

# **“16+1” Cooperation: Status quo, Prospects and Policy Suggestions**

Huang Ping

Liu Zuokui



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# Everlasting Unsettled Sino-European Relations: Is “16+1” Initiative Mutual Benefit or Point of Diverge

Nenad Stekić\*

## Abstract

The paper investigates to what extent the Chinese geopolitical position is prone to change in the 21<sup>st</sup> century, in context of its policy towards the EU and especially, sub initiatives such as the “16+1”. To address this issue, the hegemonic stability theory (HST) postulates developed by Charles P. Kindleberger will be employed. Beside its wide application within IR research, this theory is fruitful as it presents a solid basis for the exact indicators which can be established and compared. While the first two premises according to which China is the world’s benevolent leader, are not questioned (large and growing economy as well as being political and military power), there is the third one, according to which, the hegemon must commit to the system, which needs to be perceived as mutually beneficial for other great powers and important state-actors. The “16+1 cooperation” will serve as a case study and will demonstrate that China’s foreign policy is far from being only a middle range power. I start with testing the first two postulates of the HST on Chinese economic presence in the Central and Eastern Europe space, followed by China’s commitment to the international system in which the “16+1 cooperation” will be analyzed as a challenging factor for its relations with the EU. In the discussion, I argue that sub initiatives such as “16+1” lead to the so-called “G2” scenario (China and the EU), as a model for emerging global economy axis in the 21<sup>st</sup> century, and therefore the basis for creating the EU’s attitude towards this, and recent similar Chinese initiatives.

**Key words:** *China, European Union, economic relations, hegemonic stability theory, 16+1 initiative, Central and Eastern Europe, investments*

## Introduction

Establishing the European Communities along with their rudimental foreign policy components in early 1950s, did not directly lead to development of modern Sino-

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European relations. It took more than twenty years for interrelations to officially be introduced in 1975.<sup>①</sup> The European pillar of relations with China has been transmitted, due to internal supranational political reforms in EU, from European Economic Communities to a specialized body under the European Commission, the European External Action Service (EEAS). Following very shifting global political outlook, they have been highly variable throughout different periods. There were several waves of academic considerations about maintaining the Sino-European relations, while an effective debate over their changing nature has been exposed in three most dominant discourses. The first one in early stages of cooperation was about noticing coincidences in behaviour between the two sides<sup>②</sup>. However, not so many mutual coincidences (except common willingness for economic growth), between the two sides were noticed.

The interests of one party for another were stemming from current political turmoil and short-to- middle term goals in foreign policies of both sides. Chan sums that “absence of fundamental geopolitical conflicts between the EU and China in the post-Cold War era has facilitated the process of engagement”<sup>③</sup>. Argument according to which the Sino-European relations have had significant ups and downs was exposed by Algieri who claimed that “growing importance” of relations had been seen in early 1980, while in the next decade no significant steps were taken to further improve them<sup>④</sup>. Also, Brown points out that the prioritisation of dimensions and fields in which two partners are about to cooperate (both in political and economic issues), was one of characteristics of early debates<sup>⑤</sup>. The third group of considerations was conceptualized to focusing on China’s rise. While some recognized the importance of democratization in that process<sup>⑥</sup>, general conclusion of early academic debates could be summed as the perception of “threat” of China’s rise<sup>⑦</sup>. Relatively new academic corpus debate tends to focus right on the relations

① Even though there are many views on what exactly forms the “European” fragment of the Sino-European relations, for the purposes of this article, the “European” will refer to both EU member States’ space, along with its near neighborhood involving the Western Balkan countries, regarding their inclusion within “16+1 cooperation”.

② Lin, J. Y., Cai, F., & Li, Z., *The China miracle: Development strategy and economic reform*, Chinese University Press, 2003.

③ Chan, K. (2010). Images, visibility and the prospects of soft power of the EU in Asia: the case of China. *Asia Europe Journal*, 8(2), 133-147.

④ Algieri, F. (2002). EU economic relations with China: an institutionalist perspective. *The China Quarterly*, 169, 64-77.

⑤ Brown, S. A. W. (2014). *Power, perception and policymaking: the foreign policies of the US and the EU towards China* (Doctoral dissertation, University of Glasgow).

⑥ Legro, J. W. (2007). What China will want: the future intentions of a rising power. *Perspectives on Politics*, 5(3), 515-534.

⑦ Möller, K. (2002). Diplomatic relations and mutual strategic perceptions: China and the European Union. *The China Quarterly*, 169, 10-32.

Brown, S. A. W. (2014). *Power, perception and policymaking: the foreign policies of the US and the EU towards China* (Doctoral dissertation, University of Glasgow).

based on perceptions of potential rise of both sides.

Thus, there are claims such as that “varied perceptions of the implications of China’s rise have shaped policy preferences in ways that are inconsistent with concerns over the threat of an impending power transition”<sup>①</sup>. Jing Men argues that Sino-European era has started very late, since Western European countries were “encouraged by the US-China rapprochement”, which followed mutual recognition of China by most of them<sup>②</sup>. Perception as an important element of analysis has not been denounced not even in the work of some realists such as Stephen Walt and Randall Schweller<sup>③</sup>. After several challenges towards the Sino-European relations have been overcome, the two sides started with modern phase of relations, based on peace and security, prosperity, and most importantly – economic cooperation. Liu Zuokui argues that the perception of China is influenced by vast factors including globalization and the European sovereign debt crisis, the poor image of the Chinese people abroad, but also, by the public surveys conducted in the USA<sup>④</sup>. Most populous country in the world and European supranational entity create a unique intertwined foreign policy within the international system. On one side, Chinese foreign policy which has been steadily developing following heavy economic presence all across the globe, and on the other side, the Common Foreign and Security Policy of the EU, an instrument which enables the twenty eight countries to speak with a “single voice” in relations to the third parties, while being *sui generis* itself. Though some claim that relations between the EU and China are relations between France/Germany and China<sup>⑤</sup>, this paper will shed light to EU CFSP as a referring object from the European side.<sup>⑥</sup>

① Brown, S. A. W. (2014). *Power, perception and policymaking: the foreign policies of the US and the EU towards China* (Doctoral dissertation, University of Glasgow).

② Men, Jing. (2007) “The EU-China Strategic Partnership: Achievements and Challenges”. *European Policy Paper* #12, November 2007. [Policy Paper]

③ Brown, S. A. W. (2014). *Power, perception and policymaking: the foreign policies of the US and the EU towards China* (Doctoral Dissertation, University of Glasgow).

④ Zuokui, L. (2017). *The Europeans’ Perception of China*. In *China-EU Relations* (pp. 201-226). Springer Singapore.

⑤ Weske, S. (2007). The role of France and Germany in EU-China relations. CAP Working

⑥ In this regard, it is of utmost importance to define what is under the umbrella of “European” side of foreign relations. Beside China, initiative “16+1” gathers sixteen more countries of Central and East Europe, out of which five are outside the EU full membership. The common foreign and security policy (CFSP) and the European security and defence policy (ESDP) are based on legal acts, including legally binding international agreements, and on political documents. The EU Member States must be able to conduct political dialogue in the framework of CFSP, to align with EU statements, to take part in EU actions and to apply agreed restrictive measures. Applicant countries are also required to progressively align with EU statements, and to apply restrictive measures when and where required. Having in mind candidate status of all Balkan countries willing to enter the EU (out of which Montenegro and Serbia have already started negotiations for full membership), Sino-European relations could cover both EU and non-EU countries within “16+1” initiative.

The key issue of this analysis is focused to determine whether the level of Chinese “hegemony” in economic sphere through sub-initiatives could present a new model for involvement within global affairs. This inconsistency is rather the reason for lack of robustness in explaining the causal effects of supranational foreign policy of the EU. In this regard, many authors recognize a deficiency in scientific explanation of such nature<sup>①</sup>. Preliminary literature review on this topic has shown existence of significant level of consensus in academic debate over the theoretical application onto *sui generis* supranational – specific national foreign policy relation.

I start with a presumption that there have always existed factors and inputs which caused varying important stages within the interrelated connections and which have been determining the Sino- European relations in the widest sense (such as Tiananmen occurrences, China’s membership within the WTO, World Economic Crisis, etc.). Unlike classical bilateral relations, Sino- European ones have been more or less developing on *ad hoc*, than on a permanent and structured basis. Based on presented literature review, it can be concluded that Sino-European relations in early stages were rather Eurocentric and introspected through the lens of European side as a small “leader” in this bilateral regime. In this sense, a very dynamic academic debate on the nature of Sino-European relations was inspired by adding not so structural factors into the analysis – the perception of Chinese rise. Robert Jervis developed thesis on personal misperception of “otherness” in creating foreign state policy. Even though he was developing his thesis quite early (1968), this author laid the foundation of individual decision making factors within international politics and thus, contributing to potential understanding of creation of bilateral relations<sup>②</sup>. He further concludes that even in the most complex political systems, foreign policy is being significantly influenced by, and is made on an individual level (1968: 192).

In line with initial argumentation of the article, among diverse factors that have been determining EU and China links, the best known modern one which determines Sino-European relations, is Belt and Road Initiative, more specifically the “16+1” sub-initiative. This article starts with presenting the most notable academic debates over the nature and scientific feasibility of the HST, as well as on its early conceptualizations. As it has experienced its renaissance within modern IR research, all the three presumptions of the theory shall be presented. The one according to which the hegemon must commit to the system, which needs to be perceived as mutually beneficial for other great powers

① Algieri, F. (2002). EU economic relations with China: an institutionalist perspective. *The China Quarterly*, 169, 64-77.

Men, Jing. (2007) “*The EU-China Strategic Partnership: Achievements and Challenges*”. *European Policy Paper #12, November 2007*. [Policy Paper]; Brown, S. A. W. (2014). *Power, perception and policymaking: the foreign policies of the US and the EU towards China* (Doctoral dissertation, University of Glasgow).

② Jervis, R. (1968). Hypotheses on misperception. *World Politics*, 20(3), 454-479.



and important state-actors, will be dismantled to several argumentations and will present basis for presenting the conclusions and findings of this paper. Key research questions on which this paper will seek to provide an answer if the varying nature of Sino-European relations in terms of hegemonic rise of China, are dependable of sub- initiatives such as “16+1”. It will also be pointed out the eventual approximation of the two partners into a “G2” club, as a model for new economic axis of the 21<sup>st</sup> century.

In this context, the “16+1” initiative shall serve as a case study. The data presented within this article are based on available World Bank Data indicators. Descriptive statistics will be one of deployed methods, along with the content analysis of key bilateral agreements and documents from China’s and the EU’s administration.

## Theorizing Hegemonic Stability Theory: China as an upgrading praxis

The debates over what forms a real global hegemon<sup>①</sup>, within the theories of international relations have been emerging since the beginning of modern IR theory. After the World War II, even though there were some attempts<sup>②</sup>, efforts to empirically determine a leader in a bipolar world, were unsuccessful. Interest of academics nowadays has dramatically fallen down, with only several empirical analyses of the HST postulates<sup>③</sup>. Strategic moment is crucial characteristic of “hegemon”. At the very end of the 20th century, and during the last decade, both EU and China were advocating comprehensive and strategic component of cooperation in all fields. As the outcome of most of diplomatic initiatives, two sides have signed “EU-China 2020 Strategic Agenda for Cooperation”<sup>④</sup>, document

① The term “hegemon” should be understood as a concept derived from theoretical debates among the HST authors, and thus, does not indicate any negative mark of certain country, but refer to the role that leading superpower (could) have in international system.

② Krasner, S. D. (1976). State power and the structure of international trade. *World Politics*, 28(3), 317-347.  
Webb, M. C., & Krasner, S. D. (1989). Hegemonic stability theory: an empirical assessment. *Review of International Studies*, 15(2), 183-198.

