece - not a CEE country- derailed an EU statement at the United Nations related to China's human rights record.

While there is no evidence that China is responsible for these phenomena, it appears that the need for economic attention from Beijing leads to subservience when it comes to China's political demands (Witthoeft; 2018). Moreover, CEE countries have clearly entered into a phase of competition for Chinese investments, which has resulted into a downward spiral of lowering high EU standards for projects. This trend is particularly worrying when coupled with conducive factors such as high corruption level, infrastructure deficit and the need to find alternative sources of financing. The latter is even more imperative in the light of Brexit and a subsequent reduction of EU structural funds.

6. The case of Poland

Poland is the largest eastern European country that joined the EU during the 2004 enlargement. For years it has been growing and until recently constituted an example of progress and transformation. Today, and together with Hungary, it is one of the biggest 'headaches' for the EU which is very preoccupied with the backslide in rule of law and democracy, and the defiance of EU rules and norms. It is therefore not surprising that Poland has turned to China for support, both financial and economic. Indeed, China has become the biggest trade partner of Poland in Asia and Poland the largest trade of China in the region. However, economic cooperation is marked by a considerable trade deficit -12.5 to 1- in favour of China. Figures show that while trade value between the two countries has increased over the years, Poland's exports to China are fluctuating. Chinese investments are mainly concentrated in the infrastructure and energy fields. In 2016, it became the first European country to issue government debt into China's bond market.

The role China plays in the CEE is vital for Poland maintaining its growth levels and standing up to Brussels. Not only does the latter considers Beijing a strategic partner, but also claims to be the leader of the 16+1 group, mainly thanks to its size and geostrategic location. Warsaw sees in China a powerful partner of great economic potential to whom it can turn for investments and trade, as well as for political support when relations with western European countries and the EU institutions are tense. The fact that China offers loans with no string attached is particularly appealing to the current Polish government, which doesn't hide its aversion for the rules coming from Brussels. To further enhance this cooperation, Poland has been willing to bend EU

procurement rules to facilitate Chinese investors, fact which has led to investigations and infringement procedures. In whole, aside from much-needed investments and FDI, Beijing provides Warsaw with an economic and political alternative, which is eager to utilise when it serves its purposes. Likewise, China sees in Poland a gateway to Europe, a willing partner to promote the internationalisation of the RMB (Kuo; 2017).

7. Implications for China-EU relations

EU-China relations are relatively new. They date back only to 1975; a milestone year when the then European Economic Community (EEC) and China established bilateral diplomatic relations. Ever since, the relationship has grown significantly, expanding to a wide range of issues. However, despite this progress, there still exist points of contention upsetting their relationship from time to time and causing ups and down. The 16+1 Initiative is a case in point fueling fears of disunity and of a bilateralisation of the EU-China relations, where Beijing circumvents the Institutions in order to directly negotiate with the different EU capitals. Beijing's deepening relations in the region are perceived as threatening to revert progress made towards transparency, rule of law and democracy (Witthoeft; 2018).

Statements such as the one made by the Bulgarian Foreign Minister Zaharieva contending that the "cooperation between China and central and eastern Europe does not affect China's broader cooperation with the EU" (Euractiv; 2018) or coming from Chinese officials fail to allay concerns that the internal cohesion will be affected. In addition to the competition among member states for Beijing's attention, other considerations related to security rank high on the agenda, especially when taking into account the multiple and recurrent crises the EU is going through. In this context, the use of 'soft diplomacy' by China is understood as a geopolitical game intended to increase leverage in a region that is part of the EU and has either been part or closely linked to the Soviet Union (EP; 2016).

While it is unlikely that EU-China relations will considerably deteriorate in the near future due to the 16+1 framework, it is paramount that China ensures that the Institutions be consulted and on board when dealing with individual member states. Taking into account and respecting both the rules and the sensitivities is imperative for the fostering of a successful strategic partnership. The inclusion, for instance, of the European External Action Service has been a positive step towards increasing transparency. At the same time, China must make sure that expectations remain at a 'healthy' level.

That being said, the 16+1 Initiative can potentially boost economic growth and deepen EU-China cooperation. While remaining a Beijing-led initiative, inclusiveness needs to be fostered. Chinese investment in the region could prove very beneficial in the aftermath of Brexit and the subsequent fund' reduction while offering opportunities to Chinese businesses. In this context, it is clear that it is not in anyone's interest to have a divided region. To this end, building stronger cooperation on the basis mutual respect is key.

8. Conclusion

As with the One Belt One Road, assessing the 16+1 Initiative is a challenging endeavour to undertake. This is due to the nature of the Initiative which is still very much a work in progress, thereby rendering mere speculations any projections for the future thereof. To this contributes the heterogeneous nature of the 16 countries, which are characterised by diverging economic needs, political contexts and expectations from the Initiative.

In the meantime, narratives supporting both sides abound. On the one hand, there is a multitude of leaders and experts who fear that the Initiative is nothing but a Trojan horse risking to undermine EU norms, disadvantage western investors and propagate corrupt development practices. On the other hand, there are several countries which not only view the Initiative very favourably but also are willing to make considerable concessions to attract Chinese investments. Beijing is trying to downplay these fears by emphasising the 'win-win' character of the Initiative and the benefits it is bringing to the CEECs and the EU as a whole. There diverging narratives point to a clear disconnect between EU perceptions and Chinese rhetoric.

Rhetoric aside, the reality is to be found somewhere in between the two extremes of Sinophobes and Sinophiles. Contending that China is offering CEECs a trojan horse to trigger disunity or that the Initiative is going to promote EU integration are rather simplistic overstatements. While the 16+1 framework has the potential to benefit the EU as much as it benefits China, it remains a Chinese-led initiative. In light of reduced EU structural funds due to Brexit, China offers a promising financing alternative. In order to reap the benefits promised, expectations need to be managed and the lack of inclusiveness, namely the failure to invite foreign participants, must be dealt with.

To conclude, amid burgeoning concerns over the motivations of China and the implications thereof in CEE countries, there exists the potential to foster Sino-EU ties.

In light of the recent developments in the US and the implications thereof for the transatlantic relations, the EU and China can avail themselves of the opportunity to deepen their relations. By switching focus to their common interests and essaying to bridge the differences, the two global actors can uphold values and defend a rules-based trading order. Yet, achieving this requires that issues such as trade deficit are dealt with and security concerns of the EU are allayed. The prerequisite however for any positive steps is respect for each other's sovereignty.

The 16+1 Cooperation and China-EU Relations - Window of Opportunity for Sustainable Development?

Maximilian Jungmann¹

Abstract

The 16+1 Cooperation plays a pivotal role for the economic, cultural, educational, and academic cooperation, as well as for financial and infrastructure projects between China and the Central and Eastern European Countries (CEEC). In addition to large investments by China in the CEE region and projects to strengthen ties between China and the 16 CEEC, many authors argue that the cooperation has had a significant impact on the China-EU relations and on the relationship between the CEEC and the European Union (EU) (Harnisch 2017; Pepe 2017; Van der Putten 2016; Zheng 2017). China has repeatedly affirmed its willingness to implement the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) and the sheer scale of projects and investments as part of the 16+1 Cooperation suggests that a large potential for sustainable development exists. However, so far no relevant academic article has analyzed whether the already implemented, ongoing, or planned projects are economically, socially, and environmentally sustainable. Moreover, China's initiative to foster cooperation with the CEEC may have an impact on overall investments by China in the EU as well as the EU's investments in and policies towards the CEEC. Whether this hypothesis holds true and whether it has an impact on the policies of China, the EU, and the CEEC to develop sustainably, will be tested as part of this article.

While research on potential political, economic, and social effects of the 16+1 Cooperation and strengthened China-EU Relations through the Belt and Road Initiative has recently started to take off, the question of how sustainable the cooperation is and whether it holds the potential to contribute to the achievement of the SDGs is significantly under-researched. Therefore, this article sheds light on the sustainability of the China-CEE initiative by asking the following question: Do the 16+1 Cooperation and its interdependencies with the overall China-EU relations constitute a window of opportunity for sustainable development?

To answer this question, the paper utilizes Kingdon's Multiple Streams Approach (1984, 1995), which rests on Cohen et al.'s Garbage Can Model (1972), and further advancements

¹ PhD Candidate, University of Heidelberg

of this theoretical tradition by Liebermann (2002) and Zahariadis (2003) to understand how policy windows emerge or can be created and how this can be applied to the field of sustainable development. Accordingly, this paper will assess whether multiple streams come together in case of the 16+1 Cooperation and open a window of opportunity for achieving the SDGs. Consequently, the paper will analyze which role sustainable development has played in the 16+1 Cooperation, which effects this China-CEE initiative has on projects for sustainable development in the China-EU relations and the EU-CEEC relations, and how a potential window of opportunity could emerge. As a result, the paper will discuss how different projects under the 16+1 framework can have an impact on sustainable development and what the potential benefits for China, the CEEC, and the EU can be.

Keywords: *Sustainable Development, Sustainable Development Goals, SDGs, 2030 Agenda, 16+1 Cooperation, China-EU relations, China, EU, CEEC, Multiple Streams, Multiple Streams Approach, MSA*

Introduction

In November 2017, Chinese Premier Li Keqiang announced that China will provide more than 3 billion US dollars to fund development and investment projects in Central and Eastern European Countries (CEEC) (Szakacs/Dunai 2017). As one of the world's leading countries when it comes to investments in public transportation and renewable energy, China plays an outstanding role for the implementation of the 2030 Agenda for Sustainable Development (2030 Agenda) and the Sustainable Development Goals (SDGs) (Baraniuk 2017; UN DESA). The 16+1 Cooperation, especially with regards to its crucial role for the success of the Belt and Road Initiative, is of particular importance for the efforts of China and the European Union (EU) to foster sustainable development since it entails a great number of areas that could lead to a more sustainable world, such as infrastructure, finance, agriculture, and research and development (Hrubec 2017: 35).

To understand the opportunities and challenges to the 16+1 Cooperation and the overall China-EU relations, it is important to comprehend how sustainable the cooperation and the therewith connected projects are. But why is sustainability important and what exactly is sustainable development? The concept of sustainable development has its roots in the Bruntland Commission's report „Our Common Future“ from 1987, in which the commission states: „*Humanity has the ability to make development sustainable to ensure that it meets the*

needs of the present without compromising the ability of future generations to meet their own needs“ (World Commission on Environment and Development 1987: Art. 27). Accordingly, the concept of sustainable development rests on the idea that future generations shall have the same opportunities to develop as present generations. Following this, in 2012, the outcome document of the United Nations (UN) Conference on Sustainable Development (Rio+20), *The Future We Want*, specified three different dimensions of sustainable development: the economy, the society, and the environment (UN General Assembly 2012). The most recent international framework document on sustainable development, the 2030 Agenda, and the SDGs, which were adopted in 2015, specify in a very clear and precise way what the international community needs to do to achieve a more sustainable world by 2030 (UN General Assembly 2015). The 17 SDGs and their specific targets highlight essential elements of sustainable development, such as eliminating poverty (SDG 1) or combatting climate change (SDG 13) and focus on mainstreaming the three dimensions of sustainable development across all SDGs (UN Division for Sustainable Development). Consequently, in the understanding of the UN and the majority of influential scholars on sustainable development, the concept does not only focus on protecting the environment or combatting climate change but includes the entire development agenda and is equally important for the economy, the society, and the environment (UN General Assembly 2015).

China’s National Plan on Implementation of the 2030 Agenda for Sustainable Development, which is part of the Voluntary National Reviews of the 2030 Agenda, indicates that China takes sustainable development and its potential for the economy, society, and the environment very seriously (Ministry of Foreign Affairs China 2016). In the document, the Chinese government suggests to focus on the implementation of 9 key areas of sustainable development, which include among others *„Implementing innovation-driven development strategies and generating momentum for sustainable, healthy and stable economic growth*“ (Ministry of Foreign Affairs China 2016). At the same time, the European Union seeks to become one of the world’s leading regions on the implementation of the SDGs and many European states pursue a leadership role when it comes to sustainable development (European Commission 2018).

Despite the fact that academic literature on the 16+1 Cooperation and the Belt and Road Initiative, which provides the broader context for the 16+1 Cooperation, is quickly taking off and numerous aspects of the projects have been already analyzed, sustainable development has not been an essential component of the academic discourse in this field yet (Andžāns 2016; Kowalski 2016; Liu 2017; Szczudlik 2016; Vetrovcova 2017). To the author’s knowledge, no seminal work exists so far that analyses whether and how sustainable

development is incorporated into the 16+1 Cooperation. Accordingly, a large research gap exists, which will partially be filled by this paper. Additionally, this paper is highly relevant for the society and politics since it helps to understand which areas of sustainable development are addressed already, where further work needs to be done, and whether further potential for sustainable development as part of the 16+1 Cooperation exists and can lead to substantial benefits for the economy, the society, and the environment.

Applied to the 16+1 Cooperation and the China-EU relations, the recent developments in the international community as well as the initiatives and concrete projects of the 16+1 cooperation entail a high potential for sustainable development, yet it is unclear whether this potential will be used. Therefore, this paper seeks to answer the following research question: *Do the 16+1 Cooperation and its interdependencies with the overall China-EU relations constitute a window of opportunity for sustainable development?*

To understand how such windows of opportunity or policy windows occur and whether and how they can lead to a new momentum for sustainable development, the following chapter will discuss how the Multiple Streams Approach (MSA) can be applied to the topic at hand. It is followed by the research design and methodology and three chapters that apply MSA to the 16+1 Cooperation's potential for sustainable development, structured by the three fundamental streams of MSA: the problem stream, political stream, and policy stream. The focus of the empirical chapters will lie on the effects of the China-CEE initiative on projects for sustainable development with regards to the China-EU relations and the EU-CEEC relations.

Theoretical Background: Multiple Streams and Sustainable Development

Behind the research question of this paper stands a more general question, which Kingdon phrases in his influential book *Agendas, Alternatives, and Public Policies* (1984, 2014: 1) as: „*How does an Idea's Time Come?*“ Unlike other scholars, Kingdon does not focus on how decisions are made or how they are implemented, but rather how ideas for those decisions get on the agenda or become policy alternatives (ibid: 2). Zahariadis (2003: 10), who further developed Kingdon's model, argues that agenda-setting and decision making can actually be understood as two components of one overall process in which decision makers choose from a set of policy alternatives on what they want to focus on.

Considering the large amount of different competing ideas that decision makers are exposed to every day, they need to filter and decide what to pay their attention to. With regards to the numerous decisions that need to be made in the context of the 16+1

Cooperation, such as choosing the specific projects that should be funded or deciding on the overall strategy and communication, a great number of different alternatives exist, yet in the end only a few succeed and reach the agenda of the key decision makers. MSA, which rests on Kingdon's works on different policy streams, can help to understand whether the concept of sustainable development taken into account in the 16+1 Cooperation and consequently also on the agenda of the China-CEEC Relations and the China-EU relations.¹

MSA's major achievement was the identification of three streams (problem stream, political stream, and policy stream) that are normally separated from each other but can come together to open a policy window, which „*is an opportunity for advocates of proposals to push their pet solutions, or to push attention to their special problems*“ and lead to a decision on the topic (Kingdon 1984, 2014: 165). In political systems, different conditions and ideas compete for the attention of decision makers (Cairney/Jones 2016: 39). According to what Kingdon describes as the problem stream, focusing events, changes of indicators, or feedback can lead to different perceptions and increased attention for certain topics and become part of the political agenda (Herweg et al. 2015: 436; Kingdon 1984, 2014: 19). Such developments within the problem stream can for instance be natural disasters, terrorist attacks or developments within the political system (Kingdon 1984, 2014: 19). The political stream on the other hand, is characterized by key characteristics that shape the political system, such as current majorities in the government, the division of power within the political system, the national opinion or the general influence of interest groups on the political system (Kingdon 1984, 2014: 20). The policy stream constitutes an ongoing competition of different ideas and policy alternatives, which are developed by policy experts, such as bureaucrats, representatives of interest groups or scientists (Cairney/Jones 2016: 40). To put it in a nutshell, policy windows or windows of opportunity can open if certain developments in the political or problem stream lead to increased attention for the specific topic (problem stream) or political majorities change so the interests of the new majority become more influential (political stream). If designated ideas and solutions for the problems exist (policy stream) and are combined with the problem and political stream, it is more likely that there will be a decision on the subject (Lieberman 2002: 449).

Based on the theoretical reflections above and applied to the research question, the hypotheses, which will be tested in the following chapters read as follows:

¹ Kingdon's theoretical framework rests on and has further developed Cohen et al.'s Garbage Can Model (1972) (Kingdon 1984, 2014: 84).

A window of opportunity for the incorporation of sustainable development within the 16+1 Cooperation can open and decisions on the mainstreaming of the concept across the projects of the 16+1 Cooperation can be made, if:

H1: Political, economic, societal, or environmental events and developments raise awareness for the challenges and opportunities of sustainable development **AND**

H2: The majorities within the political system or influential interest groups change towards key actors that advocate for the incorporation of sustainable development in the context of the 16+1 Cooperation. **AND**

H3: Feasible and well-developed ideas and policy alternatives exist to incorporate sustainable development in the context of the 16+1 Cooperation.

Testing the Hypotheses: Process Tracing and Qualitative Content Analysis

To answer the research question, this paper follows the logic of process tracing and will look for clues in certain aspects of the research subject to find conclusions on the overall causal relations (Beach/Pedersen 2013: 163; Bennett 2008: 704; Blatter et al. 2007: 158; Collier 2010: 2).¹ The hypotheses will be tested by Hoop and Smoking Gun Tests since Doubly Decisive Tests are very rare in social sciences and Straw in the Wind Tests can neither confirm nor eliminate hypotheses, which is not expedient for this study (Bennett 2008: 706f.; Collier 2010: 3; Van Evera 1997: 31). Hoop Tests are based on the logic that the hypothesis needs to jump through an imaginary ring to be further considered as a potential explanation for the research question (Collier 2010: 5; Mahoney 2012: 571). As a consequence, it does not constitute a sufficient, but a necessary condition for the research subject. Hoop Tests can therefore help to eliminate hypotheses, but they are not capable of verifying them. Smoking Gun Tests on the other hand lead to sufficient, but not necessary conditions (Mahoney 2012: 572; Van Vera 1997: 32). The terminology is based on an analogy to methods Sherlock Holmes used and it claims that discovering a suspect with the smoking murder weapon in their hand, can lead to the conclusion that he or she can be guilty, but there may also be other reasons for him holding the weapon (ibid).

The data for the process tracing comes from a systematic and structured review of secondary literature on the topic, as well as official websites of the Chinese government, the European Union, think tanks, and research institutes. Moreover, a qualitative content analysis of all outcome documents of past meetings of the 16+1 Cooperation, such as The Budapest

¹ For an introduction into process tracing see Beach/Pedersen 2013; Bennett 2010; Bennett/Checkel 2015; Collier 2010; Collier 2011; Mahoney 2012.

Guidelines for Cooperation between China and Central and Eastern European Countries and the Riga Declaration has been conducted (Ministry of Foreign Affairs China 2017; Ministry of Foreign Affairs of Latvia 2016). Additionally, numerous speeches of key decision makers, such as President Xi Jinping's speech to the 9th National Congress of the Communist Party of China in 2017 and Premier Li Keqiang's speech at the Fifth Summit of China, Central and Eastern European Countries in Riga in 2016 have been analyzed (Li 2016; Xi 2017).

Problem Stream - The Need to Act

Following the first hypothesis, which shall be tested in this paper, the concept of sustainable development can gain the attention of key decision makers and be considered as a potential solution for the 16+1 Cooperation and the overall China-CEEC and China-EU Relations, if focusing events, such as environmental disasters or large societal challenges, are associated with the opportunity to make the initiative more sustainable and thereby solve and prevent many factors that might have caused these focusing events. To find hoop or smoking gun evidence for this hypothesis, policy problems that are associated with sustainability challenges, need to have gained significant attention in the countries of the 16+1 Cooperation in recent years and the nexus between the opportunities of the incorporation of sustainable development in the 16+1 Cooperation and these challenges needs to have been established by the countries. Among the strongest focusing events in recent years for China and the CEEC with regards to sustainable development were significant changes in the international community, especially through the newly elected US government, and severe health issues due to air pollution and other environmental issues.

Within a comparatively short time period, the new US government under Donald Trump reversed hitherto existing US policies and resigned from previous agreements. On the 1st of June 2017, President Trump announced that the USA will withdraw from the Paris Agreement to the United Nations Framework Convention on Climate Change (Shear 2017). With almost 15 percent of the global greenhouse gas emissions, the US is currently the second largest polluting country in the world and without strengthened mitigation efforts by the USA, it will be almost impossible for the international community to achieve the Paris Agreement (Friedrich et al. 2017). After the announcement of the USA to withdraw from the Paris Agreement, the European Union showed signs of its willingness to cooperate further with China on reducing global greenhouse gas emissions (Krukowska et al. 2017). China's Premier, Li Keqiang, announced after a meeting with the German Chancellor, Angela Merkel, following the US decision to withdraw from the Paris Agreement, that China will „*stand by its responsibilities on climate change*“ (Emmott/Bartunek 2017). As a matter of fact, China,

which is already one of the greatest investors in renewable energy, announced in January 2017, that it will invest 2.5 trillion yuan (\$361 billion) into renewable power generation by 2020 (Reuters 2017). As a consequence, the focusing event of the US withdrawal from the Paris Agreement and the overall denial of climate change by the Trump Administration have led to more potential for closer cooperation between China and the European Union in their efforts to combat climate change. This serves as hoop evidence for the potential of the 16+1 Cooperation and the China-EU relations to foster sustainable development, because with their initiatives to combat climate change and invest in renewable energy, China and the European Union largely contribute to the successful implementation of SDGs 7 and 13 and their ideas and strategies could potentially be integrated into the 16+1 Cooperation (UN Department for Economic and Social Affairs).

Another significant development in recent years was the occurrence of massive air pollution in many Chinese and European cities (Bloomberg News 2018; Greenstone 2018; Vidal 2013). According to the World Health Organization (WHO), 4.2 million people die every year due to air pollution, with 91 percent of the world's population living in places that exceed WHO guideline limits (World Health Organization 2018). Based on WHO data, the areas around Beijing, Shanghai and other major Chinese cities are massively affected by ambient air pollution (World Health Organization 2018). Numerous cities in Central and Eastern Europe and the Balkans, such as Skopje, Sarajevo, and Belgrade have equally high pollution levels (ibid). At the same time, the issue has gained great attention in China, with the Chinese government declaring „war against pollution“ in 2014 (Greenstone 2018). As a consequence, the air quality in many Chinese cities has become much better and especially the population of Beijing has benefited from much bluer skies and cleaner air in 2017 and 2018 (Bloomberg News 2018; Greenstone 2018). Yet the policies that have led to improved air quality have not always been entirely sustainable since instead of completely relying on renewable energy, there was a major shift from the use of coal energy to natural gas (Greenstone 2018). As a consequence, much more potential for sustainable development exists with regards to China's measures to reduce ambient air pollution. Central and Eastern European states have meanwhile fallen behind in their initiatives to improve air quality and have shown much less efforts in this regard than China (Bertrand 2017; Bytyci 2017).

Although severe health issues due to air pollution in China and Europe have led to increased awareness for the topic, the connection to sustainable development has not always been made. Nonetheless, the problem stream has opened in recent years towards more awareness for issues that are essential parts of the concept of sustainable development, such as climate change and air pollution, but also international migration, quality education,

reducing poverty and guaranteeing universal access to health care. For a policy window to open for the inclusion of strategies and projects on sustainability in the 16+1 Cooperation however, the political stream needs to open at the same time as the problem stream.

Political Stream - Changing Opinions and Majorities

For the political stream to open in favor of the inclusion of sustainable development within the 16+1 Cooperation, the Belt and Road Initiative and the overall EU-China relations, key factors that influence the majorities and dynamics within the respective countries and the cooperation, such as the public opinion in the states, the influence of interest groups, and majority and power relations within the political system, need to change towards a situation where more key actors are conscious of sustainable development and advocate for the inclusion of sustainable practices within the 16+1 Cooperation.

The concept of sustainable development has gained increased attention in politics and society, both in China and the European Union (European Commission 2018; Ministry of Foreign Affairs China 2016). The Chinese government has shown their dedication to key issues in the field of sustainable development, such as reducing air pollution, which is connected to SDGs 3, 9, 11, 13, and 15, by implementing a large-scale program on reducing the use of fossil fuels for heating and replacing coal ovens in local homes by air-conditioning systems that are powered by natural gas or renewable energy (Wyns/Wecker 2017). Moreover, China is the country with the fastest growing solar industry in the world and thus largely contributes to the implementation of SDGs 7, 9, 11, 12, 13, and 15 (Baraniuk 2017; UN DESA). The Chinese government's policies in this field as well as the overall public opinion on the importance of reducing greenhouse gas emissions, indicate the potential for sustainable development in China as well as the transfer of sustainable policies to the 16+1 Cooperation. Furthermore, the principles of innovation-driven and green development, which mirror SDGs 7, 9, 13, 14, and 15, as well as the principle of peaceful development, which reflects on SDG 16, are part of China's guiding thoughts on the implementation of the 2030 Agenda (Ministry of Foreign Affairs China 2016; UN DESA). Most importantly, sustainable development is an essential part of President Xi Jinping's influential speech to the 19th National Congress of the Communist Party of China October 18, 2017, which sets the general guidelines for Chinese politics in the next years (Xi 2017: 20). The concept of sustainable development is mentioned several times in the speech, for instance when it comes to strengthening the social security system or ensuring harmony between human and nature (Xi 2017: 20; 41). When it comes to the future development of the People's Republic of China,

Xi (2017: 31) stated: „*We must inspire creativity and vitality throughout society, and strive to achieve better quality, more efficient, fairer, and more sustainable development.*“

Based on the above presented evidence, the hoop test for hypothesis H2 passes since the general philosophy and guidelines of the majority of the key decision makers in China includes the concept of sustainable development. As a consequence, the political majority for the inclusion of the concept of sustainable development in the 16+1 Cooperation exists on the side of China. For the CEEC, however, it needs to be noted that, despite the European Union's overall policies on sustainable development, the concept has gained less awareness in the CEEC than in other European countries and investments in projects and technologies for sustainable development, such as renewable energy, or public infrastructure and transportation for sustainable cities, are significantly less developed than in other European countries or in China and it is currently not a priority of most of the governments in the region (Akanle 2012; European Union 2016).

Moreover, the qualitative content analysis of the official communiques of the Ministry of Foreign Affairs of the People's Republic of China showed no clear signs that the concept of sustainable development will be mainstreamed across the projects of the 16+1 Cooperation. Although the importance of sustainable development was mentioned in the Budapest Guidelines for Cooperation between China and Central and Eastern European Countries and briefly in Premier Li Keqiang's speech at the Fifth Summit of China, Central and Eastern European Countries in Riga in 2016, no clear evidence exists on which role sustainable development will play for the implementation of the projects of the 16+1 Cooperation and the overall impact of the cooperation on the China-CEEC relations and the China-Europe relations (Li 2016; Ministry of Foreign Affairs China 2017). Topics related to sustainable development, such as agriculture and environmental protection, have been on the agenda of events related to the 16+1 Cooperation, such as the China-CEEC Business Forum 2017 in Budapest and the importance of sustainable development for the Belt and Road Initiative has been mentioned several times, but the evidence does not suggest a clear link to sustainable development (China–Central and Eastern European Countries Cooperation 2017; Hrubec 2017: 35). Consequently, although numerous political actors and key decision makers, especially in China, are more aware of the challenges and opportunities of sustainable development, a policy window for the inclusion of sustainable development in the projects of the 16+1 Cooperation can only open if the majorities will change even further towards a sustainability aware group of decision makers, especially in the CEEC. The political stream is very close to open in China, but much more work needs to be done in the CEEC to foster sustainable development within the 16+1 Cooperation. Another key component for actual

decisions on incorporating sustainable development as a general guideline for the 16+1 Cooperation and mainstreaming the concept across the different projects, is the policy stream.

Policy Stream - Concrete and Feasible Solutions

With regards to the policy stream and hypothesis H3, well-developed, feasible, and concrete ideas on how sustainable development can be incorporated in the 16+1 Cooperation need to exist to increase the likelihood of policy makers deciding for such initiatives. The process tracing analysis has led to no clear evidence that a sufficient amount of feasible and well-developed solutions for the integration and mainstreaming of sustainability exists with regards to the 16+1 Cooperation and the overall China-EU relations. Although the SDGs and their specific targets provide an overall framework that could be applied to the 16+1 Cooperation and related projects, the goals and targets are not specific enough and lack concrete proposals on how they can be implemented (UN DESA).

In the area of cooperation on industry, energy, science and technology for instance, a large potential for sustainable development exists, because, according to The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries, numerous initiatives to foster dialogue and research on energy cooperation between the 16+1 member states shall be initiated (Ministry of Foreign Affairs China 2017). Such initiatives could be directly linked to specific SDGs, such as SDG 7 (Ensure access to affordable, reliable, sustainable and modern energy for all), but the analyzed documents do not contain any evidence that this is the case. Moreover, the Budapest Guidelines for Cooperation between China and Central and Eastern European Countries state that *„possibilities for cooperation in the creation of smart cities in China and CEECs“* will be considered (Ministry of Foreign Affairs China 2017). Whilst this goal could be connected to SDG 11 (Make cities and human settlements inclusive, safe, resilient and sustainable) and especially target 11.A (Support positive economic, social and environmental links between urban, per-urban and rural areas by strengthening national and regional development planning), no clear signs for the actual inclusion of sustainability in the projects of the 16+1 Cooperation exist in this regard (Ministry of Foreign Affairs China 2017; UN DESA).

It needs to be recognized however, that projects both within China and the CEEC to foster sustainable development, such as the large-scale production and installation of solar panels (SDGs 7 and 13) or infrastructure projects to make cities more sustainable (SDGs 7, 9, 11, and 13) exist (Baraniuk 2017; China Daily 2017; Perchel 2016). However, the existing policy ideas and concrete projects are currently not effectively transferred to the projects related to the 16+1 Cooperation. Consequently, the 16+1 Cooperation is currently not able to

use the great potential it has to foster sustainable development. A focus on sustainability by the 16+1 Cooperation could spark more sustainability initiatives within the CEEC, the overall European Union and China and it bears a large potential for the strengthening of economic, social, and political ties between China and the European Union. Yet to enable effective political decisions in this regard, clear, feasible, and well-developed ideas on the implementation and inclusion of sustainable development within the existing and planned projects need to emerge.

Potential Benefits for the China-EU Relationship

The successful incorporation of the concept of sustainable development in the overall strategies and specific projects of the 16+1 Cooperation would not only lead to large economic, social, and environmental benefits for the members of the cooperation themselves, but also to strengthened cooperation between China and the EU as well as potential policy diffusion and policy learning by other regions and organizations in the world. As Vetrovcova (2017: 74) argues, the 16+1 Cooperation and especially the Visegrad Group (V4) can be used as a testing ground for further cooperation between China and the EU. Accordingly, if the „zoom in strategy“, which Vetrovcova (2017: 73) proposes, is applied to the concept of sustainable development in the 16+1 Cooperation, it could be tested whether the concept of sustainable development can be mainstreamed across the existing projects of the cooperation and how new projects with a focus on sustainability could be developed and afterwards transferred to broader cooperation agreements and specific projects between China and the European Union. Moreover, if the incorporation of sustainable development into the 16+1 Cooperation is successful, the cooperation can serve as a role model for other regions in the world. Consequently, a focus on sustainable development could not only lead to direct material and social benefits for all involved parties but also to enhanced reputations of China and the CEEC worldwide.

Conclusion and Recommendations

The 16+1 Cooperation, especially within the overall framework of the Belt and Road Initiative, contains a large potential for sustainable development. The high amount of investments in trade, finance, infrastructure, research and development, and other areas of cooperation could lead to large benefits for the economy, society, and the environment in China and the CEEC. However, if this potential will be effectively used, depends, from the perspective of MSA, on the opening of a policy window for sustainable development. For

such a policy window to open, the problem, political, and policy streams need to come together and open at the same time.

The analysis of the three different streams with regards to the current situation in China and the CEEC, as well as the strategies and plans for the 16+1 Cooperation and the Belt and Road Initiative, in which the 16+1 Cooperation is embedded, suggests that the political stream and the policy stream are not strong enough for a policy window to open and significant decisions to mainstream sustainable practices and projects across the 16+1 Cooperation will be made. The analysis has also shown that the problem stream has opened in recent years through international and national focusing events, such as the US withdrawal from the Paris Agreement or severe incidences of air pollution and effective reactions to the issue by the Chinese government. However, the political and policy streams are not yet strong enough for a policy window to open. Most importantly, the cooperation is lacking concrete solutions to implement sustainable development in its specific projects as well as in its general strategies and guidelines.

Cooperation in the field of sustainable development bears high potential for strengthened relations between China and the EU. However, for them to effectively use this potential, key decision makers in China, the CEEC, and the overall EU need to gain even more awareness for the benefits of the concept of sustainable development for their countries as well as a clear solutions on how to implement sustainable development with the 16+1 Cooperation. The public opinion and political majorities in China have started to gain momentum for a shift towards more sustainable development, but, especially in the CEEC, much more needs to be done. With regards to the policy stream, although the SDGs set clear guidelines and their targets and indicators are useful tools to monitor progress, the overall concept is often still too abstract to be implemented effectively across different projects, such as the 16+1 Cooperation. As a consequence, concrete solutions tailored to the needs of the 16+1 Cooperation and the Belt and Road Initiative need to be developed and implemented. This would benefit not only China and the CEEC but the entire world.

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**16+1 in China-EU Relations:
A vehicle for a sustainable connectivity platform**

Andreea Ioana Budeanu¹

Abstract

Since the creation of the partnership between the Popular Republic of China (PRC) and 16 Central and Eastern European (CEE) countries, also called the 16+1 format, in 2012, the Chinese presence in the region is intensifying in a worrying way for Brussels. Although this platform is created on the basis of bilateral investment agreements, the first years of cooperation show that the political achievements overpass the economic progress. As a result, the 16+1 is the subject of multiple studies aimed at identifying threats and risks for the EU. In this context, this paper points out potential opportunities that EU and CEE can draw from China's rising interest in the EU's Eastern periphery.

The core of this research project is to analyze Chinese policy in the CEE region since the 2004 EU's enlargement and to study the impact of this strategy on the EU-China relations, in order to identify the opportunities the 16+1 platform brings for Europe. There is very little study on the Chinese perception of this part of Europe. Thus, my research contributes to fill this gap by proposing an analysis of the Chinese perception of the CEE region, different from the perception of Brussels. It also contributes by offering a unique study of the 16+1's contribution to the sustainable implementation of the EU-China connectivity platform – a platform meant to be the framework for China's Belt and Road Initiative in Europe.

Documents research and field studies were carried out in China, France and Romania. Research was conducted in Mandarin Chinese, English, French and Romanian.

Keywords: *China-EU Relations, 16+1, Central and Eastern Europe, One Belt One Road, Connectivity platform*

1. Methodology

This study draws on various publications and data from European, American and Chinese think tanks and governmental organizations such as the EU, the World Bank,

¹ INALCO – PhD Candidate, National Institute of Oriental Languages and Civilizations

the National Bureau of Statistics of China, and research institutes and statistics of the countries of the studied region. The sources used come from documents written in French, English, Romanian and Mandarin Chinese.

In addition to the literature research and interviews with government officials and scholars from France, this analysis involves field studies in China, France and Central and Eastern European countries. In China, interviews were conducted with centers of European and international studies independent or affiliated to Chinese universities; EU Delegation and different Central and Eastern European countries' Embassies in Beijing. In Romania, interviews were conducted with researchers affiliated to universities or think tanks and specialized in relations with China. All field research was conducted in the form of semi-structured interviews in Chinese, English, French or Romanian.

Following this study's research results, it appears 16+1 not only brings unexpected positive results and cooperation opportunities, but it also greatly contributes in forging the basis for a sustainable connectivity platform.

2. Introduction

The cooperation between China and sixteen Central and Eastern European countries¹ (also named “China-CEE” or “16+1 platform”) was inaugurated in Warsaw in 2012. Therefore, since 2012 China is continuously increasing its presence in the CEEs in a framework of economic cooperation organized around the three main sectors: trade, investment and human exchanges. Apart from these three cooperation sectors, China declares itself reluctant for any cooperation in the political or military fields.

Whereas post-Maoist China's first economic ties with the CEEs date back to 1999, as part of Beijing's diplomatic strategy “Go out policy” *zǒu chūqù zhànlüè* 走出去战略, China-CEE relations made very little progress in the first decade of the 2000s. The 16+1 cooperation is created within the framework of the new “multilateral diplomacy” of the President Xi Jinping, as a manifestation of China's big power strategy *dàguó wàijiāo* 大国外交, promoting win-win relations *shuāngyíng* 双赢 and inter-nation friendship *huǒbàn guānxì* 伙伴关系. Often referred as being one section

¹ Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Albania and Macedonia

of the broad One Belt One Road Initiative (OBOR), the 16+1 is the typical product of multilateral diplomacy, inseparable from China-EU relations.

Even though initially designed as a platform to organize and welcome bilateral investment, trade and people to people exchange cooperation, the platform's first five years results clearly show that the political and cultural cooperation achievements largely overpass the economic ones. And namely this political implications and the increased diplomatic relations between China and the CEE countries set the basis of Brussels' worries. On the top of it, there is China's original way to look at the European continent, offering a totally new approach different from the one proposed and promoted by Brussels. When setting its strategic partnerships in Europe, China doesn't necessarily follow the EU borders, nor the Eurozone ones. For instance, the 16+1 includes both EU and non EU member states, and from both inside and outside the Eurozone. However, the non-EU countries are, according to the EU statutes, either official candidate countries (Serbia, Montenegro, Albania and Macedonia) or potential candidate countries (Bosnia and Herzegovina)¹. Moreover, the 16+1 format betrays the borders of the former Eastern bloc, "including" the countries of the former Yugoslavia (not aligned after 1948) and "excluding" former Soviet countries such as Moldova, Ukraine or Belarus. Two common concurrent features appear to link the sixteen CEE countries: a socialist past and a current pro-European orientation. This highlights China's intention to retrieve and explore historical ties in the framework of its relations with the EU.