Spiegel (2017). Beijing Sets its Sights on Central Europe, Available at: <http://www.spiegel.de/international/europe/with-10-billion-dollar-credit-line-china-deepens-presence-in-central-europe-a-833811.html> (31.10.2017 13:30)

③ Hubbard, Jese (2010). Hegemonic Stability Theory: An Empirical Analysis, *The International Studies and Research Journal*, Vol.34, No.2

④ The document regulates and addresses strategic axis of activities between the two partners such as infrastructure development, transport, science, peace & security, prosperity, energy, urbanisation, social progress, etc. The document sets three pillars on which the EU and China will base their annual summits: (the annual High Level Strategic Dialogue, the annual High Level Economic and Trade Dialogue, and the bi-annual People-to-People Dialogue. More available at: [http://eeas.europa.eu/archives/docs/china/docs/eu-china\\_2020\\_strategic\\_agenda\\_en.pdf](http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf)

which revived and brought up to strategic level, modern links between the two partners<sup>①</sup>.

As claimed by many academic authors, economic dimension is inevitable in Sino-European analysis<sup>②</sup>, as China pledges to become a new world's hegemon, or at least its economic superpower<sup>③</sup>. Whether deploying theories on different levels such as middle range theories and micro theories as a subsequent part of never found “meta-theory” of international relations, empirical research in this field could not advance due to non-aligned methodological decisions and vast complicity of theoretical framework, while some positive findings slightly improve the theory<sup>④</sup>. The HST provides only normative robust arguments on what forms a status of global hegemon<sup>⑤</sup>, but it does not take into account the changeable structure of international system along with possibility to create qualitatively new international structure type. Relatively vivid conceptual discussions within the IR, take into account which form of “hegemonic” behaviour China takes in the modern international system. For instance, there are claims according to which Chinese role within modern globalized society could be analyzed through three lenses: the changes of structure in international politics, respective identity differences among EU and China, and emerging multilayered and culturally diversified polarity between the two actors (Geeraerts, 2013: 54).<sup>⑥</sup>

The observed gap in scientific literature relates to the sphere in which the hegemon must accomplish itself. In this article I argue that the “commitment” (expressed by the will to participate in global affairs) could be also demonstrated, beside traditionally accepted political, in active economic presence within specific regions. Instead testing the first two arguments of the HST, their multilevel collision will be deployed in regards of current analysis.

HST casts an argument in according to which the international regime will operate smoothly and experience periods of stability only if dominated by one powerful national economy. Consequently, the “absence of a hegemon is associated with disorder in the

① EEAS (2013). EU-China Agenda for Strategic Cooperation; Available at: [http://eeas.europa.eu/archives/docs/china/docs/eu-china\\_2020\\_strategic\\_agenda\\_en.pdf](http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf) (29.10.2017, 20:39)

② Algieri, F. (2002). EU economic relations with China: an institutionalist perspective. *The China Quarterly*, 169, 64-77; Weske, S. (2007). The role of France and Germany in EU-China relations. CAP Working; Geeraerts, G. (2013). The Changing Global Context of China-EU Relations. *China International Studies*, 42(September/October), 53-69.

③ Brown, S. A. W. (2014). *Power, perception and policymaking: the foreign policies of the US and the EU towards China* (Doctoral dissertation, University of Glasgow).

④ Hubbard, Jese (2010). Hegemonic Stability Theory: An Empirical Analysis, *The International Studies and Research Journal*, Vol.34, No.2

⑤ Kindleberger, C. P. (1973). *The formation of financial centers: A study in comparative economic history*.

⑥ Geeraerts, G. (2013). The Changing Global Context of China-EU Relations. *China International Studies*, 42(September/October), 54.

world system and undesirable outcomes for individual states”<sup>①</sup>. This general premise has been elaborated through three normative arguments that could be summed as:

- a. The hegemon must have large and growing economy and developed technology;
- b. The hegemon must possess politico-military soft and hard power;
- c. The hegemon must have will and readiness to take the leading role within the international system<sup>②</sup>.

Most of available economic indicators reveal that Chinese constant growth is indisputable. Taking into account an extremely high ratio of Chinese export-oriented economy, it is important to expand an argument according to which China is a producing and not a consuming nation (see Chart 1). Unlike many socialist countries, it had a very successful economic transition in terms of adapting to the global economy outreach. Similarly, excluding other countries with strict government-protected industrial sectors, China’s success lays in its so-called “dual-track” approach, which Lin describes as “gradual and pragmatic”<sup>③</sup>.

**Table 1. The Trend towards multi-polarity: Share of World GDP (in %)**

	1995	2007	2020	2030	Trends 2007-2030
USA	21.7	19.4	18.3	16.6	2.8 ↓
EU28*	24.5	20.8	18.6	15.6	5.2 ↓
China	5.5	10.1	17.7	22.7	↑ 12.6
Russia	2.8	2.9	3.1	2.7	0.2 ↓
Japan	8.3	6.0	4.6	3.6	2.4 ↓

\*Without Croatia which joined the EU in 2013.

Source: Adapted information by Economic Intelligence Unit; Taken from: Geeraerts, 2013: 57;

With protection of unviable firms in primary sector, it “simultaneously liberalised the entry of private enterprises, joint ventures and foreign direct investment in labour-intensive sectors in which China had a comparative advantage but that were repressed before the transition”<sup>④</sup>. Although high and growing level of exportation, China’s ratio of import of goods and services does not create big share in its total GDP<sup>⑤</sup>.

① Snidal, D. (1985). The limits of hegemonic stability theory. *International organization*, 39(4), 579-614

② Kindleberger, C. P. (1973). *The formation of financial centers: A study in comparative economic history*.

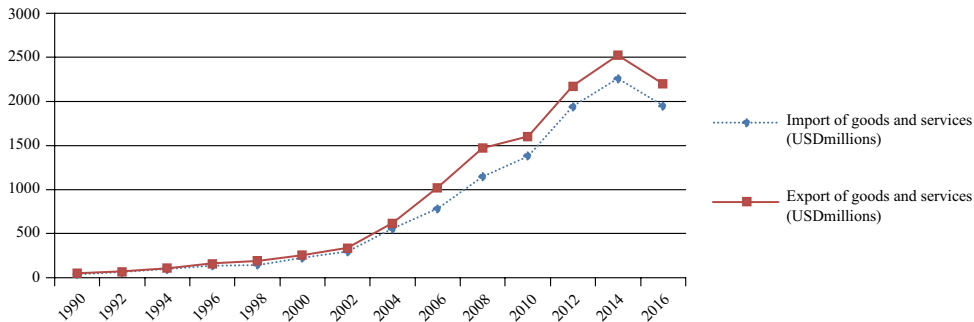
③ Lin, J. Y. (2013). Demystifying the Chinese economy. *Australian Economic Review*, 46(3), 259-268.

④ Ibid, 263.

⑤ World Bank Data (2017), Internet source, More available at: [http://databank.worldbank.org/data/reports.aspx?Code=NE.EXP.GNFS.ZS&id=1ff4a498&report\\_name=Popular-Indicators&populartype=series&ispopular=y](http://databank.worldbank.org/data/reports.aspx?Code=NE.EXP.GNFS.ZS&id=1ff4a498&report_name=Popular-Indicators&populartype=series&ispopular=y) (Accessed on: 17.10.2017 13:34)

Expressive progress of China’s economic rise has occurred at the very beginning of this century, and has been multiplied several times nowadays. According to the World Bank Global Prospects programme, China will continue to measure its economic growth, maintaining 6.4% of growth per annum up until 2019<sup>①</sup>.

**Chart 1. Import and Export ratio of China between 1990-2016 (USD millions)**



Source: World Bank Data, 2017<sup>②</sup> (Compiled data)

With a permanent seat within the United Nations Security Council, China also plays a key role in preserving global peace and stability. It is ranked as the third country with most powerful military capacities, taking the first place in Asian space<sup>③</sup>. Its increase of defence budget has even described as the “brave move” towards the real multilateralism, which none of other potential superpowers were not ready for<sup>④</sup>. William Cohen claimed that China was “destined to behave as other emerging powers had in the past”; specifically, China will “resume its place as East Asia’s hegemonic power and extend its influence wherever it can in the rest of the world”.<sup>⑤</sup> Hard power alone is insufficient to confer ‘great power’ status<sup>⑥</sup> but some assume that China is boosting its military capability so that it may emerge as a great power regionally, and eventually globally, that would be capable

① World Bank Prospects (2017). Available at: <http://www.worldbank.org/en/publication/global-economic-prospects#data> (30.10.2017. 14:55)

② According to the World Bank Data explanation, imports and exports of goods and services represent the value of all goods and other market services received and sent to / from the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments. More available at: [http://databank.worldbank.org/data/reports.aspx?Code=NE.EXP.GNFS.ZS&id=1ff4a498&report\\_name=Popular-Indicators&populartype=series&ispopular=y](http://databank.worldbank.org/data/reports.aspx?Code=NE.EXP.GNFS.ZS&id=1ff4a498&report_name=Popular-Indicators&populartype=series&ispopular=y) (Accessed on: 17.10.2017 13:34)

③ Global Fire Power (2017). Global Military Strength Ranking. Retrieved from: <https://www.globalfirepower.com/countries-listing.asp> (21.10.2017).

④ Kagan, R. (1998). The benevolent empire. *Foreign Policy*, 24-35.

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of confronting the US.<sup>①</sup> Measuring the Chinese military capabilities and strengths is more adequate when observed how they are perceived by public (see Table 1). Notwithstanding this argument on politico-military hegemony and predominance in global affairs, in terms of HST, China measures rise in something what its scholars call as “comprehensive national power – CNP”, a syntagm which relates to precise calculation of national both soft and hard powers<sup>②</sup>, and according to which China ranks as of the world’s top nations. All of above mentioned normative arguments give China the attributes of theory-significant case which can be observed, and status of “upgrading praxis” of the theory. Data from Table 1 and Chart 1 show tendencies of stability of Chinese economy on a long term. Next chapters will discuss the Chinese willingness to involve itself into global affairs through economic initiatives.

## Generating modern Sino-European relations through “16+1” sub-initiative

The first two adapted assumptions of the HST, provide an assessment of the third, and most significant argument of the theory. Duncan Snidal was among the ones who provided comprehensive argumentation on the limits of HST and the range of its (empirical) application to specific situations<sup>③</sup>. These theory principles were primarily based on the economic nature of political relations among countries. Thus, I argue the third argument according to which hegemon must commit to the international system, could be modified from having purely political, to economic nature. This was initially introduced by Michael Webb & Stephen Krassner, who differentiated the HST into two sub-theoretical discourses: the collective goods and the security version of this theory<sup>④</sup>. According to them, the security version of the HST, “does not assume that states have a common interest in international economic liberalization and stability. If the pattern of relative gains threatens the security of powerful states, international economic liberalization will be restricted even though those states could have increased their absolute welfare by participating in a more open system”<sup>⑤</sup>. Following that line of argumentation, that would mean hegemon’s commitment to the international system should not necessarily be exposed in political affairs only, but could be accepted for economic areas as well.

① China is among the top of military global superpowers in accordance with the annual Military Balance reports. See more at: <https://www.iiss.org/en/publications/military%20balance> (29.10.2017 13:34).

② Zhang, W. (2010). China’s cultural future: from soft power to comprehensive national power. *International Journal of Cultural policy*, 16(4), 383-402.

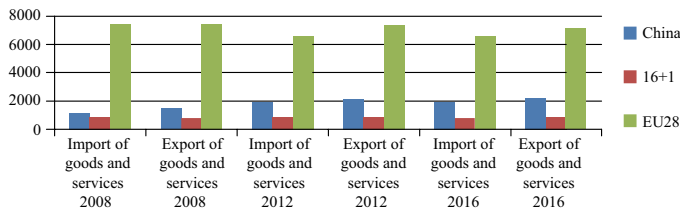
③ Snidal, D. (1985). The limits of hegemonic stability theory. *International organization*, 39(4), 579-614.

④ Webb, M. C., & Krasner, S. D. (1989). Hegemonic stability theory: an empirical assessment. *Review of International Studies*, 15(2), 183-198.

⑤ Ibid, 185.

For the purposes of this article, matrix of indicators developed by Webb and Krasner will be used to re-assess the Chinese presence within the 16+1 geographic area. Further conceptualizations of the theory along with its methodological issues for research design have been vivid since the theory has been established. There were vast number of empirical studies that used precise indicators for measuring economic “hegemony” and predominance within the international system<sup>①</sup>. Those indicators would involve main macroeconomic measures such as goods and services import and export, general GDP trends, FDI (net inflows), from data series taken from the World Bank Data values. For the purpose of this article, sub-initiative “16+1” is subject to empirical examination.<sup>②</sup> Re-assessment of the Chinese economic presence must take into account the new circumstances that involve politico- economic strategic competition between the two sides, or their similarities.

**Chart 2. Export and import of goods and services 2008, 2012 and 2016 (\$ millions)<sup>③</sup>**



Source: World Bank Data, 2017; (aggregated data for sixteen countries of CEE region)

Sixteen countries of Central and Eastern Europe are not that much prone to import goods and services, nor to do their export, in comparison to single China’s values or the EU28 ones (see Chart 2). Two more observations from this Chart are to be noticed. First, the EU28 import ratio is constantly decreasing, along with its export trends that are also declining. This could be caused not by higher EU dependency of import/export, but by its general economic slow-down ratio. Aggregated data for sixteen CEE countries show minimal share of export/import when compared to the EU28 one. This presents an opportunity for China to further invest and export its goods. The charts above has shown general trends of imports of goods and services of European side of “16+1” region, as well as the very high ratio of import-based need for all EU member states. To achieve deeper insight than the nominal numbers, the export-import interrelation could be more adequately analyzed if prospected through the percentage of GDP per annum

① Kindleberger, C. P. (1973). *The formation of financial centers: A study in comparative economic history*.

Gilpin, R. (1975). *US power and the multinational corporation* (Vol. 43). New York: Basic Books.

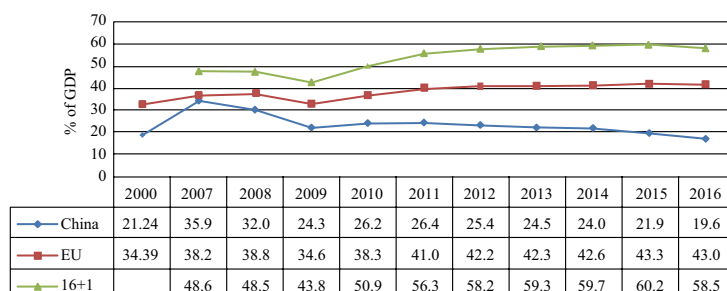
Krasner, S. D. (1976). State power and the structure of international trade. *World Politics*, 28(3), 317-347.

② A several-years old, structured annual forum, which gathers countries of the Central and Eastern Europe and China, to develop comprehensive (predominantly) economic policies and ways of cooperation.

③ The “16+1” designation in terms of these charts involves sixteen Central and Eastern European countries, and therefore, excludes China for which separate values have been shown.

respectively.

**Chart 3. Exports of goods and services (% of GDP)**

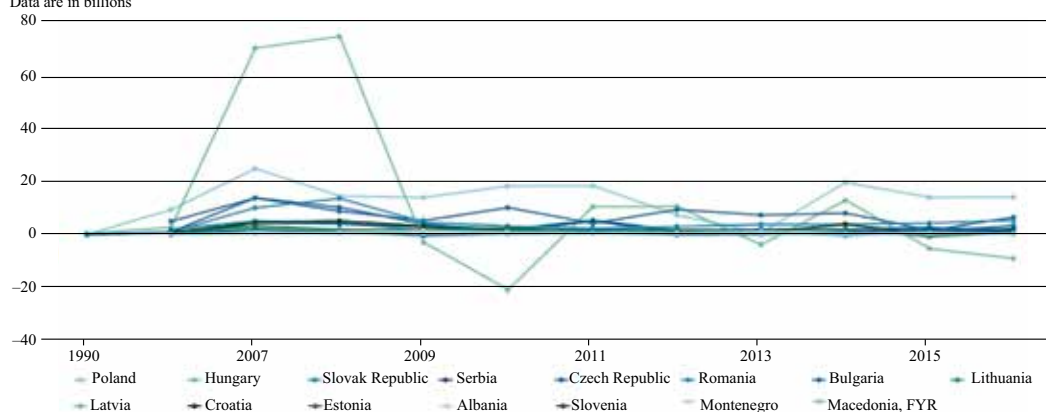


Source: World Bank Data, 2017 (Aggregated data)

Chart 3 shows that prospected through this indicator, CEE countries are *de facto* increasing export ratio in the last several years. On the other side, China's decline in percentage is a consequence of its permanent GDP growth, and therefore the share of export, can't be conceived as less ratio. Unlike CEE countries, the EU as a whole is stagnating in export ratio which can be first signal for its non-adequate growth policy. As from the China's side, investments beyond its borders in 2010 were some of 10% of its GDP, while in 2011, it was 11.1%<sup>①</sup>. On the other side, the CEE countries receive not only Chinese investments, but other ones, such as from other EU member states and the third parties.

**Chart 4. Foreign direct investment, net inflows (BoP, current US \$)**

Data are in billions



Series: Foreign direct investment, net inflows (BoP, current US\$)

Source: World Development Indicators

Created on : 10/28/2017

Source: World Development Indicators

① 文章后无参考书目

According to the World Bank Data, aggregated foreign direct investments (FDIs) in CEE countries, do not overcome 35 billion US dollars per annum (see Chart 4). Some assessments predict that China is spending several billion Euros a year in CEE region<sup>①</sup>.<sup>10</sup> No more concrete and robust data on this issue were found. In China's strategies of development investments are being recognized as impetus which could show Chinese openness towards the world. The Thirteen Plan for five-year period, announces two significant measures: deeper participation in supranational power structures, more international co-operation, and encouraging people of China to share the fruits of economic growth, so to bridge the existing welfare gaps. The willingness to deeper involve itself into global affairs was explicitly demonstrated. For “measuring” Chinese benevolence, data from annual series of public opinion surveys in key European countries, presented by Center for Strategic and International Studies, will be used.

**Table 2. International views on China: Favourability of China within the public opinion**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Germany	34	26	29	30	34	29	28	28	34	28	34
France	47	28	41	41	51	40	42	47	50	33	44
Russia	60	60	58	60	63	62	62	64	79	n/a	70
USA	42	39	50	49	51	40	37	35	38	37	44
Japan	29	14	26	26	34	15	5	7	9	11	13
Turkey	25	24	16	20	18	22	27	21	18	n/a	33
Average	39,50	31,83	36,67	37,67	41,83	34,67	33,50	33,67	38,00	27,25	39,67

Source: Center for Strategic and International Studies; <https://chinapower.csis.org/global-views> (29.10.2017. 14:55)

## Discussing the China's benevolent commitment to the international system

Even the most HST-sceptic oriented authors admit that vast number of critics did not destroy its analytic foundations<sup>②</sup>. Research question from the beginning of this paper was set to provide an answer if China's case, present the possibility for hegemonic stability theory-upgrade through its benevolent behaviour?

Even though the “benevolent hegemon” was conceptualized at the very beginning of

① German daily newspapers Spiegel announced that China will get closer to the Eastern EU Member States through huge package of 10 billion dollars investments, especially to Poland, indicating that Western Europe investors were not able to increase “intra-EU” investment circle. More at: <http://www.spiegel.de/international/europe/with-10-billion-dollar-credit-line-china-deepens-presence-in-central-europe-a-833811.html> (31.10.2017 13:33). Reuters, China in modern world, Available at: <https://www.reuters.com/article/us-china-eastern-europe-fund-idUSKBN13105N> (28.10.2017. 12:55)

② 文章后无参考书目



theorizing<sup>①</sup>, this benevolence has hardly been exposed by any of major superpowers. Chinese heavy economic investments all across the globe are *sui generis* example of such behaviour within international relations. Another issue which is significant is the defining the “long term” period of theoretical arguments. It is quite unclear what constitutes the sufficient period of time in which all those arguments should be observed. In another scenario, the G2 as a new model for establishing the global hegemon in economic and financial affairs could occur.

It is for all the reasons EU attitudes towards the initiative (Franco-German axis; Visegrad Group countries attitudes; other related attitudes), were quite positive towards China<sup>②</sup>. Hegemon and its behaviour must be perceived and accepted positively by wider consensus of the international community, and it must be formed as mutually beneficial for other great powers and important state-actors. Perception of Europeans towards China in general are not investigated that much in academic practice. Some empirical views however, stand on distinction of European Union member states attitudes towards China, spreading them into four fluctuating groups: assertive industrialists, ideological free-traders, accommodating mercantilists and European followers<sup>③</sup>. Not only the EU member states, but even CEE countries were dispersed into all of the groups<sup>④</sup>. On the other side, there were some empirical studies that shed light on how the Chinese people perceive the EU in general<sup>⑤</sup>. All the perception studies are one-way oriented (i.e. Chinese people towards the EU in general and *vice versa*, or group of EU Member States’s public opinions towards specific policy of China), and thus not adequate for generalization and deeper analysis (see Table 2).

All of these factors imply that classical interpretations of HST as a “meta-theory” of the IR, should be denounced in terms of its corrections and further upgrades. It would be impossible to deploy only one out of three arguments of the HST in analysing the multilateral and bilateral relations amongst the major world powers (notwithstanding China, EU or any other party). The HST has experienced some serious objections in academic considerations. The focus and interest on rebutting the first argument is most common within academics since it gets most space for empirical investigations. Despite that economic indicators are easily measurable and thus, subject to different methodologies, they offer solid basis for their direct comparison. Eichengreen argues that

① Kindleberger, C. P. (1973). *The formation of financial centers: A study in comparative economic history*.

② Möller, K. (2002). Diplomatic relations and mutual strategic perceptions: China and the European Union. *The China Quarterly*, 169, 10-32.

③ Fox, J., & Godement, F. (2009). *A power audit of EU-China relations* (pp. 20-27). London: European Council on Foreign Relations.

④ Ibid, 5.

⑤ Chan, K. (2010). Images, visibility and the prospects of soft power of the EU in Asia: the case of China. *Asia Europe Journal*, 8(2), 133-147.

there are problems with three concepts of this theory: hegemony, the power the hegemon is assumed to possess, and the regime whose stability is ostensibly enhanced by the exercise of hegemonic power<sup>①</sup>. He continues with explanation of the last concept, and points out the nature of regime which should recognize its leader, concluding that this process is very slow<sup>②</sup>.

On the other side, if the normative *de lege ferenda* argument according to which the world needs to have its predominant leader is taken into account, the HST is quite successful in explaining Sino-European relations on middle range term. Furthermore, it is of utmost importance to determine whether a theory with economic postulates could be applied to describe and even predict solely political relations between China and the EU. At the end, this paper has shown that there is an inconvenient convergence from Europeanization of Sino-European relations towards the Chinese angle of their perception.

## Conclusion remarks

This article pointed out to most significant academic debates over the Sino-European relations and their changing nature. Author intended to demonstrate Chinese commitment to the international (economic) system through its wide and comprehensive BRI policy, by using the “16+1” sub-initiative as a case study. The discussion and results have shown that China’s foreign policy is far from being a middle-range power one. Its economic presence through giant sub- initiatives is a key factor in shaping the Chinese foreign policy towards the third parties. Its willingness to heavy invest within the CEE region’s infrastructure, is recognized as a tendency of nearing the general European market for Chinese goods. Thus, establishing stable economic relations is for sure an opportunity for so-called “*spill-over*” effect, in which cooperation in all other major areas could be achieved.

The notion of “hegemon’s commitment to the system”, inevitably involves an economic dimension. If postulate that “for the world economy to be stabilized, there has to be a stabilizer, one stabilizer”<sup>③</sup> is accepted, than in Chinese case, the normative moment of HST should be avoided. Having a “hegemonic” role does not indicate that it is necessarily a coercive player within the international arena; moreover as Kindleberger claimed, it could be a benevolent actor. Thus, the benevolence in China’s case is explicitly expressed in vast investments all across the globe. Generating more than 11% of total world’s

① Eichengreen, B. (1987). Hegemonic stability theories of the international monetary system. In: *International Economic Policy: Perspectives on Global Power and Wealth*, 3.