Whereas Beijing conceives the 16+1 as an integrated part of the China-EU relations, Brussels shows itself reluctant about China's motivation in institutionalizing a cooperation with sixteen former socialist countries at the EU's Eastern borders. However, EU welcomes Chinese investments and closely supervises the respect of the EU regulatory system both in the eleven member states and the five candidate countries.² Therefore, it appears that while the 16+1 topic cannot be tackled without referring to the EU, the China-EU relations cannot be assessed without referring to the 16+1.

1 See: European Commission's Official Website Country Profile list [online] <
https://europa.eu/european-union/about-eu/countries_en>

2 See for example: GODEMENT François, VASSELIER Abigaël, "China at the Gates. A new power-audit of EU-China Relations", European Center of Foreign Relations ECFR, December 2017, London, [PDF online] <
http://www.ecfr.eu/publications/summary/china_eu_power_audit7242>

The current ongoing literature is mostly focusing on identifying the potential threats that the 16+1 represents for the EU. While these commonly evoked analysis results are an integrated part of the rationale of this study, this paper focuses on opportunities and not on dangers. Moreover, this study tackles only opportunities related to China-EU cooperation; it doesn't assesses specific national and local cooperation opportunities that could rise apart from the China-EU relations framework. In addition, this analysis operates with data referring to three main actors (China, EU and the CEE states) and it doesn't assesses data concerning other major actors (e.g. Russia, United States) or observer countries (e.g. Greece, Belarus, Moldova, Austria, and Switzerland).

After a particular attention to the origins and challenges of China-CEE cooperation (I), this study analyses some features of the CEE-EU debate with regard to the 16+1 platform (II). It results a list of opportunities (III) to be considered by both the EU the CEE. Then the listed opportunities are assessed with regard to the major China-EU cooperation axis: the connectivity platform designed to be the framework for the Belt and Road Initiative in Europe (IV). It appears 16+1 not only brings unexpected positive outcomes and cooperation opportunities, but it also greatly contributes in forging the basis for a sustainable connectivity platform.

3. China-CEE (16+1 cooperation)

The 16+1 cooperation started in 2012, a few decades after the establishment of China-EU diplomatic relations in 1975. Most of the CEE countries joined the EU in 2004, during the EU's biggest enlargement wave, followed by the 2007 wave (Romania and Bulgaria) and Croatia's accession in 2013. The other five Western Balkans countries are currently registered as EU candidate states. Due to its pro-EU orientation, next to its socialist past and within the context of the 2008 financial crisis, the CEE region appears to Beijing as a fertile ground for China's economic and diplomatic ambitions in Europe. However, while most of the CEE countries had very little contacts with post-Maoist China before 2012, some of them developed strong ties with China on the basis of historical or economic rationales. It is, for instance, the case of Serbia¹, whose relations with Beijing have greatly deepened especially since the late 1990s, after the episode of the bombing of the Chinese Embassy in Belgrade.

¹ See, for example, PAVLIĆEVIĆ Dragan, " 'China Threat' and 'China Opportunity': Politics of Dreams and Fears in China-Central and Eastern European Relations", *Journal of Contemporary China*, DOI: 10.1080/10670564.2018.1458057, May 2018, [PDF online] <
<https://doi.org/10.1080/10670564.2018.1458057>>

Another case is represented by Hungary who started to develop its economic ties with China, next to Russia and India, within the launch of its “Eastern opening policy”¹ in 2011, aiming to reduce its heavy economic dependence of the Western Europe. Encouraged by the rapid growth of China, little before 2012 other CEE countries have already begun to develop or revive their trade relations with China, favored by their membership of the EU’s single market. In this context, the institutionalization of the 16+1 format was welcomed with the greatest hopes in the CEE region. From the very beginning the 16+1 was perceived as the unique opportunity to do business with China, “this economic giant with whom, otherwise, we have very few opportunities to discuss”².

Five years later, the enthusiasm of the sixteen countries appears to be one of the very few common attitudes within the 16+1 cooperation platform. Diverse from the very beginning in their relations with China, the sixteen CEE countries have deepened their differences and developed numerous particularities in their relations with China during the years following the launch of the 16+1 platform. Now, on the basis of the CEE’s region diverse history, economy and culture, the 16+1 format’s structure and functioning are designed to encourage the CEE states to express and cultivate their strengths.

Under the label of a sub-regional cooperation, the 16+1 mainly operates on the basis of the bilateral cooperation China undertakes with each of the sixteen countries. This makes the 16+1 platform look like a sum of bilateral cooperation, what some would name as “16x(1+1)”³. In order to still guarantee a link between the bilateral basis and the regional label, each of the 16 CEE countries has took the management of one or more cooperation sectors (Hungary-tourism; Romania - energy; Macedonia - cultural cooperation; Serbia -transport infrastructure, Bulgaria – agriculture etc.)⁴. Next to the bilateral relations, 16+1 cooperation is organized around several

¹ MOLDICZ Csaba (Istvan), NOVAK Tamas, “China’s Effort to Boost Globalization in a Hungarian Perspective: How Hungary Perceives the Belt and Road Initiative and the 16+1 Cooperatio”, *China-CEE Institute Working Paper*, 2017, No.15, [PDF online] <https://china-cee.eu/working_papers/chinas-effort-to-boost-globalization-in-a-hungarian-perspective-how-hungary-perceives-the-belt-and-road-initiative-and-the-161-cooperation/>

² Interviews within CEE Embassies in Beijing, April 2018

³ Interviews within CEE Embassies in Beijing, April 2018

⁴ LIU Zuokui, “China-CEEC Cooperation: China’s Building of a New Type of International Relations”, *Croatian International Relations Review*, 23(78), 2017, pp. 19-34, [PDF online] <<https://www.degruyter.com/downloadpdf/j/cirr.2017.23.issue-78/cirr-2017-0005/cirr-2017-0005.pdf>>

sub-regional cooperations between China and the different subgroups of the 16 CEE states (e.g. cooperation with the Višegrad countries, with the Baltic countries, etc.). In addition, the local cooperation makes the unique feature of the 16+1 format, designed to address the asymmetry of market sizes between China and the CEE states. But, despite the numerous local level meetings between China-CEE countries (e.g. Local Leaders' Meeting, Forum of Capitals' Mayors; Association of Governors of Provinces and Regions¹) and local cooperation results (about 160 pairs of sister-cities², development of direct flights, China-Europe Express between cities in China and the CEE), the local cooperation doesn't make headlines in Brussels.

Seen from Brussels, 16+1 cooperation is particularly noticeable by the abundance of high-level meetings and the bilateral agreements³. Summits at Prime Ministers' level (one per year, rotating in different member countries); meetings of the Ambassadors of the sixteen CEE countries in Beijing (four per year in Beijing); National Coordinators' meetings (two per year, one in Beijing, the other one in the country designed to host the annual summit) are the main high-level events driving the 16 +1 platform. In addition to these, thematic meetings or academics are organized at different frequencies in different CEE countries or in China, within think tanks or thematic cooperation forums. This abundance of meetings, seen as the manifestation of an increasing political cooperation stands in contrast with the little genuine sub-regional business cooperation results. While some countries keep maintaining bright hopes with regards to the 16+1 potential results as a sub-regional cooperation (Hungary, Bulgaria, Romania etc.)⁴, other show little hope choosing to stay focused on bilateral relations and use the 16+1 as a platform of discussion with China (Slovenia, Czech Republic etc.)⁵. Therefore, the delays in achieving the business results that have been announced at its launch, next to the rise of political achievements fuel one of the main challenges for the 16+1 platform, namely a possible shift in the CEE countries' common interest and enthusiasm in the platform.

¹ HUANG Ping, LIU Zuokui, "The Cooperation between China and Central & Eastern European Countries (16+1) 2012-2017", *CASS Report on China-CEEC Cooperation* · 02, Social Sciences Academic Press (China), 2017

² Idem

³ See: GODEMENT François, VASSELIER Abigaël, *op.cit.*

⁴ Interviews 2016-2018

⁵ Idem

4. CEE-EU debate on the 16+1 platform

The first years of cooperation show that, indeed, the political achievements overpass the economic progress. As a result, the 16+1 became the topic of multiple studies aimed at identifying threats and risks for Europe. These diverse attitudes towards China's 16+1 initiative create tensions among EU members and fuel a climate of mistrust over the Sino-European relations.

The pro-EU orientation of the sixteen CEE countries is a vital factor that Beijing is cultivating for its projects in the region. However, Brussels is worried about the Chinese presence in this region. EU's specific concerns mainly refer to the respect of its regulatory system and treaties. These concerns specifically refer to transparency, public procurement and sustainability norms designed to guarantee concurrency and open market. In the case of the Western Balkans, concerns are expressed with regards these countries' capacity to meet the Maastricht convergence criteria such as the public debt rate limits. Moreover, in the current tense context of the Sino-European relation (trade deficit, debate on the status of a market economy, human rights dialogue, intellectual property rights, South China Sea international disputes, etc.), Brussels is worried about the evolution of the political position and about the possible political shifts that the eleven EU member states could manifest within the EU decision making forums.

EU's concerns point out not only to China but also to the CEE States. In this context, a relatively tense relationship and an unprecedented tight control dialogue take place between EU and the CEE countries. With regard to Brussels' remarks, the CEE states manifest as keen to reiterate their commitment to the EU values and the European project. A series of mechanisms have been implemented in order to guarantee transparency and to include Brussels in their negotiations with China. The 16+1 platform's observer system¹ is a good example. The EU and the European Bank of Reconstruction and Development (EBRD) both attend the 16+1 annual summits as observers. In addition, the EU is regularly consulted by different CEE states during negotiations with China in bilateral relations. Nevertheless, beyond efforts to respond to criticism and to reiterate their commitment to the European project, the CEE states encounter a wave of mistrust coming up from Brussels. They now see the EU doubting about their credibility and ability to meet their commitments. Moreover, facing increased EU controls over their relationship with China, some CEE countries note a lack of reciprocity in data sharing. While the CEE states give Brussels access to

¹ HUANG Ping, LIU Zuokui, *op.cit.*

all sort of information related to their contacts with China, the information on EU strong member states' relations with China remain difficult to be accessed by the CEEs.¹

On the background of the general mistrust and negative critics of the 16+1 platform, the above mentioned points could rapidly shape an uncertain and unstable climate over the CEE's relations with Brussels. In order to avoid such unhealthy situation that could harm both sides' interests, more focus should be granted to the 16+1 format's contributions and opportunities.

5. 16+1 Opportunities - for both the EU and the CEE states

The most advertised 16+1 contribution, highlighted on both Chinese and CEE states side points out to China's strong support to economic development in the CEE region. And these results are supposed to be achieved by strengthening economic ties and investments in transport infrastructure. These will definitively bring a great contribution for both the CEE states and the EU. However, faced with the slow progress of investment projects, opinions about Chinese projects' reliability are very diverse. The overall idea is still an optimist one, saying that results will not be long in coming and that delays are mainly due to unrealistic timeline objectives².

Meanwhile, non-business related positive results and new opportunities for both CEE states and the EU show up when assessing the 16+1 cooperation platform. At first, the 16+1 platform brings new knowledge in and with regard to the region. The Chinese presence is considered to boost the european integration of Central and Eastern Europe and this could benefit to both CEE countries and the EU. Despite criticism, the Chinese presence in Central and Eastern Europe favors a certain centrifugal dynamic in the region. Within the format, the CEE states meet regularly around annual summits and many other meetings organized at different frequencies during the year. As a result, CEE states end up by meeting way more often than if they were not part of this cooperation with China. Despite the divergence and the competition rising up among the 16+1 CEE members, the Chinese presence spur the sixteen countries enrich their reflection on their EU membership and to reconsider their geopolitical position in the international affairs. A concrete example is the recently launched study managed by the Center for Dialogue and Cooperation on Energy Projects 16+1 based in Bucharest. Aiming to identify different energy

¹ Interviews 2016-2018

² PAVLIĆEVIĆ Dragan, *op. cit.*

opportunities in the region, the study is very well received and enjoys the full participation of the 16 CEE countries.

At second, 16+1 gives the CEE states the opportunity to play a new role in the European affairs. CEE states have now the opportunity to assert themselves as bargaining power between China and the EU and this position could benefit to both EU and CEE states. The rotating Presidency for the Council of the EU is one of the frameworks providing favorable conditions for asserting such opportunity. This mainly depends on the country's profile within the EU. While it seems difficult to realize to small EU states (such as Bulgaria, Slovenia, Czech Republic), it is more easily approachable by CEE large states. For instance while Romania sees the forthcoming Presidency (planned for January-June 2019) as a unique opportunity to assert itself as a bargaining vector with China within the EU decision-making forums, Bulgaria didn't express a strong interest in exploring the EU Presidency role in its relations with China.¹

At third, 16+1 enables both CEE states and the EU to pursue internal reforms in order to better address new challenges and adapt the international changing order. Due to the obvious asymmetries between the two sides, most of the CEE states face new challenges when dealing with the Chinese partner. This represents a new exercise for the CEE states, facing tight economic and diplomatic ties with the world's second power. For some CEE states, the obstacles and delays they face within the bilateral relationship with China point out internal slow-burning problems. Driven by the huge stakes of the bilateral cooperation, CEE states call up the necessary resources to solve these problems and thus make the most of the opportunity to do business with China. In this sense, Romania makes a good example. In order to consolidate a common voice in dealing with China, at the beginning of this year Romania retrieved up its Inter-ministry Committee for relations with China. The main purpose of this committee is to coordinate the various ministries involved in the different bilateral projects, and thus provide an internal platform enabling Romania's Ministries to effectively interact with each other before interacting with China.

Following the same rationale, the 16+1's existence itself can be interpreted as the manifestation of a problem that the EU has with its new members. If only looking at the current amount of critical literature coming along with warnings on potential threats the 16+1 represents for the EU's unity, 16+1 turns out to be a clear expression

¹ Interviews 2016-2018

of EU's urgent need to reform and reinforce in order to better address the international changing order.

6. Towards a Sustainable Connectivity Platform

The EU-China connectivity platform should create synergies between EU policies and projects and China's "One Belt One Road" initiative, as well as between respective sources of funding, in the field of transport and other kind of infrastructure.¹

According to the international relations' realist paradigm² each country pursues its own interest (economic, political and/or strategic). The EU and China both agree that each one's economic growth can in no way exclude cooperation with the other one. Therefore, the lack of alternative solution set a favorable context where the two actors will relatively easily agree to join the connectivity platform. But when looking at China's rapid growth and its geopolitical ambitions, alternative solutions are very likely to rapidly stand out. Then questions arise on the sustainability of the connectivity platform for EU's relations with China. This study asserts that, if not built on the basis of mutual understanding and openness, the connectivity platform is designed to fade out.

After a careful analysis of the 16+1 format in the context of the China-EU relations and considering both China and EU's external action's ambitions, three main features appear to be essential for a lasting connectivity platform. The 16+1 cooperation not only highlights these three main necessary features, it also greatly contributes to the implementation of a sustainable connectivity platform.

At first, connectivity goes beyond sharing rules and adhering to a common regulatory system. If based only on sharing and adhering to common rules (coming from different partners), these practices then lack a solid base and so will slowly move away from the initial deal. In this sense, there is no sustainability. If there is no through understanding about the origins, the use and the interest of the shared norms, the partners will sooner or later stop obeying these rules. And here is where the 16+1 could bring its contribution, namely by the valuable mutual knowledge and

¹ "Elements for a new EU strategy on China", European Commission Joint Communication to the European Parliament and the Council, Brussels, 2016, p. 9, [PDF online], <
http://eeas.europa.eu/archives/docs/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf>

² See, for example, WALTZ Kenneth, *The Theory of International Politics*, University of California, Berkley, 1979

understanding it accelerates in the CEE region. Therefore, despite critics for not having reached its economic goals, the 16+1 has numerous non-business results that can design new cooperation opportunities and set the basis for a sustainable connectivity platform.

At second, connectivity points out internal affairs problems. Connectivity demands readiness to discover and face internal slow-burning problems. When connecting and interacting with new players, entities are very likely to discover internal slow-burning problem that didn't make headlines before. 16+1 is the manifestation of a problem EU has with its new member states. And in this sense, risks and critics associated to the 16+1 platform tell us less about Chinese threats than about EU's weaknesses. And if a threat, then a sustainable solution might be reinforcing its unity than reducing the threat. In this guise, 16+1 could be regarded as a blessing for the EU, throwing light on slow-burning issues that did not make headlines before. It can represent an opportunity for the EU to acknowledge and address internal issues, in line with the changing international order. The same happens for the 16 CEE states, where 16+1 encourages some of them to undertake internal reforms.

At third, connectivity implies openness towards the partners' business and diplomacy traditions. In this sense the 16+1 and OBOR are a good exercise for both CEE and EU. If assessed using western lens, the two projects could be regarded as unlikely to succeed, lacking concrete design, without a blueprint, transparent and fixed budget and no concrete steps to follow. Moreover, the two initiatives are defined and act as open, compatible and complementary to any local or regional project, what make them too flexible and not coherent enough comparing with the Western European countries' diplomacy traditions. And namely this contrast fuel a series of misunderstanding, bidding the EU to identify and foresee all the additional unplanned results and opportunities. Now from Chinese point of view and considering the Chinese past 40 years of reforming and opening up experience, despite the critics and unsatisfying economic results, the two initiatives appear as still promising. Despite the obstacles and slowness in reaching the initial economic goals of OBOR and 16+1, Chinese side identifies, reports and highlights the up to here side results such as cultural cooperation, knowledge and know-how sharing. In order to enhance and stimulate more projects and ideas, China promotes the OBOR and the 16+1 openness, inclusiveness, complementarity and compatibility. But when dealing with the EU

regulatory system, the two initiatives face the challenge of containing their flexibility and obeying to the EU rules.

In this context, 16+1 appears as a showcase of different business and diplomacy traditions clash. In this sense, and considering both China and CEE countries' commitment for and need of a strong EU, 16+1 in China-EU relations is definitely more a treasure to be explored than a threat to be contained.

6. Conclusion

After a reading of the origins, structure and challenges of the China-CEE cooperation (I), this study assess the main features of the ongoing CEE-EU debate with regards to the 16+1 cooperation platform (II). Therefore, a list of opportunities and positive effects (III) followed this analysis, with regard to the 16+1's contribution and impact on both EU and CEE states. Next to the high potential of economic development through increased trade and investment in the regions, the listed opportunities first refer to a better European integration of the CEE region, by the increased mutual understanding. Second, the 16+1 enables the CEE to play a new role in the European affairs. Third, 16+1 enables both EU and CEE to pursue internal reforms and therefore to adapt to a new changing world.

Then the study assesses the contribution of the listed positive effects to the sustainable implementation of one of the major China-EU cooperation axis - the connectivity platform (IV). After a careful analysis of the 16+1 cooperation in the context of the China-EU relations, three main features appear to be essential for a lasting connectivity platform. First, connectivity goes beyond sharing rules and adhering to a common regulatory system; second, it points out internal affairs problems; third, it implies to stay open to the partner's business and diplomacy traditions. The 16+1 cooperation not only highlights these three main necessary features, it also greatly contributes to the sustainable implementation of the connectivity platform for EU's relations with China. In this sense, and considering both China and CEE countries' commitment for and need of a strong EU, 16+1 in China-EU relations is definitely more a treasure to be explored than a threat to be contained.

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Interviews (2016-2018):

Interviews with scholars in China (Beijing), Central and Eastern European states (Romania, Serbia) and France (Paris)

Interview within European Embassies in Beijing (Embassies of France, Romania, Bulgaria, Hungary, Slovenia, Czech Republic)

Interviews within the EU Delegation to China

Interviews within the European Economic and Trade Office in Taipei

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

Jing Deng
Xiaojing Liu¹

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

¹ Deng Jing, Chongqing CEE Research Center, China; Liu Xiaojing, Chongqing Academy of Social Sciences, China

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).

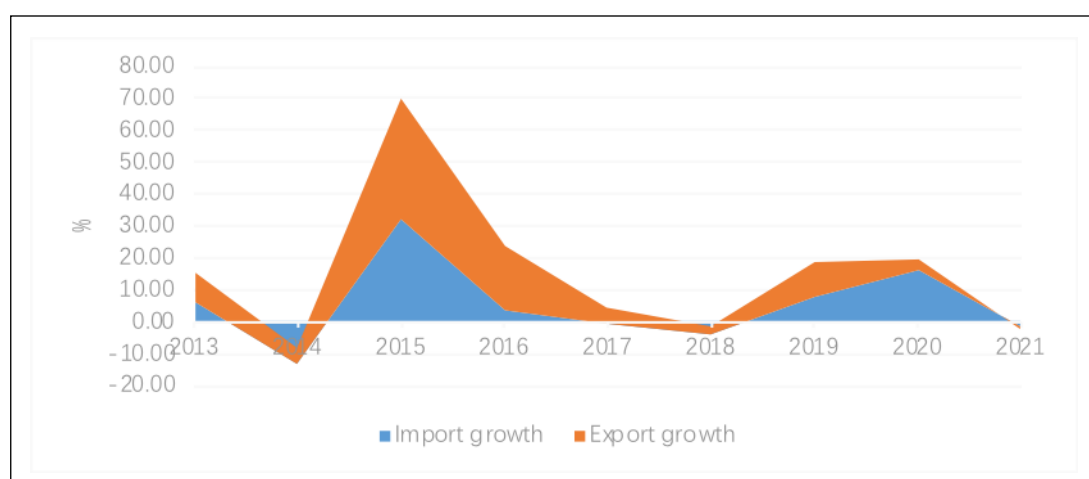


Figure 1: Growth of EU’s imports from and exports to China

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).

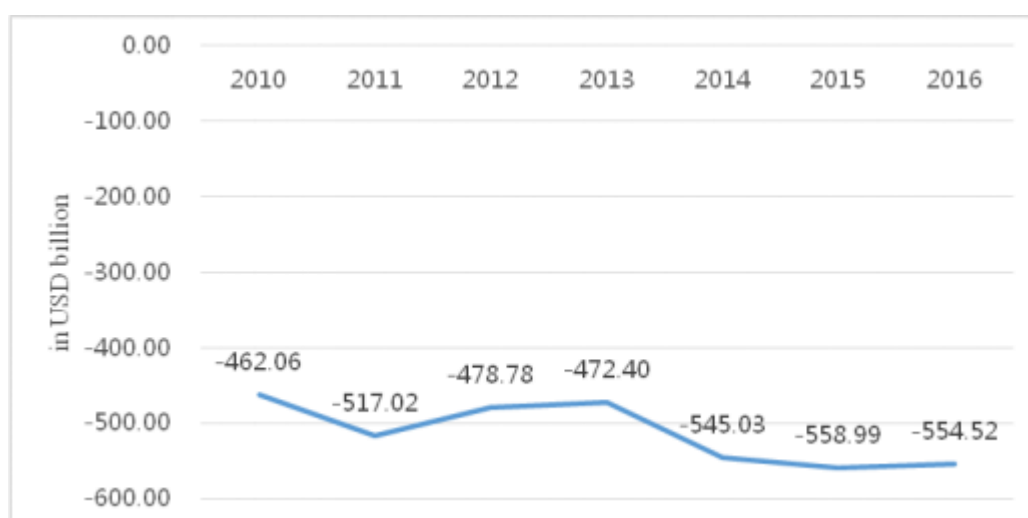


Figure 3: CEE's Trade Deficit with China

Source: United Nations Comtrade Database

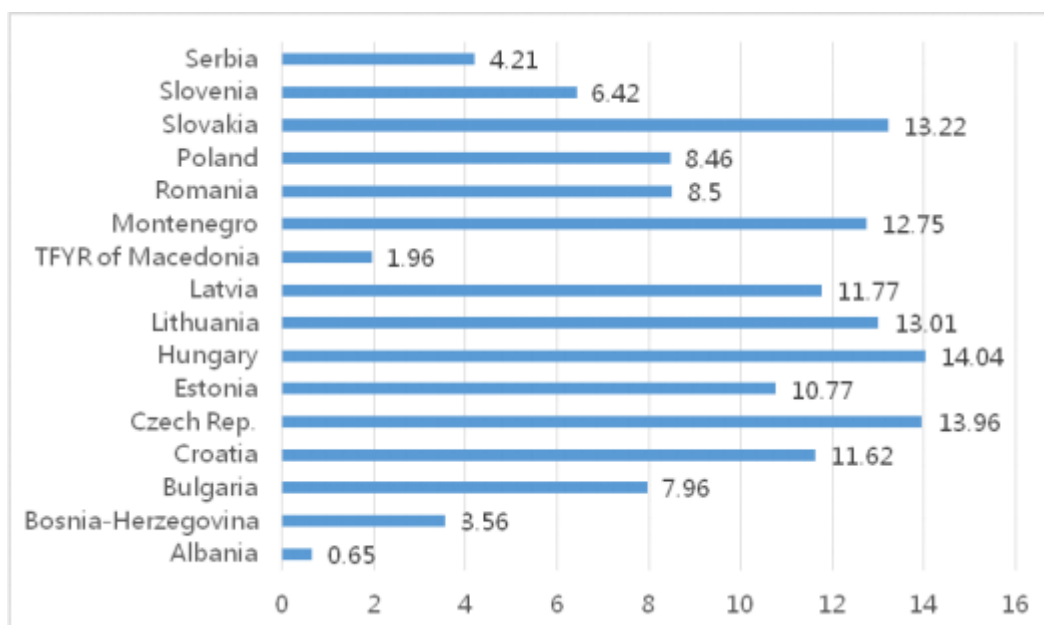


Figure 4: Share of Hi-tech Goods in Exports to China by Country in the CEE Region (%)

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).

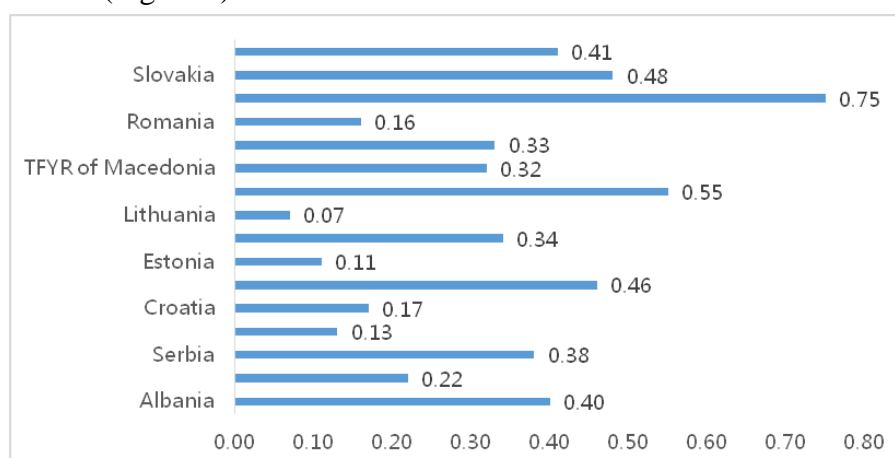


Figure 5: Share of Private Transport Infrastructure Investment in GDP by Country in the CEE Region (%)

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).

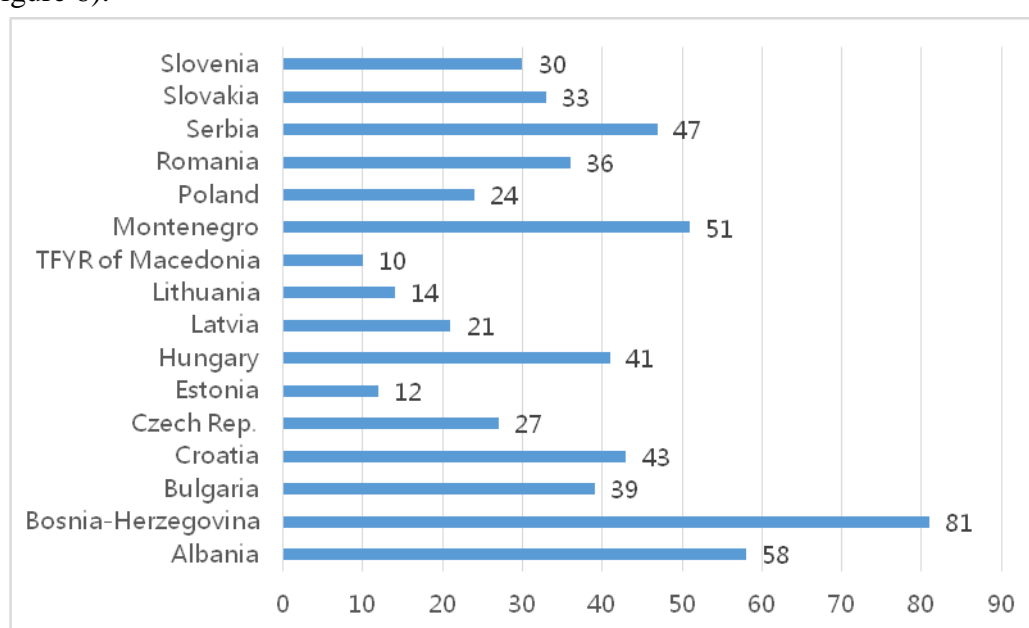


Figure 6: Doing Business Index by Country in the CEE Region

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 counties. 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 counties 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.

Economic “highway” with three speed tracks and destinations between China and CEE

Yue Lin¹

Abstract

The launch of the “16+1” Cooperation Framework in 2012 enhanced economic relations between China and CEE countries, which already had craved for China’s financial support to recover from the recession during 2008-2009 crisis. After six years of a high political and economic engagement, to what extent China has materialized its influence in the region? This paper compiles data from various sources and tries to update our understanding of China’s current presence and potential impacts in the CEE region through three economic interconnection channels as pronounced in the “One Road, One Belt” initiative, namely trade, investment, and infrastructure. Through the horizontal comparison with EU’s more advanced 15 members’ engagement in the region, China’s envisioned economic “highway” is currently composed of three parallel tracks, where EU-CEE tradition and China’s innovative approach interact in different ways. The influence of preexistent EU-CEE economic pattern varies among three economic pillars, with the trade being the least touched, the finance of infrastructure projects being the most conflicting and the ODI pattern being the best example of mutual impacts. From the perspective of interest stocks of China in CEE, China’s economic exchange with the most important economies in the region falls into EU framework, which suggests that the state’s potential and its economic structure are the basic reason of the strength of bilateral economic relation. However, from the perspective of interest flows, China’s importance has been significantly increased in smaller states, which, on the one hand, will generate more tangible impetus to economic growth in periphery CEE countries, thus leveling regional discrepancy; on the other hand, will challenge once EU dominated institutional arrangement. Under this context, CEE has turned out to be the strategic region where China and EU would compete and cooperate with each other according to the efficiency of their relative economic diplomacy to define the most beneficial policies that are tailored better to the interests of CEE countries.

¹ Profesor Contratado Doctor, Universidad Autónoma de Madrid

Keyword: *China, CEE, Trade, ODI, Development finance*

Introduction

During the sixth summit of heads of government of Central and Eastern European (CEE) Countries and China held in Budapest in November 2017, three final CEE countries (Estonia, Lithuania and Slovenia) have signed memorandums of understanding to promote the Belt and Road Initiative (OBOR), signaling that all 16 CEE countries have agreed to align with the initiative. However, the relationship between CEE countries and China is not always so close. Despite the common communist past, the relationship between two parties was at best lukewarm for a long time, especially during the 1990s when most of CEE countries focused their foreign policy to enhance the relationship with the European core economies. It was not after 2004 when many of them became members of the European Union (EU) that China became interested in strengthening economic (as well as political) ties with the region. China-CEE relations warmed up quickly since the 2008 economic and financial crisis, which might induce a policy adjustment among CEE countries to look eastward for alternative export market and financial resources. From Chinese side, Xi Jinping's tour as Vice-President in 2009 to Europe¹ signaled a tangible shift in the Chinese leadership's attitude toward CEE, making clear Chinese desire to accelerate its diversification strategy through the emerging countries in the region. Xi's visit lit the high expectations of CEE countries for the economic benefits that China might bring to the region, particularly the financial support to their infrastructural development and the opening of the Chinese market for their exports.

In 2011, China's strategy toward CEE was put forward further by grouping 16 CEE countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia) as a bloc during an economic forum organized in Budapest. A year later, the first meeting at the level of heads of government was held in Warsaw, marking the official launch of the 16+1 framework. In this meeting, Wen Jiabao, then prime minister, proposed the "Twelve Measures Strategy" for mutual engagement, which went beyond economic cooperation and

¹ Xi made an extended tour of Europe, visiting Belgium, Germany, Bulgaria, Romania, and Hungary (spending the most time in Budapest).

extended to cultural, education, academic and political cooperation¹. Thereafter, the 16+1 format was institutionalized by a special secretariat created in China's Ministry of Foreign Affairs and the annual summit between two parts for regular communication. One year after the launch of the 16+1 format, Xi Jinping, the current president of China, proposed to revive the overland and maritime silk road respectively in September and October. This proposal was later pronounced officially in 2015 as “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”. As the OBOR’s currently developed or planned geographic corridors all pass through CEE countries before they reach Western Europe², the CEE region is considered as critical for the successful implementation of OBOR. OBOR is therefore supplementary to and being implemented simultaneously with the 16+1 framework. This was confirmed by the unprecedented visits of Xi Jinping himself to Belarus in April 2015, Prague in March 2016, and Belgrade and Warsaw in June 2016 (Góralczyk, 2017:156).

The soul of OBOR initiative is the openness and inclusiveness, which seeks to forge a Community of Shared Future for Mankind as a new development paradigm. Regarding the nature of Sino-CEE cooperation, this spirit is interpreted by Xi Jinping himself as the exploration of a new path of development relations with traditional friends, the innovative practice to develop China-Europe relations, and the establishment of a new platform for South-South with characteristics appropriate for North-South cooperation³. Xi’s speech highlights China’s understanding of specific features of CEE countries. On the one hand, they are deeply integrated into the Europe political sphere, which is the backbone of social and economic development of the region. Thus, China’s cooperation with CEE is to strengthen Europe’s unity instead of weakening it by offering its assistance in reducing gaps in development

¹ “China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries”.

http://www.fmprc.gov.cn/mfa_eng/topics_665678/wjbispg_665714/t928567.shtml

² The northern land bridge(s) pass through the Baltic states and Poland before they reach Western Europe. The southern land bridge that connects China with the Middle East and Turkey reaches the Balkans and from there extends to other parts of Europe. The maritime route from the Suez Canal to the Piraeus Port in Athens heads north to Albania, Macedonia and Bulgaria. The maritime routes through the Black Sea lead to Bulgaria and Romania, and there are also maritime routes planned for the Adriatic and the Baltic coasts.

³ “Xi Jinping meets with the leaders of the Central and Eastern European Countries that attend the fourth annual Sino-CEE summit”.

http://www.xinhuanet.com/world/2015-11/26/c_1117275150.htm

between countries. On the other hand, most of CEE countries are situated in a specific development phase, between that of an emerging and a developed economy, thus share certain common characteristics with developing countries, such as higher growth rates and lower labor costs, a considerable endowment with natural resources, and sizeable demand for investments in infrastructure, energy, agriculture and certain branches of manufacturing. As the ‘outskirts’ of the European Union, CEE countries provide space for South-South cooperation which complements and fills the gap left by traditional North-South cooperation scheme. In other words, Sino-CEE cooperation could blow fresh air in where existent cooperation paradigm led by the EU lost the momentum¹.

Six years after the launch of 16+1 framework and five years after the announcement of OBOR initiative, to what extent this new South-South cooperation with North-South characteristics has been materialized, what are the differences between China’s economic influence and that of the EU, and how China’s ambition challenges the EU-CEE as well as EU-China relations? These are the questions that this paper tries to answer. In the following parts, through comparative analysis, we’ll look at consecutively China’s trade, FDI, and development finance pattern in CEE, each part starts with a presentation of available data followed by an analysis and a brief discussion. The conclusion about China’s current and future economic engagement in CEE countries will be drawn in the end.

Trade

China’s trade with Europe is highly tilted toward Western Europe, especially those largest economies such as Germany, France, and UK. However, its trade linkage with CEE countries has been intensified since 2008. Given the high expectation of CEE partners to explore Chinese market, we’ll look at first the exports from CEE region to China. As table 1 indicates, the average annual growth rate of CEE exports to China reached 11.4% against 2.1% to EU15. Therefore, Chinese market provided a cushion during the following years of the global financial crisis to compensate the loss of momentum of European core markets. This being said, from a very low level, an average double-digit growth rate in 8 years is not enough to change radically the relatively small importance of China at the aggregate level. Compared with 2008, CEE’s total merchandise export value to China increased from 4.5 billion USD to 9.8

¹ Such vision is also shared by Hungary prime minister Orbán, who said that although Hungary’s “ship is sailing in Western waters, the wind blows from the East.” (Szunomár et al., 2014:37)

billion USD in 2016, raising China's share in total exports from 0.66% to 1.30%. Nevertheless, given the intra-regional concentration of CEE trade, China's import demand outpaced the rest extra-regional partners¹, and became the fourth largest extra-regional export destination in 2016 behind Russia (21 billion), United States (18.5 billion) and Turkey (13.9 billion). At the country level, six countries stand out for the important role played by China. Considering the rank of China among extra-regional export destinations in 2016, China was the largest market for Albania and Montenegro, second largest for Bulgaria and Hungary, third largest for Slovakia and Slovenia.