② Ibid.

③ Kindleberger, C. P. (1973). *The formation of financial centers: A study in comparative economic history*.

GDP, China, along the EU which forms some of 20% of total world's GDP, it could become a real new economic leader in near future<sup>①</sup>. Debates among scholars concerning the potential “G2” scenario, in which China and EU could take global economic lead, are more often being actualized in global discourse. Some scholars predict that world economic hegemony will be soon established through “G2” scenario, in which the EU will be joined by China<sup>②</sup>. Geeraerts argues that the G2 will present the first economic tier of multilayered polarity<sup>③</sup>, while Scott recognized this dyad as the “strategic axis for the 21<sup>st</sup> century”<sup>④</sup>. If international economic institutions are widely understood to be “in need of reformation and repair” and for a new or reworked system to have credibility, China would need to have input into the process<sup>⑤</sup>. This became visibly in 2017 roundtable “Promoting an Open, Invigorated and Inclusive World Growth”, where the WTO director general announced: “China’s commitment to increased openness will help to drive the economy forward. There is an opportunity now to accelerate reform and focus more on the sustainability and quality of growth”<sup>⑥</sup>. So far, it seems that China did not play assertive economic policy towards the global institution creation.

But through various initiatives, it has demonstrated that international institutionalism should not necessarily be used as a means to global presence. The future of Sino-European relations highly depends on mutual agreement of Europe and China about particular strategic areas in which further cooperation should be built. An attempt to provide an overview of Sino-European relations with their everlasting variable nature will be put highly to academic agenda in future<sup>⑦</sup>. Whether the “16+1” initiative foster the cooperation and China’s rise followed by balanced Sino-European relations, will be notably depending on the Chinese will to take global lead, and to achieve its growth policy.

① World Bank Data (2017), China and EU GDP share in global GDP, available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=1W-CN-EU&view=chart> (24.10.2017 18:24)

② Geeraerts, G. (2013). The Changing Global Context of China-EU Relations. *China International Studies*, 42(September/October), 53-69.

③ Ibid, 58.

④ Scott, D. (2007). China and the EU: a strategic axis for the twenty-first century? *International Relations*, 21(1), 23-45.

⑤ Desai, S. (2006). Population plays decisive role for growth in China, India. *The Asia Pacific Century: A New Era*, 2.

⑥ WTO, Round table on Global development. Available at: [https://www.wto.org/english/news\\_e/news17\\_e/dgra\\_12sep17\\_e.htm](https://www.wto.org/english/news_e/news17_e/dgra_12sep17_e.htm)

⑦ Shirk, Susan (2007). *China: Fragile Superpower: How China's Internal Politics Could Derail Its Peaceful Rise*. Oxford: Oxford University Press.

# Improvement of Guidelines for Cooperation between China and Central and Eastern European Countries

## Implementation

Milan Kankaraš\*

### Abstract

In order to enhance cooperation between China and Central and Eastern European Countries, five summits have been held since 2012. The results of the summits were guidelines for cooperation in the next year. The guidelines contain measures for cooperation improvement in different areas, like trade, investment, etc. Also, the guidelines contain the results of guidelines implementation for the year before. Thus, the guidelines are a specific tool for monitoring progress in cooperation between China and Central and Eastern European Countries. Measures and implementation of guidelines are shown as enumeration facts, so the differences between planned and achieved measures are difficult to notice. To improve the implementation of guidelines, the research has been realized. The aim of research is to detect deficiencies of implementation and to propose a better way of guidelines monitoring. In correlation with that, the guidelines were analyzed by document analysis and data were processed by statistical method. Also, the proposed model was tested in the case of monitoring the Riga guidelines for cooperation between China and Central and Eastern European Countries and it is evaluated by the specialists. The results of this research can be applied to solve similar problems in public and private sectors' decision-making processes. Likewise, the proposed model is dynamic model and enables adjustment depending on contemporary needs.

**Key words:** *guidelines, cooperation, weight, transformation scale*

### I. Introduction

Guidelines for cooperation between China and Central and Eastern European Countries (hereinafter: guidelines) were extremely important for the maintaining and furthering

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relations improvement between the People's Republic of China (hereinafter: China) and Central and Eastern Countries, as well as among all European states. The guidelines should contain all the measures that need to be realized, the outcomes expected and holders of realization in order to enable improvement of those relations, also to show that the measures implemented and to what extent, as well as other issues of importance for the cooperation.

In this regard, the established measures for enhancement of cooperation were analyzed to identify deficiency in their preparation and monitoring, with main focus on guidelines that were enacted in the past period. Based on the observed deficiencies, new guidelines content was proposed, as well as the way of measures displaying that need to be realized and the level of implementation of certain measures. In fact, a new way of making and monitoring the implementation of the guidelines was suggested based on the guidelines from Riga example. Also, the improvement in relation to the existing method of preparation and monitoring was scored.

The structure of this article was adjusted to the research methods and compound of three major parts: First, the analysis of the measures and the guidelines for cooperation between China and Central and Eastern Europe. Second, it contains the proposal of the guidelines preparation and monitoring, and last is the evaluation of the proposed approach. The evaluation was performed through comparison of the existing and proposed ways of preparation and monitoring the guidelines. In the research, different methods were applied but the focus was the content analysis which has been used for data gathering. Also, the operational research method and statistics were used for the processing gathered data and for the calculation of the implementation level and overall cooperation within the certain areas.

## **II. Analysis of measures and guidelines for cooperation between China and Central and Eastern European Countries**

Cooperation between China and Central and Eastern European Countries, as a part of the Belt and Road Initiative, was started by 2012 in order to improve and promote that cooperation<sup>12</sup> measures were determined<sup>①</sup>. From that time on, five summits were held and the outcomes were four guidelines and The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries (hereinafter: Mid-term agenda).

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① "China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries", 26 January 2015. [Online]. Available: <http://www.china-ceec.org/eng/>. [Accessed 10 September 2017].

Improvement and promotion measures were enacted in 2012, the guidelines were adopted in 2013, 2014, 2015 and 2016, and Mid-term agenda is adopted in 2015. The main characteristic of the enacted documents is similar structure and writing style. Namely, all proposed measures in the enacted documents, as well as implementation of those measures were listed which hinders recognition of the necessary actions, especially recognition of the implemented measures—aggravated visualization of the process (Example 1).

**Example 1.** *Measures for promoting friendly cooperation*

1. Set up a secretariat for cooperation between China and central and eastern European countries. The secretariat will be based in China's Ministry of Foreign Affairs, and charged with communication and coordination on matters related to cooperation, preparation for leaders' meetings and business forums and implementation of relevant outcomes. The 16 central and eastern European countries will, in the principle of voluntarism, each designate a counterpart department and a coordinator to take part in the work of the secretariat.

...

3. Set up an investment cooperation fund between China and central and eastern European countries with the goal of raising US\$500 million in the first stage.

...

The guidelines were enacted in 2013 for the first time. They compound measures for cooperation improvement between China and Central and Eastern European Countries. Further guidelines, which have been enacted on the followed summits, also contain implemented measures from the previous guidelines. The purpose of the implementation part of the documents was to show the results level of the last summit determined measures. That is to say that implementation represents analysis of the cooperation during the year and should be a ground for the cooperation improvement in the next year.

However, it is easy to recognize that measure implementation was not fully correlated with all the measures. In fact, listed implementation measures were not the same in order with the measures listed in previous guidelines. Also, the measures determined by the guidelines were grouped by the areas of the cooperation and listed within those areas. But, on the other side, implementations of those measures were listed only by chronology and without groping in the areas of cooperation. That approach hinders recognition of the true level of the measures implementation, especially the level of cooperation by the areas of cooperation (Example 2).

**Example 2. Determined measures and their implementation**

***The Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries:***

- I. Hold a China-CEEC meeting of heads of government every year to review cooperation achievements and set the direction for future cooperation. Parties will discuss and set the date and venue of the 2014 meeting as soon as possible.
- II. Consider formulating a medium-term agenda for cooperation when appropriate in light of how China-CEEC cooperation evolves.
- III. Promote investment, economic and trade cooperation.
  - i. Firmly oppose protectionism in all its forms and manifestations, work to promote mutual investment and scale up and upgrade economic cooperation and trade while striving to mitigate its current imbalances.
  - ii. Designate and announce 2014 as the China-CEEC Investment and Business Promotion Year, and under its framework:

...

***Implementation of the Measures of the Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries:***

1. Since December 2013, citizens of all the 16 CEECs are entitled to 72-hour visa free transit in ports including Beijing and Shanghai.
2. In December 2013, the 1<sup>st</sup> China-CEEC High-Level Symposium of Think Tanks was held in Beijing, China.
3. In April 2014, a delegation of CEEC journalists visited China.
4. In May 2014, the 1<sup>st</sup> China-CEEC Seminar on Innovation, Technology Cooperation and International Technology Transfer was held in Shanghai, China.
5. In May 2014, the inaugural conference of the China-CEEC Association of Tourism Promotion Agencies and Businesses was held in Budapest, Hungary.

...

Chosen approach to the formulation of the cooperation measures does not allow full determination of their outcomes. In other words, the outcomes of the certain measures were formulated descriptively without numeric values (Example 1, article 1; Example 2), the outcomes of the certain measures were formulated strictly by exact numeric values (Example 2, article 3), and on the other side, for some measures is not possible to clearly formulate their outcomes (Example 1, article 1).

Descriptive measures were in fact YES/NO type, and could be expressed binary 1 or 0, which makes the process much easier for the determination of the outcomes—completely or not realized. In contrast, determination of the measures outcomes, which has been formulated by precise numeric values, is much more complex. Example 2, article 3 talked about establishing of fund for the investment cooperation with clear aim, within the first phase, to reach amount of 500 million US dollars. It is in question, what is the level of

the outcomes if ones reach amount of 400 million US dollars? Based upon the example, it could be conclude that the measures for the improvement of the cooperation do not allow determination of the implementation level.

Based on document analysis for the cooperation improvement it could be concluded that all the measures have the same level of importance. If the measures from Example 3, article 5 were compared with ones in Example 2, article 2 it is in stake weather those measures really have the same level of importance or it is necessary to determine the level of importance within the each areas of the cooperation.

**Example 3.** *The Riga Guidelines*

...
(5) The Participants welcome further cooperation on enhancing trade through e-commerce platforms and encourage Chinese and CEECs’ businesses to promote exports and imports of their quality and featured products through e-commerce.
...
(2) The Secretariat will continue to invite senior CEEC officials for a trip to China in 2017.
...

Afterwards, the holders of the determined measures were not established. However, based on the meaning of the measures it is possible to presuppose who should be or who are the holders of certain measures, but it has not been clearly articulated (Example 4, article 2, and 3).

**Example 4.** *The Suzhou and Riga Guidelines*

<p><b><i>The Suzhou Guidelines for Cooperation between China and Central and Eastern European Countries:</i></b></p> <p>9. People-to-People Contacts and Cultural Exchanges</p> <p>...</p> <p>(2) The 4<sup>th</sup> China-CEEC Education Policy Dialogue and the 3rd meeting of China-CEEC Higher Education Institutes Consortium will be held in China in 2016.</p> <p>(3) A China-CEEC forum on cooperation in the field of art and the 2<sup>nd</sup> China-CEEC Summer Dance Camp will be held in China in 2016.</p> <p>...</p> <p>(9) The 4<sup>th</sup> China-CEEC High-Level Symposium of Thinks Tanks will be held in 2016.</p> <p>...</p>
<p><b><i>The Suzhou Guidelines for Cooperation between China and Central and Eastern European Countries:</i></b></p> <p>9. People-to-People Contacts</p> <p>...</p> <p>(10) The 4<sup>th</sup> China-CEEC High-Level Symposium of Think Tanks will be held in China in 2017.</p> <p>...</p>



As was previously stated, implemented measures were listed only by chronology. In that part, there are no data about the measures which have not been realized, as well as about the measures which have not been realized but planned to realize in future (Example 4, article 9 and 10). Also, the guidelines do not contain short-term goals and priorities on the yearly level which, if it is the case, could give more quality to the documents.

Subsequently, it is possible to get the wrong conclusion that the guidelines were not qualitative enough and that they do not follow appropriately the current needs. In fact, in previous period the guidelines were changed and incorporate current areas of the cooperation (Table 1).

**Table 1. Cooperation areas**

<b>Area</b>	<b><i>The Bucharest Guidelines (2013)</i></b>	<b><i>The Belgrade Guidelines (2014)</i></b>	<b><i>The Suzhou Guidelines (2015)</i></b>	<b><i>The Riga Guidelines (2016)</i></b>
<i>Investment, economic and trade cooperation</i>	+	+		+
<i>Financial cooperation</i>	+	+	+	+
<i>Cooperation on connectivity</i>	+	+	+	+
<i>Cooperation in science, technology, innovation, environmental protection and energy</i>	+	+	+	+
<i>People-to-people and cultural exchanges and cooperation</i>	+	+	+	+
<i>Cooperation at the sub-national level</i>	+	+		
<i>Agricultural and forestry cooperation</i>			+	+
<i>Cooperation at the local level</i>			+	+
<i>Health cooperation</i>			+	+

As could be seen in the Table 1, the guidelines from 2013 and 2014 involved six same

areas of cooperation, while the guidelines from 2015 and 2016 were expanded by three new ones (Agricultural and Forestry Cooperation, Cooperation at the local level, and Health Cooperation) and decreased by one (Cooperation at the Sub-national Level). Cooperation at the sub-national level area was changed with Cooperation at the Local Level. As has been noted, it could be concluded that the guidelines were improved in line with real needs and still do so.

In spite of evident improvement of the guidelines, there are possibilities for further improvements in segments of preparation and visualization of the certain measures, especially of their implementation. The deficiency of the current approach to the preparation of the guidelines and the approach toward visualization of them are as follow:

- difficult visualization;
- difficult determination of the cooperation measures outcomes;
- difficult determination of the level of areas cooperation, as well as overall cooperation;
- influence of some measures was not appreciated;
- holders of the measures implementation were not appointed;
- no visibility of not implemented measures.

Resolving pointed deficiency could improve the method (way) for preparation, monitoring of the measures implementation and promotion of the outcomes.

## **II. The proposal of guidelines' preparation and monitoring**

Improvement of the conditions, process, etc. should be based on specific deficiencies and directed on their removal or diminishing the negative aspects of deficiencies influence. Bearing in mind, that analysis show six of deficiencies, the improvement was streamed toward removal of those deficiencies. To overcome perceived shortcomings, it is necessary to make changes in the structure of the guidelines, monitoring and in the promotion of the guidelines' outcomes level.

Currently, the guidelines does not have clear structure, but could be noticed three main parts: introductory attitudes, measures for improvement of the cooperation between China and Central and Eastern European Countries, as well as annex—implementation of the measures confirmed in previous guidelines. The guidelines should have the proposed structure:

- *Introductory remarks* which would include current introductory attitudes, achieved level for each area of the cooperation and recommendation for further activities;

- *Area of the cooperation* with the measures which is necessary to realized to improve the cooperation;
- *Final remarks* should cover implementation of the guidelines, monitoring of the measure implementation and other important issues;
- *Annex* where is presented the level of the measure implementation, as well as the overall areas cooperation.

Instead of the current listing of the measures, without respect for their level of significance for specific areas of cooperation, as well as without appointed implementation holders, these measures can be displayed in the form of the table. For each determined measure it is necessary to qualified its own level of the significance (weight), organization or individual which will be implementation holders, than goal values (estimated outcome), as well as limits in case of failure of the goal values implementation.

To determine the significance level there are a number of different methods such as Analytic Hierarchy Process (Hereinafter: AHP method), Fuzzy Analytic Hierarchy Process, Critic, DEMATEL method, etc.<sup>①</sup>. One of the most used and simplest for application is the AHP method. That method was developed by Tomas Saaty<sup>②</sup>, and it is based on comparison of the pair indicators in an area of the interest, and assignment of

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① See W. J. Gutjahr and P. C. Nolz, "Multicriteria optimization in humanitarian aid", *European Journal of Operational Research*, Vol. 252, 2016, pp. 351-366.

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M. Kankaraš, "Unapredjenje Funkcije Upravljanja Ljudskim Resursima u Sistemu odbrane (*Improving the Functions of the Defence Human Resource Management*)", Belgrade, 2016.

② Y. P. Ou Yang, H. M. Shieh, J.-D. Leu and . G. H. Tzeng, "A Novel Hybrid MCDM Model Combined with DEMATEL and ANP with Applications", *International Journal of Operations Research*, Vol. 5, No. 3, 2018, pp. 160-168.

the values 1-9<sup>①</sup>.

Connecting the measures with precise outcomes values, and it's illustrate presentation magnified visualization of the guidelines and clear understanding of correlation between measures and areas of interest (areas of the cooperation between China and Central and Eastern European Countries). It is possible to use adapted approach for connecting the strategies and goals, known as Balanced Score Card<sup>②</sup>. The example of the measure which should be realized within the areas of the cooperation, and their outcomes through target and limit values were shown in Table 2.

Using the proposed approach for the guidance preparation is possible to remove four of recognized deficiencies. Also, using this approach one could improve visualization of the guidelines, the level of importance of each measure, determination of the measure implementationholder, and clear presentation of the measures outcome. Also, that approach allows simple determination of the measure realization, as well as the level of the cooperation by the areas presented in the guidelines' annex.

For gathering measures implementation data on the cooperation could be use Table 2. It is appropriate to expand shown table with on more column with realized values, than to compare with target and limit values, and on last put in the matching span of values (Table 3).

As it can be see Table 3, one of the measures (measure 1) has been completely realized, two were partial realized and the outcome of the measure 3 were in span of “major disadvantages”, and measure 4 in column “critical”. Bearing in mind that measure 2 should be realized in 2018, that measure will not take an influence on the level of the realization within the Local Cooperationarea. Determination of the sum areas cooperation could be realized in two steps:transformation of the limit values and determination of the level of the cooperation in mentioned area.

For the use of different values of measures, it is necessary to perform a transformation of the limit values. One of the most applicable transformation method is the linear

① R. S. Kaplan and D. P. Norton, “Using the Balanced Scorecard as a Strategic Management System”, *Harvard Business Review*, January-February 1996.

② T. L. Saaty, *The Analytic Hierarchy Process*, New York: McGraw-Hill, 1980.

H. Yi Wu, “Constructing a strategy map for banking institutions with key performance indicators of the balanced scorecard,” *Evaluation and Program Planning*, Vol. 35, 2012, pp. 303-320.

P. Niven, *Balanced Scorecard Step-by-step for Government and Non-Profit Agencies*, 2<sup>nd</sup> Edition, John Wiley & Sons, Inc, 2018.

Table 2 The example of local cooperation's measures arrangement

Measure	Weight	Responsible	Target value	Limit values			
				Satisfactory	Minor disadvantages	Major disadvantages	Critical
The 3rd working meeting of the China-CEECE Association of Provincial Governors will be held in Bulgaria in 2017.	0.20	Bulgarian ...	Yes	Yes	/	/	No
The 4th China-CEECE Local Leaders' Meeting will be held in Bulgaria in 2018.	0.20	Bulgarian ...	Yes	Yes	/	/	No
The Participants encourage and support exchanges and cooperation between mayors of Chinese and CEECE capital cities.	0.25	Mayors of capitals	Cooperation between 50% mayors	Cooperation >45% mayors	Cooperation 41-45% mayors	Cooperation 36-40% mayors	Cooperation ≤35% mayors
The Participants encourage China-CEECE cooperation at the local level and support the twinning of provinces, regions and municipalities.	0.35	Administration of local level	Cooperation between 20% administrations	Cooperation >15% administrations	Cooperation 13-15% administrations	Cooperation 10-12% administrations	Cooperation <10% administrations

Table 3 The example of local cooperation's measures realization

Measure	Weight	Responsible	Target value	Realized value	Limit values			
					Satisfactory	Minor disadvantages	Major disadvantages	Critical
The 3 <sup>rd</sup> working meeting of the China-CEEC Association of Provincial Governors will be held in Bulgaria in 2017.	0.20	Bulgarian ...	Yes	Yes	Yes	/	/	NO
The 4 <sup>th</sup> China-CEEC Local Leaders' Meeting will be held in Bulgaria in 2018.	0.20	Bulgarian ...	Yes	/	Yes	/	/	No
The Participants encourage and support exchanges and cooperation between mayors of Chinese and CEEC capital cities.	0.25	Mayors of capitals	Cooperation between 50% mayors	37%	Cooperation >45% mayors	Cooperation 41-45% mayors	Cooperation 36-40% mayors	Cooperation ≤35% mayors
The Participants encourage China-CEEC cooperation at the local level and support the twinning of provinces, regions and municipalities.	0.35	Administration of local level	Cooperation between 20% administrations	8%	Cooperation >15% administrations	Cooperation 13-15% administrations	Cooperation 10-12% administrations	Cooperation <10% administrations

scale ranging from 1-10<sup>①</sup>. Since the measures have four levels of limit values, the transformation can be performed on a scale 1-4 (Figure 1).

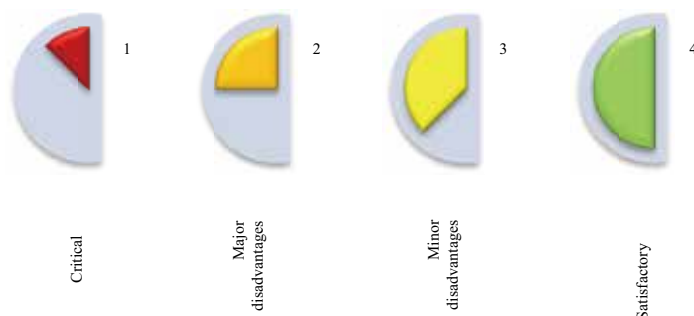


Figure 1 Linear scale transformation – adapted[10]

The overall level of the cooperation areas ( $A_i$ ) represents the sum of indicator transformed values results ( $I_i$ ) and its weight ( $w_i$ ), Equation 1.

$$A_i = \sum_{i=1}^n I_i \times w_i$$

However, if some of the measures were not realized during the analyzed year they will be excluded and weights of the rest indicators were changed in a way to preserve the same level of indicator importance. Preserving the same level of indicator importance realized by normalization of the weights ( $w'_i$ ) in a way that each weight is divided with the sum of weights (Equation 2).

$$w'_i = \frac{w_i}{\sum_{i=1}^n w_i}$$

In an example, measure 2 will not be calculated within 2017 evaluation. So, instead of four measures for determination of the sum level of the area, “Local Cooperation” will use three measures with changed weight and with preserved the same level of importance. After the transformation of the outcomes values and changed weights have been finished, it could be determined the sum level of cooperation using the Equation 1 (Table 4).