Table 1: CEE cumulative merchandise exports to China and EU 15, 2008-2016 (billion \$)

	China			EU 15		
	Average annual growth rate	Total export value	Share	Average annual growth rate	Total export value	Share
CEE 16	11.4%	74.8	100%	2.1%	3581.5	100.0 %
Albania	19.8%	0.9	1.2%	9.8%	11.3	0.3%
Bosnia and Herzegovina	33.6%	0.2	0.2%	3.0%	19.5	0.5%
Bulgaria	20.7%	4.4	5.9%	4.2%	105.1	2.9%
Croatia	14.4%	0.5	0.7%	0.3%	49.7	1.4%
Czech Republic	13.2%	13.9	18.6%	2.1%	852.2	23.8%
Estonia	21.7%	1.5	2.0%	3.3%	63.6	1.8%
Hungary	9.9%	15.5	20.8%	-0.1%	517.6	14.5%
Latvia	26.7%	0.7	0.9%	3.5%	32.7	0.9%
Lithuania	26.3%	0.8	1.0%	1.2%	78.9	2.2%
Macedonia	331.9%	0.8	1.0%	6.9%	20.9	0.6%
Montenegro	134.2%	0.0	0.1%	-12.7%	1.1	0.0%

¹ Extra-regional partners signify all the rest countries less EU 15 and CEE 16.

Poland	5.7%	16.3	21.8%	2.3%	1001.0	27.9%
Romania	16.2%	4.7	6.2%	4.6%	291.3	8.1%
Serbia	30.6%	0.1	0.2%	7.7%	41.8	1.2%
Slovakia	14.9%	12.8	17.1%	2.0%	356.4	10.0%
Slovenia	33.8%	1.6	2.2%	1.3%	138.3	3.9%

(Source: UNCTAD)

Considering the composition of China's imports from CEE countries¹, we may distinguish two main drives behind China's import surge. On the one hand, China imported higher value-added items including automotive products, machinery, and electronics. This is especially the case for the more developed countries, such as Czech Republic, Hungary, and Slovakia; on the other hand, China imported lower value-added primary or resource-based products, such as ores, metal, and wooden products. While wooden products are the major exports from Baltic states (Estonia, Latvia, and Lithuania), China's imports of mineral resources and metal products are highly concentrated in the less developed countries, including Albania, Bulgaria and Montenegro². As almost 80% of CEE's total exports to China came from Visegrad countries, the regional export structure with China largely reflected China's import need from these countries, characterized by a high percentage of medium and high technology manufactures. Even so, primary and resource-based products still accounted for 27% of China's imports from CEE. Clearly, during the last decade, CEE countries have enhanced their export relationship with China through a double-track pattern. Taking into account China's ongoing reduction of productive capacity in resource-intensive industries, and efforts to upgrade its manufacture sector, such trend is expected to be sustained in the future.

Table 2: Export composition of CEE countries with China, 2008-2016

	Primary products	Resource-based manufactures	Low-tech manufactures	Medium-tech manufactures	High-tech manufactures
CEE 16	12.8%	14.4%	8.3%	49.9%	14.3%
Albania	1.4%	90.6%	3.8%	1.4%	0.0%

¹ In table 2 and table 4, we employ the technological classification proposed by Lall (2000).

² Poland also exports primary resources basically copper which accounts for more than 30%.

Bosnia and Herzegovina	0.9%	36.2%	44.5%	17.1%	1.2%
Bulgaria	64.1%	25.3%	1.9%	5.6%	3.1%
Croatia	11.3%	19.3%	22.9%	37.2%	9.0%
Czech Republic	1.6%	10.1%	13.9%	51.5%	22.8%
Estonia	2.5%	42.4%	6.3%	19.9%	28.9%
Hungary	1.4%	3.6%	5.6%	66.0%	22.9%
Latvia	2.5%	68.2%	7.2%	7.8%	14.3%
Lithuania	1.6%	48.7%	27.1%	15.7%	6.8%
Macedonia	2.2%	1.3%	0.5%	95.7%	0.3%
Montenegro	0.0%	95.7%	0.1%	0.4%	3.2%
Poland	37.3%	17.0%	10.3%	24.6%	10.7%
Romania	1.1%	44.5%	5.6%	37.6%	11.1%
Serbia	1.4%	31.7%	35.0%	19.7%	11.7%
Slovakia	0.1%	1.1%	4.3%	91.8%	2.6%
Slovenia	1.9%	11.0%	12.1%	39.3%	35.7%

(Source: UNCTAD)

At the other side of trade balance sheet, the average annual growth of CEE's imports from China was 3.4% between 2008 and 2016, contrary to -0.2% with their western neighbors. Although relatively slower compared with the growth rate of China's imports from the region, it is worth noting that China already had a solid base in 2008, accounting for 6.4% of total merchandise imports of CEE countries, and was the fourth largest import source behind Germany, Russia, and Italy. Therefore, a moderate growth rate was enough to raise China's share to 9.6% in 2016 and transformed it to the second largest import source behind Germany at the regional level. At the country level, China exported more than any extra-regional partners to CEE countries, except Baltic states where Russia was ahead of China, Bosnia and Herzegovina where Turkey had more impact, and Bulgaria where China lagged behind both Russia and Turkey.

Table 3: CEE cumulative merchandise imports from China and EU 15, 2008-2016
(billion \$)

	China			EU 15		
	Average annual growth rate	Total import value	Share	Average annual growth rate	Total import value	Share
CEE 16	3.4%	513.0	100.0 %	-0.2%	3207.7	100.0 %
Albania	1.3%	3.2	0.6%	-0.5%	24.2	0.7%
Bosnia and Herzegovina	7.4%	2.7	0.5%	-1.6%	29.5	0.8%
Bulgaria	-2.3%	10.2	2.0%	0.9%	118.4	3.3%
Croatia	-10.2%	10.4	2.0%	-2.5%	97.9	2.7%
Czech Republic	6.3%	142.6	27.8%	0.3%	606.5	16.9%
Estonia	9.3%	8.1	1.6%	0.1%	70.4	2.0%
Hungary	-2.2%	48.8	9.5%	-0.5%	454.3	12.7%
Latvia	6.4%	3.5	0.7%	0.6%	49.3	1.4%
Lithuania	2.3%	6.4	1.2%	3.9%	99.7	2.8%
Macedonia	4.2%	3.2	0.6%	5.3%	24.3	0.7%
Montenegro	2.9%	1.5	0.3%	-3.1%	6.8	0.2%
Poland	4.9%	170.7	33.3%	-0.9%	861.3	24.0%
Romania	2.8%	28.5	5.6%	0.7%	341.7	9.5%
Serbia	0.5%	13.1	2.6%	0.2%	64.7	1.8%
Slovakia	6.7%	46.3	9.0%	0.3%	215.1	6.0%
Slovenia	0.9%	13.6	2.6%	-1.1%	143.6	4.0%

(Source: UNCTAD)

Regarding the composition of CEE's imports from China, unsurprisingly, almost half of the imports were high technology manufactures, mainly electronics, followed by low technology manufactures, such as textile, and medium technology

manufactures typically machinery. As CEE's exports to China were more concentrated in primary goods, resource-based manufactures and medium technology manufactures, we may assume an inter-industry trade pattern between CEE countries and China, which means that CEE countries were either final markets or the entry to European core markets for Chinese manufactures. Thus, it is understandable that China's export volume was largely determined by economic fundamentals, such as economic size and development level of individual countries. It is typically the case for high technology manufactures, which had much higher proportions in Visegrad countries. In the end, Czech Republic, Hungary, Poland and Slovakia represented 80% of China's total exports to CEE between 2008 and 2016. As a reference, the exports of EU 15 were geographically more diversified, with 67% concentrated in these four countries during the same period.

Table 4: Import composition of CEE countries with China, 2008-2016

	Primary products	Resource-based manufactures	Low-tech manufactures	Medium-tech manufactures	High-tech manufactures
CEE 16	1.8%	4.0%	24.1%	19.6%	49.8%
Albania	1.4%	6.5%	34.5%	31.1%	18.6%
Bosnia and Herzegovina	1.5%	7.8%	34.8%	29.0%	26.8%
Bulgaria	4.0%	10.6%	24.5%	37.8%	22.5%
Croatia	1.8%	5.1%	41.1%	20.6%	31.1%
Czech Republic	1.0%	2.2%	18.4%	13.7%	64.3%
Estonia	1.0%	4.9%	30.6%	29.7%	33.6%
Hungary	0.6%	2.2%	7.6%	18.5%	70.4%
Latvia	1.9%	9.4%	30.9%	20.0%	37.6%
Lithuania	3.6%	9.4%	37.0%	26.9%	22.9%
Macedonia	2.8%	6.5%	28.5%	25.0%	35.9%
Montenegro	0.8%	5.4%	38.3%	24.5%	29.0%
Poland	2.6%	4.0%	30.1%	20.5%	42.5%

Romania	3.4%	7.9%	24.0%	29.2%	34.9%
Serbia	2.3%	6.3%	27.5%	25.2%	28.1%
Slovakia	1.1%	2.2%	23.6%	18.7%	54.3%
Slovenia	1.8%	11.2%	33.9%	21.5%	31.4%

(Source: UNCTAD)

In the end, the trade pattern between CEE and China during 2008 and 2016 was characterized by one-way inter-industry trade¹. In contrast to the general trade structure of CEE with the whole world and EU 15, which was sustained by intra-industry trade, 75.5% of CEE's total trade with China was one-way trade. Moreover, 70.7% of the trade was one-way imports from China. In this context, the trade deficits continued to be accumulated, reaching 438.2 billion \$ between 2008 and 2016, higher than CEE's net deficits with the whole world. This inter-industry trade pattern was observed across all individual countries, except Estonia, Hungary, Czech Republic and Slovenia, which exported relatively a noticeable share of high technology manufactures to China, indicating a bilateral exchange of goods especially in electronic sector. As consequence, none of CEE countries at any year between 2008 and 2016 gained trade surplus against China.

Table 5: Trade structure of CEE countries, 2008-2016 (billion \$)

	One-way trade (%)	- export oriented	- import oriented	Trade balance value
CEE 16				
World	3.3%	0.0%	3.3%	-383.6
EU 15	3.5%	3.0%	0.5%	373.8
China	75.5%	4.8%	70.7%	-438.2
CEE countries with China				
Albania	88.7%	15.8%	72.9%	-2.2

¹ At SITC 3-digit level, the bilateral trade of a given merchandise would be considered as one-way trade when the minority flow represents lower than 10% of the majority flow.

Bosnia and Herzegovina	89.1%	2.2%	86.9%	-2.5
Bulgaria	86.0%	26.0%	60.0%	-5.8
Croatia	95.9%	1.6%	94.3%	-9.9
Czech Republic	74.6%	0.7%	73.9%	-128.7
Estonia	59.8%	6.0%	53.8%	-6.6
Hungary	62.0%	11.8%	50.2%	-33.3
Latvia	80.0%	10.0%	70.0%	-2.8
Lithuania	86.6%	4.4%	82.2%	-5.6
Macedonia	95.1%	18.4%	76.7%	-2.5
Montenegro	97.9%	2.7%	95.2%	-1.5
Poland	83.1%	4.0%	79.2%	-154.4
Romania	78.1%	5.8%	72.2%	-23.9
Serbia	88.5%	0.1%	88.4%	-13.0
Slovakia	88.1%	16.4%	71.6%	-33.5
Slovenia	75.4%	1.7%	73.7%	-12.0

(Source: Author's own calculation)

Behind such trade pattern is the still underdeveloped direct connections between CEE and Chinese companies. During the transition to market economy, CEE countries went through radical economic changes induced by foreign capital (Rahman & Zhao, 2013; Damijan et al., 2013). The integration of 11 CEE countries in the EU has lured foreign multinationals to realize significant investment projects in this region establishing their own production networks. As both China and some CEE countries are deeply integrated into the global value chains weaved by multinationals, the trade pattern between them is largely shaped by strategies and interests of multinationals, which are sometimes out of control of sovereign countries¹. More specifically, as Ando and Kimura (2013:210) told us, CEE region connects Asia and

¹ For example, the relocation of plants from Hungary decreased sharply engines delivered from Hungarian affiliate of the Volkswagen Group (Audi Hungaria) to the Chinese affiliate of the VW Group (Éltető & Szunomár, 2016:41).

Europe in the following ways: First, due to the dominance of East Asia in the electronics industry, European multinationals have been importing electronic parts and components from their Asian affiliates and other Asian firms to use them for their production in the CEE region. Second, the automotive industry agglomerations in the CEE countries import machinery parts and components from Asia, while exporting auto parts and vehicles to Asia. In this context, the bilateral trade figures between China and CEE countries might not tell the whole story. The deficits, as a result of more imports of intermediary goods from China, would be balanced by trade surplus with EU 15 countries, which serve as the end market of final products incorporating imported pieces from China. Nevertheless, in the meantime, this may suggest that Sino-CEE trade relations are confined to the market power and subject to the independent decisions of European multinationals. The trade volume is hard to be boosted¹ and the trade asymmetry is difficult to be remedied only through bilateral negotiations. For smaller states, however, China's growing import demands of primary goods and resource-based manufactures², which are also the defining feature of China's trade relations with other developing countries, seems a promising new path to enhance the trade relationship in the short and medium term. In the long run, it depends on the investment carried by Chinese multinationals in the region, as their European counterparts, to promote and develop bilateral trade in goods and services.

ODI

If trade data between CEE and China are abundant and relatively reliable because of consistent custom control of entry and exit of merchandises, the precise estimation of China's direct investment in CEE is much more challenging. China, adopting the international definition of FDI elaborated by OECD and IMF³, established its own statistical system of ODI in 2002, and published for the first time

¹ The total trade between China and CEE countries by 2015 fell short to meet the goal set by Wen Jiabao in 2012, who had claimed to reach 100 billion USD.

² Resource-based manufactures include agro-based one, which increased by 17% annually due to China's authorization and simplification of food imports, such as pork, fish, fruit and lactic products.

³ The benchmark definition of Foreign Direct Investment refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. A threshold of 10 per cent of equity ownership is often used to qualify an investor as a foreign direct investor. The forms of investment by the direct investor which are classified as FDI are equity capital, the reinvestment of earnings and the provision of long-term and short-term intra-company loans (between parent and affiliate enterprises).

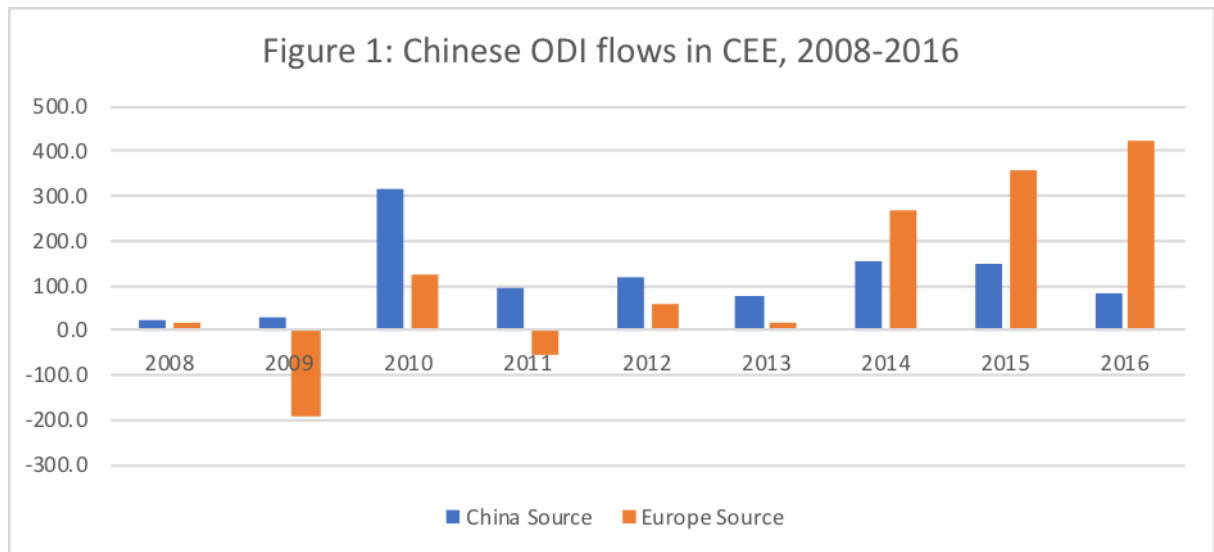
the Statistic Bulletin of China's Outward Foreign Direct Investment (Bulletin hereafter) in 2003. Since then, we have public access to China's ODI flows and stocks disaggregated at country level which are updated annually. According to the latest official data, China's ODI stocks in CEE 16 countries amounted to 1.7 billion USD. As found in other countries, China's ODI statistics are limited to report direct investing destinations of Chinese enterprises, thus disguising round-tripping or trans-shipping FDI transactions. Taking into account the fact that 72% of China's ODI in the world at the end of 2017 were concentrated in Hong Kong, Cayman Islands, and Virgin Islands, we may have very limited information about ultimate investing destinations of a big part of China's ODI, causing underestimation of Chinese ODI in CEE.

Recognizing this well-known flaw of traditional statistic reporting mechanism, OECD in recent years urged its member states to distinguish immediate investors from ultimate investors, in order to produce more meaningful data for national policies¹. The efforts carried by certain CEE countries give us a glimpse into how much difference could be caused by these two calibers. For example, in Hungary, at the end of 2014, the investment stocks by ultimate investors identified as Chinese were 1.27 billion USD², 5.7 times the direct investment realized by enterprises registered in China. In Poland, in the same year, the investment stocks ultimately from Chinese enterprises were 501 million USD against only 179 million USD following the old reporting method³. In other words, the ODI stocks *de facto* Chinese in Hungary and Poland in 2014 were larger than total ODI stocks reported by the Chinese official source in the whole CEE. Unfortunately, this new ODI tracking system is still in its early phase with scattered data that cannot allow the comparable analysis throughout years and countries. Therefore, the Eurostat which we count on still follows the standard presentation of FDI statistics by the immediate source of the funding, bearing the same risk as Chinese official data to underestimate Chinese ODI in the region.

¹ OECD. "Implementing the latest international standards for compiling foreign direct investment statistics". 2015. <https://www.oecd.org/daf/inv/FDI-statistics-by-ultimate-investing-country.pdf>

² OECD.stat, FDI statistics according to Benchmark Definition 4th Edition (BMD4).

³ Romania, a non-OECD country, also claimed Chinese ODI stocks of 420 million euros – which were more than triple the Chinese official figure and six times larger than the EU ones. (Pencea and Oehler-Sincai, 2015:52)



*ODI flows are reported in million Euro at current price. To convert RMB to Euro, we use reference exchange rate of RMB period average found at <http://data.stats.gov.cn/english/easyquery.htm?cn=C01>.

(Source: China source refers to 2016 Statistic Bulletin of Outward Foreign Direct Investment. Europe source refers to Balance of payments-international transactions of Eurostat <http://ec.europa.eu/eurostat/web/balance-of-payments/data/database> for EU member states in CEE, and data from individual central banks of Serbia, Macedonia, Albania, and Montenegro. ODI flows to Montenegro between 2008-2012 are based on UNCTAD Bilateral FDI Statistics.)

Curiously, by putting side by side Chinese and European data concerning China's ODI flows in CEE between 2008 and 2016 (figure 1), we may notify big discrepancies between two sources. In the first place, before 2014, Chinese ODI flows to CEE, according to the European source, were more volatile and consistently lower in absolute value than that reported by Chinese source¹. One of the reason might be the overestimation of Chinese net ODI flows. In fact, as shown in Table 6, China's annual reports of balance of payment provided clear evidence that ODI flows calculated by the authoritative bulletins were much closer to the gross ODI outflows before deducting all kinds of reverse investment.

¹ At the country level, while it is true that the volatility of rise and fall of Chinese ODI flows is higher according to European source, the absolute value is not necessarily always lower.

Table 6: Comparison of ODI flows between Bulletin and Balance of Payment reports
(billion \$)

	2008	2009	2010	2011	2012	2013	2014
ODI flows	55.9	56.5	68.8	74.7	87.8	107.8	123.1
ODI outflows	55.6	48.1	67.8	67.1	85.7	109.6	135.9
ODI inflows	2.2	4.2	7.6	17.4	23.4	36.4	55.5
Net ODI flows	53.5	43.9	60.2	49.7	62.3	73.2	80.4

(Source: ODI flows are the data provided by 2016 Statistic Bulletin of Outward Foreign Direct Investment. ODI outflows and inflows are found on annual reports of balance of payment before 2015)

As China started the transition to BPM 6 in 2014, its annual reports of balance of payment stopped to give any details on directions of ODI, we are not sure whether this problem has been solved in 2015 and 2016. However, it is curious to find out that from 2014 onwards, European source recorded a sudden jump of Chinese ODI in CEE which is increasing every year, while Chinese source gave more conservative figures. This discrepancy suggests the underestimation from the Chinese side during the last three years due to several big M&A transactions, which might go under the radar of Chinese authority¹. Facing the overestimation as well as underestimation of ODI flows, Chinese authorities sometimes conducted revisions of historic ODI stocks in selected countries. This process helped to correct, to a certain extent, the errors accumulated during years by flawed ODI flows reporting system². Nevertheless, this

¹ The most illustrating case was the Czech Republic, whose central bank reported 249.8 and 284.9 million euros of Chinese ODI flows respectively in 2015 and 2016, while Chinese government estimated -17.4 and 1.85 million USD during the same years. In fact, according to the data retrieved from Thomson One M&A database at April 3rd of 2018, one can be sure that CEFC China Energy Company Limited (CEFC China) has completed at least a number of sizeable M&A transactions in the Czech Republic during 2015 and 2016, including acquiring 49.92% of the biggest Czech airline company Travel Service, and holding 59.97% of the oldest Czech football club SK Slavia Praha. Besides, the company at its own webpage also acclaimed to acquire the largest Czech online travel agency Invia.cz, the fifth largest Czech brewer Pivovary Lobkowicz Group, five-star hotels such as Mandarin Oriental Prague and Le Palais Art Hotel Prague, high-end, metallurgy and engineering company ŽďAS, and several real-estate assets in Prague.

² The 2016 Bulletin revised China's ODI stocks in Bulgaria, Hungary, Poland, and Slovakia. In all four countries, the stocks were reduced from the baseline in 2015, suggesting a possible

revision mechanism to the best is sporadic and unsystematic. Therefore, we assume a better data quality from CEE hosting countries. Moreover, the Eurostat and the data compiled from central banks of individual countries allow us to make the comparison of investment pattern between China and EU15 in the region at sectoral level.

Table 7: ODI stocks in CEE countries of China and EU15, 2016 (million Euro)

	China	Percentage	EU 15	Percentage
CEE 16	1480.4	100%	500674.4	100%
Albania	1.9	0%	2163.3	0%
Bosnia and Herzegovina	7.8	1%	9211.4	2%
Bulgaria	122.9	8%	25325.6	5%
Croatia	1.2	0%	18835.6	4%
Czech Republic	501.7	34%	88203.3	18%
Estonia	12.0	1%	13555.1	3%
Hungary	279.1	19%	57098.9	11%
Latvia	77.0	5%	6413	1%
Lithuania	3.9	0%	7840.8	2%
Macedonia	36.7	2%	2499.9	0%
Montenegro	4.9	0%	2760.7	1%
Poland	123.7	8%	154909.4	31%
Romania	56.4	4%	56042.8	11%
Serbia	207.2	14%	17218.0	3%
Slovakia	32.9	2%	29127.8	6%
Slovenia	11.2	1%	9468.8	2%

(Source: the data of 11 countries with EU member state status come from Eurostat which excludes SPE FDI, other five countries come from their central banks. Chinese ODI stocks in

overestimation in previous years. For example, China's ODI stocks in Hungary, despite 57.46 million USD flows in 2016, remained 313.7 million USD, which were 257.41 million USD less than that in 2015, but became much closer to 279.1 million euros as provided by its Hungarian counterpart.

Serbia equal stock in 2015 plus 2016 flow. Its ODI stocks in Albania refer to investment position at the end of year 2015. Its ODI stocks in Montenegro equal stock in 2013 plus flows between 2014 and 2016. China source is used for the ODI stocks in Bosnia and Herzegovina. ODI stocks of EU 15 in these five countries are calculated in the following way. Stocks in Serbia equal stock in 2015 plus 2016 flow. Stocks in Albania refer to investment position at the end of year 2015. Bosnia Central Bank didn't include Finland, Greece and Portugal, exchange rate 30/12/2016 (1 BAM = 0.507800 EUR) is used for the conversion. Stocks in Montenegro equal stock in 2015 plus flows in 2016 (which not include Finland, Greece, Ireland and Portugal)

As shown in Table 7, China's ODI stocks in CEE region at the end of the year 2016 were equivalent to 1.48 billion euros, which were 0.24% of the investment positions realized by enterprises from EU 15 countries. In none of the 16 countries, China represented more than 1% of their FDI stocks. Given the recent rapid growth, the accumulated China's ODI flows accounted for 1.5% of total FDI inflows into the region between 2014 and 2016, and represented respectively 4.7%, 3.4%, 3.2% and 2.9% of FDI received by Czech Republic, Macedonia, Serbia and Latvia during the same period. Therefore, China's ODI in CEE is not only a very recent phenomenon but also relatively more dynamic in a small number of countries, resulting in a somehow different distribution pattern. In the first place, while Visegrad countries hosted relatively 66% and 63% of ODI stocks from EU 15 and China, it was the Czech Republic instead of Poland that captured a bulky 34% of Chinese investment stocks[It should bear in mind that as Chinese enterprises might conduct much more investment through third country, more precise data would possibly alter this conclusion. Nonetheless, even taken into account this factor, it seems that Hungary would benefit much more from the re-estimation than Poland.]. Therefore, Czech Republic is by far the favorite investing destination of China thanks to the closer political and economic linkage developed in the latest few years, followed by Hungary which enjoyed a historical friendly relationship with China and the largest Chinese diaspora in CEE. In the second place, Serbia, Latvia, and Macedonia, which are the minor focus of European investors, accounted for 21% of China's ODI stocks with Serbia alone hosting 14%. Although it is true that because of a very short history of China's ODI in CEE, it is still far away to be stable enough to reflect an established investment pattern, the available data indicates certain unique characteristics of China's investing motivations and strategies.

Table 8: China's ODI stocks in CEE 11 countries by sector, 2015 (million Euro)

	Bul gari a	Cze ch	Esto nia	Cro atia	Latv ia	Lith uani a	Hun gary	Pola nd	Ro man ia	Slov enia	Slov akia	Total
Manufacturing	5	29.8	-5.5	2.7	0	-0.7	45.2	102	23	-0.3	8.7	209.9
textiles and wearing apparel	0.0	0.2	0.0	0.0	0.0	1.1	:	3.5	:	0.0	:	4.8
chemicals and chemical products	-0.1	-0.7	:	0.0	0.0	:	81.5	2.7	:	0.0	0.0	83.4
basic pharmaceutical products and pharmaceutical preparations	-0.1	:	0.0	0.0	0.0	0.0	:	37.0	0.0	-0.2	0.0	36.7
computer, electronic and optical products	0.5	26.6	-5.9	1.7	0.0	:	1.8	42.0	0.0	0.0	0.7	67.4
Electricity, gas, steam and air conditioning supply	44.8	0	0	0	0	0	0	0	29.4	0	0	74.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	32.5	29.2	11.8	0.0	3.0	0.2	43.7	34.4	19.0	2.7	5.1	181.6
Financial and insurance	0.0	107.0	0.0	0.0	0.0	:	:	0.1	:	0.0	0.0	107.1

activities												
Real estate activities	2.0	-7.9	4.6	0.0	0.0	0.3	7.6	0.1	71.8	0.0	0.0	78.5
Professional, scientific and technical activities	4.8	95.1	0.0	0.0	0.0	:	53.4	45.4	:	0.2	:	198.9
Construction	0.5	0.0	:	0.0	0.0	0.0	0.0	10.5	64.8	0.0	0.0	75.8

(Source: Eurostat)

Theoretically, according to Dunning's eclectic paradigm, academics would attribute ODI to four kinds of motivations of investing enterprises, namely resource-seeking, efficiency-seeking, market-seeking, and strategic-asset-seeking. Resource-seeking motivation refers principally to the exploitation of natural resources whose endowment is largely given. This kind of investment is expected to be concentrated in mining and quarrying industry sector. Both China and EU 15 seem lacking resource-seeking motivation in investing in CEE. Statistically, China's ODI stocks in mining and quarrying sector were null, while that corresponding to EU15 represented only 0.7% of its total ODI stocks in the region. Efficiency-seeking motivation is explained by the intent of investing enterprise to take advantage of differential factor costs to improve its total factor productivity and enhance its competitiveness in the given market. This motivation is especially evident when the investing enterprise enjoys specific advantages, which allow it to reconfigure the production network by allocating the resources among countries according to their respective factor endowment. As enterprises from European core economies are generally more competitive and have more market power than their Eastern European counterparts, their investment in CEE is marked by a strong efficiency-seeking motivation particularly in medium and high technology manufacturing sectors, such as chemical, pharmaceutical and automotive industries, which accounted for 45% of total manufacturing ODI stocks in CEE from EU15. Investment in labor-intensive textile and apparel industry is also lured by lower labor cost found in CEE.

In the case of China, the motivation behind its investment in the manufacturing sector is more ambiguous. Chinese enterprises, as indicated by the trade structure between China and CEE, are mostly competitive in electronics, telecommunication equipment, machinery and textile/apparel products. As the labor cost in China

continues rising, one may expect the seeking of efficiency by dislocating labor-intensive manufacturing to certain CEE countries¹. However, China's ODI stocks in the manufacture of textiles and wearing apparel were negligible. Most of China's ODI stocks in manufacturing were divided into two groups. On the one hand, there was a sizeable investment in the manufacture of computer, electronic and optical products. Two-thirds of these investments were in Poland, while another one third was hosted by the Czech². On the other hand, there was even more investment in the manufacture of chemicals and chemical products, which were almost totally concentrated in Hungary, as well as manufacture of basic pharmaceutical products and pharmaceutical preparations, which screwed toward Poland. In the latter case, it is arguable whether the investment is backed up by efficiency-seeking motivation. Once we examine the trade balance sheet of China, we would find that China is by far the net importer of chemical and pharmaceutical products. The investment of Chinese enterprises in these two sectors is rather aiming to enhance the operations of the investors in their home market, thus falling into the definition of strategic-asset-seeking motivation (Meyer, 2015:60).

Considering the market-seeking motivation, enterprises would naturally invest in where market potential is great which is proportional to the economic or population size. While European enterprises followed this logic concentrating 43% of their investment in wholesale and retail trade in Poland, the biggest economy of CEE, Chinese enterprises distributed more evenly their investment across Hungary, Czech Republic, Poland, Bulgaria, and Romania, targeting not only the local market but also the EU regional market. Here, CEE countries are considered as bridges connecting to European core markets rather than the final destinations themselves for Chinese goods. The commercial networks waved by Chinese immigrants became an influential factor. Finally, the strategic-asset-seeking motivation, besides the investment in high technology manufacturing sectors discussed formerly, was also manifested by the investment in services, especially financial and insurance activities. By far, the most active Chinese investor in this area was CEFC, whose investment was completely

¹ In early 2000s, Chinese official guidelines, such as "Outbound Foreign Investment Catalogue" of 2004, did encourage Chinese companies to invest in Romania, one of the EU country with the lowest unit labor cost. According to Pencea and Oehler-Sincai (2015:50), the factual investments in 2005, made by SMEs involved in trade or in low-to-medium technology manufacturing, also favored Romania, which hosted two thirds of the overall Chinese investment stock in CEE.

² This confirms the prior studies on Chinese ODI in Poland (Heiduk & McCaleb, 2014:65) and Czech Republic (Fürst, 2014:82).

tilted toward the Czech. Through its second headquarter in Prague as a financial investment platform, CEFC's investment spanned to travel, commercial real estate, football club and media, which were included in the category "Professional, scientific and technical activities" of table 8. Total investment in financial and headquarter activities reached 202 million euros in 2015, which represented 86% of China's ODI stocks in the Czech Republic and changed greatly China's investment landscape in Visegrad countries.

China's investment activities in less developed economies are much more opaque. Nevertheless, we may highlight the case of Serbia where China's ODI was predominantly driven by its engagement in the steel industry. According to Thomson One M&A database, all five M&A transactions taken place in Serbia concern steel industry, with total investment value equivalent to 209 million USD, including the iconic acquisition of Zelezara Smederovo doo by He Steel Group Co Ltd, and purchase of Smederevo dp by Hebei Iron & Steel Co Ltd. Given the fact that China is the largest exporter of metal products and increasing trade barriers against direct imports of such goods from China, the investment in metal industry has an implicit market-seeking motivation, thanks to the trade arrangement between EU member states and EU's attitude toward Serbia¹. In addition, according to Crossborder Investment Monitor 2015 of Financial Times², 51 of 70 Chinese greenfield projects in the Balkans region between January 2003 and January 2015 were concentrated in Romania and Bulgaria, led by projects in communications and in renewable or alternative energy. China's engagement in the energy sector in Romania and Bulgaria was consistent with our data compiled in Table 8. Romania hosted also the most of China's construction and real estate development projects.

In summary, there are two forces and four drivers of China's ODI in CEE during the last decade. Regarding two forces, first, while historically small private enterprises were the main actors involved in investment in trade and manufacturing activities, during recent years after the global financial crisis, large companies have shown more interests in investing in CEE. Albeit a numerous number of private SMEs, their investment scale is not comparable with that of large companies. Thus, these new players with their large-scale projects alter radically the distribution of Chinese ODI

¹ "European Commission drops Serbian steel makers from anti-dumping list".

<https://seenews.com/news/european-commission-drops-serbian-steel-makers-from-anti-dumping-list-586084>

² Wade Jacoby, "Chinese investment in the

Balkans". <http://councilforeuropeanstudies.org/critcom/chinese-investment-in-the-balkans/>

stocks in CEE. Second, M&A instead of greenfield investment became the mainstream entry mode of Chinese companies. Despite higher values of M&As, these transactions may not be exciting in the eyes of hosting governments, which wish to draw more fresh capital to create jobs (Heiduk & McCaleb, 2014:70). Considering four drivers, in the first place, as byproduct of Chinese government's encouragement of overseas investment, certain enterprises, such as CEFC, have shown strong motivation to reallocate their resources overseas by diversifying their asset portfolios. However, such projects are not necessarily consistent with government strategy and subject to stricter political scrutiny in the following years¹. In the second place, China's ODI follows its trade expansion in CEE favoring those countries that have more intensive trade linkage with China. Such projects are either market-seeking or efficiency-seeking or combining two motivations together by investing in trade activities and localizing parts of production and service. In the third place, like China's ODI in Western Europe, China's ODI in CEE is also pushed by strong strategic-asset-seeking motivation by acquiring technologies, know-how, and production facility to compensate its disadvantages in particular sectors, such as chemical, pharmaceutical, and automotive industries. Those projects are logically lured to where development level and FDI agglomeration effect are higher, such as Poland and Hungary. In the final place, while Chinese increasing imports of primary products from less developed economies have not been translated into direct investment in mining and quarrying sector, Chinese companies did participate actively in privatization programs of heavy industry in these countries, such as Serbia, and showed special interests in energy and other infrastructure sectors. China's ODI in less developed and smaller CEE economies marks thus a special feature of investment behaviors of Chinese enterprises, which are related and consistent with OBOR initiative, that encourages the cooperation of productive capacities and prioritizes the infrastructure connectivity.

¹ Since the end of 2016, China's authority began to strength the monitoring of Chinese ODI, particularly limiting the irrational investment behavior. In August 2017, "Guideline to further orientating and regulating the outward direct investment" was promulgated, limiting explicitly overseas investment in real estate, hotels, studios of cinema, entertainment, and sports clubs, as well as the establishment of equity investment funds or investment platforms without specific industrial projects. In December 2017, two more regulations were published consecutively: "Regulations of Private Enterprises' Overseas Investment Operation" and "Management Measures of Corporate Overseas Investment". "Regulations of State-owned enterprises' overseas investment operation" and "Overseas Investment Regulations" are also on the way to be announced.

These two forces and four drivers suggest the biggest difference of Chinese investors from their European counterparts in terms of specific institutional factors (McCaleb & Szunomár, 2014:122). As the latecomer to outward investment, Chinese companies generally lack experience and expertise to evaluate and grasp business opportunities in the culturally different area. Traditionally, private enterprises count on the informal network, such as local Chinese immigrants, to reduce the foreignness liability. More recently, the bilateral political connection seems more eminent to explain different evolutions in the volumes of Chinese ODI attracted by CEE countries. This political connection is not confined to governmental level dialogue and negotiation, neither implies the politicization of Chinese ODI. The rationale behind the importance of political connection is that, given the increasing interests of Chinese investors in M&A and privatization of state enterprises, the timely communication of available opening opportunities becomes critical. The successful stories include the buyout of Hungarian BorsodChem by Chinese Wanhua thanks to Orbán's visit to China at the end of 2010, and the expansion of CEFC in the Czech Republic because of the personal close relationship between the founder and Czech's president Zeman¹. On the contrary, Romania, lack of specific strategy, made Chinese investors arrive too later to take full advantage of the Romanian "green certificate" incentive program for renewable energy industry (Pencea & Oehler-Sincai, 2015:53). In this context, China's future ODI in CEE countries would be largely shaped and influenced by policy coordination and bilateral political factors, especially that in the hosting CEE countries, such as the development of specific promotion agency, the coherence of their succeeding governments in their bilateral relations with China, and their obstinacy and insistence on negotiating and concluding cooperation agreements.