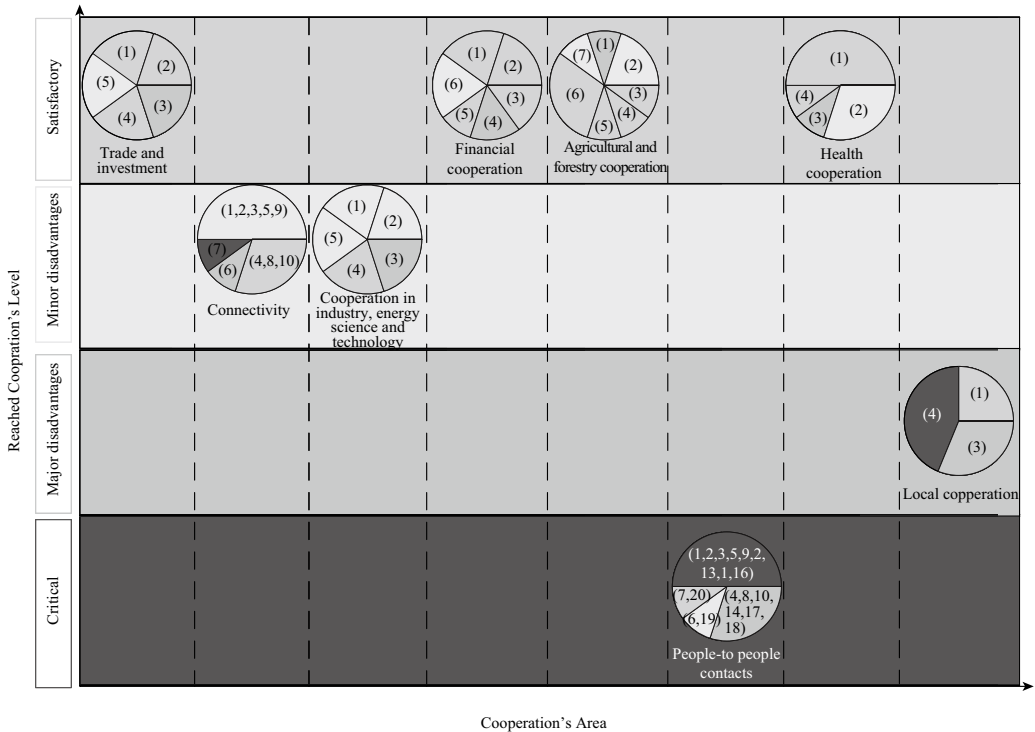
① M. Kankaraš, “Unapredjenje Funkcije Upravljanja Ljudskim Resursima u Sistemu odbrane (*Improving the Functions of the Defence Human Resource Management*)”, Belgrade, 2016.

**Table 4. The local cooperation's total level**

Measure	Weight	Responsible	Target value	Realized value	Transformed Value	Reached level
The 3 <sup>rd</sup> working meeting of the China-CEEC Association of Provincial Governors will be held in Bulgaria in 2017.	0.2500	Bulgarian ...	Yes	Yes	4	1.000
The Participants encourage and support exchanges and cooperation between mayors of Chinese and CEEC capital cities.	0.3125	Mayors of capitals	Cooperation between 50% mayors	37%	2	0.625
The Participants encourage China-CEEC cooperation at the local level and support the twinning of provinces, regions and municipalities.	0.4375	Administration of local level	Cooperation between 20% administrations	8%	1	0.438
Total local cooperation's level					2.063	

As could be seen in Table 4, if the level of certain measures implementation be as it shown in the example, the overall level of the cooperation within the area, “local Cooperation” is 2.063 and will be positioned within the range, “major disadvantages”. On the same way, it could be determine the sum level of all measures implementation (realization), as well as the sum level of all cooperation within the areas. The total realization of measures and cooperation areas in annex could be shown as a graphic (Figure 2).





**Figure 2** Realization of measures and cooperation areas

All the areas of the cooperation, the sum level of the cooperation by the areas, as well as the level of measures realization which should be applied for cooperation improvement were shown on the Figure 2. The measures which should be undertaken within the each areas of the cooperation were marked as ordinal numbers, identical as it is in the guidelines. For the more vivid presentation, within the area which has been consisting of more than a seven measures, the measures are grouped bearing in mind the realization level. For example, in case of the People-to-people area two measures were settled within in the span between “satisfactory” and “minor disadvantages”, four of them were in “major disadvantages” and ten within “critical”. Besides the simplified insight of the achieved level of the cooperation it is easy to recognize the measures which have not been completely realized, as well as analysis the cause of the unrealized and undertaking the additional measures for their realization in the next period of time.

The measures implementation and overall cooperation could be presented on different ways, but mixing the numbers and illustrations gain the higher guidelines visualization, not only the planned measures but the level of their implementation as well. Additional description should be focus on the cause of incomplete level of the measures realization and to the way and means how to resolve the disadvantages.

#### IV. Evaluation of proposed guidelines’ preparation and monitoring

The evaluation of proposed guidelines’ preparation and monitoring were done by the 12 experts with three or more years of experience in the field of international cooperation. All the respondents fulfill the questioner with the opportunity to grade current and proposed approach preparation of the guidelines through three characteristics:

- *visualization*, consider the level of simplicity, what is necessary to be done and what is the achieved level;
- *comprehensiveness*, consider possibilities to express all the necessary data like realization holders, level of importance, etc.;
- *accuracy*, consider exact determination of the measures realization and the level of achieved cooperation, as well as detection of the disadvantages during guidelines implementation.

All the mentioned characteristics were grade from 1 to 5, wherein 1 is the lowest level of the cooperation, and 5 the highest. Average grades of the current approach to the preparation and monitoring of the guideline were given in Table 5.

**Table 5. Disposition of employees’ opinion of current way**

Feature	1	2	3	4	5	Average feature mark
Visualization		10	2			2.17
Comprehensiveness			11	1		3.08
Accuracy	2	9	1			1.92
Average mark	2.39					

After the evaluation of the current approach to the preparation and monitoring the guidelines, to the respondents were presented the proposed approach after they have the opportunity to evaluate it as well. Average grades of the proposed approach to the preparation and monitoring of the guideline were given in Table 6.

**Table 6. Disposition of employees’ opinion of proposedway**

Feature	1	2	3	4	5	Average feature mark
Visualization			1	10	1	4.00
Comprehensiveness			2	9	1	3.92
Accuracy				2	10	4.83
Average mark	4.25					

According to the respondents' opinions and given grades, the level of current approach improvement was considered. In that sense, the improvement was checked by each single feature's mark ratio and in correlation with averagefeature'smarkratio—Equation 3.

$$R_i = \frac{PS_i}{CS_i} \text{ or } \frac{PS}{CS}$$

The correlation between the current ( $CS_i$ ,  $CS$ ) and proposed ( $PS_i$ ,  $PS$ ) approach to the preparation and monitoring of the guideline were shown in Table 7.

**Table 7. Calculated ratio**

Average mark	R
Visualization	1.85
Comprehensiveness	1.27
Accuracy	2.52
Guidelines	1.78

By the Table 7, it is obvious that every result of the compared values is more than one, which means that improvements of all considered characteristics of the current approach to the preparation and monitoring of the guidelines by the proposed one exist. The most enhancements are in correlation with accuracy, and the less with comprehensiveness. It is expectable enhancement and in accordance with analysis. In fact, the guidelines are comprehensive but there were space for improvement. On the other hand, accuracy of the formulation and monitoring of the implementation were on the lower level.

Based on the research results, application of the proposed approach to the preparation and monitoring of the guidelines could enhance visualization, comprehensiveness and accuracy of the measures and areas of the cooperation by at least 20%.

## V. Conclusion

The main goal of this research was to proposed new approach to the preparation and monitoring of the guidelines in order to remove existing disadvantages in the current one. Based on analysis of the guidelines six disadvantages were found. Subsequently, several proposals were made like: the structure change, presentation change of the measure which should be served as an improvement of the cooperation, complementation of the guidelines and the approach to the measures and areas determination level of the cooperation, as well as the way how to present those levels.

Bearing in mind the results made during comparison of the current and proposed approach to the preparation and monitoring of the guidelines it has been confirmed that proposed approach allow improvement in all the segments of analysis. Also, it has been confirmed that proposed approach is completely applicable and simple to use.

For the further research, it is necessary to test the proposed approach of the preparation and monitoring of the new guidelines, find and remove possible disadvantages and invent IT support to that process.

# **Can Asymmetric Relationships Work Together?**

## **A Quantitative Approach of “16+1” Cooperation Mechanism**

Gu Hongfei\*

### **Abstract**

Is there a possibility that there will be cooperation between the two sides with a big gap? If so, is this cooperation could be sustainable development? This question has always been a hot issue in international cooperation research. The “16+1” framework is a relatively new cooperation format initiated by China with 16 CEE countries in 2012. Since its formation, the “16+1” has made some progress in strengthening dialogue and cooperation between China and CEE countries. The heads of state of the member countries meet annually and each meeting results in a list of agreements. During the 5<sup>th</sup> and most recent summit, held in Riga, Chinese premier Li Keqiang formally launched a 10 euros billion investment fund to finance infrastructure and production capacity projects (“The Riga Guidelines for Cooperation between China and Central and Eastern European Countries”, n.d.). While the above initiatives made so far, it is not difficult to trace that in China and the CEE countries, the significant differences in the countries among the CEE brought for the complexity of interaction.

First of all, the CEE countries are not only a strictly strategic entity, but not a political or economic entity, the two sides now facing the problem of “one to sixteen”, moreover, for the relationship between China and the EU, China cannot be as a member state or even a power to arrange the sixteen countries as a political group. Secondly, despite the continuous warming of economic and trade cooperation between the two sides, such as the Czech Republic, Poland, Hungary, Serbia and other countries with China’s relations gradually increased, however, in terms of bilateral trade, there are still huge differences for both exports and imports, bilateral ties show an asymmetry pattern from the political and economic perspective. Thirdly, while the CEE countries developing economic and trade relations with China, there are big differences on each foreign policy to China among the CEE countries, sixteen states are not consistent with their foreign policy toward China, at the same time, there is still a disagreement between the two sides on political, economic, human rights, Tibet and Taiwan issues, arms embargo and other relevant issues.

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Therefore, the development of China's relations with CEE countries now is facing opportunities and challenges simultaneously. The asymmetry of bilateral cooperation requires China to optimize its policies on CEE countries for further development. This paper will analyze the CEE countries' foreign policy toward China by 15 languages<sup>①</sup> database among all CEE countries since the two sides established diplomatic ties through the way of big data, to analysis the development tread of their foreign policies by small countries while confronting big powers through the game theory, then test that is it possible for such asymmetry relationship could work together.

**Key words:** *asymmetric relationship, international cooperation, China-CEE relations*

## I. Asymmetric Characteristics and International Cooperation Theory

From the perspective of international politics, the contemporary world is consisted by asymmetric power, therefore, most of international cooperation must be asymmetric cooperation as well. The most direct consequence by thus asymmetric cooperation should be the asymmetry of cooperative benefits distribution, as long as there is no denying the zero-sum status in the competition of international relations. Olson in his *Logic of Collective Action* pointed out that the common interest does not necessarily generate the cooperation<sup>②</sup>. In the context of normal circumstances, as a country develops rapidly, it also forms large interest groups. These large interest groups are gradually transformed into wealth distribution groups rather than wealth producing groups. That is to say, they only consider self-interest and seek to maximize their share of total wealth. Such a free-riding would result in ignoring the overall interests of the state. Therefore, in this paper, I will answer the question is, is it possible to reach a partnership without the equal power of both parties?

In a broad sense, cooperation is a ubiquitous phenomenon in human society, there is no lack of allies in the contemporary international politics, but the ultimate goal of the alliance is balancing of power, the emphasis of which is still the conflict. It can be seen from the *Understanding Global Conflict and Cooperation: An Introduction to Theory and History* by Joseph Nye<sup>③</sup>. The core concept of international relations theory is power,

① In this paper, the metadata of language selection only chooses the official language of China and CEE countries, of course, some countries may have many official languages, or dialects, here, I use only their official language as a statistical sample.

② Olson, M., *The Logic of Collective Action: Public Goods and the Theory of Groups*, Second printing with new preface and appendix, Revised edition. ed. Harvard University Press, Cambridge, Mass, 1971.

③ Jr, J.S.N., Welch, D.A., *Understanding Global Conflict and Cooperation: An Introduction to Theory and History*, 10<sup>th</sup> edition. ed. Pearson, Boston, 2016.

and the definition of power as the ability to change people’s behavior implies potential conflicts. This makes the study of international relations more inclined to discuss power competition. In Keohane and Nye’s *Power and Interdependence*<sup>①</sup>, they explain how to generate power in interdependence, on the other hand, they have just seen the possibility of cooperation from their analysis of interdependence, but finally they inevitable the focus to power and conflict again. In this sense, the incomplete rationality of power makes cooperation divorced from the core field of political science.