Development Finance

China's ODI is often confused with development finance. The most outrageous example is America Enterprise Institute's China Global Investment Tracker which mixes without careful distinction entrepreneurial activities and public projects with Chinese official loans. However, these two forms of capital flows refer to qualitatively different situations. On the one hand, ODI results from decision making of economic entities, who bear directly the investment risks. On the other hand, development finance through government channel is actually debts carried by hosting

¹ Ye Jianming, the founder and chairman of CEFC, was named an economic advisor to Czech President Milos Zeman in 2015.

countries, who have to repay the debts ultimately according to the schedule arranged. As China is not a member of DCA, its definition of international aid or development finance is not consistent and compatible with internationally acknowledged criteria¹, making the calculation of Chinese development finance the trickiest task to fulfill, especially for the purpose to compare it with other DCA counterparts. Some researchers have arrived at their own estimation of China's overall development assistance based on publicly available reports and information from the Chinese side. For example, according to Kitano and Harada (2016:1057), net disbursements of preferential export buyer's credits were estimated to total 7.0 billion USD in 2013, which is almost the same amount of total net foreign aid consisting of grants and interest-free loans, concessional loans and multilateral aid. Nevertheless, those findings rarely provided any detailed insights on Chinese development finance at the country or sectoral level. Other third parties tried to construct their own database for specific purposes, such as China-Latin America Finance Database by the Inter-American Dialogue through careful examination of government, bank, and press reports from both China and recipient countries; and CARI Loan Database compiled by Brautigam and her researching team at SAIS of Johns Hopkins through qualitative fieldwork methodology. Regarding Chinese development finance in CEE, to our best knowledge, AidData project² is the only database with sufficient detailed information. Although its media-based approach to data collection is criticized by those who prefer more solid field-work approach, recent findings employing ground-truthing methodology in Africa (Muchapondwa et al., 2016:791) justified that media information, when carefully checked, could serve at least a solid start for academic analysis.

According to AidData's Global Chinese Official Finance Dataset, 2000-2014, Version 1.0, China's development finance commitments, which are the sum of grants, ODA-like loans, and OOF-like loans³, reached a total value of 4.88

¹ For more discussion of this issue, see Bräutigam (2011).

² AidData uses the method named Tracking Underreported Financial Flows (TUFF), which draws from open-source information produced by the media, scholarly research, and government reports and databases. The application of the TUFF methodology resulted in the publication of a database (available at china.aiddata.org) that captures 1,955 Chinese-sponsored projects worth approximately \$83.3 billion in financial commitment.

³ Other official flows (OOF) are defined by DAC as official sector transactions that do not meet official development assistance (ODA) criteria. OOF include: grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development, but having a grant element of less than 25%; and, official bilateral

billion USD between 2009 and 2014 in CEE. During the same time, DAC EU members promised an allocation of 3.79 billion USD in the region while multilateral institutions committed another 21.39 billion USD. In other words, China's development finance commitment in CEE was already larger than the total sum through the bilateral channel within EU, and equivalent to 23% of assistance provided by the multilateral platform. Given the nature of development finance, all the donors targeted principally the most underdeveloped countries in CEE, comprised of five currently non-EU members. Besides, Bulgaria hosted four minor symbolic and representative projects of China, while Croatia received 1.5% of finance coming from EU neighbors and 9.9% of that flown from multilateral institutions. Despite the overlap of beneficiary states, China's development finance is characterized by the over dependency on loan form.

Table 9: 2009-2014 official development finance commitments in CEE (million \$)

	Grant	ODA-like loan	OOF-like loan	Total
China	17.67	2,829.77	2,034.32	4,881.76
%	0.4%	58.0%	41.7%	
DAC EU members	1,969.54	1,470.66	351.20	3,791.41
%	51.9%	38.8%	9.3%	
Multilaterals	4,140.40	4,561.79	12,687.27	21,389.46
%	19.4%	21.3%	59.3%	

(Source: AidData, OECD stat; 2014 constant price for China and 2015 constant price for others, OOF exclude export credits)

Table 10 further disaggregates the development finance from China as well as European countries and multilateral institutions by activities. As expected, all donors used most part of their grants to finance social infrastructure and services. What distinguishes China from other donors was not only the predominance of loan forms,

transactions, whatever their grant element, that are primarily export-facilitating in purpose. This category includes, by definition: export credits extended directly to an aid recipient by an official agency or institution (official direct export credits); the net acquisition by governments and central monetary institutions of securities issued by multilateral development banks at market terms; subsidies (grants) to the private sector to soften its credits to developing countries; and, funds in support of private investment. It should be notified, in the following part, OOF loans both for China and other donors exclude export credits.

but also the high sectoral concentration of loan destination in economic infrastructure and services, with more than 2 billion USD each in transport and energy, altering therefore completely the financial landscape of these two specific areas. In the transport and storage, Chinas' official loans amounted to 2.2 billion USD, equivalent to more than half of the loans generated by multilateral institutions. In the energy sector, China's official loans were even larger, reaching 2.7 billion USD when combining ODA-like and OOF-like loans, which were 42% larger than the sum of the loans accorded by EU countries and multilateral institutions. More interestingly, China seems to count on different loan instruments for different ends. Its finance in transport and storage took the form of ODA-like concessional loans, highlighting the development nature of these projects given the long investment cycle and pro-public interest characteristic. On the contrary, most of the financial arrangement for energy projects was OOF-like loans, reflecting more commercial interests. Such approach was also manifested by China's increasing ODI in the energy sector through M&A transactions. In the end, the surge of China's development finance in CEE was accompanied by very specific orientation, filling the gap of insufficient finance in transport and energy infrastructure, where traditional donors were reluctant to enter.

Table 10: Disaggregation of development finance by activities, 2009-2014 (million \$)

Grant								
	Social Infrastruct ure & Services	Economic Infrastruct ure & Services	Transp ort & Storage	Energy	Producti on Sectors	Multi- Sector	Othe r	Total
China	11.44	-	-	-	0.68	1.99	3.56	17.67
%	64.8%	0.0%	0.0%	0.0%	3.9%	11.2%	20.2 %	
DAC EU members	1,488.92	164.21	43.12	42.27	103.45	128.34	84.61	1,969.5 4
%	75.6%	8.3%	2.2%	2.1%	5.3%	6.5%	4.3%	
Multilater als	1,861.50	553.98	353.15	99.79	421.24	1,059. 29	244.4 0	4,140.4 0
%	45.0%	13.4%	8.5%	2.4%	10.2%	25.6%	5.9%	

ODA loan								
	Social Infrastructur e & Services	Economic Infrastructur e & Services	Transp ort & Storage	Energy	Productio n Sectors	Multi- Sector	Other	Total
China	-	2,829.77	2,187.12	642.66	-	-	-	2,829.77
%	0.0%	100.0%	77.3%	22.7%	0.0%	0.0%	0.0%	
DAC EU members	246.36	1,123.73	36.00	904.81	63.41	37.16	0.00	1,470.66
%	16.8%	76.4%	2.4%	61.5%	4.3%	2.5%	0.0%	
Multilater als	701.84	3,072.20	1,639.79	92.72	643.31	52.57	91.87	4,561.79
%	15.4%	67.3%	35.9%	2.0%	14.1%	1.2%	2.0%	
OOF loan								
	Social Infrastructur e & Services	Economic Infrastructur e & Services	Transp ort & Storage	Energy	Productio n Sectors	Multi- Sector	Other	Total
China	-	2,034.32	-	2,034.32	-	-	-	2,034.32
%	0.0%	100.0%	0.0%	100.0%	0.0%	0.0%	0.0%	
DAC EU members	-	316.69	-	-	-	-	34.52	351.20
%	0.0%	90.2%	0.0%	0.0%	0.0%	0.0%	9.8%	
Multilater als	1,531.81	7,233.65	2,734.08	884.84	2,174.47	954.68	792.66	12,687.27
%	12.1%	57.0%	21.5%	7.0%	17.1%	7.5%	6.2%	

(Source: AidData and OECD Stat)

By far, only a bunch of countries have benefited from China's development finance through a small number but large-scale projects. Table 11 lists 10 infrastructure projects in transport and energy financed by Chinese capital as

identified by AidData between 2009 and 2014. Bosnia and Serbia are two leading beneficiary countries among Western Balkans states. Considering several big deals signed between China and Bosnia as well as Serbia since 2015¹, their status as the hub of China's development finance in CEE would continue in the future.

Table 11: Chinese financed transport and energy infrastructure projects, 2009-2014

Country	Transport	Energy
Bosnia		China loans 350 million Euro to Bosnia-Herzegovina for 300MW Power Plant Construction
		China EXIM loans Bosnia-Herzegovina 668 million Euro for 450 MW coal-fired plant
Macedonia	China EXIM loans 580 million USD for highway projects in Macedonia, implemented by SinoHydro	
Montenegro	China EXIM Commits 687 million Euro Loan for Construction of Bar-Boljare Motorway in Montenegro	
Serbia	China loans 216 million USD for the Zemun-Borca bridge	China loans 300 million USD to construct a thermal power plant
	China EXIM loans 204.9 million RMB for container vehicles checking	China EXIM loans phase 1 292 million USD to upgrade the Kostolac

¹ These deals include the construction of Dabar hydroelectric power plant by CWE, which offered to finance 85% of the project for a total value of 180 million Euro
<https://balkanengineer.com/news/chinese-cwe-offer-construction-hydroelectric-power-plant-dabar>, ICBC loans covering 85% of the Construction of TPP Banovici contracted to Dongfang Electric Corporation worth 305 million Euro
<https://serbia-energy.eu/bosnia-construction-tpp-banovici-start-2017-commissioning-2021/>, a deal with Sinohydro for the construction of the Banja Luka-Mlinista motorway section
<https://seenews.com/news/bosnias-autoputevi-rs-signs-deal-with-chinese-firm-for-building-62-km-motorway-section-545873>, several commercial and financing deals with China worth a combined 734 million Euro for infrastructure works in Serbia, such as the construction of a section of Corridor XI between Surcin and Obrenovac, the 19.5 kilometre-long section from Ostruznica Bridge to Bujanž Potok, and the first stage of the modernization of the Belgrade-Budapest high-speed railway. http://www.china-ceec.org/eng/zdogjhz_1/t1414696.htm

	system	thermal power complex
	China EXIM gives 334 million USD loan to the construction of road Corridor XI	China loans 608 million USD for phase 2 to revamp Kostolac the coal-fired plant

(Source: AidData)

Among three pillars of economic relations between China and CEE countries, the development finance is the most visible and has aroused most anxieties from the EU. EU's reaction is quite understandable, as China, respecting market rules, has brought limited new elements to the current trade and ODI paradigm in CEE. In the words of Vangeli (2017:113), when facing trade imbalances, Chinese government argues that it is ultimately driven by market forces, and implies that CEE countries need to take their own measures to improve their competitiveness. However, there are very real differences regarding how to use official finance as a tool of development. A key difference is the practice to develop country assistance strategies. As Xu and Carey (2014:107) put it, the existing DAC reporting system has favored grants over loans, softer loans over harder ones, and explicit flows over implicit guarantees. Guided by the principle of one-way altruistic assistance, the DAC has shifted toward social sectors, whereas that may reflect the donors' goals more than those of the country they are assisting. China, on the other side, doesn't have a specific international development agency¹, reflecting the lack of a coherent country assistance strategy. However, its emphasis on infrastructure and energy suggests that China does not shy away from sharing its own experience and development lessons with CEE countries, that is: "if one wants to develop, one should build the roads first." (Chen, 2016:40). Instead of selling immediate benefits of infrastructural projects, China emphasizes the non-financial added value of infrastructure construction, such as the spatial agglomeration of logistics and production, the increased flow of people and ideas, and its potential to attract more foreign investment. The development finance in transport

¹ At March 13, 2018, China announced its plan to set up an international development cooperation agency. The move is to give full play to foreign aid as a key means of major-country diplomacy, enhance strategic planning and coordination of foreign aid, and better serve the country's overall diplomatic layout and the Belt and Road Initiative. The new agency under the State Council will be responsible for making strategic guidelines, plans and policies on foreign aid; coordinating and making suggestions on major issues related to it; pushing forward reform of the means of aid-giving; making foreign aid plans and overseeing and evaluating their implementation. <http://en.people.cn/n3/2018/0313/c90000-9436375.html>

and energy is therefore considered as a toolkit to improve the trade and ODI relationship with China.

This long-term vision of the derived benefits of infrastructural projects results in the second difference compared with the DAC in the application of conditionality. DAC insists on transparent management, rigorous debt sustainability calculations, and peer review for “best practice” among the DAC members. China argues that large-scale infrastructure transforms economic capacities in a way not captured by current debt sustainability calculations (Xu & Carey, 2015). Moreover, as a latecomer, China claims for a legitimate space to have more flexibility to deploy public finance to fill the gap left by traditional donors in long-term financing such as infrastructure investments (World Bank, 2013:19). Here, China puts forward the “mutual benefits” or “win-win” principle, which is alien to the DAC’s North-South welfare/resource transfer concept. In other words, Sino-CEE type South-South cooperation should not be subject to the same set of expectations as Western aid. Correspondently, evaluation standards should take into account mutual benefits. Nevertheless, China is not financing blindly infrastructural projects. With more official finance given, there are signs that China is also taking efforts to monitor and supervise the effectiveness of those projects, such as less tolerance for corruption and mismanagement of resources, and more engagement of Chinese economic expertise (Xu & Carey, 2015). Yet the gap between DAC and China practice is still large.

Another challenge to the smooth development of infrastructural projects financed with Chinese capital in CEE is the active role played by EU funds, whose effect is double fold. In the first place, in those countries where EU funds are available and sufficient, carrying more burdens of debts is not desirable. In the words of Fürst (2014:83) discussing the attitude of Czech, “The Czech basic concern in economic relations with the PRC is increasing the export flow to China, not to gain credit”. In the second place, EU funds, in financing infrastructural investments, are often connected with the introduction of additional provisions in tender procedures. Moreover, for EU-member CEE countries, EU legislation restricts access to the public procurement market, and imposes restrictions concerning technical standards, equipment, and employment rules. As consequence, those countries which found themselves difficult to attract EU funds, such as Hungary, are trapped in the dilemma to receive China’s concessional or preferential loans under the EU law framework. The illustrating example is the iconic Budapest-Belgrade high-speed railway construction, of which the section in Hungary is postponed by Brussels’s review for

potential infringements of the European Union's requirement that public tenders must be offered for such large-scale infrastructure projects.

Under such context, it is not surprising that majority of China's financed transport and energy infrastructure projects have been carried out in non-EU-member CEE countries for favorable institutional settings and less demanding regulatory frameworks. Those peripheral states in Europe thus become showroom where China manifests to the EU its capacity and effectiveness to implement such large-scale infrastructure projects as well as their welfare results for the hosting countries, while the EU observes and evaluates the process. Despite some successful stories, Chinese government and companies also paid lessons to adapt themselves to the specific country condition. COVEC's failure to finish the A2 highway project in Poland reminded China that it would be a mutual learning process. While China introduced a new mentality and way to improve infrastructure in CEE, current EU policies and regulations might exist for some reasons.

In the end, China and EU share the common interest to make less developed CEE countries prosper. In fact, Chinese policy-makers and scholars have called on the EU to make greater investments in infrastructure, in a way that will help to improve interregional discrepancies in Europe (Chen, 2016:43). In response, the EU has also developed a "Balkans Connectivity Agenda" for the countries that are not yet part of the EU. In this sense, China's move in financing infrastructure projects in Balkan states has obliged the EU to reflex on its longtime negligence about the real need of these countries, and reconsider its strategy of Pan-European integration, especially between EU and non-EU members.

Conclusion

During the decade after the global financial crisis, the economic relationship between China and CEE countries has been enhanced by mutual programmatic interests. Under the 16+1 framework and the OBOR initiative, China envisages to cultivate a type of South-South cooperation with characteristics appropriate for North-South cooperation. The interplay between EU-CEE tradition and China's innovative approach, therefore, defines current and future features of economic relations between China and CEE countries. The influence of preexistent EU-CEE economic pattern varies among three economic pillars, with the trade being the least touched, the finance of infrastructure projects being the most conflicting and the ODI pattern being the best example of mutual impacts.

In the first place, CEE countries' trade with the whole world, including that with China, has been largely shaped by their different degree of integration into the global production networks through the investment of European multinationals. In general term, we may distinguish those countries deeply integrated into European industry system from those that less integrated into the global value chain. China's trade with the first group of countries, determined by its own position in the global value chain, represents the most of its trade with the CEE region, and characterized by a high concentration in medium and high technology industry intermediaries. In the meantime, its trade with the second group of countries marks a clear one-way inter-industry trade and increasing imports of lower value-added primary goods and resource-based manufactures. In the second place, the investment pattern of European companies in CEE countries could be perfectly explained by mainstream FDI theories. The efficiency-seeking and the market-seeking motivations are the dominant drivers, while fundamental economic indicators and the quality of institutional environment are the most powerful factors to determine the location of their investment. On the other side, Chinese investors, which are prematurely internationalized companies that are not necessarily the business leaders in the world, have a strong strategic-asset-seeking motivation. Given the spatial concentration of European ODI in CEE and the positive local technological spillover, this type of Chinese ODI is also lured to traditional attractive FDI destinations within CEE. In the meantime, there exists a long-lasting market-seeking motivation, but the market Chinese investor seek is not limited to local or regional market, but the EU single market. The consideration to gain a strategic entry point to wider Western European markets weakens the correlation between the economic size of hosting country and China's ODI. Moreover, the acceleration of China's ODI in CEE is led by large-size companies. Lack of internationalization experience, these new players intent to choose M&A as less risky entry mode, which in turn makes them more dependent on personal networks or bilateral political connections where the government serves as the mediator. In this context, the soundness of impartial institutional environment of hosting country becomes secondary. In the last place, China's mentality to use official finance as a tool to improve infrastructure projects contrasts European concept. The contrast could be summarized as win-win spirit against one-way welfare transfer, the opaque negotiation against transparent management, and the flexible requirements against strict standards. The conflicts, on the one hand, make most of Chinese financed infrastructure projects concentrated in Western Balkan states, which are not yet EU

member; on the other hand, impose barriers to China's intention to extend this model to the rest of CEE countries, exacerbating the tensions already existed between the European Commission and certain countries, such as Hungary.

By far, from the perspective of interest stocks of China in CEE, China's economic exchange with the most important economies in the region falls into EU framework, which suggests that the state's potential and its economic structure are the basic reason of the strength of bilateral economic relation (Góralczyk, 2017:158; Fürst, 2014:86). However, from the perspective of interest flows, China's importance has been significantly increased in smaller peripheral states, which might help to alleviate economic inequalities within the region. The different effects of Chinese economic engagement on individual countries, which might not be deliberately designed by Chinese authority, signify the heterogeneity in terms of political culture, history, and relation with the EU among CEE countries. In this context, the challenge to the 16+1 framework is the lack of a uniform policy towards the region's states as a whole from Chinese part, and the lack of shared goals among CEE partners which treat each other as competitors. As emphasized by Vangeli (2017:104), the main innovative nature of the 16+1 framework is that China defines the regional makeup composed of the countries which have never come together to form a single political community. Despite all the efforts committed by participants, for the moment, the 16+1 framework is still characterized by fragmented interests at the practice level, making many observers believe that China has been using this partly superficial multilateral format to improve its long-term bilateral relations with selected states in the region, risking thus Europe's unity. Nevertheless, according to our analysis, the debate in which the 16+1 and OBOR initiatives are framed in terms of the threat they pose to European unity should be treated as exaggerated. The fear and doubt that the 'old' European Union cast on 16+1 and OBOR is by large triggered by China's unique approach to realize infrastructure projects through official loans. But this fear and doubt could also be rooted in distrust and misunderstanding of China's intent. As an experiment without a pre-established blueprint, the OBOR initiative is subject to the constant modification, just as all reform policies carried in China used to be. During this learning process, it is critical for both parties to keep an open mind, maintain dialogue, and seek the mutual adjustment. In the end, the European unity and the EU's cooperation are critical for the implementation of the OBOR initiative, as no matter how many roads and bridges would be constructed, without Europe's participation, they will lead to nowhere.

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Towards an “Expectations Fulfillment Gap” in 16+1 Relations? China, the EU and the Central and Eastern European Countries

Martina Vetrovcova

Sebastian Harnisch¹

Abstract

By now it has become clear that several Member States of the European Union (EU) in Central and Eastern Europe (CEE) as well as (potential) candidates for future membership of the EU in the Western Balkans have turned towards Beijing to compensate for unfulfilled expectations vis-à-vis the EU. These expectations come in three manifestations: First, while some of the EU Member States in the CEE region have turned towards more illiberal democratic practices, they expect the EU to respect their sovereign right to do so. To balance EU expectations and, in some cases, sanctions vis-à-vis their sovereignty, these states are leaning towards Beijing and use it as a political and diplomatic buffer. Second, after more than 40 years under Communist rule, the CEE states and their governments raised high expectations as to the economic growth, modernization, and improved living standards emanating from their EU membership and closer integration into the EU structures, but not all of these expectations have been met by the EU or private economic actors. In turn, in the aftermath of the 2008 global economic and financial crisis and the subsequent Eurozone's debt crisis, China has expanded its economic outreach to the CEE region, which has later been institutionalized through the Belt and Road Initiative (BRI) and the 16+1 Cooperation, and provided a perfect alternative for economic cooperation and investment. And third, nations in the Western Balkans have been becoming increasingly disillusioned with the EU accession process, since Union membership still remains a rather distant prospect for most of them. The promise of joining the EU has long served as a strong incentive for the Western Balkan countries to reform, yet the guarded engagement of the EU in the region in recent years has resulted in growing frustration and the Balkan's opting for alternatives that would satisfy their needs and expectations.

The paper discusses the above-described trend of “expectations fulfillment gap” for several groups of states, i.e. the Visegrad Group, the Baltic countries, and the

¹ Martina Vetrovcova, PhD Candidate, University of Heidelberg, Germany; Sebastian Harnisch, Professor for International Relations and Foreign Policy, University of Heidelberg, Germany

Western Balkans, and assesses the interaction between their political and economic expectations attached to the 16+1 Cooperation. Our theoretical argument is based on Christopher Hill's (1993) notion of "capability-expectations gap," which describes a divergence between the articulated expectations and the actual capabilities, or, in our case, between anticipated and actual results. We conclude that the expectations are partially comparable among these distinct groups of states because economic cooperation with and investment by China includes long-term economic asymmetries which might also hamper political autonomy of the CEE countries. It follows that the management and moderation of expectations is the task ahead to avoid future disappointments.

Keywords: *16+1 Cooperation, European Union, China, Central and Eastern Europe, Visegrad Group, Western Balkans, Baltic region*

1. Introduction

The rise of China has been at the center of global politics throughout the past decade. The expansion of China's interests and infrastructures into Africa, Southeast Asia, and other parts of the globe have raised many expectations as well as concerns. The Belt and Road Initiative, unveiled by Chinese President Xi Jinping in 2013, signaled the advent of a new era of China's engagement with Central, South, and Southeast Asia as well as Africa and Europe. Today, important segments of the Chinese society yearn for the return of China to the center stage of regional, if not world politics – a development that, were it to occur, would surely upset some of the institutions and relationships between current great and lesser powers. Understanding the rise, accommodation, and future of China in regional and world affairs is therefore central to the successful management of China's as well as the European Union's (EU) foreign relations in this transformative era of world politics.

The study of hierarchies and asymmetrical relations between great and lesser powers has been neglected in International Relations (IR) analysis. This has become increasingly unfortunate because major changes in the relative positioning of various states and non-state actors have occurred recently. While IR theoreticians in- and outside China have started to address this lacuna (Babones 2017; Qin 2016; Reeves 2016; Zarakol 2017), we still lack the theoretical tools to understand and explain the evolving relationships between a "rising China" and lesser states around the world, particularly in Europe.

In this paper, we build upon the concept of a “capability-expectations gap” by Christopher Hill (1993) and pose more systematic hypotheses about the relational qualities of the 16+1 cooperation between China and Central and Eastern European countries (CEEC). The paper is divided into two major parts. First, we summarize the effects of the “expectations fulfillment gap” on the part of CEEC vis-à-vis the EU and show how variations of unfulfilled political, economic, and accession expectations of CEE states account for differences in their relations towards China. Drawing upon role theory, we contend that CEEC’s relationship with China is intertwined with their respective relations to the EU and its member states. International roles, in this view, are understood as social positions enclosing specific functions in a group. Foreign policy choices, then, result from choosing between commensurate or incommensurate expectations of “significant others,” usually states or international organizations, and one’s own society (Harnisch 2015a).

We review the expectations fulfillment gap for different groups of states in Central and Eastern Europe and the Balkans. CEE EU member states are most likely to cast China into the role of an “alternative leader” vis-à-vis the EU when their quest for autonomy and their political expectations about participation in EU politics as well as economic claims about EU transfers are disappointed. In addition, while relaxing the assumption that all CEEC are unitary actors, we suggest that some countries feature distinct patterns of collusion between business and political elites – i.e. corruption – making them more amenable to large scale infrastructure projects without competitive bidding processes. And, last but not least, we argue that countries in the Western Balkans have become increasingly disillusioned with their unfulfilled EU accession aspirations, fueling a strategic reorientation towards China. While political, economic, and accession expectations fulfillment gaps are intimately related, we treat them as analytically distinct in this paper.

In the second part of this paper, we address the puzzle of a recent role reversal by CEE states, which appear to have become more keen on pursuing a joint EU foreign policy towards China in the spring of 2018. In April 2018, the German business newspaper *Handelsblatt* reported that 27 out of 28 EU ambassadors to China consented to a joint report, warning about possible lack of transparency of the China’s “New Silk Road” strategy while criticizing the predominance of Chinese interests in this project, which may lead to permanent power asymmetries (Heide et al. 2018). True or not, this latest report reinforces signs of greater unity within the EU in dealing with China, the reasons for which have not been explored analytically yet. We suggest

that new external and internal challenges in and to the EU, such as the Trump administration's "America First" policy or the Brexit dislocations, are drawing CEE member states closer to the EU. We also find that the possible recurrence of anti-great-power sentiments as well as unfulfilled expectations with regard to Chinese investments may explain the recent pivot of CEE states towards the EU. Other potentially influential role expectations are the ongoing negotiations over the EU's next long-term budget framework and the EU's renewed focus on the Western Balkans. We suggest that the "cold rationality" of budgetary concerns can be traced back to the historical experience of the region of being left out. Like many relational IR theories, role theory focuses on current relationships but it also integrates historical self-perceptions, such as chosen traumas and historical (intergenerational) (in-)justices, to explain current role behavior (Harnisch 2015b).

The paper is a theoretical reflection on the nature, causes, and duration of relational roles of CEEC vis-à-vis China and the EU. It is not a deep empirical study of the CEEC policies towards Beijing, or of European countries' positions vis-à-vis the Belt and Road Initiative in general. Role theory is applied to three groups of states of Central and Eastern Europe at the level of broad interpretation. Specialists will no doubt find the approach unsatisfying, but we believe there is value in interpreting the CEEC's reaction to the Belt and Road Initiative in relational terms.

2. Theoretical argument, case selection, and methodology

In 1993, Christopher Hill surveyed earlier arguments about the (then) European Communities' (EC) anticipated versus effective role in the world (Hill 1993). Hill argued that while the EC had continuously been ascribed to an ever-growing set of capabilities, its actual performance was much less impressive, resulting in a growing "capability-expectations gap." To account for the gap analytically, Hill found that the EC is characterized by different degrees of the ability to agree (coherence), available resources (i.e. lacking autonomous military capacities), as well as foreign policy instruments at the disposal of the EC proper (Hill 1993: 321).

We build upon Hill's insights and apply them to the CEEC's role taking towards the EU and China. In this view, the CEEC's role expectations emanate from both historical self-ascription as "victims of great power politics" and current role expectations as respected and equal members of the EU, which in their view represents an assemblage of autonomous nation states (Beneš/Harnisch 2015; Kowalski 2017: 7). We suggest that CEEC patterns of cooperation with China in the

16+1 framework rest on grievances resulting from their unfulfilled expectations with regard to political participation in the EU, economic opportunities and transfers in the aftermath of the global financial crisis and the subsequent Eurozone's debt crisis, as well as yet-to-be-fulfilled accession expectations by the Western Balkan countries.

Although CEEC's interests in China started to gain ground only in the aftermath of the global financial crisis in 2008/2009 – with China casting CEEC economies as bridges into the EU market – CEEC's role behavior towards China has diversified considerably. The Visegrad countries, most notably Hungary, have highlighted political ties with Beijing as a tool to rebuff EU expectations about the adherence to the rule of law and EU regulations. The CEEC's fear of possible encroachment on their national sovereignty can be best expressed by using the words of the Czech President Miloš Zeman:

“Because there was very bad relationship between China and the former government of the Czech Republic—former government, I stress—because this government has been very submissive to the pressure from the U.S. and from the EU. Now we are again an independent country, and we formulate a foreign policy which is based on our own national interest. We do not interfere with the internal affairs of any other country, and this is my explanation of the restart” (Zeman 2016).

A second group of countries, among them the Baltic EU member states, has opted for closer relations with China to diversify their foreign direct investment (FDI) portfolio and gain preferential market access (see below). Finally, non-EU members on the Balkans, disappointed by the EU's enlargement fatigue, have expected China to invest in their economy and infrastructure, thereby turning them into an important logistic hub for the entry into the EU's common market.

In contrast to earlier depictions of CEEC's China policies as determined only by commercial interests (Godement/Fox 2009), we contend that CEEC's role positioning vis-à-vis China results from both internal and external expectations as well as commercial and ideational preferences, including past experiences with communism and Soviet hegemony (Song 2018). There is sufficient evidence in the historical record to sustain that external role expectations, most notably expectations and policies from Russia, the United States and the EU, play a more prominent role for CEEC than those from China. Nonetheless, we contend that China has become a more important “significant other” to CEEC because of varying degrees of the “expectations fulfillment gap” these countries encounter with the EU.

This study applies a mixed methods research design for data collection and analysis, combining descriptive statistics and the method of qualitative content analysis. The topic at hand requires both quantitative and qualitative approaches to provide a comprehensive understanding of the discussed phenomena. Mixed methods research, which aims to integrate qualitative and quantitative data and combine the strengths of each methodology, is especially suitable when exploring complex research questions (Creswell 2015). The analysis of statistical data helps to identify patterns and guide case selection for more in-depth research. To test the hypotheses that we deduced from role theory, we use qualitative content analysis, which allows for a deeper understanding of the observed statistical relationships and collected empirical data. The content analysis works with theoretically derived category schemas in order to systematically structure and interpret the text material. For our research purpose, we used both primary and secondary sources and we made sure to include different perspectives of authors from Western Europe, Central and Eastern Europe, and China.

3. CEEC and the growing “expectations fulfillment gap” vis-à-vis the EU

Based on Christopher Hill’s (1993) notion of “capability–expectations gap” (see above), we understand the “expectations fulfillment gap” as a divergence between anticipated roles and actual role taking. Considering the great diversity of external and internal expectations among the CEEC participating in the 16+1 format, we differentiate between unfulfilled political, economic, and accession expectations. While the first two manifestations pertain to the expectations of the 11 CEE states that are members of the EU, the third refers explicitly to the five Western Balkan countries involved in the 16+1 cooperation framework.¹

Despite being perceived as one block within the 16+1 cooperation, “Central-Eastern Europe” is in reality a very heterogeneous group of states, including both EU members and non-members (Kowalski 2017: 6). This heterogeneity is not limited to the EU membership but embraces also various levels of political and socio-economic development as well as cultural, linguistic, and religious characteristics that feed into domestic role expectations (Song/Wang 2018). What these states have in common is a shared but diverse communist past, resulting in a

¹ While Albania, The Former Yugoslav Republic of Macedonia, Montenegro, and Serbia have been granted candidate status by the EU, Bosnia and Herzegovina remains a potential candidate (European Commission 2018b).

strong quest for autonomy while pursuing EU membership. Some of them (the four Visegrad states, the three Baltic states, and Slovenia) accomplished this goal earlier (in 2004), while others (Bulgaria and Romania in 2007 and Croatia in 2013) took longer to fulfil the necessary accession requirements, with the Western Balkan countries still waiting to be admitted to join the EU.

The “Return to Europe” or “Return to the West” was thus the primary objective of the CEE states after the collapse of the Soviet Union (Kavický 2012: 14). Under new political leadership, the countries underwent extensive economic, political, and social transformation to comply with the EU accession criteria. The reform efforts, enjoying wide support across the political spectrum and in society, were driven by high expectations towards these countries’ integration within Euro-Atlantic and Western European structures. Becoming part of the EU has brought significant benefits to the region, leading to an increase in gross domestic product (GDP) levels, declining unemployment rates, and improving living standards (Kalotay 2017; Long 2018). Competitive advantages of a cheap yet skilled labor force and geographic proximity to Western European markets resulted in attracting foreign investors, which in turn helped CEEC modernize their economies and integrate into the European and global markets (Balázs 2017; Hunya 2017; Medve-Bálint 2014).

However, annual FDI flows to the region shrunk and the economic growth of the CEE countries slowed down as a consequence of the global financial and economic crisis in 2008 (Kalotay 2017: 25; Liu 2015; Long 2014). The EU-15, the region’s primary source of FDI, considerably lowered their investments in the 11 CEEC in the aftermath of the so-called Great Recession (Dornean/Oanea 2015: 60-61). Struggling for economic recovery, the CEE states welcomed the increased activity of Chinese investors in the region, who seized the “window of opportunity” and stepped up their economic cooperation with the Eastern periphery of the EU, a process formally institutionalized by the establishment of the 16+1 cooperation (Fürst/Tesař 2013; Seaman et al. 2017: 11). Although the “old” EU member states still remain the primary source of FDI inflows for the CEE region, Chinese companies have emerged as “significant other” investors in the past few years (Balázs 2017).

The global financial crisis and the subsequent Eurozone’s debt crisis resulted in growing material expectations gap in terms of declining FDIs from the older to the newer EU members. But the twin crisis also had negative implications for the internal cohesion of the EU (Dempsey 2016). Most CEE states took a notably harder line than Western European members of the EU during the negotiations over the financial aid

programs for Greece and other Eurozone countries affected by the crisis. For one, Slovakia has been among Greece's harshest critics, arguing that they have carried out tough economic reforms themselves and therefore do not feel obliged to pay for others' mistakes (BBC News 2015; Puhl 2011).¹ The considerable crisis support for Greece, which had been a large recipient of European funds already before the crisis, generated a feeling of unfairness and "unfulfilled expectations" (*"We could have received the support if others had not gotten it"*) in some, if not all, CEE states. The resulting frustration, in turn, facilitated a strategic reorientation of states in the CEE region towards other partners than the EU, such as China.

Other role conflicts have further exacerbated this distancing trend. CEE countries such as Hungary and Poland, which have been at odds with EU institutions over their adherence to the rule of law and their democratic practices, denounced resulting actions by the EU as "external interference" in their domestic affairs (Buras 2017). Similarly, when the Visegrad states faced accusations of building an opposition bloc within the EU during the recent migration crisis by rejecting any mandatory quota system for the redistribution of asylum-seekers, they dismissed the criticism by saying that it is their sovereign right to do so (The Economist 2015). Moreover, the recent re-emergence of nationalist parties has prompted leading politicians in Central and Eastern Europe to call for more autonomy from the EU (Deutsche Welle 2016).

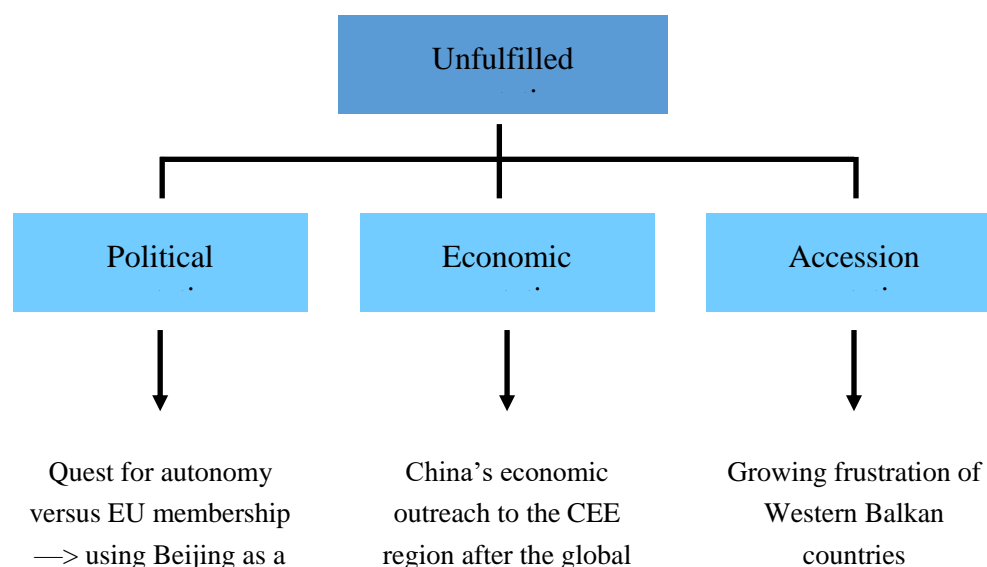
Given their long and arduous struggle for independence from Soviet communism, CEE governments and their societies are very sensitive about any kind of centralization within the EU, including the pooling of sovereignty in certain policy areas. It was primarily the economic benefits, not the identification with all values of the EU, that the CEE states associated with the EU membership and that continues to affect their membership role. To counterbalance political expectations from the EU institutions, the CEEC have thus leant towards Beijing and used it as a political and diplomatic buffer. It is the kind of "no-strings-attached" cooperation based on pragmatism and economic interests that makes China so attractive at this time for the countries of Central and Eastern Europe (Auer/Stiegler 2018: 141; Liu 2013).

Countries in the Western Balkan region have also experienced an expectations fulfillment gap in recent years. After a series of ethnic conflicts and wars of independence in the former Yugoslavia in the 1990s, the Balkan countries placed great hopes in becoming members of the EU. The statement made by the European

¹ In 2011, Slovakia was the only Eurozone member who refused to participate in the first bail-out package for Greece (Pidd 2011).

Council at the Thessaloniki summit in 2003 that “*the future of the Balkans is within the European Union*” provided a strong incentive for the region and sparked a number of economic and institutional reforms in the early 2000s (Fouéré 2017). However, in the light of recent challenges, including the European debt crisis, Brexit, and the unprecedented arrival of migrants and refugees in Europe in 2015, the enthusiasm for future enlargement has turned into fatigue on the part of the EU. Of the seven Western Balkan countries, only Croatia was successful in fulfilling the accession criteria and becoming a full EU member. The guarded engagement of the EU in the region in recent years has thus resulted in a growing frustration of the Western Balkan nations (Balkans in Europe Policy Advisory Group 2014; Krastev 2018). The geopolitical vacuum brought about by the rather distant prospect of EU accession and wavering EU interest in it created an opportunity for outside actors such as Russia and China to increase their presence in the region (Fouéré 2017). China, in turn, has invested in numerous infrastructure projects across the Balkan region (Tonchev 2017). The Western Balkan countries, which are not subjected to the EU rules and regulations regarding public procurement (yet), have welcomed the rise in Chinese investments, using them as an alternative to the unfulfilled expectations they had on the EU.

Chart 1: Three manifestations of the CEEC’s “expectations fulfillment gap” vis-à-vis the EU



Source: own depiction

4. Balancing expectations between EU and China: a CEEC's fragmented pivot towards Europe?

Due to the *material expectations gap*, *autonomy expectations gap*, and *accession expectations gap*, the EU lost some of its attractiveness for CEE states, which, in turn, have been probing alternatives that would meet their expectations. But the growing Chinese involvement in Europe has also led policymakers of the EU member states to start questioning whether the Belt and Road Initiative (BRI) is really a symmetrical “win-win cooperation” as proclaimed by the Chinese government. While such reservations surrounding the BRI were so far limited to Western Europe, CEE decision-makers have recently joined in voicing concerns as well (Fürst 2017; Szczudlik 2017). In April 2018, 27 out of 28 EU ambassadors to China drafted and signed a report, which claimed that BRI projects put Chinese companies at an advantage and do not follow international transparency norms. The news reinforced already existing suspicions that the Belt and Road and 16+1 initiatives might “divide and rule” Europe (Heide et al. 2018). Although the report has not been published yet, it signals a renewed unity among the EU members in their approach to China and, more importantly, a new strategic reorientation on the part of the CEE states. Consequently, this section aims to explore the reasons behind this reorientation, while discussing possible closure of the three gaps identified before.

4.1 Political expectations

Lessons learned from Brexit

The Brexit decision caught the CEEC, among other EU member states, completely off guard. It presented an especially hard challenge for Slovakia, which assumed the rotating presidency of the Council of the EU in the second half of 2016. Slovak foreign minister, Miroslav Lajčák, called it “a brutal start” for their presidency and stated that he would “*support any measure that will help reverse the position of the British people, which we have to respect but also regret*” (Connolly 2016). But Slovakia was not the only country shocked by Britain’s departure from the EU. According to Dariusz Kałan, a Central Europe expert at the Polish Institute for International Affairs, the reactions in the whole CEE region have been marked by “*genuine shock and helplessness*” (Connolly 2016). The CEEC, and among them especially the four Visegrad states, felt that they lost an important ally with a similarly skeptical view of deeper European integration. Of even greater concern to CEE policymakers has been the potential marginalization and isolation within the EU if the idea of a “two-speed” Europe materializes (Janulewicz/Merheim-Eyre 2017). Their

concerns became reality when, immediately after the Brexit referendum, the (then) German foreign minister, Frank-Walter Steinmeier, invited the foreign ministers of the six founding member states of the EU to Berlin and reiterated their commitment to an “ever closer union” (Connolly 2016). Observing the painful lesson the United Kingdom (UK) is currently learning during the exit negotiations, CEE leaders appear to follow a more pragmatic policy line in the EU.

The Trump presidency

The election of Donald Trump as president of the United States (US) left EU institutions and member states, which were still digesting Brexit, in a state of shock and dismay. The reactions, however, differed depending on the political leadership and reflected the well-known “old-versus-new Europe” divide. While leaders such as Angela Merkel and Francois Hollande expressed their concerns about the Trump’s “America First” philosophy and its impact on the transatlantic relationship, the CEE states took a more optimistic view. In fact, Czech President Miloš Zeman and Hungarian Prime Minister Viktor Orbán belong to the most prominent supporters of Donald Trump (Zgut et al. 2017). More systematically, the European Council on Foreign Relations has identified three groups of states in the EU that are characterized by distinct effects the current US president has had on them: the Antichrist Effect, the Regency Effect, and the Messiah Effect (Shapiro/Pardijs 2018).

The first group, including Western European members and CEE states Estonia and Slovenia, perceives Trump as an ‘Antichrist’ figure who threatens the Western liberal values. The second group of states, represented among others by Bulgaria, Croatia, Latvia, Lithuania, Romania, and Slovakia, hope(d) that the actions of Donald Trump would be controlled by his senior advisers and institutional constraints so that the transatlantic relationship would remain more or less intact. The third group, which the report describes as “Trump’s apostles” in Europe and which comprises Miloš Zeman in the Czech Republic, Viktor Orbán in Hungary, and the ruling Law and Justice party in Poland, has praised Donald Trump for his nationalist rhetoric and anti-immigration policies (Shapiro/Pardijs 2018). But even this very positive role identification has shown some cracks. After Trump’s withdrawal from the Paris Agreement, Victor Orbán publicly stated that he was “in a state of shock,” and emphasized that no one should question the science of climate change (Orbán 2017). More importantly, all CEEC (still) consider the US and NATO as the main guarantors of their national security and stability in the region. Therefore, after Donald Trump repeatedly called NATO obsolete in his election campaign and his affinity with Russia came to the

surface, the Baltic states and Poland became wary. While the Trump administration reassured Eastern European NATO members of continued US troop presence in the region, America's credibility as a reliable partner has been somewhat impaired. Donald Trump's unpredictability, his "America First" doctrine, and his protectionist policies have thus given EU integration new impetus to strengthen its internal cohesion.

Table 1: Three "Trump effects" on the EU member states

Antichrist Effect	Estonia, Slovenia
Regency Effect	Bulgaria, Croatia, Latvia, Lithuania, Romania, Slovakia
Messiah Effect	Czech Republic, Hungary, Poland Opposition parties in: Bulgaria, Slovenia

Source: Own depiction based on data from Shapiro and Pardijs (2018)

Aversion towards centralization

Historical self-identification still plays a crucial role in the CEEC role taking today. The experience of many years living "under foreign occupation" has complicated their relations towards both Russia and the Western powers. While Russia is perceived primarily as a security threat by most of the CEE states, the anti-great-power sentiments vis-à-vis the West relate mostly to their sense of being marginalized in the world politics (Kořan 2017). In contrast, most relations between Central and Eastern Europe and China are not marred by any historical animosities (Liu 2016). However, China's recent turn towards more centralization of power and the introduction of a social credit system for Chinese citizens are prone to trigger old memories and traumas in the CEE states linked to their painful historical experiences with centralization.

4.2 Economic expectations

Negotiations over the next multiannual EU budget

Other role conflicts might also help to explain the recent shift on the part of the CEEC. These states have found themselves facing a dilemma of sustaining their quest for autonomy against the background of the current negotiations over the EU's next Multiannual Financial Framework for the period 2020-2027. The European Commission revealed its official proposal for the EU long-term budget on 2 May 2018, but the negotiating process is expected to take more than a year until the EU member states reach an agreement (European Commission 2018a). EU Budget Commissioner Günther Oettinger has already stated that adjustments will have to be made to fill in the void left by Brexit since the UK was one of the EU's biggest net

contributor nations (Fox 2018). Respective cuts are expected to affect, *inter alia*, the Cohesion Policy and its funds that are used to provide support for the poorer regions of Europe, including the former Soviet bloc countries in Central and Eastern Europe, which are still catching up economically. The European Commission also plans to link the disbursement of EU budget funds to the compliance with the rule of law, a proposition that was met with substantial opposition from Poland which fears that it might face possible EU funding cuts over its controversial judicial reforms (Bodalska 2018). Commission officials, however, deflected such criticism, arguing that the proposal was not directed against any specific member state but is meant to safeguard the respect for the rule of law as an essential precondition to guarantee proper use of funds in the recipient countries (Meier 2018). In the light of the upcoming budget negotiations, it seems plausible that some EU member states, including the CEE, will try to balance their commitment to EU rules with their respective engagement towards China, considering the relative impact on specific interest groups and the society at large.

Expectations gap with regard to investments from China

The launch of the 16+1 cooperation raised considerable expectations in the CEE countries that Chinese investment and strengthened trade relations would help create jobs, generate wealth, provide capital for research and innovation, and build and improve infrastructure in the region. However, most CEEC observers suggest that these expectations have not borne fruit (yet) and that the 16+1 cooperation brought more political than economic results (Matura 2017). Some countries, such as Poland or the Western Balkan states, have seen an increase of Chinese FDI in the past few years. But others, such as Hungary, have been struggling to attract new Chinese investors (Seaman et al. 2017: 13). In addition, despite the rise of Chinese direct investment in some countries, its share among total FDI stock remains generally very low in Central and Eastern Europe. Moreover, the UK, Germany, and France as well as the remaining EU-15 countries continue to serve as major destinations for Chinese foreign investment and, in the same vein, Western European countries are still the major partners for CEEC in terms of investment, trade, and funding of infrastructure projects (Baker & McKenzie 2015; Seaman et al. 2017).

More concretely, the “expectations mismatch with China” is exacerbated by the fact that Chinese investments in the CEE region have concentrated on a few high-profile infrastructure projects, while many CEE states would prefer greenfield investments and joint-ventures that they deem more beneficial to their economies

(Góralczyk 2017; Pavličević 2016). Moreover, some big infrastructure projects have yet failed to deliver tangible results, which can be demonstrated by the considerable delay in implementation of one of the flagship projects of the 16+1 cooperation, the Budapest-Belgrade high-speed railway. According to the original plans, the Budapest-Belgrade railway was supposed to be finished by 2017. However, the construction was put on hold by the European Commission's investigation into potential infringements of EU tendering rules, and it was only in November 2017 that Hungary announced a procurement tender for its section of the line (Góralczyk 2017; Zalan 2017). Some CEE states, which turned towards Beijing to compensate for unfulfilled expectations vis-à-vis the EU, have thus started to point to the discrepancy between China's economic promises on the one hand and reality on the other hand (Fürst 2017).

4.3 Closing the gap in the Western Balkans

Over the course of the last two years, EU institutions have recognized that they have been losing ground in the Western Balkan region. Consequently, in February 2018, the European Commission adopted a strategy titled *“A credible enlargement perspective for and enhanced EU engagement with the Western Balkans,”* in which it renewed the prospect of membership for Albania, Bosnia-Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia. The strategy mentions six flagship initiatives of how the EU will support the transformation efforts of the Western Balkan countries. Serbia and Montenegro, which are considered as front-runners toward EU accession, could be allowed in by 2025 if they meet all necessary conditions, including fundamental reforms and good neighborly relations (European Commission 2018c). The reassurance of still being an integral part of the EU integration process, together with the new prospect of becoming a full member at some point in the future, seems to help close the existing expectations gap. In fact, as of today, the EU remains by far the largest trading partner for the Western Balkan countries and the main source of inward FDI (Fouéré 2017). Moreover, the European Commission proposed to gradually increase funding under the Instrument for Pre-Accession Assistance (IPA) until 2020 to support the Western Balkan countries on their path to the EU. With the new strategy, the EU has made a clear attempt to pull the region closer to itself, but it also made sure to remind the leaders in the Western Balkans of the importance of their “strategic orientation and commitment” (European Commission 2018c: 18).

5. Conclusion and outlook

This paper, as the title suggests, is an interpretation of China's rise as a "significant other" for CEEC against the background of unfulfilled expectations. It is written from a role theoretical perspective, which considers historical and current role expectations as crucial for countries' role behavior. While the different groups of states among CEEC provide interesting variation on many of the domestic expectations in the general theory, the data necessary for a rigorous application have not been systematically assembled. It was the limited purpose of this paper to provide some additional perspective to explain the initial variation in role taking by different CEEC and to better understand the recent turn towards a more cohesive EU role identification in the spring of 2018.¹ Perhaps the most important contribution of role theory lies in suggesting how – contrary to the expectations of many – past experiences and current expectations of others shape the role taking of CEEC vis-à-vis China.

The theory also provides a sketchy road map towards the future as some domestic role expectations in CEE countries may shift – due to changes in government – once again towards a more pro-European course. But most pointedly, role theory suggests that at least some CEEC are likely to remain highly skeptical towards great powers – being East or West – as their historical struggle for autonomy is part of their continuing national self-identification. As these states mature into their respective roles as EU members, they are unlikely to take on member states' roles similar to those of Western EU members. To understand the future of CEEC-EU-China relations, we must return to the study of past relationships.

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¹ The case of Hungary is an interesting outlier in this respect. We suggest that this course reflects both a more autonomous course vis-à-vis the EU's critique of Hungary's turn towards administrative centralization and populist nationalism and a strong preference for big infrastructure projects to serve a specific domestic clientele.

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16+1 and the re-emergence of the China Threat Theory in Europe

Anastas Vangeli¹

1. Introduction

*China is dividing and conquering Europe.*² *China is rebuilding the Eastern bloc.*³ *China is buying the fragile post-socialist democracies of Europe “on the cheap.”*⁴ These are some of the tropes that are often repeated in the mainstream discourses in Europe and beyond, when it comes to the cooperation between China and the sixteen countries of Central, East and Southeast Europe (CESEE – in the official Chinese discourse known as “Central and Eastern European countries” abbreviated as CEEC). The new reality of the public debate on 16+1, now taking place well beyond the CESEE region (anecdotal evidence has shown interest by media outlets in Australia and Latin America among others), is significantly different compared to the one of only a few years ago: until recently, even in Europe, China-CESEE relations were unknown for many, and insufficiently interesting for those who were familiar with them. Around the time of its foundation (2012), the 16+1 mechanism was a greatly overlooked topic and very few scholars outside the

¹ Doctoral Researcher at the Graduate School for Social Research and a fellow at the ZEIT-Stiftung Ebelin und Gerd Bucerius. Previously, he has studied and worked in Skopje, Budapest, Brussels and Beijing. His research interests include post(socialist) politics in China and Europe and the relationship between them, and the diffusion of ideas in global politics, especially through China's Belt&Road Initiative.

² Stefanie Bolzen and Johnny Erling, “Divide, Conquer, Aim East: China Has A Sharp New European Trade Strategy,” Worldcrunch, 2012, <http://www.worldcrunch.com/world-affairs/divide-conquer-aim-east-china-has-a-sharp-new-european-trade-strategy/eastern-europe-beijing-foreign-commerce/c1s10100/>.

³ Martin Hala, “Forging a New ‘Eastern Bloc,’” *Journal of Democracy* 29, no. 2 (April 10, 2018): 83–89, <https://doi.org/10.1353/jod.2018.0028>.

⁴ Salvatore Babones, “China’s Bid To Buy Eastern Europe On The Cheap: The ‘16+1’ Group,” *Forbes*, November 27, 2017, <https://www.forbes.com/sites/salvatorebabones/2017/11/27/chinas-bid-to-buy-eastern-europe-on-the-cheap-the-161-group/>.

China-CESEE community were aware of its existence. Those who knew it, called the platform obscure and esoteric,¹ and largely ceremonial.

The public way of the expression of criticism and objections towards 16+1 is another important new development. Until recently, the criticism towards the platform was voiced only in confidential circumstances, often anonymously, without any spillover in the public sphere. Insiders and 16+1 researchers knew of many of the points of contention, but had little visible evidence to back their claims that skepticism exists. However, today, the criticism is voiced publicly by the European “power elite,”² think tanks and the media – which in turn, makes it easier for authors to write about it. Taking the publicly expressed skeptical sentiments towards 16+1 as an invitation for a scholarly inquiry, this paper tries to provide the particular context and the reasons that shape such discourse in Europe.

The paper starts by providing a brief overview of the general developments of Sino-European relations in the past decade. It then turns to situating the new “China Threat” approach in the context of the many possible (and existing) approaches to China. It then proceeds with an analysis of the skeptical and negative takes on 16+1 in the context of the emerging “China Threat” paradigm in Europe. It shows how the changing European discourse on China is now using 16+1 as one of the cases to both fuel the debate, but also as one of the cases where it sees a potential to contain China.

2. Changes in the China-Europe Relationship

The mounting skepticism towards 16+1 in Europe is a reflection of the structural and discursive changes in the contemporary China-Europe relationship, which itself develops against the background of an evolving global order. After a series of crises – the global financial crisis, the solidarity crisis in the wake of the refugee flows to Europe, the inability to act sufficiently on the Ukraine issue, and finally, the rise of nationalism, isolationism and xenophobia that culminated with the British referendum on leaving the European Union, Europe is weakest it has been in the post-War era. One of the cumulative effects of the multiple crises has been the weakening of Europe’s position and prestige on the global stage, and the loss of confidence among European actors themselves.

1 Kerry Brown, “Is China’s Money Enough to Unite Central and Eastern Europe?,” *The Diplomat*, October 14, 2014,

<http://thediplomat.com/2014/10/is-chinas-money-enough-to-unite-central-and-eastern-europe/>.

2 C. Wright Mills, *The Power Elite* (Oxford: Oxford University Press, 2000).

China itself also faces a number of challenges, and many of them are critical for its further advancement: i.e. a shift from labor-intense towards service economy, middle-income trap, and rising demands from its population, which has led the Communist Party to formulate a new principal contradiction.¹ Yet, China had emerged relatively stable after the global financial crisis, becoming an engine of the world economy, and the sole big power that now offers a global vision, which also benefited from the US revisionist turn under Donald Trump; and regardless of its internal challenges, China surges ahead as a global trend-maker. In Xi Jinping, China has its strongest leader in decades, who exemplifies the newfound confidence of the Communist Party to move beyond the low profile approach, towards one of striving for achievements on the global stage.² In the process, China has managed to convert its economic, political and symbolic clout into a global call for action (through the Belt and Road Initiative), and has started establishing new, Sino-centric international institutions. It has extended and deepened relations with partner countries in all parts of the world, including Europe and the European neighborhood. Hence, China has emerged not only as an economic, but also as a normative power,³ offering its wisdom⁴ and solutions, while encouraging others to pursue their own national paths of development at a time when the Western liberal-democratic model has become ever more questioned.

China is thus now the pro-active side in the Sino-European relationship – Chinese policymakers are the one who have a vision and take steps towards fulfilling it – while European policymakers are the one who craft the responses. Yet, in

1 The new principal contradiction is “between unbalanced and inadequate development and the people’s ever-growing needs for a better life.” The previous principal contradiction (1978-2018) was “the ever-growing material and cultural needs of the people versus backward social production.” Yamei, “China Embraces New ‘Principal Contradiction’ When Embarking on New Journey,” *Xinhua*, October 20, 2017, http://www.xinhuanet.com/english/2017-10/20/c_136694592.htm.

2 Xuetong Yan, “From Keeping a Low Profile to Striving for Achievement,” *The Chinese Journal of International Politics* 7, no. 2 (June 1, 2014): 153–84, <https://doi.org/10.1093/cjip/pou027>.

3 Brantly Womack, “China as a Normative Foreign Policy Actor,” CEPS Working Documents (Brussels: Centre for European Policy Studies, 2008), <http://aei.pitt.edu/11662/1/1607.pdf>; Emilian Kavalski, “The Struggle for Recognition of Normative Powers: Normative Power Europe and Normative Power China in Context,” *Cooperation and Conflict* 48, no. 2 (June 1, 2013): 247–67, <https://doi.org/10.1177/0010836713485386>.

4 Yi Yang, “Xi’s ‘World View’ Offers Chinese Wisdom to Global Governance,” *Xinhua*, December 9, 2017, http://www.xinhuanet.com/english/2017-12/09/c_136813057.htm.

responding to China's rise, not all European voices are critical, and those who are critical are not critical in the same way. For example, a number of national governments in the EU (and among the non-EU countries), have assumed a cooperation-oriented position towards China. Two of the most sensitive policy issues, the recognition of China as a market economy in the World Trade Organization,¹ and the introduction of investment screening mechanism,² for instance, have been issues where a number of Europeans have supported China. The general assumption has been that the supporters of China are motivated by economic interests; however, at least in the debates on investment screening, there has been also a discussion on principles – as in fact, investment screening is a retreat from the openness that has been one of the core values of the EU.

The pluralism of opinions on China in Europe is even more visible if one goes below the level of national politics. Regional and local governments, for instance, can be much friendlier to China. Local governments are in fact some of the major actors in China's new global endeavors, as the Belt&Road Initiative (BRI) foresees the creation of hubs and nodes across the regions involved. Hence, for example, Duisburg (a city that hosts the largest inland port in Europe and is closely linked with China, greatly benefiting from the BRI)³ and the government of Northern Rhine-Westphalia as political entities are much more welcoming to China than the federal government of Germany. In addition to regional and local governments, one can take the case of business actors. For instance, while some voices in Western Europe have developed a critical attitude towards the Belt&Road Initiative, it is worthwhile to remember that at least when it comes to its focus on overland infrastructure, part of the inspiration came by European transportation and logistics enterprises (such as Deutsche Bahn Schenker). At the same time, parallel to development of confrontational political discourse, large European companies are seeking ways to adjust and ultimately benefit from the BRI (for instance, Siemens has

1 Eszter Zlatan, "[Focus] Divided EU Debates China Market Economy Status," *EUObserver*, January 13, 2016, <https://euobserver.com/eu-china/131801>.

2 "Countries like Sweden, Netherlands, and Denmark were wary of a measure that went against their free-trade traditions. Others like Greece, Portugal, and Hungary are dependent on foreign investment to develop their economies." Eric Maurice, "EU Preparing to Screen Chinese Investments," *EUObserver*, September 14, 2017, <https://euobserver.com/economic/139015>.

3 Joshua Posaner, "How China Put German Rust-Belt City on the Map," *POLITICO*, January 3, 2018, <https://www.politico.eu/article/duisburg-looms-large-in-chinas-silk-road-vision/>.

recently opened a specialized Belt&Road office).¹ Glancing into the debates among the expert and the broader public, one may also find an uncritical and unrealistic, positive image of China as a potential savior of Europe. This is part of the reality of the so called “bifocal lenses.”² However, the multiple approaches to the question of China in Europe do not unfold parallel to each other. They are part of a wider dialogue, and interact with each other. The China Threat approach, due to its confrontational characteristics, capitalizes on this existing pluralism of discourses in Europe: those who want cooperation or even dialogue with China can be easily seen as enticed, mesmerized or co-opted by China. Usually, when a China Threat discourse prevails, not only China, but also non-complying voices are seen as threat as well.³

3. Elements of the new China Threat theory in Europe

The term “China Threat theory” refers to fatalistic narratives and contemplations about the future of the world inspired by the anxiety, uncertainty and the fear from China’s rise. The China Threat theory is based on the premise that China cannot and will not rise peacefully, that it has the interest in and actively works on subverting the West and the current global order, and that the West needs to contain China’s rise in order to avoid serious consequences of planetary scope. It is informed by realist, and in the first place neorealist thinking on International Relations, and is usually framed through a language of securitization.⁴ Central element in the China Threat theory is mistrust in China’s intentions (i.e. what Chinese policymakers is thought to be a smoke screen for a different, sinister agenda). Originating in the US, its proponents have considered China an ideological threat (due to the fact that it is governed by a

1 Janne Suokas, “Siemens Sets up Belt and Road Office in Beijing,” *GBTIMES*, March 23, 2018, <https://gbtimes.com/germanys-siemens-sets-up-belt-and-road-office-in-beijing>.

2 Chengxin Pan, *Knowledge, Desire and Power in Global Politics: Western Representations of China’s Rise* (Edward Elgar Publishing, 2012); Dragan Pavličević, “‘China Threat’ and ‘China Opportunity’: Politics of Dreams and Fears in China-Central and Eastern European Relations,” *Journal of Contemporary China* 0, no. 0 (May 3, 2018): 1–15, <https://doi.org/10.1080/10670564.2018.1458057>.

3 Emma V. Broomfield, “Perceptions of Danger: The China Threat Theory,” *Journal of Contemporary China* 12, no. 35 (May 2003): 265–84, <https://doi.org/10.1080/1067056022000054605>.

4 Khalid R. Al-Rodhan, “A CRITIQUE OF THE CHINA THREAT THEORY: A SYSTEMATIC ANALYSIS,” *Asian Perspective* 31, no. 3 (2007): 41–66, <http://www.jstor.org/stable/42704598>; Weiqing Song, “Securitization of the ‘China Threat’ Discourse: A Poststructuralist Account,” *China Review* 15, no. 1 (2015): 145–69, <http://www.jstor.org/stable/24291932>.

Communist Party, but also due to the emerging debates on “Asian values”), an economic threat (due to its four decades of rapid economic growth and the potential to take over the US as a leading global economy), and a military threat (due to the China’s military modernization and its new status of a military power in the Pacific).¹

The European China Threat theory has its similarities and differences to the American one, owing to the similarities and differences between the US and Europe as cultures and actors in global politics. Europeans have just like Americans seen China as an ideological – or rather normative threat, as well as an economic threat, but not a military threat. The peculiarity of the European view is best seen however in the framing of the ideological and normative threat of China. Europe has profiled itself as a normative actor, attaching great importance to what it perceives as universal international norms, values and standards – which China has not obeyed in full, and moreover has challenged. When it comes to the economy, China is seen as a threat in several different ways, as elaborated throughout the paper. Europeans however, do not see China as a military threat, at least not for Europe (though they do share the fears about China’s role as a military power in the Asia Pacific).

Yet, until not so long ago, Europeans downplayed their fears – and they did not frame China necessarily as a threat, but rather as a challenge; they did pursue strategy of confrontation, but rather one of engagement and dialogue.² To understand why Europeans started to feel threatened by China in recent years, we need to put it in the context of the predisposition of fear, which is not directly caused by China, but rather by the above discussed changing global geopolitical and geo-economic constellation (and by extension, the Sino-European relationship). Europe today is a continent of insecure political actors, which are at the same time distrustful, anxious and increasingly inward-looking; Europeans are increasingly reactive followers rather than pro-active shapers of global politics, and are shaping a “defensive” discourse centered on saving Europe or restoring Europe’s lost status (or in the national context, the lost national status and prosperity); and European divisions are ever more visible – its political and policy processes are marked by a conflict between national and European interests; conflict between the elites and the masses; and a general lack of

1 Broomfield, “Perceptions of Danger.”

2 On the history of China-Europe relations see: David Shambaugh, Eberhard Sandschneider, and Hong Zhou, *China-Europe Relations. Perceptions, Policies and Prospects*. (New York: Routledge, 2007); Jing Men, “EU-China Relations: From Engagement to Marriage?,” 7/2008, EU Diplomacy Papers (College of Europe. Department of EU International Relations and Diplomacy Studies, 2008), http://aei.pitt.edu/9602/1/EDP_7_2008.Men.pdf.

optimism, enthusiasm and belief in their own institutions. At the same time, the European power elite is yet to develop a feasible strategy for its own way forward, which would also help it shape a global vision. In lieu of that, often times the response to the challenges (and perceived challenges) is framed based on the assumption of moral superiority, the exceptionalism of “European values” and Europe’s modern achievements. As one CESEE researcher has put it during a conversation: European power elites, even when it is obvious, will never doubt their own ways of doing things; their system is infallible – it cannot “not work” – if there are problems then they must be a result of external infiltration.

This is how the European position (or lack thereof) when it comes to its relationship with China. The new European approach on China revolves around the idea of Chinese infiltration and subversion, or as it is often called, “Chinese influence” in Europe.¹ It also coincides with the development of similar debates in Australia, New Zealand and the US,² as well as discussion of the concept of “sharp power.”³ The central claim in the reports that deal with China’s influence in the EU is that “all areas of Europe’s interaction with China have strong political undertones,”⁴ i.e. all of China’s moves in its relationship with Europe have a particular manipulative

1 Philippe Le Corre and Alain Sepulchre, *China’s Offensive in Europe*, 1st Edition edition (Washington, D.C: Brookings Institution Press, 2016); Thorsten Benner et al., “Authoritarian Advance: Responding to China’s Growing Political Influence in Europe” (Global Public Policy Institute and the Mercator Institute for China Studies, 2018), <http://www.gppi.net/publications/rising-powers/article/authoritarian-advance-responding-to-chinas-growing-political-influence-in-europe/>; François Godement and Abigail Vasselier, *China at the Gates: A New Power Audit of EU-China Relations* (European Council on Foreign Relations, 2017), http://www.ecfr.eu/publications/summary/china_eu_power_audit7242; Laura Daniels, “Macron Addressing China’s Sharp Power Efforts in Europe,” American Institute for Contemporary German Studies, April 24, 2018, https://www.aicgs.org/2018/04/macron-addressing-chinas-sharp-power-efforts-in-europe/?utm_source=Silk+Road+headlines&utm_campaign=7aba7d69fc-EMAIL_CAMPAIGN_2018_05_02&utm_medium=email&utm_term=0_70119be3b7-7aba7d69fc-79842929.

2 Grieger Gisela, “China’s Foreign Influence Operations in Western Liberal Democracies: An Emerging Debate,” At a Glance (European Parliament Think Tank, 2018), [http://www.europarl.europa.eu/RegData/etudes/ATAG/2018/621875/EPRS_ATA\(2018\)621875_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2018/621875/EPRS_ATA(2018)621875_EN.pdf).

3 “What to Do about China’s ‘Sharp Power,’” *The Economist*, December 14, 2017, <https://www.economist.com/news/leaders/21732524-china-manipulating-decision-makers-western-democracies-best-defence>.

4 Benner et al., “Authoritarian Advance,” 3.

agenda that needs to be countered. This thinking is founded on several central arguments:

1) *China combines overt diplomatic with covert espionage activities* (“influencing efforts disguised as soft power that hinge on manipulation and covert activity”¹); in the process all Chinese actors and individuals engaged in relations with Europe share the same objectives; and these objectives are assumed to be sinister in nature, and in the grey zone – even if they are legal, they may be immoral.

2) Economics and security issues overlap, or rather *economic issues now resemble security issues* – in the first place, the “Made in China 2025” program is seen as an attempt to outpace Europe, and Chinese investments in corresponding sectors seen as a particular danger.² There is a new “arms race” with the stakes being 5g internet, robotics, artificial intelligence, etc.

3) China has a *“divide-and-conquer” strategy* of playing Europeans against each other, and pursuing particularly close relations with those who break EU unity; China creates and exploits intra-European divisions; regional formats such as 16+1, and the potential Nordic and Mediterranean groupings are particularly dangerous.

4) Some of the proposed transportation corridors and routes China has put forward through the BRI *challenge the current political and economic geography of Europe*, i.e. by acquiring particular ports and developing particular railway routes, new, Chinese-promoted hubs can overtake the already established ones.³

5) *Cultural diplomacy, people-to-people exchanges and collaboration in research and education are areas of particular Chinese influence* in Europe; they compromise the European debates and civil society attitudes towards China, i.e. a number of European individuals and organizations become (willingly or not) Chinese informants and agents; sometimes this entails security breaches.⁴

6) *China, together with Russia resemble an anti-democratic axis*, and the Chinese and Russian threat cannot be seen separately.

1 Daniels, “Macron Addressing China’s Sharp Power Efforts in Europe.”

2 Nils Zimmermann, “China Emerging as Germany’s Main Economic Rival,” *Deutsche Welle*, August 18, 2017, <http://www.dw.com/en/china-emerging-as-germanys-main-economic-rival/a-40153468>.

3 Georgi Gotev, “‘Chinese Balkan Corridor’ Pits EU North against South,” EURACTIV.com, May 31, 2017, <https://www.euractiv.com/section/transport/news/chinese-balkan-corridor-pits-eu-north-against-south/>.

4 Benner et al., “Authoritarian Advance.”

Having outlined the key elements of the new China Threat theory in Europe today, we now turn to the case of 16+1 and the reasons why European power elites see it as a threat.

4. 16+1 as a Threat

The fear of China comes as a European response to the reversal of the dynamics of the Sino-European relationship. 16+1 has been a great example of that, as no one in Europe, including CESEE (or for that matter, among the informed public in China as well), only six years ago could even imagine that China's relationship with CESEE and the mechanism 16+1, predominantly a Chinese creation, would become such an important development for Europe-China relations. Suddenly being in a position of the reactive side (in addition to all other structural factors), the EU and Western European countries have given in the temptation to object and take many Chinese ventures in Europe, including 16+1 as a threat. Below, I discuss the main manifestations of the China Threat theory in the context of the reception of 16+1: its rootedness in the "mirror of insecurities" inherent to EU-China relations; the role of economic interests; and the role of politicking.

16+1 and the "Mirror of Insecurities"

Historically, the major obstacle for greater commitment and improvement on Sino-European relations has been what I have elsewhere discussed as "mirroring insecurities:" one's strengths and priorities mirror the other's weak spots, and vice versa.¹ Let's take the example on each other's perception as normative actors (as demonstrated in Table 1). At the height of its power, the EU, driven by its self-perception as a global promoter of liberal democracy and normative as well as transformative power, has stood up for its particular vision of human and minority rights, thereby bringing up issues that are ultimately expose China's vulnerabilities (e.g. Tibet). However, what for EU has been a commitment to its own values and enacting of its own foreign policy priorities, for China has often been an interference in its sovereignty, thereby leading to frictions and preventing the deepening of cooperation. Today, the dynamics is different – at least in terms of the role of EU as a

1 Anastas Vangeli, "Chapter One: On the Obstacles to Greater Commitment in Sino-European Relations: A European View," in *China and Europe in 21st Century Global Politics: Partnership, Competition or Co-Evolution?*, ed. Frauke Austermann, Anastas Vangeli, and Xiaoguang Wang (Newcastle upon Tyne: Cambridge Scholars Publishing, 2013), 20–42.

mirror of China's insecurities. The EU has no capacity to maintain significant pressure on China on normative issues,¹ while China has managed to advance further on regardless of EU's pressures (for example, the EU has upheld the arms embargo of China, but China has nevertheless managed to develop advanced military technology, rendering the embargo obsolete). More even so, China's economic might and the potential for offering an alternative model of development, tackles some of the core European insecurities: "cash-strapped deal-seeking"² and the quest for new, non-Western ideas, thereby flipping the mirror of insecurities (i.e. it is now China that mirrors EU's insecurities);³ and more even so, turning into a "magnifying mirror" – when exposed, the insecurities become even worse.⁴

<i>Aspect</i>	<i>China's attitude</i>	<i>EU's attitude</i>
<i>Towards EU as a normative actor</i>	EU interferes in Chinese domestic affairs and negatively affects China's image abroad	EU needs to promote/protect EU's core values
<i>Towards China as a normative actor</i>	China needs to maintain its sovereignty, stability as well a favourable image abroad	China as a one-party state lacks proper institutions that protect/promote EU's core values

Table 1. Normative "mirror of insecurities"⁵

16+1 is perhaps the best illustration of this (magnifying) mirror of insecurities in both normative and strategic sense: China sees 16+1 as a highlight of its relationship with Europe (a strength), and the CESEE countries as partners with which it has a

1 Wenwen Shen, "The Diffusion of EU Norms to China: The Case of Tibet," in *Importing EU Norms*, United Nations University Series on Regionalism (Springer, Cham, 2015), 231–46, https://doi.org/10.1007/978-3-319-13740-7_14.

2 François Godement, Jonas Parello-Plesner, and Alice Richard, "The Scramble for Europe," Policy Brief (London: European Council on Foreign Relations, July 2011), http://www.ecfr.eu/page/-/ECFR37_Scramble_For_Europe_AW_v4.pdf.

3 Anastas Vangeli, "Global China and Symbolic Power: The Case of 16+1 Cooperation," *Journal of Contemporary China* 27 (2018), <https://doi.org/10.1080/10670564.2018.1458056>.

4 I am thankful to professor Shen Wei for this observation.

5 Vangeli, "Chapter One: On the Obstacles to Greater Commitment in Sino-European Relations: A European View."

particular momentum for its creative foreign policy (i.e. they are committed to the Belt&Road), while Europe sees the CESEE region as a soft underbelly (essentially, a weakness), and by extension, the 16+1 as a maneuver exploiting such weakness.

In the eyes of the European power elite, both “the sixteen” and “the one” are a source of concern. As a project that is a product of CCP’s strategic culture and foreign policy practice, 16+1 inevitably bears the hallmarks of a Chinese-led venture: it is Sino-centric (as opposed to Euro-centrism), based on socialization and cultural relationships (rather than on clear-cut rules and technocracy), it is developed incrementally and inductively (rather than deductively), it is fuzzy, open-ended and experimental in nature (rather than having a solidified structure), and most importantly, rests on the idea of state-led economics (as opposed to Western-style neoliberalism). Hence, Westerners are poised to intuitively find 16+1 at least awkward, if not a rather unpleasant idea. After all, Europeans take pride in the way they do things, and find other approaches to be inadequate, and even suspicious.

Equally important source of concern about the 16+1 framework are the sixteen European countries involved in it. The EU itself has invested significant amount of resources in the “Europeanization” of CESEE countries in the aftermath of the systemic changes following 1989; as such the region has mattered greatly as a showcase of the capacity of the EU – itself a representative case of the liberal governance institutions – with the mission to (re)shape societies, economies and politics. However, this process has not been without shortcomings long before China arrived to the region. The CESEE countries – regardless of past successes – have continuously lagged behind Western Europe in terms of their level of wealth, development, connectivity and their status on the global stage; but most importantly they are still perceived (and often they have internalized the perception) as a European periphery. As a consequence, they have started developing discourses that challenge the EU mainstream, and clashed with Brussels on key issues, such as migration. Today, the European power elite considers many of the CESEE countries as politically problematic (primarily Hungary and Poland, but also the Czech Republic), and their leaders “bad guys” who harm not only European unity, but also core European values.