The important difference between the theory of international relations and economics from the concept of power and interests is the difference between zero-sum game and positive-sum game. Economics is essentially individualistic, so collectivism is only an option to maximize individual utility. Therefore, in the view of economics, there is no conflict between individual interests, so while in the process of others pursuing their utility maximization, it will not necessarily affect their utility maximization in most cases. Pareto improvement is the typical expression of this explanation<sup>②</sup>. The process of China’s reform and opening up and globalization is also a clear example: as long as it can gain more benefits and faster development than self-reliance through accession to globalization, or even paying a few costs for it is also worth it. But the theory of international politics is opposite, because the power itself is zero-sum, and growth of one party’s power must necessarily mean the weakening of power of the other. Therefore, the positive attitude towards cooperation with economics is different, and the theoretical study of international relations sees more conflicts. This view is expressed in the Mearsheimer’s *The Tragedy of the Great Power Politics*<sup>③</sup>.

In case of international politics, as long as interaction exists rather than “Iron Curtain,” nothing more than conflicts or cooperation. Cooperation depends on rational trade-offs, while conflicts can be opportunistic or limited rational decision outcomes. Conflicts among the balance of power will result in internecine conflicts, moreover, if thus in the context of asymmetric status is even more obvious. In sense of probability, as long as the outcome of conflict can be expected, the occurrence of the conflict is always opportunistic or limited rationality. In addition, if there is no cooperation, enmity will not stop if the war caused by the military conflict. This is obviously not an ideal end.

It is undeniable that cooperation itself brings conflict, but rational cognition of the consequences of conflict should lead to cooperation. Cooperation can be either explicit or implicit. Can be formal or informal. Even if cooperation is rational but it may be replaced

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① Keohane, R.O., Jr, J.S.N., *Power & Interdependence*, 4th edition. ed. Pearson, Boston, 2011.

② Keohane, R.O., *After Hegemony: Cooperation and Discord in the World Political Economy*, With a New preface by the author edition. ed. Princeton University Press, Princeton, N.J, 2005.

③ Mearsheimer, J.J., *The Tragedy of Great Power Politics*, 1st edition. ed. W. W. Norton & Company, New York, 2014.

by conflicts at any time, as rationality may be overwhelmed by irrational impulses. Cooperation does not eliminate conflicts. Nevertheless, with deepening cooperation may increase the cost of conflict. In this sense, the development of cooperation makes the conflict become the reality of the irrational threshold may be constantly improved, so as to reduce the probability of conflict.

Although cooperation is rational, but because of the asymmetries in the contemporary world, equally cooperates is doomed to be an ideal state. So, not only power generation in interdependence, but also power could generate in cooperation. This means that cooperation and power to some extent is co-exist, even hegemony and compromise, and therefore it is not necessarily equal. The formation of cooperation is often based on the relative benefit or absolute benefit balance, and the win-win cooperation is not common in reality. However, cooperation is only possible due to the asymmetric pursuit of relative benefit and absolute benefit between the two sides. Furthermore, in the case of the coexistence of the finitely versus infinitely repeated games<sup>①</sup>, the dynamic results of cooperation will appear new situation because of the change of asymmetric power.

Therefore, due to the results of existing research and its shortcomings, the analysis of this paper will start from the characteristics of international cooperation, whether there is an optimization approach in case of the asymmetric status, and take the “16+1” cooperation mechanism as an example for hypothesis testing. This paper aimed at establishing a new interpretative framework.

## II. “16+1”: An Asymmetric Nexus

Since 2012, China–CEE cooperation mechanism has become mature gradually, moreover, during the 2015 Suzhou Summit, participating countries stated their readiness to formulate the Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries (“The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries,” n.d.). However, CEE countries now are in different status with different demands. For China, the challenges of asymmetric relations and the diversification of interests should not be underestimated. This requires that China while in developing its economic and trade relations should take into account the different circumstances of the political, economic and social development of each country. Because most of the countries in CEE are small countries with small volumes, they are difficult for China to form a united trade-related cooperation. But if CEE countries are well coordinated in some convergence or similar industries, from

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① Kreps, D.M., Milgrom, P., Roberts, J., Wilson, R., *Rational cooperation in the finitely repeated prisoners' dilemma*. J. Econ. Theory 27, 245–252, 1982.



the regional level, bilateral investment cooperation will progress smoothly, and it is easier to succeed than a country alone to cooperate with China. In addition, if there is no coordination, CEE countries may create competition in attracting Chinese investment.

First, for the overall scale by both sides, according to the data from World Bank in 2016, China and CEE countries have great differences in terms of population, GDP and surface area. As Table 1 shows that, China's territory is 7.12 times by the total of 16 countries in CEE, with the population of 11.57 times and GDP of 8.09 times. Secondly, the trade volume between China and CEE-16 is 764.43 billion USD, which accounts for only about 2.04% of China's global trade turnover in the same period (Table 3). The size of population, territory could directly affect the level of demand for a certain product and the depth of cooperation. More importantly, the partnership is an independent and autonomous cooperation among international actors based on common interests, through joint action and in pursuit of common goals. In order to safeguard national interests and expand the international influence, China has built a partnership strategy based on the “Five Principles of Peaceful Coexistence” and improved the global strategic development through bilateral relations. From the information by the Ministry of Foreign Affairs of PRC, until June 2017, only seven countries in CEE have established “partnership relations” with China (Table 2). In addition, China's outward FDI stock in Central and Eastern European countries grew by 35.4 times from 47.88 million USD in 2004 to 1696.51 million USD in 2014. However, from the country level (Table 4), Hungary (2683.37 million USD) is more than 1118.5 times the size of Montenegro (2.56 million USD). Therefore, as China proposed the “Belt and Road” initiative and “16+1” cooperation mechanism is very meaningful, but such initiatives must consider the current status which could make it more effective.

**Table 1. List of information of China and CEE-16 Countries, 2016<sup>①</sup>**

Country	Population Total, 2016	GDP, current USD, 2016	Surface Area, sq. km, 2016
Albania	2,876,101.00	11,926,892,452.85	28,750
Bosnia and Herzegovina	3,516,816.00	16,559,695,718.57	51,210
Bulgaria	7,127,822.00	52,395,164,027.15	111,000
China	1,378,665,000.00	11,199,145,157,649.20	9,562,911
Croatia	4,170,600.00	50,425,333,970.03	56,590
Czech Republic	10,561,633.00	192,924,593,987.30	78,870
Estonia	1,316,481.00	23,136,741,984.16	45,230
Hungary	9,817,958.00	124,342,940,194.42	93,030
Latvia	1,960,424.00	27,677,391,316.34	64,490

① The World Bank, <http://databank.worldbank.org/data/Home.aspx>, accessed by 20<sup>th</sup> August 2017.

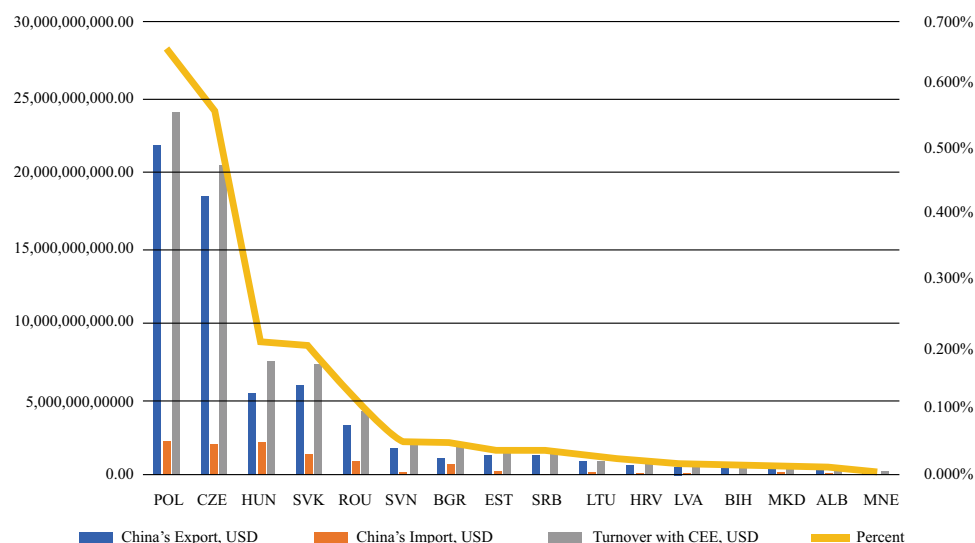
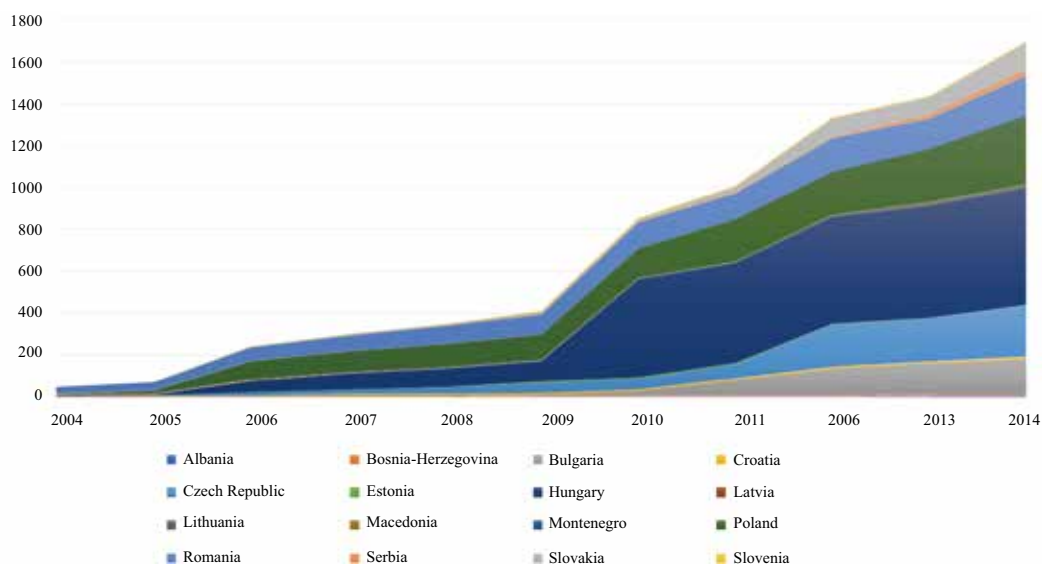
(Contd.)

Country	Population Total, 2016	GDP, current USD, 2016	Surface Area, sq. km, 2016
Lithuania	2,872,298.00	42,738,875,963.37	65,286
Macedonia, FYR	2,081,206.00	10,899,583,154.65	25,710
Montenegro	622,781.00	4,173,255,530.97	13,810
Poland	37948016.00	469,508,680,416.12	312,680
Romania	19,705,301.00	186,690,595,273.12	238,390
Serbia	7,057,412.00	37,745,114,708.31	88,360
Slovak Republic	5,428,704.00	89,551,834,322.58	49,035
Slovenia	2,064,845.00	43,990,635,176.05	20,270

**Table 2. Partnership Relations between China and CEE Countries (Until June 2017)<sup>①</sup>**

Country	Date of Diplomatic Ties	Remarks
Albania	1949.11.23	N/a
Bosnia-Herzegovina	1995.4.3	N/a
Bulgaria	1949.10.4	Comprehensive friendly cooperative partnership (2014)
Croatia	1992.5.13	Comprehensive cooperative partnership (2005)
Czech Republic	1949.10.6	Strategic partnership (2016)
Estonia	1991.9.11	N/a
Hungary	1949.10.6	Friendly cooperative partnership (2004) Comprehensive strategic partnership (2017)
Latvia	1991.9.12	N/a
Lithuania	1991.9.14	N/a
Macedonia	1993.10.12	N/a
Montenegro	2006.7.6	N/a
Poland	1949.10.7	Partnership (2004) Strategic partnership (2011) Comprehensive strategic partnership (2016)
Romania	1949.10.5	Comprehensive friendly cooperative partnership (2004)
Serbia	1955.1.2	Strategic partnership (2009) Comprehensive strategic partnership (2016)
Slovakia	1949.10.6	N/a
Slovenia	1992.5.12	N/a

<sup>①</sup> Data collected from Ministry of Foreign Affairs of the People's Republic of China, [http://www.fmprc.gov.cn/fma\\_eng/](http://www.fmprc.gov.cn/fma_eng/), accessed by 20<sup>th</sup> August 2017.