Through 16+1, China essentially *sympathizes* with CESEE as a subaltern region in Europe. It starts from the premise of asymmetry in Europe, arguing that CESEE needs more development, connectivity and bigger role in global politics, while defending the right of CESEE governments to pursue their idiosyncratic mode of

development. However, by openly addressing such issues, China (in)directly exposes the shortcomings (and potentially the limits) of the European project itself – a reality of multi-speed, multi-track European development that is often concealed under the discourse of “One Europe.” Yet, the discourse on 16+1 in CESEE, or at least among CESEE ruling elites, is predominantly positive. In fact, many of the CESEE leaders not only see China as a partner, but also as an inspiration.¹ The core issue of why 16+1 is seen as a threat, thus, is not that China is really “dividing” Europe as many say; but rather that it is exposing Europe’s existing divisions, and that China’s discourse resonates with CESEE elites. As I have argued elsewhere:

“CESEE voices have referred to the Chinese experience as a contrast to their own experience of the post-socialist transition (‘look at where we were then, look at where are now’). In the Balkans, even officials argue that China is now doing some of the unfinished work of the EU in terms of developing infrastructure and stimulating economic development.² All in all, while China does not aim nor has the capacity to become a competitor, let alone to replace the EU as a main economic actor in CESEE, it becomes an inspiration for a discourse that provides a reality check on the effects of EU policies in CESEE.”

Equally, if not more significant is the imagination of CESEE in the Western European mind as less European than the Western part of the continent. This touches upon Europe’s own legacy of divisions, which have greatly shaped the way Europeans see themselves and the world.³ These mental maps and the principle of division still shape much of the public debates in Europe, paradoxically preventing Europeans from achieving the reality of “One Europe” themselves. In this discourse, there is also a particular emphasis on external actors who have a divisive agenda – during the Cold War, it was the Soviet Union; at the turn of the centuries, the United

1 Vangeli, “Global China and Symbolic Power: The Case of 16+1 Cooperation.”

2 Peter Foster, “EU Failure in Balkans ‘a Call to China and Russia’ Says Macedonia President,”

The Telegraph, November 4, 2017,

<http://www.telegraph.co.uk/news/2017/11/04/eu-failure-balkans-call-china-russia-says-macedonia-president/>.

3 The legacy of divisions in Europe date back to the division of the Roman Empire (3rd century AD) and the split in the Christian church; in the modern day, divisions occurred along the lines of the imperial borders (with the Ottoman and Russian Empires and their territories being considered particularly non-European). In the 20th century, the ideological division between the capitalist West and the communist East has shaped politics well beyond the nominal fall of the Iron Curtain, as the whole process of transition in CESEE was based on the premise of the “Easternness” (as synonymous with backwardness) of the region.

States was seen as dividing the continent by enlisting “New Europe” in its interventions in the Middle East while Western Europeans opposed it;¹ today, it is Putin’s Russia, and increasingly China that are seen as subverting European unity. China is particular said to be restoring the Berlin Wall, and rebuilding the Eastern Bloc – meaning that this is the framework in which 16+1 can be discussed.

This does not only have a symbolic dimension. Going back to the political developments in which some of the CESEE governments have confronted Brussels, 16+1 can easily become portrayed as a meeting between China and some of EU’s “bad guys.” In practice, the EU tries to exercise more pressure on some of the CESEE countries (be it due to migration disagreements, rule of law, or other reasons), and China is seen as potentially complicating the situation. The normative and transformative components of EU’s power rely on instruments of soft coercion and conditionality (in practice, “sticks and carrots”). In the process of enlargement, the EU has coupled financial assistance and other economic instruments with the obligations to adhere to normative criteria and implement a number of reforms. Even when governments were not convinced or ideologically supportive of the EU, they followed the directions by Brussels driven by the lucrative promise. With the emergence of alternative providers of funding, however, there is a fear that EU will lose much of its leverage in a region that seems to be already breaking the ranks on a number of issues.² While today this is still only a distant possibility (given the fact that China in absolute terms has only a miniscule role in CESEE compared to the West), potential scenarios for the future arouse the fears of the European power elites. The EU will likely reduce the funding allocated to CESEE countries for a variety of reasons in the near future (i.e. reductions of the EU budget; changing the criteria of eligibility for structural funds after many of the CESEE are considered to have already caught up; and coupling the funding with political criteria which some CESEE countries will not meet); this may significantly change the constellation in the

1 Mark Baker, “U.S.: Rumsfeld’s ‘Old’ And ‘New’ Europe Touches On Uneasy Divide,” RadioFreeEurope/RadioLiberty, January 24, 2003, <https://www.rferl.org/a/1102012.html>.

2 An illustrative example of EU’s stance towards China in times of fear of losing control is the one of Greece, where EU diplomats have used their authority to prevent the deepening of Sino-Greek ties in order not to lessen the pressure exerted on the Greek government during the process of “negotiation.” See Yanis Varoufakis, “On China as a Patient Investor,” *Yanis Varoufakis* (blog), October 26, 2017, <https://www.yanisvaroufakis.eu/2017/10/27/on-china-as-a-patient-investor-project-syndicate-video/>.

region and the balance of power – thereby allowing China much more leverage than initially thought.

16+1 and Economic Interests

For all the political concerns, the roots of the new China Threat theory are at least as equally to be found in the shift of economic fortunes and the uncomfortable feelings it breeds in Europe. The sentiment of dissatisfaction and disappointment in the post-crisis era has helped in the (re)birth of economic nationalism throughout the continent. Primarily, Europeans turn to each other and blame each other (along the axes East-West and South-North) for the situation in which the continent is facing bleak prospects for recovery and restorations of high levels of growth. However, they also display enmity towards outside actors – including China. While Europeans on one hand see China's economic rise as a miraculous one, and while they have greatly benefited for it – they also increasingly see it as having come at the expense of the developed Western economies. Having contributed to China's rise themselves, they now see a potential boomerang effect, and a net loss as an outcome of the Sino-European economic relationship. Thus, regardless of whether there are grounds for that (which is a topic for a separate paper), one of the hallmarks of the skepticism towards China exhibited by Europeans is the feeling of being involved in an unfair economic game.

Historically, in response to the perception of unfair play, Europeans have often raised issues in the WTO when it comes to China's (perceived) unfair trade practices; they have also been insisting on the principle of reciprocity in terms of market access, but also in achieving a more balanced trade. Yet, aside from these legalistic practices, today the European power elite are mobilizing other instruments to confront China. One particular novel development in the last few years, however, has been the introduction of the investment screening mechanism, as a response to the new reality in which China is a net investor in Europe. The reason, however, for introducing such measures lies in the fear that China is gaining a technological edge over the advanced European economies. This goes back to the point that the "Made in China 2025" program is seen as a major security threat, which makes the interest of Chinese companies in acquiring advanced technology in Europe seem as acts of economic warfare, or at least arms race, exceeding the realm of business, and placing it in the domain of strategic issues. Importantly, this is one of the issues where Europeans are divided, as not all governments share the political will to introduce an investment

screening mechanisms – many actually have an interest in unimpeded investment relationship with China. However, those who have the greatest power to shape EU's policies have put a lot of effort in realizing such mechanism.

By giving in the fears of rising China, the European power elite seem to be departing its liberalist positions. The new policies are aimed at raising the barriers and protecting the European strategic sectors, which is a rather mercantilist turn. This is why for instance, Europeans meet all Chinese initiatives with skepticism. The 16+1 mechanism is founded on the premise of streamlining China's and CESEE policies and facilitating their economic relations; in practice, it would imply lower barriers for China in the common European market (and potentially lower barriers for CESEE economic actors in China, which however does not necessarily mean lower barriers for Western European economic actors). These developments are doomed to be received negatively by a number of actors in Western Europe, who vie for balancing the field of play with China.

This is of course linked not only to Europe-China relations, but also to intra-European constellations as well – not only to perceptions, but also actual economic power relations. Today, Western Europeans own a number of strategic assets in CESEE countries that were privatized during the transition from socialist to free market economy. Western Europeans have also made the most significant investments in CESEE, moving a number of production capacities across the border. With the inclusion of CESEE in the common market, Western Europeans have also developed significant trade relations, and trade surplus, with CESEE. Moreover, by integrating in the EU, CESEE has become increasingly reliant on EU funding (which on the other hand is predominantly provided by Western Europeans), which however further solidified its position as a periphery, and moreover, solidified the (self)perception of Western Europe as an economic patron of CESEE. As Piketty reminds us, even though the region had a lot of inflows, it has faced even higher outflows of capital:

“Between 2010 and 2016, the annual outflow of profits and incomes from property (net of the corresponding inflows) thus represented on average 4.7% of the gross domestic product in Poland, 7.2% in Hungary, 7.6% in the Czech Republic and 4.2% in Slovakia, reducing commensurately the national income of these countries. By comparison, over the same period, the annual net transfers from the European Union, that is, the difference between the totality of expenditure received and the contributions paid to the EU budget, were appreciably lower: 2.7% of the GDP in

Poland, 4.0% in Hungary, 1.9% in the Czech Republic and 2.2% in Slovakia (as a reminder, France, Germany and the United Kingdom are net contributors to the EU budget of an amount equivalent to 0.3% – 0.4% of their GDP.”¹

In the popular discourse in Western Europe CESEE is referred to as an economic “backyard” – which in turn makes China an economic trespasser. In this sense, Chinese companies are competitors to European ones, but at the same time, they are seen as potentially “intercepting” the supply chains of advanced European economies,² which is perceived as a threat inasmuch it is related to the “Made in China 2025” program. In addition to trade and investment issues, 16+1 is seen as problematic because of its focus on transportation and infrastructure. Even though CESEE really lacks connectivity, China's endeavors in the region are seen as competing with the existing architecture – successful New Silk Road routes are feared to take away business from established logistics hubs in the North and the West. In that sense, one can argue that many of the manifestations of the new China Threat theory in Europe with regards to 16+1 are in fact rooted in a palpable – or at least perceived – economic competition.

16+1, Politicking and Lack of Knowledge

There is an important distinction to be made between the actual fear of China, and its representation in the public debates in Europe. From a pragmatic political perspective, it is conceivable that Western Europeans have the interest to exaggerate their concerns of 16+1 in the public discourse, in the context of the ongoing frictions between China and the West. Any politically controversial issue can serve as a valuable negotiation chip in the hands of experienced deal-makers. China has managed to create a hallmark platform with great symbolic meaning for its foreign policy out of thin air, creating a competition of narratives: whoever manages to promote their framework better, can use it to their advantage. Western Europeans, being largely neglected in the design of 16+1, therefore, see the issue as an extension of already existing political fronts and ongoing skirmishes with China.

1 Thomas Piketty, “2018, the year of Europe,” *Le Monde*, January 16, 2018, <http://piketty.blog.lemonde.fr/2018/01/16/2018-the-year-of-europe/>.

2 Jacopo Maria Pepe, “Continental Drift. Germany and China’s Inroads in the ‘German Central Eastern European Manufacturing Core:’ Geopolitical Chances and Risks for Europe” (ISA International Conference, Hong Kong, 2017), <http://web.isanet.org/Web/Conferences/HKU2017-s/Archive/397b4475-f2b4-4731-bcec-c5aa13241a44.pdf>.

The assumption among the European power elite is that 16+1 matters to China, and that China is ready to go at great lengths to save the project, and to save its face. As I have argued elsewhere:

“For many Europeans [...] 16+1 provides a strategic opportunity to turn the tables by objecting to it, and keep China in check, and win concessions from China – regarding 16+1, but also outside it – in return for their approval of 16+1. They can directly or indirectly use 16+1 to get certain tradeoffs from China – be it on normative issues, or issues of economic interest. They can also use 16+1 as a pretext in other issues when it comes to the relations with China – ranging from trade disputes, to cooperation in global issues and security affairs. As such, framing 16+1 as a contentious issue gives the EU additional fuel in the perpetual tug-of-war with China over a number of challenges. At the bottom of such logic lies the fact that for China, having a functioning relationship with the European power elite is far more important in economic and political terms than advancing 16+1 by any means, and this perhaps creates an opening for the Europeans to be more assertive on 16+1.”¹

Yet, the interest in escalating tensions with China, or at least for sharpening the rhetoric on China, does not always have to do with China itself – even though the changing posture of China has definitely contributed to the sharpening rhetoric in the West. Tough talk on China can bring points in political debates at home. European politicians can mobilize their constituency at times of election by using China as a rhetorical point. The most illustrative example is one of the German Foreign Minister Sigmar Gabriel who deployed the “One Europe” narrative during the electoral campaign for the German Federal Elections 2017.² While we can never be sure of his motivations, it is plausible to assume that the particular statement has been at least partially driven by the particular situation and domestic political interests. Similar dilemmas are to be considered when analyzing other elements of the public debates, i.e. what are the circumstances and drivers for actors such as think tanks, researchers, media and other actors to push a particular narrative on 16+1?

Ultimately, however, politicking can have diverse outcomes. As the 16+1 platform has advanced, it has become susceptible to politicization itself. One of them

1 Anastas Vangelis, “Why Are European Power Elites so Critical of 16+1?” (4th China-CEEC High Level Think Tanks Symposium, Beijing, 2018).

2 Lucrezia Poggetti, “One China – One Europe? German Foreign Minister’s Remarks Irk Beijing,” *The Diplomat*, September 9, 2017, <http://thediplomat.com/2017/09/one-china-one-europe-german-foreign-ministers-remarks-irk-beijing/>.

is the possibility for all the pressure against 16+1 to backfire; in fact, European power elites may have contributed to many of their pessimistic scenarios becoming self-fulfilling prophecies. Only six years ago, the relations between China and CESEE were non-existent, and thereby a non-subject in China-EU affairs. 16+1 would not have managed to bring them to the fore without the reactions, and the ultimately, the politicking, by other Europeans, who gave publicity and importance to 16+1 in the global debates (while it was previously virtually unknown). Perhaps, the scolding of CESEE countries, and political measures as well as soft sanctions (because of the numerous other issues beyond the China cooperation) may as well push them closer to China in the future.

This process then may not have been necessarily driven by rational policymaking in Europe. In analyzing foreign policy behavior, we must always leave space for unflattering assumptions: such as that policymakers often times do not fully grasp the sensitivities of what they are dealing with due to a variety of reasons; or simply, when it comes to issues of interaction, that there is a gap in understanding. As argued elsewhere:

“The discourse on China in Europe is [...] often plagued by insufficient internal communication on China. Different actors [...] have often different takes on China in different policy fields. This is especially reflected and even amplified in 16+1, given that here China traverses new policy fields, thereby getting into the radar on new actors that never had to deal with it before in such capacity. Prior to 16+1, China was important for the EU in the fields of global relations, trade and investment, and climate change. With 16+1 [...] China is now also entering the field of transportation and infrastructure [...] as well as neighborhood and enlargement.”¹

The assumption is that many of these actors did not have the opportunity to talk to each other before the arrival of China in CESEE, if at all. To add in the mix the national governments of member states and candidate countries and their lack of coordination on China, one can easily conclude that a lot of the politicization of 16+1 occurs in a context of cacophony of attitudes and in general, insufficient and inadequate intra-European communication. If not the direct cause of the politicization of China and the promotion of the threat theory, this fragmentation of the debate certainly amplifies it. At the same time, however, the lack of knowledge is not exclusive to Europe. One can also argue that Chinese elites may have not fully comprehended the scope of what they were getting itself into as well. After all, China

1 Vangeli, “Why Are European Power Elites so Critical of 16+1?”

has had limited knowledge and experience of CESEE, and embarked on an experimental, trial-and-learning approach, with public diplomacy resembling the core of 16+1 cooperation, adapting a lot of its experience in developing countries (under the South-South diplomacy label) in the process. While such approach makes sense in China, it became controversial in Europe. There is a good chance that this was not exactly what Chinese policymakers desired or planned for by establishing 16+1, even though they have so far managed the situation relatively successfully.

5. Conclusion

As a result of the changing global circumstances, Europeans are ever more anxious and uncertain about the meaning and consequences of China's rise, especially in light of China's glowingly confident diplomatic posture, and its capacity to exercise influence abroad. This has facilitated the (re)emergence of the China Threat theory as one of the mainstream approaches in dealing with China. A hallmark of this thinking is that China has become a malicious actor inside Europe. The 16+1 mechanism, in that sense, has served as one of the examples to back the China Threat theory, but also has been one of the "fronts" in which Europeans have confronted China.

What are the implications of this new reality for the advancement of Sino-European relations, and in particular China-CESEE cooperation? For one, there is a clear divergence in perceptions. What is perceived as a positive and successful development by China (and in general the CESEE) – such as the advancement of 16+1 – is perceived as an alien, threatening development by a number of actors in Western Europe, and in particular, among the European power elites. In the best case scenario, even if Western Europeans do not actively work towards a failure of 16+1, they clearly – for now – cannot see the merit, let alone the benefits of China-CESEE cooperation. Paradoxically, in the case of 16+1 flourishing and meeting the expectations of both China and the CESEE governments for more substantial relations, this will be considered a particularly negative development by other actors in Europe and increase the criticism of 16+1.

If China and CESEE want to further deepen and broaden their cooperation, and focus on increasing the number and significance of outcomes, the China Threat theory is a particular obstacle to be addressed. The obvious solution is getting Western Europeans more involved and pursuing joint projects so as to create more stakeholders in the success of 16+1, while helping bring together the different visions for CESEE. At the same time this is easy to say and extremely difficult to do, and

there is no guarantee that even a greater involvement in 16+1 will help taming the threat narrative. The major obstacle for further advancement is that 16+1 is inseparable from the broader context of China-Europe relations, the intra-European relations, and the critical juncture of time in which it develops.

How can China adjust its behavior? To begin with, by starting from the new reality of Europe-China relations: China does in fact exert certain influence in Europe; the mere existence of the debate over its impact is already a proof that China, with its discursive, and only afterwards material presence, already drives changes in Europe, or rather, its presence helps facilitate ongoing changes, with 16+1 being one of the tools for that. China, thus, as it advances 16+1, will need to get used to this, recognize its potential to steer debates (but also inspire material changes), and develop a particular sensitivity. While often times its influence in fact may not be intentional, China will have to face and manage the consequences either way. In other words, China should also critically assess the threat discourses, and in particular examine the elements of truth in them, and adjust its behavior accordingly.

The largest potential for helping produce a more cooperative mainstream discourse in Europe, however, lies in the CESEE countries themselves, and their ability to re-conceptualize their agency in international affairs, assess the context and merit of the China Threat theory, and act accordingly. A pro-active diplomacy in which they will also voice their vision is prerequisite. After all, even though the CESEE countries have provided meaningful feedback, 16+1 remains a primarily China-led undertaking. Not only should CESEE countries be more pro-active in 16+1, but also in terms of creating a new vision for CESEE, in which the European integration of the region, and the increased cooperation with China will be shaped as complementary processes. After all, the ultimate weakness of the China Threat theory with regards to 16+1 is that it has seen CESEE only as a venue, or as a subordinate group of actors – and the effects have been analyzed primarily to the prism of interests of the West (with the exception of some CESEE actors who have developed their own China Threat theory themselves). The CESEE governments are the ones to tell their own story, by first critically assessing their cooperation with China, but also the broader context in which the threat narratives unfold. As CESEE – and in particular, the poorer countries in the region, such as the Balkan ones – have yet to catch up with the EU average, the key question is not whether they need 16+1, but rather, whether they could do it without working together with China? In the process, they have a strong argument: even today, the vast majority of the China-Europe

cooperation, and in particular, the economic cooperation, happens between Western Europe and China – and this cooperation is flourishing despite the threat narratives. Western Europeans themselves have played a role in China’s reform and opening up, and greatly benefited from it. If China is the new center of the global economy, than catching up with Western Europe in terms of economic development, would also mean catching up in cooperation with China – and handling both the threat narratives, and whatever actual threats there may be – on CESEE terms.

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The “EU effect”: How European Union influences state`s involvement in the “16+1” China - Central and Eastern European Countries (China-CEEC) Initiative

Marcin Przychodniak¹

Abstract

The article analyses the effect which China-EU relations have on the participants of “16+1” initiative. It describes two groups of countries with different attitude: with reservation towards cooperation with and China`s supporters. It also analyses the current phase of relations between “16+1” and European Union. In conclusion it points out to a certain leverage and connection between EU and “16+1” although the financial and developmental assistance China provides still does not much EU`s levels. The future of “EU effect” remains rather controversial and negative due to the different views on China`s flagship initiative - BRI.

Keywords: *European Union, China, Central and Eastern Europe, cooperation, “Belt and Road”, “16+1 initiative”*

Introduction

The purpose of the article is to analyze the effect of the European Union (EU) membership (or country`s accession process) on Central and Eastern European (CEE) countries within their activities as participants of the China Central and Eastern European “16+1” initiative (“16+1” initiative) and cooperation with China. For the purpose of this article six countries were chosen: four EU members (Poland, Hungary, Croatia, and Estonia) and two - in the negotiation process with EU - Serbia and Montenegro. Countries selected equally represent the different attitudes towards China and its policy in the region, especially in the context of “16+1”.

Poland is the biggest country participating in the “16+1” initiative, with highest GDP level, and population. Such a status highly influences its policy in the context of EU-China relations. Hungary - on the other hand - is a country with biggest Chinese minority and also the only EU country involved in the construction of the regional

¹ Ph.D., Polish Institute of International Affairs

infrastructure initiative currently developed under the “16+1” format (Belgrade - Budapest railway). Hungary is also a destination of the biggest Chinese investment in the CEE region, as well as one of the very few UE member states openly supporting China’s political ideas¹, also within EU. Croatia, as one of the Balkan states and the newest EU member serves here as an example of a country from Balkan region as well as creator and popularizer of the “Three Seas Initiative”, a one infrastructural and development initiative in CEE with many possible links to EU-China cooperation. Estonia was put on the list as representative of Baltic states and their policy towards China with different objectives and political perspective (relations with Russia) but also different and limited economic attitude and expectations towards China. As to the non-EU members: Serbia is being observed as the most important Chinese partner within the Balkan states, as well as the country which foreign policy was always mixed between support for EU integration and criticism towards European Union in the same time. Montenegro serves as the example of the country heavily dependent on financial cooperation with China to the level which endangers its financial stability and also harm Montenegro’s cooperation with EU and other global financial institutions.

The main research questions of the article are: what is the role of “16+1” in the foreign policies of selected countries? To what extent it is influenced by their membership in EU or a process of integration? Is there any convergence between their trade relations with China and other EU member states?

Methodology comes from the personal observations of an author during his four year experience as diplomat in Beijing (2012-2016), observation on China-EU and China-CEEC relations, as well as participation in China-CEEC think – tank cooperation meetings as an analyst currently working for Polish Institute of International Affairs. The participant observation is complemented with insights from informal interviews, as well as official documents or media reports. The paper is also based on political statements by political leaders from the CEE countries on “16+1” initiative, cooperation with China and relations with EU. It also uses the results of trade and investment cooperation as well as people-to-people exchanges with China. The issue of possible EU influence on “16+1” cooperation will be measured by comparing the cooperation of mentioned countries with China (political, economic

¹ R. Prasad, *EU Ambassadors Condemn China’s Belt and Road Initiative*, <https://thediplomat.com/2018/04/eu-ambassadors-condemn-chinas-belt-and-road-initiative>, 21 April 2018, (accessed 17 May 2018).

and people-to-people relations) with EU financial assistance whether issued and received via EU structural funds (member states) or pre-accession funds (Serbia and Montenegro).

“16+1” initiative and EU: a complicated beginning

The idea to establish the “16+1” initiative had on one hand its origins in the 2004 EU’s enlargement and 2008 EU’s financial crisis. Both factors changed the perspective of China’s foreign policy towards Europe and fastened the decision to put more focus on relations with CEEC. Official establishment of the initiative took place in April, 2012 during the visit of Wen Jiabao, China’s prime minister to Poland. During the visit he announced “China’s 12 Measures for Promoting Friendly Cooperation with Central and Eastern European Countries” - a document describing China’s plans of engagement with the regional countries. They included (among others): setting up a secretariat of cooperation between China and Central and Eastern European Countries in the structure of China’s MFA European Department, establishment of a special credit line, setting up an investment fund, academia and cultural cooperation¹. It was a clear sign of growing China’s involvement in the CEE region, as well as its will to actively strengthen relations with the mentioned countries².

Since the summit in Warsaw sixteen countries are included in the cooperation: Poland, Croatia, Hungary, Czech Republic, Slovakia, Montenegro, Serbia, Lithuania, Latvia, Estonia, Slovenia, Albania, Bulgaria, Romania, Macedonia and Bosnia and Herzegovina. Main communication happens at the (as established in the “12 measures”) annual leaders’ summits gathering China’s prime minister and CEEC heads of government (or state). Since 2012 (after Warsaw) there were summits organized in Bucharest (2013), Belgrade (2014), Suzhou (2015), Riga (2016) and Budapest (2017).

¹ *China’s Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries*, http://www.fmprc.gov.cn/mfa_eng/topics_665678/wjbispg_665714/t928567.shtml, 26 April 2012, (accessed 19 May 2018).

² J. Szczudlik-Tatar, *China’s Charm Offensive in Central and Eastern Europe: The implementation of its “12 measures strategy”*, “PISM Bulletin”, no 106 (559), 4 October 2013.

“16+1” initiative was a relatively new form of China’s multilateral diplomacy¹. It induced a lot of questions and concerns in the international community, especially EU institutions and major member states (Germany, France, Italy). In 2012, when CEE submitted the joint communique for China-CEE meeting to EU institutions, EU objected to the proposal of “institutionalizing the China-CEE relationship for a long term”². Diplomats, politicians and analysts from think-tanks focused (among others) on the challenge identified with a question: what kind of influence “16+1” initiative may have on EU-China relations³? Will it make the formulating of common EU policy towards China impossible (or at least less balanced)? There were different explanations of these critical assumptions. One was the fear of political destabilization, a possible change of China’s policy towards Europe (and European Union) and “16+1” as a possible example of “*divide and rule*” towards EU. Second explanation implies the issue of EU’s symbolic power which China was indeed challenging by touching upon intra-European power relations and taxonomies and creating new divisions⁴.

And also the (although non-direct) role of European Union in the initiative, as well as the China perception of possible EU involvement in “16+1” was changing. Since 2013 EU officials and representatives of the European Commission, or

¹ Although other forms of multilateral diplomacy in the South - South format were established earlier, for example Forum on China-Africa Cooperation had its first summit in 2000

² Liu Zuokui, *The Pragmatic Cooperation between China and CEE: Characteristics, Problems and Policy Suggestions*, http://ies.cass.cn/webpic/web/ies2/en/UploadFiles_8765/201311/2013111510002690.pdf, 2013, (accessed 17 May 2018).

³ For example: V. Esterhai, *The presentation of “16+1” Cooperation*, available on www.geopolityka.hu (accessed 16 May 2018); A. Stenzel, *China’s investment in Influence: The future of “16+1” Cooperation*, available on www.ecfr.eu (accessed 16 May 2018); J. Knyge, M. Peel, *Brussels rattled as China reaches out to eastern Europe*, www.ft.com (accessed 16 May 2018); D. Pavlicevic, “*China Threat*” and “*China Opportunity*”: *Politics of Dreams and Fears in China-Central and Eastern European Relations*”, *Journal of Contemporary China*, DOI: 10.1080/10670564.2018.1458055, R. Turcsanyi, *Central and Eastern Europe’s courtship with China: Trojan horse within the EU?*, <http://www.eias.org/wp-content/uploads/2016/02/EU-Asia-at-a-glance-Richard-Turcsanyi-China-CEE.pdf>, January 2014, (accessed 17 May 2018); A. Burjanadze, *China and the EU within the framework of “16+1”: Obstacles and Prospects*, <http://www.lai.lv/viedokli/china-and-the-eu-within-the-framework-of-161-obstacles-and-prospects-631>, 7 August 2017, (accessed 17 May 2018).

⁴ A. Vangeli, *Global China and Symbolic Power: The Case of 16+1 Cooperation*, *Journal of Contemporary China*, DOI: 10.1080/10670564.2018.1458056, p. 9.

European Action External Action Service were invited to the summits. Every post-summit (except from the meeting in Bucharest in 2013) guidelines published contained the passages on importance of China- EU relations and complementarity of China-CEEC and China-EU relations (for example: China – EU dialogue on connectivity in CEE is now conducted through the China-EU Connectivity Platform¹). These include the need to develop synergies between “16+1” cooperation and the EU-China Comprehensive Strategic Partnership including the EU-China Connectivity Platform, affirmation that its implementation will conform EU laws and regulations (Riga 2016², Suzhou 2015³), or contributing to EU-China 2020 Strategic Agenda for Cooperation (Belgrade 2014⁴, Budapest 2017⁵). Chinese experts always tried to identify the actual China-CEE cooperation as component and new source of growth of China-EU relations ⁶. With the practical cooperation growing the mutual understanding between China and UE in the context of “16+1” initiative was also visibly enhanced, mainly because of synergies possible between “16+1” and China – EU cooperation⁷.

Situation got more complicated with the changing EU’s attitude towards China’s “Belt and Road Initiative”, due to the growing Chinese investment, especially takeovers of important EU companies with know-tech and knowledge on modern

¹ J. Jakóbowski (2018), *Chinese-led Regional Multilateralism in Central and Eastern Europe, Africa and Latin America: 16+1, FOCAC, and CCF*, “Journal of Contemporary China”, DOI: 10.1080/10670564.2018.1458055, p. 11.

² *The Riga Guidelines for Cooperation between China and Central and Eastern European Countries*, http://english.gov.cn/news/international_exchanges/2016/11/06/content_281475484363051.htm, 6 November 2016, (accessed 17 May 2018).

³ *The Suzhou Guidelines for Cooperation between China and Central and Eastern European Countries*, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1318039.shtml, 24 November 2015, (accessed 17 May 2018).

⁴ *The Belgrade Guidelines for Cooperation between China and Central and Eastern European Countries*, 16plus1-thinktank.com/11/20160105/1000, 5 January 2016, (accessed 17 May 2018).

⁵ *The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries*, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1514534.shtml, 28 November 2017, (accessed 17 May 2018).

⁶ Kong Tianping, *16+1 Cooperation Framework: Genesis, Characteristics and Prospect*, <http://16plus1-thinktank.com/1/20151203/868.html>, 3 December 2015, (accessed 17 May 2018).

⁷ Ling Jin, *EU’s presence in CEEC’s and its impact on China-CEEC cooperation*, in (ed.) Weiqing Song, *China’s Relations with Central and Eastern Europe. From “old comrades” to new partners*, New York, 2018, p. 100.

technologies¹". These problems of distrust and lack of communication were clearly visible during the "Belt and Road" forum in May 2017 especially in the EU member states disagreement on signing the – suggested by Chinese MOFCOM - trade declaration. Some of the researchers are predicting the future institutionalization of BRI Forum in a way to reflect the China multilateral diplomacy tools². If so, there will definitely be a problem with the participation of EU member states, also the participants of "16+1 initiative". One of the troublesome implications is the negative effect BRI had on the legal regulations in the countries preparing for an accession to EU, especially Serbia. It has been claimed that at least thanks to the burgeoning relationship with Beijing, Belgrade`s alignment with the EU`s declarations dropped from 89 percent to 59 percent³.

EU and non-EU members: differences and similarities

Cooperation with reservation:

Countries like Poland, Estonia and Croatia constructed their China policy in respect to their EU membership. These countries are interested in strengthening their political and economic relations with China but it is not their political priority. Their foreign policy remains focused on other issues and their strategic security (both military, political and economy) comes mainly from their membership in European Union and NATO. That also means they will try not to harm the strategic interests with possible strengthening of relations with China.

Poland`s relations with China in the EU context deteriorated in 2017. The actual disputes on human rights, protectionist practices or restrictions towards EU companies on Chinese market were also influenced by China investment policy

¹ L. Poggetti, *One China-One Europe? German Foreign Minister`s Remarks Irk Beijing*, <https://thediomat.com/2017/09/one-china-one-europe-german-foreign-ministers-remarks-irk-beijing/>, 9 September 2017. (accessed 19 May 2018).

² J. Jakóbowski (2018), *Chinese-led Regional Multilateralism in Central and Eastern Europe, Africa and Latin America: 16+1, FOCAC, and CCF*, "Journal of Contemporary China", DOI: 10.1080/10670564.2018.1458055, p. 15.

³ M. Makocki, Z. Nechev, *Balkan corruption: the China connection*, <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%2022%20Balkans.pdf>, 18 July 2017, (accessed 19 May 2018); D. Pavlicevic, "China Threat" and "China Opportunity": Politics of Dreams and Fears in China-Central and Eastern European Relations, "Journal of Contemporary China", DOI: 10.1080/10670564.2018.1458055.

towards EU. Poland decided not to openly support the EC initiative on investment screening¹ but remains rather positive on the initiative. Poland also showed its appreciation for “Belt and Road” forum by sending its Prime Minister to the forum but also decided not to sign the disputed trade declaration and presented its solidarity with EU. According to an analysis committed by China Academy of Social Sciences politics, trade, investment and people to people exchanges between Poland and China remained on a good cooperation with only finance staying at low degree².

Country	Political	Economical	People-to-people/Cultural
Poland	6 th China-CEE Coordinators Meeting - October 2015	MoU on Jointly building the “Belt and Road” Initiative - November 2015	China Performing Arts delegation visit - July 2014
		MoU on enhancing cooperation for Internet Silk Road to promote information connectivity – 2016	3 rd China – CEEC Education Policy Dialogue and the 2 nd meeting of the China-CEEC Higher Education Institutes Consortium – September 2015
	China – CEEC Coordinating Secretariat for Maritime Issues 16+1 set up in Warsaw – February 2017	2 nd Meeting of the Investment Promotion Agencies Contact Mechanism of China and CEEC – November 2014	1 st China – CEEC Experts Forum on Intangible Cultural Heritage – October 2016
	2 nd China-CEEC Transport Ministers Meeting & Business Forum – October 2017	1 st Meeting of the China-CEEC Business Council - April 2015	
	MoU on Nuclear	Bank of China set up	

¹ Germany, Italy and France asked European Commission to revise the regulations on foreign investment in order to enhance the possible screening of the projects. E. Maurice, *EU preparing to screen Chinese investments*, <https://euobserver.com/economic/139015>, 14 September 2017, (accessed 19 May 2018).

² Chen Xin, Yang Chengyu, *A quantitative Analysis on China-CEEC Economic and Trade Cooperation*, www.geopolityka.hu (accessed 7 May 2018).

	Energy Cooperation – July 2017	branch in Warsaw – June 2012	
		National Bank of Poland invested in Chinese interim-bond market – 2014	
		Poland became a member of Asian Infrastructure Investment Bank - June 2016	
		1 st China – CEEC Development Forum – September 2017	
		Industrial Bank of China set up branch in Warsaw - November 2012	

Table: 1: Poland activities during the first five years of “16+1” initiative¹

Croatia as one of the Balkan states remains committed to EU but is rather skeptical on strengthening political cooperation with China. In the same time it tries to make China interested with possible cooperation on “Three Seas Initiative” mostly in infrastructure investment as a way to develop logistical mechanisms in a way to develop the transport situation in Northern, Central and Southern Europe. China Academy of Social Sciences also identified bilateral cooperation between China and Croatia as good in the fields of politics, investment and people-to-people exchanges. There is a need of improvement in terms of finance and trade². The case of Estonia is even different: limited in the scale and expectations. CASS identified the bilateral cooperation as mostly focused on investment and people-to-people exchanges. Other

¹ This and other tables with data on “16+1” participants activities and events are based on: *Five-year Outcome List of Cooperation Between China and Central and Eastern European Countries*, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1514538.shtml, 18 November 2017, (accessed 17 May 2018)

² Chen Xin, Yang Chengyu, *A quantitative Analysis on China-CEEC Economic and Trade Cooperation*, <http://www.geopolitika.hu/en/2017/04/12/a-quantitative-analysis-on-china-ceec-economic-and-trade-cooperation/>, 12 April 2017, (accessed 19 May 2018).

fields of cooperation: finance, politics and trade needs to be improved¹. As Latvian expert suggest it is mostly connected to different Estonian perspective - also shared by other Baltic states: “Latvia, Lithuania and Estonia - while surprised with the format – welcomed this new avenue for cooperation. (...) Having very limited economic ties with China in the past, the baseline for success in the Baltics was quite low”².

Country	Political	Economical	People-to-People/Cultural
Estonia			Chinese Performing Arts delegation visited Lithuania, Latvia and Estonia to purchase programs – August 2013.
			The Chinese Art Festival was held in Lithuania, Estonia and Latvia - 2015
Croatia	China signed MoU on Jointly Building the "Belt and Road" Initiative with Croatia, Montenegro, Bosnia and Herzegovina, and Albania – May 2017	In November 2016, China signed interdepartmental MoU on port and harbor industrial park cooperation with Latvia, Bulgaria, Lithuania and Croatia – November 2016	Chinese Performing Arts delegation visited Slovenia, Slovakia and Croatia to purchase programs – June 2016
			Martial Arts on the Silk Road" training sessions were held in Hungary, Romania and Croatia – 2016 and 2017

Table 2: Croatia and Estonia activities and events during the five years of “16+1” initiative

¹ Ibidem, <http://www.geopolitika.hu/en/2017/04/12/a-quantitative-analysis-on-china-ceec-economic-and-trade-cooperation/>, 12 April 2017, (accessed 19 May 2018).

² U.A. Berzina-Cerenkova, *China's New Role in the Baltic States*, www.fpri.org/article/2018/01/chinas-new-role-baltic-states. 30 January 2018, (accessed 17 May 2018).

China supporters

The examples of Hungary, Serbia and Montenegro show the need to strengthen political and economy cooperation without any serious considerations on their commitments to EU (Hungary) or future success of the negotiations (Serbia, Montenegro). All three constantly described their will to cooperate with China as almost unconditional even as a form of substitution to EU funds (Hungary¹) or the only possible chance to develop infrastructure (Serbia, Montenegro). And China - due to the general trend in its foreign policy - is using its investment in order to gain political influence in all the countries from “16+1” but especially from these three countries serving for the purpose of this article as an examples of “*China supporters*” in the context of European Union.

Hungary has a long history of China`s political support against EU`s plans coming mostly from political purposes. They weakened the EU statement on South China Sea², as well as rejected the mentioned above negative report on “Belt and Road” initiative issued by EU ambassadors in Beijing. According to the CASS analysis Hungary gets the best score as one of the best China cooperation partners in 2016 (together with Poland and Czech Republic) among “16+1” countries. Their indexes show very good cooperation especially in finance, investment and people-to-people exchanges.

¹ Orban: if Eu does not pay, Hungary will turn to China, https://bbj.hu/economy/orban-if-eu-doesnt-pay-hungary-will-turn-to-china_143836, 11 January 2018, (accessed 17 May 2018).

² EU`s statement on South China Sea reflects divisions, <https://www.reuters.com/article/southchinasea-ruling-eu-idUSL8N1A130Y>, 15 July 2016, (accessed 19 May 2018).

Country	Political	Economical	People-to-People/Cultural
Hungary	China – CEEC Political Parties Dialogue – October 2017	1 st China-Hungary-Serbia Joint Working Group on Infrastructure Cooperation meeting – June 2014 ¹	The 1 st China-CEEC High-Level Conference on Tourism Cooperation was held in Budapest, Hungary, and China-CEEC Association of Tourism Promotion Agencies and Businesses was officially launched – May 2014
	10 th China – CEEC National Coordinators Meeting – October 2017	China, Macedonia, Serbia signed a framework agreement on facilitation of customs clearance cooperation – December 2014	In March 2015, the launch ceremony of the Year of Promotion of China-CEEC Tourism Cooperation was held in Budapest, Hungary.
	6 th Summit of China and Central and Eastern European Countries – November 2017	China, Hungary, Serbia signed an interdepartmental MoU on Hungary – Serbia railway cooperation projects – December 2014	In May 2015, Chinese Performing Arts delegation visited Hungary, Serbia and Romania to purchase programs.
	In June 2015, China signed with Hungary the MoU on Jointly Building the "Belt and Road" Initiative.		In May 2016, the 1 st China-CEEC Literature Forum was held in Budapest, Hungary.
	In May 2015, China signed with Hungary a MoU on nuclear energy cooperation.		China-CEEC Association of Traditional Chinese Medicine was set up in Budapest, Hungary in March 2017.
	In November		From January to March 2017,

¹ There were also 6 another meetings in the same format which are not included in the table.

	2017, the China-CEEC Think Tanks Network Conference was held in Budapest, Hungary.		China took part in tourism fairs in Slovakia, the Czech Republic, Hungary and Serbia.
		In November 2015, China and Hungary signed an agreement on the development, construction and financing cooperation of the Hungary Section of the Hungary-Serbia Railway	The 3rd China-CEEC Health Ministers' Forum was held in Budapest, Hungary in June 2017.
		In December 2015, the launching ceremony of the Serbia Section of the Hungary-Serbia Railway was held in Novi Sad, Serbia.	In June 2017, China-CEEC Traditional Chinese Medicine Center in Hungary broke ground.
		In June 2016, the 2nd Working Group Meeting on Cooperation in Facilitating Customs Clearance Among Chinese, Hungarian, Serbian and Macedonian Customs was held in Budapest, Hungary.	In 2016 and 2017, "Martial Arts on the Silk Road" training sessions were held in Hungary, Romania and Croatia.
		In November 2016, China signed with Hungary an agreement for the establishment of a joint venture company for Hungary-Serbia Railway, a construction contract and a MoU on financing cooperation.	
		In 2014, China signed with Hungary, Latvia, Serbia, and Macedonia cooperation agreements on quality inspection.	
		In September 2015, the 10th China-CEEC Agro-trade and Economic Cooperation Forum and the 1st meeting of the Consultative Board of the China-CEEC	

		Association on Promoting Agricultural Cooperation were held in Budapest, Hungary.	
		In December 2014, Bank of China set up a branch in Budapest, Hungary.	
		In June 2015, the Hungary Branch of Bank of China was authorized as the first clearing bank for RMB business in the CEE region.	
		In 2014, Hungarian National Bank invested in the Chinese inter-bank bond market as overseas central banks.	
		In November 2015, Hungarian National Bank entered China's inter-bank foreign exchange market.	
		In April 2016, Bank of China issued 1 billion RMB dim sum bonds on behalf of the Hungarian government.	
		In May 2017, Shanghai gold exchange signed a MoU with Hungary Budapest Stock Exchange in Beijing.	
		In June 2017, Hungary became a formal member of Asian Infrastructure and Investment Bank.	
		In September 2016, the People's Bank of China renewed the bilateral currency swap agreement with Hungarian National Bank.	
		In July 2017, Hungary issued 1 billion RMB panda bonds with a three-year maturity in China's inter-bank bond market.	
		In March 2015, the 1st Working Group Meeting on Cooperation in	

		Facilitating Customs Clearance Among Chinese, Hungarian, Serbian and Macedonian Customs was held in Shanghai, China.	
		In May 2015, the 1st Customs Control Techniques Workshop for the China-Europe Land-Sea Express Line among the Chinese, Hungarian, Serbian and Macedonian Customs was held in Shanghai, China.	
		In May 2015, heads of customs of China, Hungary, Serbia and Macedonia met in Xi'an, China, and signed the Cooperation Action Plan for 2015-2016.	
		In January 2015, the customs clearance facilitation cooperation mechanism for the China-Europe Land-Sea Express Line among the Chinese, Hungarian, Serbian, Macedonian and Greek Customs was officially established.	

Table 3: Hungary activities and events during the five years of “16+1” initiative

Both Serbia and Montenegro implemented a different foreign policy in the context of relations with China. Both are also in the process of negotiating their EU accession: Serbia already opened 12 chapters (last two in December 2017¹) and Montenegro has already 30 chapters opened. According to European Commission both are on the fast track to become EU members even in 2025².

According to analysts from CASS the bilateral cooperation between China and Serbia is doing well, especially in terms of politics, investment, people-to-people

¹ *Serbia opens chapters 6 and 30 in EU accession talks*, https://www.b92.net/eng/news/politics.php?yyyy=2017&mm=12&dd=12&nav_id=103005, 12 December 2017, (accessed 17 May 2018).

² J. Stone, *Serbia and Montenegro could join EU by 2025, European Commission says*, <https://www.independent.co.uk/news/world/europe/eu-enlargement-serbia-montenegro-macedonia-albania-kosovo-brexit-juncker-2025-a8197201.html>, 6 February 2018, (accessed 17 May 2018).

exchanges and finance¹. Due to its modern history Serbia have usually maintain good relations with China even since the “16+1” establishment². Serbia always managed to develop its foreign policy in order to struggle between different powers (Russia, US, EU and China). As far as China and EU are concerned the main problem is keeping the balance between rule of law, democracy and procedural standards implied by EU, especially in the terms of possible China`s investment in Serbia. The ongoing dispute which keeps the relations with EU on a low level and practically blocks the fastening of EU membership negotiations is of course an issue of Kosovo independence. The scale of finances and amount China is actually providing makes equally Serbia and Montenegro vulnerable to expand their cooperation with China. Serbia especially was supposed to act as main part of the infrastructure hub connected with China`s Belt and Road initiative. China`s economic engagement in Serbia is seen as providing developmental opportunities which will not only help to strengthen its infrastructure but also raise the importance of Serbia on regional and international level³. Here comes the case of Belgrade – Budapest railway and Serbia ambitions to serve as a regional integrator for China`s investment. So sometimes Serbia does not get mostly what it needs (like in terms of mentioned railway line)⁴. But despite their general positive attitude China`s investment is growing but still is far behind the other partners. In 2016 China was the 11th largest investor in Serbia, better than in 2015 but worse than in 2014 (7th)⁵. As far as EU (mostly Netherlands and Austria) is concerned

¹ Chen Xin, Yang Chengyu, *A quantitative Analysis on China-CEEC Economic and Trade Cooperation*,

<http://www.geopolitika.hu/en/2017/04/12/a-quantitative-analysis-on-china-ceec-economic-and-trade-cooperation/>, 12 April 2017, (accessed 19 May 2018).

² D. Pavlicevic, *Sino-Serbian Strategic Partnership in a Sino-EU relationship context*, China Policy Institute Briefing Series no 68 (2011), pp. 1-13; D. Pavlicevic, “*China Threat*” and “*China Opportunity*”: *Politics of Dreams and Fears in China-Central and Eastern European Relations*, “*Journal of Contemporary China*”, DOI: 10.1080/10670564.2018.1458055.

³ D. Pavlicevic, “*China Threat*” and “*China Opportunity*”: *Politics of Dreams and Fears in China-Central and Eastern European Relations*, “*Journal of Contemporary China*”, DOI: 10.1080/10670564.2018.1458055, p. 6.

⁴ C. Hartwell, K. Sidlo, *Serbia`s cooperation with China, the European Union, Russia and the United States of America*, [http://www.europarl.europa.eu/cmsdata/133504/Serbia cooperation with China, the EU, Russia and the USA.pdf](http://www.europarl.europa.eu/cmsdata/133504/Serbia%20cooperation%20with%20China,%20the%20EU,%20Russia%20and%20the%20USA.pdf), p. 24

⁵ Ibidem, p. 35

it was single largest investor in Serbia (almost 80% of FDI in 2016 and 85% in 2017)¹. In 2017 Serbia's biggest trade deficit was actually with China². In 2016 China ranked fourth in Serbia's total trade, slightly behind Bosnia³. Although Serbia is far in the negotiation process with European Union it is still not a EU member state and the arms embargo (applied to China after 1989) does not apply to Serbia. And the cooperation of military and defense slowly starts to grow - at first as the possibility to start producing China's equipment in Serbia and a donation of military equipment in 2017⁴. In October 2016 it also declared a will to abolish the need of visas between Serbia and China for short term stays which will help in increasing people-to-people exchanges⁵. Montenegro's policy towards China remains focused on development support and need to build the infrastructure. According to the CASS research its cooperation with China is mainly at low degree (politics, trade, investment), except the one factor financial cooperation⁶.

¹ Ibidem, p. 32; D. Pavlicevic, "China Threat" and "China Opportunity": Politics of Dreams and Fears in China-Central and Eastern European Relations, "Journal of Contemporary China", DOI: 10.1080/10670564.2018.1458055, p. 13.

² *Foreign trade of Serbia amounts to EUR 34,46 billion in 2017*, www.ekapija.com (accessed 7 May 2018).

³ C. Hartwell, K. Sidlo, *Serbia's cooperation with China, the European Union, Russia and the United States of America*, <http://www.europarl.europa.eu/cmsdata/133504/Serbia%20cooperation%20with%20China,%20the%20EU,%20Russia%20and%20the%20USA.pdf>, (accessed 18 May 2018), p. 29

⁴ Ibidem, p. 41

⁵ Ibidem, p. 30

⁶ Chen Xin, Yang Chengyu, *A Quantative Analysis on China-CEEC Economic and Trade Cooperation*, www.geopolityka.hu, (accessed on 7 May 2018).

Country	Political	Economical	People-to-people/cultural
Serbia ¹	The 4th China-CEEC National Coordinators' Meeting was held in Belgrade, Serbia – 2014.	In June 2014, the 1st meeting of the China-Hungary-Serbia Joint Working Group on Infrastructure Cooperation was held in Beijing, China. ²	In May 2015, Chinese Performing Arts delegation visited Hungary, Serbia and Romania to purchase programs.
	The 3rd Summit of China and Central and Eastern European Countries was held in Belgrade, Serbia - 2014	In December 2014, customs representatives from China, Hungary, Macedonia and Serbia signed a framework agreement on facilitation of customs clearance cooperation.	In June 2016, the 1st China-CEEC Cultural and Creative Industries Forum was held in Belgrade, Serbia.
	China signed the MoU on Jointly Building the "Belt and Road" Initiative with Poland, Bulgaria, the Czech Republic, Serbia and Slovakia – 2015.	In March 2015, the 1st Working Group Meeting on Cooperation in Facilitating Customs Clearance Among Chinese, Hungarian, Serbian and Macedonian Customs was held in Shanghai, China.	The Health Qigong Team visited Slovenia and Serbia to hold promotional activities and training sessions in November 2016.
		In May 2015, heads of customs of China, Hungary, Serbia and Macedonia met in Xi'an, China, and signed the Cooperation Action Plan for 2015-2016.	From January to March 2017, China took part in tourism fairs in Slovakia, the Czech Republic, Hungary and Serbia.
			The 1st China-CEEC Cultural Heritage Forum was held in Belgrade, Serbia in May 2017.
			The 5th China-CEEC Education Policy Dialogue and the 4th meeting of the China-CEEC Higher

¹ Table does not provide every detailed activities organized for the preparations or construction of Belgrade - Budapest railway.

² There were also another 6 meetings within this format which are not included in the table.

			Education Institutes Consortium were held in Novi Sad, Serbia in September 2017.
		In December 2015, the launching ceremony of the Serbia Section of the Hungary-Serbia Railway was held in Novi Sad, Serbia.	
		In May 2017, China and Serbia signed the loan agreements on the modernization and reconstruction of Hungarian-Serbian Railway Line for the Belgrade Center-Stara Pazova Section.	
		In June 2017, the Workshop on Customs Transshipment Operation of China-Europe Land-Sea Express Line among Chinese, Hungarian, Macedonian and Serbian Customs was held in Ningbo, China.	
		In June 2016, the People's Bank of China signed a bilateral currency swap agreement with National Bank of Serbia.	
		In January 2017, Bank of China set up a branch in Serbia	
		In April 2017, the 1+3 Seminar on Customs Valuation of China-Europe Land-Sea Express Line among Chinese, Hungarian, Macedonian and Serbian Customs was held in Budapest, Hungary	
Montenegro	In May 2017, China signed the MoU on Jointly Building the "Belt and Road" Initiative with		

	Croatia, Montenegro, Bosnia and Herzegovina, and Albania.		
	The 2nd China-CEEC Capital Mayors Forum was held in Podgorica, Montenegro in September 2017 ¹		

Table 4: Serbia and Montenegro activities and events in the five years of “16+1” initiative

Conclusions

Clearly the level of real regional cooperation within “16+1” remains limited where most of the projects are being developed on bilateral basis. The actual divisions and differences in the level and scale of cooperation still remain between EU and non-EU participants (especially in terms of infrastructural investment and financial cooperation)². It actually shows that divisions within “16+1” which existed there from the beginning are still there and mostly have its background in the “EU effect”. The “divide and rule” tactics which China is being accused of actually quite corresponds to the anti-EU sentiments present in some CEEC (Serbia, Hungary). China’s financial, development and economic assistance follows the model of South-South cooperation so it e. g. comes without any preconditions concerning democratization, liberalization or rule of law – in opposite to EU’s arguments. Both Serbia, Montenegro and

¹ Table is based on: *Five-year Outcome List of Cooperation Between China and Central and Eastern European Countries*, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1514538.shtml, 18 November 2017, (accessed 17 May 2018).

² J. Jakóbowski, M. Kaczmarek, *Beijing’s mistaken offer: the ‘16+1’ and China’s policy towards the European Union*, OSW Commentary, <https://www.osw.waw.pl/en/publikacje/osw-commentary/2017-09-15/beijings-mistaken-offer-161-and-chinas-policy-towards-european>, 15 September 2017, (accessed 18 May 2018).

Hungary serve as an examples of pragmatic, far reaching cooperation with delicate balance over their commitment to EU standards and regulations.

The influence of “EU factor” in the “16+1” initiative is mostly based on its symbolic and political aspects. EU financial assistance leverage is still impossible to be reached by China which (even after five years) is still in the stage of early development of cooperation with CEEC¹. As “16+1” remains largely a bilateral platform of communication and cooperation its danger of becoming a China’s tool for “divide and rule” is relatively low. Contrary to other existing formats of China multilateral diplomacy (FOCAC or CCF) the “16+1” initiative remains a very low focus on dialogue on international politics. The published guidelines after every leaders summit do not touch upon any multilateral or international issues. So China-CEEC initiative cannot be considered as venue for gathering international support². Due to the internal and external pressure the dialogue on international and political affairs was excluded from “16+1”³. But it can be and currently is a venue for China to express their policy expectations towards EU through different models of cooperation with EU member states and candidates. It also is a venue to establish business cooperation for Chinese companies in order to better position to strengthen relations with German economy which remains a vital one in Chinese perspective and in terms of the success of China’s modernization plans. It was extremely visible in 2016 when high frequency of high-level visits (chairman Xi Jinping visited the region twice) helped to build momentum of “16+1” cooperation, lay out a new blueprint for China-CEEC cooperation, and even accounted as the most prominent highlights of China-Europe relations in 2016⁴. But in the EU context “16+1” is neither a “divide and rule” example nor the “development aid” mechanism for CEE countries. For China instruments which it is using (concessional loans and state-led investment) are part of political process of gaining influence in exchange for future political favors. Such a strategy is clearly visible in the case of Hungary, Montenegro and Serbia (as well as Portugal and Greece) in other parts of Europe. Practical example of China’s

¹ Please check the table: *Trade volume with China in 2017/EU funds and pre-accession funds* on page 17.

² J. Jakóbowski (2018), *Chinese-led Regional Multilateralism in Central and Eastern Europe, Africa and Latin America: 16+1, FOCAC, and CCF*, “Journal of Contemporary China”, DOI: 10.1080/10670564.2018.1458055, p. 10.

³ Ibidem, p. 11.

⁴ Cui Hongjian, *China-Europe Relations: Key Diplomatic Direction, Consolidating Mutual Ties*, in ed. Su Ge, *The CIIS Blue Book on International Situation and China’s Foreign Affairs (2017)*, Beijing, 2017, p. 400.

using its economical leverage was at the Belt and Road Forum in May, 2017. For China economic assistance is a mean to achieve political goals which is also a reason why countries like Poland, Croatia or Estonia are more skeptical of future cooperation and such an understanding does not completely fit their foreign policy agenda.

But will China win the rivalry of symbolic power with European Union? A. Vangeli presents quite positive perspective by saying that China growing relations with CEE countries will lead to further pluralization and diversification of the global ideoscape with China becoming an important catalyst of changes in the way others see the world and behave¹. In that way cooperation with China will also be a political tool, symbolic leverage on countries relations with EU. Future of cooperation remains even more difficult. First there is a case of possible change of China's attitude towards "16+1", change of timetable of the consultation mechanisms which would also mean the downgrading of the initiative and making it even more bilateral than it currently is. China was supposed to decide to organize the leaders' summit every two years not annually and part of understanding was the notion of friendly gesture towards European Union. Second is the issue of BRI and the overcoming attention it gets from Chinese authorities. This will also influence the "16+1" cooperation creating more divisions between countries willing to strengthen sectoral and regional cooperation with China and - in the same time - countries which would rather focus on bilateral issues with high respect to EU interests.

Trade volume with China in 2017/EU funds and pre-accession funds²				
	Export	Import	China investment (2000-2017)³	EU funding (in total: 2014-2020) ⁴
Poland⁵	2 bln EUR	16,3 bln EUR	c. a. 1 bln EUR	86 bln EUR
Hungary	1,5 bln EUR	5,6 bln EUR	c. a. 2 bln EUR	25 bln EUR

¹ A. Vangeli, *Global China and Symbolic Power: The Case of 16+1 Cooperation*, "Journal of Contemporary China, DOI: 10.1080/10670564.2018.1458056, p. 13.

² Export and import figures of EU member states provided by Eurostat, <http://ec.europa.eu/eurostat/web/international-trade-in-goods/data/database>, (accessed 18 May 2018). Data of Serbia and Montenegro by International Monetary Fund, www.imf.org, (accessed 18 May 2018).

³ Data by Rhodium Group published in the report by T. Hanemann, M. Huotari, *Chinese FDI in Europe in 2017*, <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe>, 17 April 2018, (accessed 18 May 2018).

⁴ Based on data provided by <https://cohesiondata.ec.europa.eu/countries>, (accessed 18 May 2018).

⁵ Based on data provided by China Customs Administration.

Croatia	125 mln EUR	700 mln EUR	c. a. 100 mln EUR	10,7 bln EUR
Estonia	219 mln EUR	688 mln EUR	c. a. 100 mln EUR	c. a. 4,4 bln EUR
Serbia	no data	1,6 bln EUR	70 mln EUR (in 2016) ¹	c. a. 4 bln EUR
Montenegro	6 mln EUR	205 mln EUR	no data	c. a. 270,5 mln EUR (without cross-border cooperation)

¹ Data based on C. Hartwell, K. Sidlo, *Serbia's cooperation with China, the European Union, Russia and the United States of America*, <http://www.europarl.europa.eu/cmsdata/133504/Serbia%20cooperation%20with%20China,%20the%20EU,%20Russia%20and%20the%20USA.pdf>, (accessed 18 May 2018).

A Political and Economic Interpretation of the 16+1 Cooperation in the Case of Poland and Hungary

Csaba Moldicz¹

Introduction

In the 1990s, Central Europe seemed to be a region where major powers would compete for spheres of influence in the future, however, the region became swiftly ‘abandoned’ by major powers after the countries of the region completed their reintegration process in the European political, economic and military frameworks. These countries joined the NATO, became full members of the European Union and the OECD. In other words, their integration process seemed to be finished in the early 2000s, once and for all.

However, the Great Recession (2008-2009) and the ensuing eurozone crisis (2010-2012) adversely and deeply affected the economic and political integrity of the European Union. (Moldicz, 2011) This uncertainty in the political and economic development of the EU, the rise of other political and economic powers (China, Russia) and the changing approach of the current American administration to its global role in world politics created a juncture in Central Europe (re)evaluating the region.

Central European countries responded to these shifts in world economy and world politics differently, however, they share one element in common as to their reactions: they realized the decreasing importance of Western European economies and political powers in the long-term. (The best example is the formulation of the Hungarian Eastward Policy in 2011. See more in detail at Becsey 2014!) Still, there is a long way to go, until political and economic reality will change in Central Europe, since looking at basic economic and political indicators, these countries are deeply imbedded in the European institutional frameworks. On the other hand, though globalization decreased the costs for economic and political actions, geography still matters, proximity to major European markets will link Central Europe with Western Europe (in particular Germany) in the future as well. And it is needless to say that

¹ Head of Research, Oriental Business and Innovation Center, Associate Professor at the Budapest Business School, University of Applied Sciences.

Hungarian and Polish firms are deeply embedded in the regional global supply chains that also adds to the asymmetric dependence of these countries.

1. Our first and basic assumption in this paper that long-term economic and political conditions of the Central European countries are the real factors shaping the motivations of these countries in foreign policy, trade and investment policies. Different governmental policies and the difference among them might be of relevance in the short and medium term. But – as James Carville, the campaign strategist of the successful Bill Clinton campaign put it in 1992: “It’s the economy, stupid!” (Hart, 2017) – real (economic and political) benefits are the long-term factors in this context.

2. The second assumption of the paper is that mapping these interests is necessary regarding the forecast of future of the 16+1 cooperation, since this transregional cooperation framework is also deeply influenced by the players’ long-term political and economic motivations.

3. In our analysis, we are aware of the fact, that there are two limitations of this paper:

a. Chinese interests must be considered when outlining an evaluation of the 16+1 cooperation. Later works must include this aspect as well.

b. The other constraint of this paper is, that it only attempts to depict the interests of two Central European countries; Hungary and Poland by using a score table. The reason why the papers only focuses on two countries of the 16 countries is easy to understand if considering the diversity of 16 countries of the cooperation.¹

c. The third assumption used by this paper, is that we extend the scope of the paper to other major political powers. China’s role in the region is being evaluated in this paper, however in order to understand the effects of the growing economic cooperation between the two Central European countries and China, one has to include other major players of the region. In our understanding there are four major players in this region, who shape the future

¹ The 16+1 cooperation generates a new layer of complexity by putting sixteen countries into a transregional platform where eleven countries are EU-members, four countries are candidate countries and two only potential candidates of the EU. To make things more complex, the Brexit itself shifts the center of the EU towards Central and Eastern Europe, while the 16+1 cooperation could be a platform of similar effects.

of these countries in political and economic terms. This group of countries consists of China, Germany, Russia and the United States.

d. The paper doesn't include the European Union as a player on its own, since it is not. However, policies related to China, and disputes of Poland and Hungary significantly influence the future of the 16+1 cooperation. Thus, when looking at the different and common long-term political and economic interest, a special section deal with broader questions of the European integration.

The goal of the paper is to systematically analyze the long-term political and economic motivations of Poland and Hungary including the intentions of the four major powers. The paper is divided in the following chapters:

- Chapter 2. The long-term political interests of the players;
- Chapter 3. Degree of economic cooperation with other EU-countries, China, US and Russia (FDI, trade).
- Chapter 4. The Central European Attitude to the European Union
- Chapter 5. Summary

1. The long-term political interests of the players

In this section, the focus is set on long-term political interests, partly stemming from shared past, partly current trends in the world economy and politics. The main question is what the political interests and policies of the four main players are (China, Germany, the Unites States, and Russia) and how the two Central European countries in question respond to these policies. To have a more systematic approach, the paper discusses the political strategies of the four players separately.

(1) China. China traditionally doesn't have deep political interests in the region, since economic, thus political power of the small CEE countries has been insignificant on the global stage, at the same time the region never belonged to the so-called center of the world, thus few benefits could be reaped from economic cooperation – at least compared to advanced economies of Western Europe. At this point it is worth referring to Wallerstein's world system theory. (Wallerstein, 1976: 229) According to this theory, Central and Eastern Europe belongs to the periphery or semi-periphery that is dependent on the core regarding

technology and capital throughout the history. It must be added that Belt and Road Initiative (BRI) – if implemented properly – is able to put Central Asian and Central/Eastern European regions more in the core of world system since the BRI is about the global division of labor!

However, the semi-periphery position of the countries didn't change too much, but there are two significant changes that took place over the last fifteen years that allow for more cooperation between China and Poland/Hungary:

1. Because of the membership in the EU and the Single Market, access to these countries' means access to a market with around 511 million people and circa 20 million firms. Proximity to the main European markets (Germany, France) makes assembly in this region and then transport of these goods easy. The simple fact that Central Europe lies between Western Europe and China, makes the region more important than its economic power would suggest. In contrast to Russia, China doesn't have to deal with a super power who would have real ambitions in the world politics, therefore China doesn't have any political disputes and geopolitical conflicts with Hungary and Poland.

2. The economic rise of China theoretically sets the stage for deeper economic cooperation; with region however, until now the potential of cooperation has been far from being used adequately. Later data will show China's relative position exactly – compared to Germany, the US, and Russia, but it can be presumed and argued that Chinese economic presence in Poland and Hungary is below the level of Germany, and the US. Still it can be stated the cooperation with China has been portrayed negatively in global and European media outlets in recent years, mainly accusing the Chinese for having hidden political ambitions in the region. The question is who the player is who could lose most from improving relations between China and Poland, Hungary. (Later, the paper will return to this question.)

(2) Germany. After the collapse of communism in Central and Eastern Europe and the reunification of Germany, the country fixed its economy by modernizing East-German economy and allocating manufacturing capacities to Central Europe. The allocation helped German firms find skilled and cheap labor and low-cost local resources. At the same time, these firms opened up the Central European markets, acquired technologies and gained

strategic benefits by buying up state-owned enterprises (land, property, popular local brands, copy-right etc.)

This strategy was successful in order to restructure German economy and get support for unpopular economic reforms in Germany, mainly dismantling former generous social measures in the labor market. (Here reforms were called Hartz-reforms.) (Knight, 2013) On the other side, this invasion of German firms was accepted in these countries and seen as a form of economic development strategy, since they created new jobs, recapitalized these economies, provided modern technologies. (At the same time, they (re)created asymmetric dependencies, typical for the era before WWI.)

The period between 1990 and the early 2000s was the era when advanced countries, among them Germany were the clear beneficiaries of the economic globalization, however, the tide turned after 2005 when the BRIC countries became the main beneficiaries of the same process. That is the very first time after WWII, Germany might be tempted to wield its political power to influence and reverse worsening economic conditions. Basically, Germany's past and the successful strategy, that let Germany focus on rather economic than geopolitical issues until now, make difficult for Germany to directly influence China-policies of Central and Eastern European countries. Therefore, this should not come as a surprise that Germany tries to use the EU as a proxy in its struggles for spheres of influence in Central and Eastern Europe. That might be the reason why Germany and EU are often used interchangeable in the present political discourse – German interests are often referred as to EU interests or Single Market rules, but we must be clear these are not the same, and interchangeable. At the same time, there might be common long-term political interests in the EU, but for the time being the EU finds hard expressing its geopolitical interests due its diversity and heterogeneity.

(3) The United States. When analyzing the American approach to Central and Eastern Europe, the first step is to analyze the American approach to Europe which obviously was downgraded after the collapse of the communist regimes in Central Europe and the Soviet Union. (Magyarics, 2015) The new challenges were located in the Middle East and the East Asia. In particular, Clinton's article "America's Pacific Century" signaled a definite turn of American foreign policy in 2011, when she wrote "*The future of politics will be decided in*

Asia, not Afghanistan or Iraq, and the United States will be right at the center of the action.”

(Clinton, 2011) The interests, US is having in Central and Eastern Europe, are clearly linked to the ambiguous relationship with Russia. The cancellation of the planned missile system, the never fulfilled promises to lessen Central Europe's strong energy dependence on Russia, and the de facto abandoning the case of Crimea clearly mark the declining role of the region in American politics, which is compounded by the recent American trade isolationism. (The term 'trade isolationism' is used by the author, because it doesn't mean that the US would not use military intervention as a solution when it fits its purposes. About the negative effects of the trade isolationism see more at Anoba, 2017).

It is very obvious that the US is much more successful in creating a pro-American bloc in the North of Central Europe (Baltic-countries, Poland), where anti-Russian sentiment is strong due to negative experiences with past Russian political and military actions. The present doesn't provide a more secure environment to these countries. Gera puts this: *“Across Lithuania, Latvia and Estonia, fears are intensifying that Moscow, after displaying its military might in Georgia, Ukraine and now Syria, could have the Baltic states in its sights next. Russian President Vladimir Putin has warned he wouldn't hesitate to defend Russians wherever they live, words that feel like threats since significant numbers of ethnic Russians live in the Baltics.”* The quote also demonstrates how intimately domestic issues and foreign policy questions are linked with each other in these countries. The United States is considered by Poland and the Baltic countries as a strong military power that is able to counterbalance Russia. However, not only the US but China can also be given credit for enhancing stability of the region. There is convincing evidence that in 1956, one of the reasons why the Soviets did not interfere in Poland – in contrast to Hungary – were their strong Chinese ties that were able to counterbalance the Soviet Union in this critical moment of history.

The Hungarian experiences are more mixed with Russia, anti-Russian sentiment is not that strong, so the fear of the Russians is not part of the daily politics, at the same time reactions of the Hungarian upper-politics and the responses of the ordinary citizens can be very different in regard to economic and/or political cooperation with the Russians. But the relatively positive attitude to Russian ties can also easily change, as the latest NATO summit shows (June, 2018), where the Hungarian prime minister said “threats from the east and the

south are very different in nature; the one from the east is called Russia while the southern one is terrorism”.¹ (The two last visits of Putin and the public reaction in form of protests stand in a very sharp contrast with a calm reaction to visits of Chinese politicians in Hungary.)

(4) Russia. On the one hand, energy dependency is still a very strong element of the political puzzle in the bilateral relations between Russia and Poland/Hungary. At the same time, the Germany-led EU has stakes in this context as well, and as a result Hungary, though hesitantly, imposed economic sanctions on Russia. So, this is a clear case where the value-based foreign policies of other EU countries stand in striking contrast with a more economic benefits-focused Hungarian approach. As a result thereof, the state of democracy, human rights, rights of different minorities, the case of Crimea and Eastern Ukraine are all questions fiercely debated or criticized by EU-countries, though Hungary tries to keep low-profile, and maintain good relations with Russia.

To sum it up, it is very obvious China is the only player among the four main powers, who have stuck to political tools in achieving deeper cooperation with Poland and Hungary, therefore its foreign policy with these countries, and the 14 other countries of the 16+1 group can only rest on a win-win situation. While the rest of the group, in particular Russian and the United States can exert serious military influence in the region as well, although the American willingness to interfere in any context has dwindled over the last two decades, while the Russian were willing to intervene in Georgia (2008), Crimea (2014) and Eastern Ukraine (2015). The Syrian war also shows the assertiveness of the Russian foreign policy, that has been growing over the last 10 years.

The clear difference between Russian and American military leverage in the region is that Poland and Hungary are members of the NATO, thus allies with the US. After 2017, the new American administration signaled that is not willing to pay more, but it requires more spending from the European members in the future, therefore it can be argued, that the dwindling American willingness or capability to be active in the region, along with growing Russian assertiveness make uncertainty, a vacuum of power, that Germany is not capable to

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<https://dailynewshungary.com/nato-summit-hungary-one-of-safest-countries-globally-says-orban/>

fil, politically and militarily alike. Germany still struggles with the past, that has forced the country in the decades after WWII to focus on economic issues rather than political and military questions. Obviously, the American withdrawal from the European continent is a wake-up call to the German politicians to alter the traditional course of foreign policy and shape a new one, in which Germany using EU-level framework assumes a more active role in shaping Central Europe.

In the following tables, various aspects of political and military leverage are being summarized; military leverage, institutionalization of political ties are considered the tables.

Table 1. Institutionalization of political ties				
	China	Germany	US	Russia
Poland	2	4	2	2
Hungary	2	4	2	2
Source: own compilation. Ranking from 0 to 1 shows the institutionalization of the political ties, where 4 stands for institutions (EU, OECD), 3 for regular political dialogue (f. ex. 16+1 cooperation), 2 other channels means (WTO), 1 ties are not institutionalized.				

Table 2. Institutionalization of military ties				
	China	Germany	US	Russia
Poland	0	4	4	0
Hungary	0	4	4	0
Source: own compilation. Ranking from 0 to 1 shows the institutionalization of the military ties, where 4 stands for military alliance, 3 for regular military dialogue 2 other channels 1 ties are not institutionalized.				

3. The Central European Attitude to the European Union

Over the last couple of years, it became increasingly obvious that Central European attitudes regarding the future of the EU, and their EU-policies clearly differ from those of the Western European countries. Explanations of these differences usually focus on certain politicians, or adverse effects of the Great Recession (2008), however, this aversion of the CEE countries is much deeper, than one would first assume, history helps us understand these differing attitudes. It must be added as well, that the future of the 16+1 cooperation can be framed more easily if EU policies of these countries are included, in particular, as it is

mentioned above Germany along with France shaped the policies of the European Commission very much and they utilize the European framework, the European Commission as a pawn to get their wishes through without having direct conflicts with China.

A few words about the historical background must be added in this context. Central European countries have always lagged behind the West in the past centuries although several attempts have been made to close the gap between the two parts of Europe. These countries performed poorly in the past compared to the more advanced regions. The most notable one of the concepts to explain this puzzle of Central Europe is that of the two ‘Europes’ explanation marked by the name of Leopold von Ranke, who stressed the importance of the delayed development of Central and Eastern Europe, which – in his opinion – had been caused by the late state- and nation building processes in this region. (There are also other new and important insights provided by other researchers from an historical perspective and Berend (2011) provides a comprehensive literature review on the topic.)

The paradox which most European countries now face, originates from circumstances shaped by globalization, since globalization and the need for regional economic integration would logically push these countries forward on the road to closer integration, but most of the Central and Eastern European nation states that emerged in the last two centuries resist further integration, mostly because national identity had been forged by the nation- and state-building process of the 19th and 20th century. The concepts of “national identity” and “nation state” cannot be separated from each other in Europe in most of the cases. This fact has two consequences: first, some of the European nations (especially the small ones of Central and Eastern Europe) are reluctant to go further into regional integration. Secondly, when analyzing the EU, we have to accept the existence of different political and economic regimes in the long run. There is no linear convergence of Central Europe to Western Europe, moreover, in different epochs, convergence can be reversed and the need for decoupling from the West becomes stronger.

Before 2004, there was no disagreement on the economic and political benefits of the European project in these countries. Although in terms of EU-funds, every new member country benefited from EU-membership, the signs of public disappointment had been palpable in some of the new countries already before 2008. Yet the real disillusion came in

2008, when the financial crisis struck the world economy and hopes of rapid convergence with the West had vanished. Moreover, in some of the countries, problems of external financing led to a new wave of economic crises in Central Europe.¹ The economic reasons for doubts can be easily understandable if considering that these Polish and Hungarian economies are basically foreign-owned economies, as the famous French economist, Thomas Piketty concluded in a blog post the 16th of January 2018, while comparing EU-transfers to the Central European countries with the capital transfers from these countries and drawing the conclusion that these countries lost more than they benefited from the EU membership.² Without going into details, it is clear the EU membership was not able to lessen the asymmetric dependency of Poland and Hungary on the Western European countries. And this conclusion has clearly shaped the political attitudes of these countries toward the EU in recent years.

4. Degree of Economic Cooperation

This chapter looks at the FDI and trade (export, and import) shares of the four major political powers regarding Poland and Hungary. The basic assumption is the higher shares can be showed, the economic leverage of the given country (Germany, the United States, Russia and China) is higher. Since FDI data are show the FDI stock end of 2016, the picture is static (see table 3), and they don't reveal too much about the trends, however, they can help to figure out who is the country having highest leverage and probably pulling the strings in the economies of these countries.

¹ The picture, however, we can get of the region is more complex. There have been visible fault lines within the Central-European region itself with regard to EU-policy and the appropriate economic policies. The reasons for their better or poorer performance are different. (See Novak 2014 in detail. Novak 2014: pp. 3-10.)

² This blog post triggered a heated debate in Hungary, the left-leaning economist surely cannot be accused of being nationalist or having protectionist views on the economy thus his post provided the Hungarian government with good arguments in the coming debate on the EU-budget and the Hungarian economy model. (Piketty, 2018)

Table 3. Foreign Direct Investments in Poland and Hungary (million Euro, country-breakdown, end of 2016)				
	Germany	Russia	US	China
Poland	29.239	270	4.433	123
Hungary	18.387	37,4	1.629	159.8
Economic leverage: FDI Poland	4	2	3	1
Economic leverage: FDI Hungary	4	1	3	2
Source: Central Bank of Hungary and National Bank of Poland				

Obviously and not surprisingly, Germany has the highest stakes in the regional economies, and the United States is the second major investor in Poland and Hungary among the four analyzed countries. (It must be mentioned, that even the second country, the United States lags behind some European countries, such as the Netherlands, and Austria.) When it comes to Russia and China, they are different positions in Poland and Hungary. China ranks third in Hungary, while it only has the fourth position in Poland. Despite the ranking given in the table, we must draw attention to that proportions are not mirrored in the ranking, in other words Russia's and China's relative position would be worse in case that the ranking reflected the scales of FDI investments.

When it comes to trade relations with the four major political powers, the two countries, Poland and Hungary show different features, however, Germany is by far their most important trade partner, and China is the second if considering the aggregate trade-turnover. At the same time, the US is the second most important export destination country for both Poland and Hungary which shows that China's exports in these countries overweight the import, creating a positive trade balance for China in both cases. (It must be added, that trade relations are much more balanced in the case of Hungary, where the gap between Chinese export and import has been closing over the last years.)

Table 4 Trade with four major geopolitical players (2016, million USD)				
	Germany	Russia	US	China
Hungarian export to	28.351	1.599	3.554	2.246
Hungarian import from	24.343	2.631	1.969	4.868
Polish export to	53.033	5.787	4.810	1.385
Polish import from	43.177	11.536	5.504	23.477
Economic leverage: Export Poland	4	1	3	2
Economic leverage: Import Poland	4	2	1	3
Economic leverage:	4	1	3	2

Export Hungary				
Economic leverage: Import Hungary	4	2	1	3
Source: Word Bank, WITS database				

5. Summary

The above-outlined concept of political and economic indicators (ranking and scoring) needs obviously further fine-tuning, f. ex. credits facilitated by the major political powers and energy dependency can also be considered in the extended model, however, the general conclusion based on these rough data, can be considered as substantiated.

The main conclusion – a political and economic dominance of Germany – can be easily drawn from these data, and it might not come as a surprise. The dominance of Germany is palpable in almost every aspect of the analyzed indicators. The only dimension, where Germany is behind competing powers in the region, is an aspect, not analyzed in the paper, it is the military power. Clearly, Germany is aware of this deficiency and without expanding the army it won't be able to ensure stability and the protection of its core interests in the long run. That might be one of the reasons why in 2016, the Germans announced the first time after 25 years that they intend to increase military expenditures. However, there is clear dilemma, whether European or German frameworks should be preferred. Braw puts this: "Germany may not yet have the political will to expand its military forces on the scale that many are hoping for — but what it has had since 2013 is the Framework Nations Concept. For Germany, the idea is to share its resources with smaller countries in exchange for the use of their troops. For these smaller countries, the initiative is a way of getting Germany more involved in European security while sidestepping the tricky politics of Germany military expansion." (Braw, 2017)

Therefore, our conclusion is that Germany despite the potential won't be able to fill the vacuum of power left behind by the United States, nation states of the region (Poland and Hungary) must rely on their own capacities to defend themselves in the long-run and they have clear maneuvering room in forging new alliances.

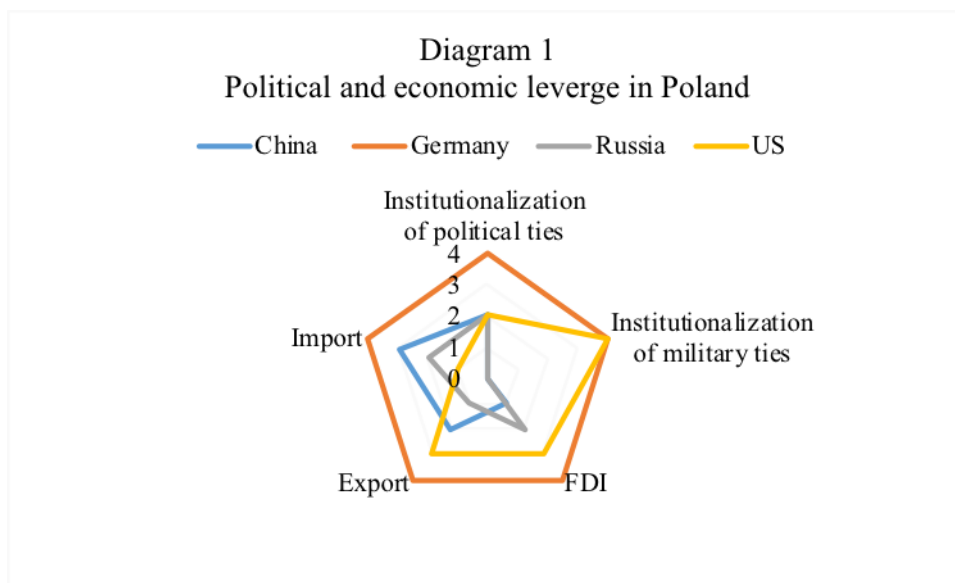
Despite its slow withdrawal from the region, the United States is still very strong at FDI, export and the military dimension but it obviously lacks the long-term commitment to engage in regular political dialogue with the region. The weak commitment to the region is not new, not only typical for the Trump-administration. If there is any reason to keep the Americans in the region, this must be the strategic containment of Russia, which seems to be important today, but given the country's economic weakness the Russian expansion in the region cannot be sustained in the long-run.

Russian weaknesses are trade (both export and import) and the institutionalization of relations with Poland and Hungary. At the same time it must be underlined, that our assessment of the political and economic situation doesn't include the possible impact of credits facilitated by Russia and China to the two countries which obviously give leverage to Russia and China over these countries.

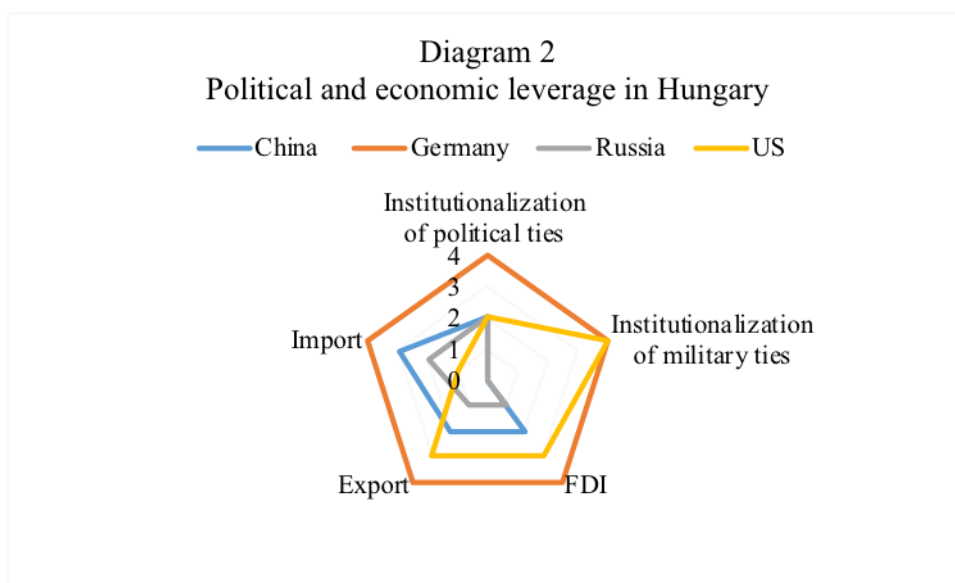
However, there is a significant difference between Chinese and Russian leverage in the region; there is no historical evidence of Chinese efforts to increase its political influence, not speaking of its military clout in the region. As the radar image (that summarizes the tables of the paper) below demonstrate, that China's strengths lie in trade and FDI, and in recent years China has established the 16+1 cooperation which is an important initial step in the institutionalization of political ties with these 16 countries.

Looking at the radar image, it is very clear that China can boost its relations with Poland and Hungary, and the other 14 countries by establishing and institutionalizing its political ties to the region. In our opinion, the institutionalization would help in outlining an agenda, clarifying the goals of the 16+1 cooperation. This way, European, in particular German fears could be dispersed or German attacks could be averted more easily. Our analysis clearly shows that the country that could lose most from a growing political and economic presence of the Chinese in the region, is Germany and the United States, and those who cannot lose anything from this trend are Poland and Hungary. FDI and trade data clearly demonstrate that fears about 'selling Central Europe to the Chinese' are exaggerated and politically motivated.¹

¹ The best example of the recent weeks is a paper, supported by the National Endowment for Democracy. The paper was titled "Central Europe for Sale: The Politics of China's Influence" (Karásková – Matura – Turcsányi – Simalcik, 2018)



Source: own compilation



Source: own compilation

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China in Southeast Europe: Detecting a Trend

Senada Šelo Šabić¹

Abstract

The aim of this article is to assess which policies and activities China has been pursuing in seven countries of Southeast Europe – Slovenia, Croatia, Bosnia and Herzegovina (BiH), Serbia, Montenegro, Macedonia and Albania. In which sectors is China interested to invest? What is a status of cultural and educational programs? Which diplomatic engagements have taken place? The analysis is placed within the framework of Belt and Road and 16+1 initiative to understand where this region is positioned within a broader context of China's foreign policy.

Taking into account that China wants to build stronger economic and people-to-people ties via these initiatives, this paper assesses up-to-date achievements in these sectors and identifies key challenges that lie ahead. Two out of these seven countries are EU member states, the rest candidates and potential candidates for EU membership. Chinese engagement in this region does not pass unnoticed and this paper will also discuss attitudes of the EU towards BRI and 16+1 with respect to this specific region.

In terms of the structure and the content, the article in the introduction briefly looks at Chinese relations with post-Yugoslav states (plus Albania), analyses key investment projects and areas of cooperation in the last 20 years. It identifies supporters and opponents of Chinese engagement in SEE. In conclusion, the paper looks beyond this region to understand Chinese engagement in a broader EU context.

Key words: China, 16+1 initiative, Southeast Europe, European Union

Introduction

Chinese global outreach strategy in the last decade has evolved into what is called a One Belt, One Road.¹ OBOR or Belt and Road initiative (BRI) is a

¹ Senior scientific associate in the Institute for Development and International Relations (IRMO) in Zagreb, Croatia. The author would like to thank Antonija Gajda, a trainee at IRMO, for her assistance in production of this paper. The views expressed in this paper are that of the author only.

development strategy designed by the Chinese government in 2013. BRI does not follow any clear geographical line but serves more as a roadmap for how China wants to further integrate itself into the world economy. This roadmap includes creation of an economic land belt that includes countries on the original Silk Road through Asia, the Middle East and Europe, as well as a maritime road that links China's port facilities with the African coast, and through the Suez Canal with the Mediterranean.

Proposed by Chinese President Xi Jinping in 2013, BRI is imagined as a cooperation initiative between countries from Asia, Europe and Africa. It accounts for sixty percent of global population and one-third of global GDP (Pethiyagoda 2017).

This initiative is set to reinvigorate the seamless flow of capital, goods and services between Asia and the rest of the world, by promoting further market integration and forging new ties among communities. By building transport infrastructure (investments in roads, railways, bridges, ports) China contributes to the development of global trade. Yet, trade is only one aspect of the BRI.

BRI certainly facilitates Chinese exports and imports of minerals and other materials. In a border sense, it is a flexible and open-ended project with a goal to generate long-term benefits for Chinese economy. By some estimates, China plans to pump USD 150 billion into BRI projects each year and there are already USD 900 billion of worth in planned projects. There are plans for pipelines and a port in Pakistan, bridges in Bangladesh and railways to Russia (Philips 2017).

The 16+1 initiative of the Chinese government just slightly precedes the BRI. It was officially launched in 2012 and includes 16 countries of Central, East and Southeast Europe.² Seven countries in Southeast Europe (SEE) that participate in this initiative and are analysed in this paper are Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Macedonia and Albania. The reason to choose these countries as a focus of the research is to shed additional light into a specific group of countries, geographically coherent, and historically linked. Six out of them are Yugoslav successor states and thus share a common historical legacy in reference to membership in the former Federation. The majority of them along with Albania make what has been termed in Brussels a Western Balkan group of countries – countries in SEE that have signed a Stabilization and Association Agreement with the EU and

¹ One Belt, One Road Initiative (OBOR) is also referred to as a Belt and road Initiative (BRI) and also described as a New Silk Road and a Maritime Silk Road projects.

² Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.

have expressed commitment to join the Union.¹ China does not recognize Kosovo, thus Kosovo is not included among these countries as it is not a member of the 16+1 framework. However, China and Kosovo are trading partners notwithstanding the issue of non-recognition. Another reason why it is interesting to look at this group of countries is that one can follow different dynamic in Chinese approach to these countries – some are EU member states – Slovenia and Croatia – while the remaining ones are prospective members. Four are also NATO members – Slovenia, Croatia, Albania and Montenegro – while officially BiH and Macedonia express to join NATO when conditions are met. Serbia wants to join the EU, but not NATO insisting on its position of a militarily neutral state. The diversity within this selected group of states offers more possibility for inference about Chinese activities within the 16+1 and Europe in general.²

The main purpose of the 16+1 is to facilitate economic cooperation. Chinese side, of course, explains that these initiatives benefit all participating states. At this stage of cooperation, there is no reference to institutionalization of the 16+1. However, a Secretariat of the 16+1 has been established in Beijing which coordinates and facilitates different activities and contacts among various institutions from participating states. In April 2017, a China-CEEC Institute of the Chinese Academy of Social Sciences opened its door in Budapest as the first Chinese think tank registered in Europe. The goal of this think tank is to strengthen partnerships with academic institutions and think tanks within 16+1 framework in order to promote mutual understanding and intellectual cooperation (Xinhua 2017).

Despite the fact that we do not see institutionalization of the 16+1, closer cooperation will be promoted. In the theoretical concept of neo-institutionalism (Keohane 1984, Keohane and Nye 2011) this would mean that China, as a rational and primary state actor in international politics invests in cooperation with other states, considered also as rational and primary actors, to nurture mutual trust and enhance their cooperation.

If Chinese interests are clear, a question arises what is in here for others to participate? As the most populated country on the planet and the world's second largest economy, China bears enormous asymmetric power in such cooperation. Realists would describe China as a hegemon crafting relations and navigating

¹ The rest of the countries participating in the 16+1, apart from these seven, are all EU member states.

² However, this does not exclude differentiation that exist among all sixteen countries in terms of historical legacy, economic challenges, political allegiance and cultural preferences.

cooperation with other states on the basis of its unquestionable might and in pursuit of its own interests. Yet, if complexity and interdependency also describe our world, then hegemony is not a sufficient condition for advancing one's interests. As Keohane puts it "...although hegemony can facilitate cooperation, it is neither a necessary nor a sufficient condition for it (1984: 12). In other words, even hegemons require some form of cooperation to advance their interests, noting that "...cooperation is evidently not a simple function of interests (Ibid.). What is it then? Why both powerful and weak states engage in cooperation?

This is a broader theoretical question than is the scope of this paper which is focused primarily on generating empirical evidence and describing relations that exist between China and SEE countries. Therefore, this paper analyses what kind of relationship China is building with the states in Southeast Europe taking into account, however, the reality that there is a huge asymmetry of power between them. This approach takes states as primary actors in international politics although being aware that there are other definitions of actors and nature of international system. Willingness to cooperate in 16+1 initiative relies on Keohane and Nye's (2011) notion that states cooperate if they share some common interests judging they can advance these interests through cooperative, cost-effective behaviour.

It would be interesting to delve deeper into the nature and effects (both short-term and long-term ones) of Chinese global outreach strategy, 16+1 initiative being one of them. This may come in subsequent work by students of international relations and other related topics. The content of this paper feeds into a broader research on Chinese role in shaping current world affairs and, more locally, in influencing developments in the European Union (EU).

Methodology is desk research using available analysis in the form of documents, papers, policy briefs and journal articles. It is also based on a couple of interviews conducted in Zagreb, Croatia with a Chinese and Croatian diplomats in October 2017.

16+1 Initiative

What are the interests of Southeast European countries to take part in the 16+1 initiative? The answer is almost self-evident. They are all small, recently created, countries that grapple with multiple transitions and search for venues for their economic development and a position on the international scene. The population of Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia and Albania combined is 23 million compared to 1,379 billion in China (CIA The World

Factbook). The population difference is huge and it should never be forgotten in discussing relations between China and this region.

With lowest amount of GDP per capita USD 11.000 in Bosnia and Herzegovina and Slovenia with highest of USD 32.100, an approximate GDP per capita in those seven countries is USD 17.600. The average in GDP per capita China is USD 15.400 (CIA The World Factbook).

As already noted, all countries analysed in this paper, except for Albania, were part of the former Yugoslavia before it broke apart in the 1990s. China enjoyed friendly relations with the former Yugoslavia and continues so with newly created states.¹ During the rule of Albanian leader Enver Hoxa at the time of the Cold War, Albania crafted special relationship with the People's Republic of China. However, this relationship was severed in the 1970s followed by China building stronger ties with then Yugoslavia (Poulain 2011). Although Albania made a stark shift towards the West since the end of the Cold War, during the last decade China and Albania concluded several projects that enhance their economic cooperation.

The outreach strategy of the Chinese government has been a logical step for a rapidly growing world economy. Parts of Europe in its center, east and southeast, which are less economically developed, do not belong to the first tier of Chinese economic interests. However, it is a logical conclusion for a global power to leave out no regions out of its zone of influence.

The CEE and SEE countries have specific characteristics which define their attractiveness for investment from Chinese perspective – a majority are EU member states (or in the process of accession) which means that building relations with them, China is at the same time building relations with the EU.²

All of them are former communist countries which also bears some resonance though vaguely and distantly. However, Chinese economic success within the communist political system and state-managed capitalist economy has come to question a liberal market economy model as the only model for development. Moldicz (2017: 25) writes that some CEE countries are re-evaluating the benefits of the “Western European recipes for economic catchup” as they did not result in expected

¹ This does not refer to Kosovo which gained independence 2008. China does not recognize Kosovo. The same applies to Serbia and Bosnia and Herzegovina, as well as five EU member states.

² The EU-China 2020 Strategic Agenda for Cooperation (http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf) is an expression of a commitment to further develop relations between the two sides.

growth and “the gap between Western and Central European (countries) has not diminished since 1990. For this reason, these countries are looking at what China is doing right. They see a benefit of a strong state that is able to intervene in the market, create strong institutions and ensure macroeconomic and political stability that are necessary preconditions for economic development.

There is appeal to a strong state, resting on romantic notions of communist days when more people seemed to be equal and when a powerful state took care of most needs of a society. Authoritarian tendencies, renationalization of politics, inward looking are not reserved for countries in the European center and east. The idea of a strong state, however, resonates particularly strong where liberal democracy is not fully entrenched and nostalgia of the past days when people were more equal and the state leadership steered the course of development for the benefit to all. Appeal for building a stronger state, thus, looking at Chinese economic success, may grow in the future “since only a strong state is able to convince people and firms that painful political adjustments are necessary to make an economic breakthrough.” (Moldicz 2017: 24).

Political relations

There are no open bilateral issues between China and any SEE country. This comes as no surprise as there have been limited historical links between the two sides, the distance between them is also reducing a potential for conflict, the asymmetry in power renders almost impossible a challenge to China to come from any of these countries and China itself never fails to stress the importance of mutual respect, peaceful coexistence and principle of non-intervention in internal matters of sovereign states.

During the wars that followed the disintegration of Yugoslavia in the 1990s, China generally took a neutral standpoint. As a member of the UN Security Council it either voted with other four members or abstained. This attitude changed during the NATO attack on the Federal Republic of Yugoslavia (Serbia and Montenegro).

During one of the NATO raids on the Yugoslav capital Belgrade in early May 1999, NATO bombs hit and severely damaged the Chinese Embassy. Three Chinese nationals were killed and more than twenty people were injured. NATO officials blamed outdated maps and other technical details, but the Chinese government was not convinced. Large scale protests took place all over China and in some other cities in the world in condemnation of what was seen as an unprovoked aggression by

NATO. However, there were other theories about this tragic incident. One article explained that Serbian communications unit occupied the basement of the Chinese Embassy. When NATO intercepted communication, they decided to hit (Sweeney *et al* 1999). The rift between the West and China ended in a way that Americans apologized and China allowed protests to die off.

Sino-Serbian friendship is, however, viewed with reservation from Croatia. China-Croatia's good bilateral relations date back to Croatia's independence. However, pledges to develop more intense relations have not materialized in a form of any large scale economic project. A part of the reason lies in the fact that Croatia, sometimes even unconsciously, keeps distance from friends of its eastern neighbor. The other explanation for a relatively low economic cooperation, at least in terms of large infrastructure projects that China is implementing in most other SEE countries, is membership in the EU. The table in the next section of this paper shows economic activity of China in SEE countries. Slovenia and Croatia record almost no rise. A reason for this lies largely in the fact that the two are EU member states unlike the rest of the SEE countries analyzed in this paper. Of course, EU membership does not prevent some other states participating in 16+1 to nurture extensive economic relations with China. In the case of Slovenia and Croatia, however, their status in the EU impacts relations with China. Both Slovenia and Croatia are small, newly created states that relatively recently joined the EU. Both, despite dissonance between them, have had governments that are oriented towards the EU. None of them has had any intense relations with China in the past, i.e. they do not know China well. With pro-European governments and no tangible counter-argument in terms of historical friendship or clear economic interests, both Slovenia and Croatia take note of EU's criticism of China. Unlike some other countries, Croatia refrains from making concessions to Chinese investors. Former Croatian Prime Minister said, for example, that China, as well as anyone else, should respect Croatia's laws when trying to penetrate Croatia's markets. There are clear, transparent and predictable terms for public tenders, rules are clear and there are no exceptions (Tportal.hr 2012).

This last point is indeed one of the reasons why some observers of Chinese expansion claim that its global economic strategy has been successful – China requests no political preconditions to conduct business with any government if it is economically beneficial to China. Unlike Western countries and international financial institutions which require a set of political and economic reforms in order to conduct trade, grant financial assistance and distribute aid, China makes no such

requests. Itself being criticized for the human rights record and media freedom, it makes clear that its trade and investments come with ‘no strings attached.’

However, it is this aspect of Chinese activities in SEE countries that makes Brussels and EU countries wary. In all states of SEE (with the exception of Kosovo) gross government debt has been rising since 2008 and all states, without exception, have been witnessing setbacks in political transformation (BTI 2016). In other words, declining democracy indicators, high corruption indexes and weak economic outputs raise concerns that Chinese presence would further decline reforms in the region, particularly among the countries which are candidates or potential candidates for EU membership (Makocki 2017).

2016 Rank	Country	2016 Score	2014 Score	2012 Score
31.	Slovenia	61	58	61
55.	Croatia	49	48	46
64.	Montenegro	45	42	41
72.	Serbia	42	41	39
83.	Albania	39	33	33
83.	Bosnia and Herzegovina	39	39	42
90.	Macedonia	37	45	43

Source: Transparency International, Corruption Perception Index 2016

EU rules require complex, but transparent public procurement procedures. Non-EU states in SEE such as Serbia, Macedonia, Albania, Montenegro and Bosnia and Herzegovina are not fully constrained by such rules.

The EU is observing Chinese presence in the region with some discomfort. Although they support economic growth and financial stability of the SEE region, it is not clear if Chinese type of infrastructure investment is benefiting these countries or the EU in the long run. However, these countries desperately need investment and boosting of their economies. Short of the eligibility to access EU structural funds, they are turning to the available capital. Yet, there is concern that more Chinese presence in the region, would mean even slower accession to the EU of non-members. It remains to be seen what Juncker’s team will propose in a strategy to have Serbia and Montenegro join the EU in 2015 as announced in the State of the Union address in September 2017.

Economic relations

The Chinese economy advanced an annual 6.9 percent in the second quarter of 2017, compared to a 6.8 percent expansion in the previous period and more-or-less in line with market expectations. A somewhat lower growth rate of the Chinese economy in the last few years (GDP annual growth rate in China averaged 9.71 percent from 1989 until 2017 according to Trading Economics 2017) is attributed to an expected slow-down of middle size economies explained in literature. However, the resilience visible in the quick recovery justifies China's position as the second world economy and perhaps a single champion of globalization leading *The Economist* (2017) to recently dub Mr Xi Jinping 'the world's most powerful man'.

The seven countries in SEE face, however, considerable economic challenges.

Country	Population	GDP per capita 2016	Economic growth rate	Unemployment rate 2016
Albania	3,047,987	11,800 \$	3,4 %	14,5 %
Bosnia and Herzegovina	3,856,181	11,000 \$	2,5 %	28 %
Croatia	4,292,095	22,800 \$	2,9 %	15,8 %
Macedonia	2,103,721	14,600 \$	2,4 %	23,1 %
Montenegro	642,550	16,600 \$	2,4 %	17,1 %
Slovenia	1,972,126	32,100 \$	2,5 %	11,2 %
Serbia	7,111,024	14,500 \$	2,8 %	13,8 %

Source: CIA The World Factbook

Until the strong impact of the global economic crisis, the SEE countries registered relative growth rates, declining inflation, expansion of foreign trade and increasing FDI. Many economic reforms, required by the transition to market economy, were implemented (Uvalić 2017). The global economic crisis severed these modest growth indicators.

EU countries as the main donor and IFIs as the main creditor demand comprehensive political and economic reforms in these countries. Two EU member states aside, the remaining five need to strengthen institutions, pass laws and apply rules that make them rule-based societies. These are preconditions for their EU membership, but also preconditions for growth. Traditional investments are

risk-averse and shy away from insecurity leaving the space for risk-tolerant, speculative investments.

This does not mean that Chinese investments are speculative. But what EU resents with respect to Chinese investments is that they are ready to make deals with individual SEE countries to realize their goals sometimes downplaying EU-supported procurement rules and disregarding interests of the region as a whole and that of the EU. Of course, the EU cannot force China or, for that matter, non-members into compliance. Yet, it can breed resentment and play back when in a position to do so. And there are plenty such opportunities – China and the EU are strategic partners in terms of trade, but more recently also in the area of climate change. Trust is not an abundant commodity and needs to be fed and protected if expected to grow.

Therefore, nobody can object that China is willing to invest in infrastructure in Southeast Europe. Chinese interest is to transport goods from Piraeus, a port acquired in Greece, across Macedonia, Serbia and Hungary further to the north and west of Europe. But if it is concluding large scale infrastructure projects, they should be, in view of the EU, conducted according to EU rules if implemented in countries that are either members or prospective EU members. An image of a country with ready-available funding willing to disregard such rules may undermine China's ability to conduct business in EU member states that are not as weak as some within the 16+1 framework. On the other hand, it is a challenge for the EU if it has members that are willing to undermine rules of the very organization they are members of.

Transport infrastructure

As a result of its own development, China possess technological know-how and financial assets to invest overseas. In Southeast Europe it is willing to invest in building transport infrastructure when there is little interest of Western companies to do so with the lack of funding from donors and creditors and governments of these countries short of cash. China is engaging its know how and available capital in a market that express need for such investments. As a second and perhaps more important outcome of infrastructure investment, China is creating a gateway to Western Europe for its commercial activities (Zeneli 2014, van der Putten 2016).

Serbia is the main recipient of infrastructure project. China has already completed the Zemun-Borča bridge in Belgrade, the total project worth around EUR 260 million (FPI 2014). It is building a high-speed passenger and cargo railway between Budapest and Belgrade worth over one billion euros, part of its transport link

from Piraeus to the north of Europe (Bastian 2017). It built highways in Macedonia worth EUR 574 million (Bastian 2017) and in Montenegro worth EUR 809 million (FPI 2014). China build a stretch of a highway in Albania worth EUR 200 million, in March 2016 A Chinese Geo-Jade Petroleum bought controlling rights in two Albanian oil fields and in April 2016 two state-owned investment funds announced they were buying Tirana International Airport in a concession deal for the next 10 years (Rapoza 2016).

These projects create a new transport corridors seen as been able to alter existing transport routes. As a spill-over effect, they can generate construction and opening of new business along their route. A criticism that is raised refers to business justification of some of the projects. For example, the cost of building a stretch of the highway in Montenegro rose to one quarter of the total GDP of the country leading to IMF to temporarily suspend its activities in the country. The question arose how Montenegro would repay the debt in case of financial troubles (Bastian 2017)? Another concern about these transport projects is that projections of their rentability in terms of passenger and cargo traffic may be over optimistic when approved. Trade imbalance, regulatory practices and the region's dependency on Chinese capital are also voiced (Bastian 2017). Drifting away from foreign policy alignment of these countries with that of the EU is also being closely watched (Makocki 2017).

These concerns are summed up in three key areas: these projects employ few locals; the companies serve as proxies to the Chinese state, and they burden government with huge debt obligations (Bastian 2017). As much as they offer potential for economic development of the region, they may push it further to trade imbalance and dependence on Chinese capital.

China's Outward FDI Stock in Central and Eastern European Countries (unit: 10000 USD)													
Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2009-2014 growth	Share of total Chinese investment in CEE (2014)
Albania	-	50	51	51	51	435	443	443	443	703	703	61.61%	0.41%
Bosnia and Herzegovina	401	351	351	351	351	592	598	601	607	613	613	3.55%	0.36%
Croatia	-	75	75	784	784	810	813	818	863	831	1187	46.54%	0.70%
Macedonia	-	20	20	20	20	20	20	20	26	209	211	955.00%	0.12%
Montenegro	-	-	-	32	32	32	32	32	32	32	32	0.00%	0.02%
Serbia	-	-	-	200	200	268	484	505	647	1854	2971	1008.58%	1.75%
Slovenia	-	12	140	140	140	500	500	500	500	500	500	0.00%	0.29%

Source: Tianping and Zuokui quoted in Kratz

Energy infrastructure

Another field of Chinese investments in SEE regards the energy production. It has invested in coal thermal plants in several countries along with windmill and hydro power plants. In BiH China invested in Stanari and Tuzla thermal power plants worth EUR 550 million and EUR around 800 million respectively. In Serbia China invested in Kostolac thermal power plant worth between EUR 715 and EUR 970 million. In 2011 Macedonia signed a Memorandum of understanding with China International Water and Electric Corporation for construction of 12 mini hydro power plants to be built over a period of 10-15 years and estimated to cost EUR 1.5 billion (FPI 2014). Chinese companies also can provide state-of-art solutions in wind energy. 100 MW wind turbines operate at Serbia's first-ever wind farm (Mancheva 2014).

A problem that is seen is that investments in coal thermal plants is not a preferred path from the EU point of view committed to clean energy solutions. Although coal thermal plants in BiH and Serbia replace outdated ones polluting the

air, reduction of emissions is required by EU environmental standards. Debt increase due to investment in coal-burning plants may prove costly in the medium run. However, governments in the region are driven by short-term needs for investment and job preservation. Keeping coal thermal plants running means for them preservation of jobs of coal miners, an important fact in economies that record high unemployment rates.¹

Another example of probably socially motivated investment is believed to be steel maker Smederevo in Serbia. The previous owner was US steel but they withdrew for the lack of profits. Serbian government eager to keep the steel production going offered it to the Chinese (Bastian 2017). By lending its hand to Serbia, China also is entering the European market resistant to dumping prices of Chinese steel exports. Investments in production of any kind in this region also opens a way to China to circumvent trade restrictions and access a market of 800 million people via free trade agreements that SEE countries have with the EU, Russia, Turkey and other states (Zeneli 2014).

Yet, China as a growing global actor subscribes to Paris Accords and reduction of pollution globally. It has developed green technology and is one of first producers of solar panels and windmills in the world. Thus, replacement of polluting technology with green one has China prepared. If there is investment in energy, then both the EU and environmental NGOs in the region call for adherence to stronger pollution standards and investments in renewables and clean energy (Chan 2014).

Agriculture and tourist industry offer another area of interest to Chinese investors. These countries would prefer green field investments which would create new jobs while Chinese, if they are investing and not lending, prefer merges or acquisitions of existing companies, rather than opening new ones.

Electric cars and high-speed trains, online shopping and green technology are more advanced technologies that China has already started to offer to more sophisticated European markets. Tourism is also an attractive field. In Croatia, for example, in 2017 China made investments in an electric-car local high-tech company (Rimac) worth EUR 30 million and another EUR 30 million into a thermal spa Krapinske Toplice, a health tourist destination.

¹ A social aspect of contracts for coal thermal plants was brought in a interview with the Ministry of Foreign Trade of Bosnia and Herzegovina in Sarajevo in October 2017.

Cultural relations

China is largely unknown to SEE countries and vice versa. The geographical distance and lack of language knowledge kept them apart through history. Globalization has started changing this. To enhance this trend, China has made a policy of people-to-people contacts one of its key priorities. It is channeling considerable funds to invite people from various professions to visit China, to support two-way student exchange programs and scientific cooperation, and different activities in the fields of culture. Personal contacts matter, all good salespeople would say. A personal contact creates emotion and emotion feeds our decision-making. Soft power of a country increases with the increase of a positive image it can project onto others. This is a whole logic behind tireless work of all modern ambitious states – to get others to know them and to like them once they know them.

Apart from invitations to visit China, people are able to learn more about China through cultural, artistic, science and education programs carried out by Chinese embassies worldwide. Chinese embassies in SEE countries organize public events such as celebration of Chinese New Year, Spring Festival and a National Day. In addition to these, embassies organize or sponsor gastronomy, film and music festivals, performances, concerts, exhibitions, workshops and fairs. Chinese diplomats are also increasingly supporting different charity events, publishing projects, conferences. All this leads to the perception of China in the eye of the public creating a positive impression.

The first Confucius Institute, a flagship institution of the Chinese government, was established in 2004. Their number grew to more than 500 Institutes after the first decade. The webpage of a Confucius institute describes its mission as aiming to contribute to a better understanding of Chinese language and culture between members of other nations, to develop friendly relations between China and the rest of the world and to promote development of multiculturalism on a global scale (Ki.unizg.hr). In 2006, the first Confucius Institute in the region was opened in Belgrade. It was followed by Institutes in Ljubljana, Zagreb, Tirana, Skopje, Sarajevo, Podgorica and Novi Sad as the second Confucius Institute in Serbia (Hanban.org 2014).

Yugoslav war movies were popular in China. *Valter Defends Sarajevo* has become a cult movie in China. Out of 1.3 billion people living in China, it is estimated that half of them have seen this movie whose remake was undertaken by a Chinese film company (Jukic 2014).

More and more Chinese citizens can afford overseas vacation travels. Many are visiting countries in Southeast Europe recording a steep upward trend. 100.000 Chinese tourists visited Croatia in 2016 with the 60% increase in the first half of 2017 (Zhaoming 2017). National tourist agencies are designing programs that cater for needs to Chinese tourists, often leading them to cooperate with neighboring countries in creating attractive travel plans.

Through people-to-people contacts China is not getting to know other nations and is giving them an opportunity to meet and get to know China. Personal contacts are indispensable in building relations. As China is set to carve out space for its long-term presence in different parts of the world, it can achieve it only if it, as an expression would have it, wins peoples' hearts.

Conclusion

Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Macedonia, Montenegro and Albania are all participating in Chinese-led 16+1 initiative. Power relationship between China and these countries is hugely asymmetric. Yet, both sides find interest in mutual cooperation although SEE countries differ in their proclivity to China. Serbia is the champion of cooperation. It has attracted the most of Chinese investments leading one of Serbia's analysts to dub the initiative 15+1+1 (Pavlicevic 2016). Serbia has officially made China one of four pillars of its foreign policy, on equal footing with the EU, US and Russia. No other country in this region can match Serbia's bent towards China. On its part, China regards Serbia a friendly state and a transport hub, willing to make large investments in transport and energy infrastructure, as well as in other industries.

The EU is observing with keen eye Chinese activities in SEE. Examples of '...politicisation of investment, subsidy, and contract decision, rejecting the EU's model of open and transparent bidding procedures' undermine EU's governance reform agenda (Makocki 2017). Political concessions to China and drifting away from EU foreign policy objectives may become a norm with more investments. This has led the German Chancellor to offer these critical remarks:

On this occasion I would like to make a remark: we see that China sometimes forms groups within the European Union, with which it then forms special forms of cooperation - sometimes in Central and Eastern European countries, sometimes in southern European countries, partly in countries that are still are not members of the EU, but only candidate countries. I just want to say that you can also talk to the whole

European Union. However, it is interesting for me, as I believe, to get to know the different accents of the Europeans again and again. But we are also to blame if we can not speak with one voice in Europe. (Bundesregierung 2015).

Chinese presence in Southeast Europe, as that in Central and Eastern Europe is long-term. Via SEE markets it can access a market of 800 million people through contracts and agreements that these countries have with the EU, Russia and Turkey (Zeneli, Bastian). Chinese investments in transport infrastructure create hubs for Chinese exports. Implementation of infrastructure projects also create references for other similar projects that may be implemented elsewhere in the EU. The same applies for energy projects, especially in the area of green energy technology. References for successfully implemented projects will be used for future bids. China is learning to play by the EU rules.

In order to dispel some of resentment from SEE countries, China recognizes that significant trade imbalance does not work in its favour and will try to amend this problem in the future. Therefore, to call back theory, a hegemonic relationship where one side feels disadvantaged creates resentment and does not help hegemon secure its long-term. Too much power can scare away. Thus, the cooperation, as indicated at the beginning of this paper, has to weave in interest of both sides. Only then will small states feel less threatened by Chinese activities.

China and SEE share tangible interests noting that the EU is still the primary player in SEE. If it wants to build successful relations with the EU, China could use SEE to dispel doubts and concerns about its ulterior motives and questionable methods. China profits from stability in SEE generated primarily by the EU. It does not play into Chinese long-term interests to undermine the rule of law and support authoritarian tendencies which may destabilize this fragile region. EU and Chinese interests can converge in SEE. China, as a relatively new player in the region, will need to demonstrate that it is willing to support long-term peaceful development of this region, if for nothing else, then to secure its economic interests. People-to-people contacts via tourists, student exchanges, scientific collaboration and cultural relations will make China better known in this region. Personal contacts are still an indispensable element of any productive relationship. From friendship, as Chinese say, business can start.

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