**Table 3. China’s Trade with CEE Countries in 2016 (USD, Percent by China to the World in Total)<sup>①</sup>****Table 4. China’s Outward FDI Stock by Country in CEE-16, 2004-2014 (millions of USD)<sup>②</sup>**

Second, for the foreign affairs priority by CEE countries, after radical social changes, the countries of CEE have completed the seceded with the Soviet Union and restored the ties

① The World Bank, <http://databank.worldbank.org/data/Home.aspx>, accessed by 20<sup>th</sup> August 2017.

② Ministry of Commerce of the PRC, <http://www.mofcom.gov.cn/>, accessed by 24<sup>th</sup> August 2017.

with the West in all aspects of social development<sup>①</sup>. With the end of the Cold War, and the collapse of the US–Soviet bipolar relations the international and European landscape is facing a reconfiguration<sup>②</sup>. In the context of the new geopolitical environment, the CEE countries began to shift westward after the dissolution with the Soviet Union (Russia). Many CEE countries guided by the beliefs of “Return to Europe”<sup>③</sup>, they are actively integrated into the Europe-Atlantic system, the most obvious manifestation is the demand for the NATO and the EU, this has become a landmark event in the changing geopolitical and economic map of Europe. But it is worth noting that the countries of Southeastern Europe did not share the “peace dividends” after the Cold War, but on the contrary, it is “fragmentation” which is contrary to European integration, while bringing problems to Europe. At the same time, while facing the choice of “Pro-American and not Euro-Exit” by the CEE countries, Russia has also redefined the status of the CEE countries in their own diplomatic strategy and attempted to return to CEE. As the successor of the Soviet Union, Russia has also turned to the Western models, and therefore it no longer intervenes in the social transformation of CEE countries. After the collapse of the Soviet Union, Russia implemented drastic and profound socio-economic changes in accordance with the Western model. Therefore, the foreign policy has also synchronized with the political and economic processes facing the West. The Yeltsin regime cooperated with the West without reservations and tried to integrate into the Western world. Objectively, such “one-sided” strategy is a strategic diplomatic strategy for the Yeltsin regime. Because the success of any social change depends on the improvement of the efficiency and well-being of social development, which is also the ultimate pursuit of socio-economic and political change in Russia in the 1990s. However, due to the lack of adequate ideological and psychological preparation for such reform, which coupled with the huge inertia of the Soviet model lasted for more than 70 years, as well as the complex structure of interest groups in the social transformation of profit and control, such reform may lead to failure. Therefore, At the early stage of Yeltsin’s administration, the Central and Eastern Europe region was excluded from the priorities of Russia’s foreign policy, and at one time it almost broke contact with Central and Eastern European countries. After Putin came to power, he was soberly aware of the decline in Russia’s strength and it had not been able to fight against the United States and the West, and that Russia could better defend its interests only by giving up a fight with the United States in some non-major strategic areas and geopolitical aspects. With the evolution of the world political structure, the change of the geopolitical role of Central and Eastern Europe and the

① Youngs, R., *Europe’s Eastern Crisis: The Geopolitics of Asymmetry*. Cambridge University Press, Cambridge; New York, NY, 2017.

② O’Hanlon, M.E., *Beyond NATO: A New Security Architecture for Eastern Europe*. Brookings Institution Press, 2017.

③ Keukeleire, S., Delreux, T., *The Foreign Policy of the European Union*, 2<sup>nd</sup> ed. 2014 edition. ed. Palgrave, Basingstoke, 2014.

adjustment of Russia’s foreign policy, especially after Putin’s ruling, the strategic position of the Central and Eastern European countries and the nature of Russia are redefined, the positive factors in the relations between Russia and Central and Eastern Europe have increased, which opens the way for the establishment of new type of relations between Russia and Central and Eastern Europe countries. But as a power in the Eurasia, Russia is reluctant to accept Western powers as a region in which CEE threaten its security and interests, many of the CEE countries joined the NATO and the EU, in this area, Russia is competing with the Western powers led by the United States<sup>①</sup>. From this perspective, the development of external relations in CEE is still restricted by the relations among Russia, the United States, Europe and other major powers.

**List 1. Memberships of CEE Countries**

Country	AL	BA	BG	CZ	EE	HR	HU	LT
Eurozone	×	×	×	×	√	×	√	√
EU	×	×	√	√	√	√	√	√
NATO	√	×	√	√	√	√	√	√
Country	LV	ME	MK	PL	RO	RS	SI	SK
Eurozone	√	×	×	×	×	×	√	√
EU	√	×	×	√	√	×	√	×
NATO	√	√	×	√	√	×	√	√

Currently, among the 16 countries in CEE, 11 countries are the Member States in the European Union, 5 countries are in the Eurozone, 8 countries are members of NATO, CEE countries have a high degree of market orientation, and the legal supervision system is complicated. Therefore, in case of the above asymmetry status, whether China and CEE countries could still reach a better cooperation? For the following parts, I will examine the data between China and CEE countries since the establishment of diplomatic ties by quantitative approach to test the both parties.

### III. Theoretical Model and Hypothesis

#### 1. Asymmetric Hawk-Dove Game Model

The Hawk-Dove model as a basic tool in game theory application has been widely used in the research of conflict and cooperation in human society<sup>②</sup>. The contestants of such

① Kaplan, L., *NATO Divided, NATO United: The Evolution of an Alliance*, 1<sup>st</sup> edition. ed. Praeger, Westport, Conn, 2004.

② Broom, M., Rychtar, J., *Game-Theoretical Models in Biology*, 1<sup>st</sup> edition. ed. Chapman and Hall/CRC, Boca Raton, FL, 2013.

game can be either Hawk or Dove. These are two subtypes or morphs of one species with different strategies. The Hawk first displays aggression, then escalates into a fight until it either wins or is injured (loses). The Dove first displays aggression, but if faced with major escalation runs for safety. If not faced with such escalation, the Dove attempts to share the resource. As shown in the following table, as one party obtains the benefit  $V$ , if both parties choose Hawk (H) as the strategy, the cost of conflict is  $C$ , the pure income of both parties is  $(V-C)/2$ . If the strategy adopted by the parties is different, the pure benefit of HD strategy is  $V$ , and vice (DH) is 0. If both parties adopt the Dove (D) strategy, the income of both parties is  $V/2$ .

**Table 4. The Payoff Matric for Hawk-Dove Game**

Strategy (S)	Meets Hawk (H)	Meets Dove (D)
If Hawk (H)	$(V-C)/2, (V-C)/2$	$V, 0$
If Dove (D)	$0, V$	$V/2, V/2$

In the classic Hawk-Dove Game model, the premise is that the power of the two parties is equivalent, when the two parties adopt a cooperative strategy, the two sides gain the same income, and while in conflict, the cost of the conflict is equivalent as well, however, there is a power asymmetry between the two stakeholders<sup>①</sup>. For example, the asymmetries between China and the Central and Eastern European countries are described in the preceding paragraphs. If only use the classical game model of Hawk-Dove to explore the interests' distribution mechanism of cooperation between the two sides has a great limitation. Therefore, it needs to consider the following the payoff matrix of asymmetric Hawk-Dove game model.

In case of asymmetric power between China and CEE countries, the benefit distribution of both sides is affected by the power. Here, if we assume the power ratio between China and CEE countries is  $K:1-K$ , ( $0 < K < 1$ ).  $K$  can be understood as the probability of winning while conflict occurred between the two parties. When the two sides adopt the S(HH), the gains by China is  $(V-C)/4K$ , the gains by CEE countries is  $(V-C)/4(1-K)$ . If the two sides adopt the S(DD), China's benefit is  $KV$ , CEE countries are  $(1-K)V$ . When the two parties adopt different strategies, the assumed gains are the same as the classic Hawk-Dove model, and the cost of the conflict between the two parties is higher than the gains by both, that is  $C > V$ . According to the above assumptions, the payment matrix can be

① Maschler, M., Solan, E., Zamir, S., *Game Theory*, 1<sup>st</sup> edition. ed. Cambridge University Press, Cambridge, 2013; Osborne, M.J., *An Introduction to Game Theory*, 1<sup>st</sup> edition. ed. Oxford University Press, New York, 2003; Smith, J.M., *Evolution and the Theory of Games*, 1<sup>st</sup> edition. ed. Cambridge University Press, Cambridge, New York, 1982.

obtained in the following table<sup>①</sup>.

**Table 4. The Payoff Matric for Asymmetric Hawk-Dove Game CEE Countries China**

China	CEE Countries		
	Strategy (S)	Meets Hawk (H)	Meets Dove (D)
	If Hawk (H)	$(V-C)/4K, (V-C)/4(1-K)$	$V, 0$
	If Dove (D)	$0, V$	$KV, (1-K)/V$

Therefore, according to the above analysis, the hypothesis of this paper assumes that if the economic power of the two sides is not equal, the degree of the cooperation between the two sides is closely related to the economic power. That is, the difference between the economic power of the two sides it is, the higher the frequency of cooperation will be. The economic interdependence between China and the countries of Central and Eastern Europe has promoted the improvement of bilateral political relations.

## 2. Selection and Operation of Variables

In this paper, I will set the bilateral political relations as dependent variables, which based on the degree of economic interdependence as independent variables, it aims to examine the above hypotheses. For control variables, it will choose the national democracy index, military expenditure and institutional participation.

### (1) Bilateral political relations

Because of the CEE countries are not only a strictly strategic entity, but also not a political or economic entity, therefore, it needs to distinguish between data selection. Therefore, this paper will use the Global Database of Events, Language and Tone (GDELT) to measure the bilateral relationship as a record<sup>②</sup>. The GDELT Project monitors the world's broadcast, print, and web news from nearly every corner of every country in over 100 languages and identifies the people, locations, organizations, counts, themes, sources, emotions, counts, quotes, images and events driving our global society every second of every day, creating a free open platform for computing on the entire world,

① Mesterton-Gibbons, M., *Ecotypic variation in the asymmetric Hawk-Dove game: When is Bourgeois an evolutionarily stable strategy?* *Evol. Ecol.* 6, 198–222, 1992; Womack, B., *Asymmetry and International Relationships*. Cambridge University Press, New York, NY, 2016.

(The footnotes from Page 14-26 are same as the original version. These footnotes are copied for convenience and integrity.)

② The GDELT Project monitors the world's broadcast, print, and web news from nearly every corner of every country in over 100 languages and identifies the people, locations, organization, counts, themes, sources, emotions, counts, quotes, images and events driving our global society every second of everyday, creating a free open platform for computing on the entire world (Cited from the website). <http://www.gdeltproject.org/>

this database records that what kind of actions was taken by Source country to the Target country since 1979 by encoding with Conflict and Mediation Event Observations (CAMEO)<sup>①</sup>, it is a framework for coding event data (typically used for events that merit news coverage, and generally applied to the study of political news and violence). Then it is used by Goldstein’s conflict-cooperation scale to assign the conflict or cooperation (from -10 to 10) to measure the bilateral relationships (See Appendix 1). The GDELT database covers all the interactive issues and time between the relevant countries, so it can basically meet the criteria of comprehensiveness.

## **(2) Economic interdependence**

The independent variable will be selected by the degree of economic interdependence (GDP per capita), trade interdependence (Turnover), invest interdependence (OFDI) as the combination. For OFDI, the data will select stock as the source, due to the numerical instability, it will be converted by the formula  $y = \ln(x + \sqrt{x^2 + 1})$ . To a certain extent, the stock as the independent variable can avoid the large fluctuation of flow data in the short term.

## **(3) Democracy index**

From the perspective of history, especially in the light of the reality of contemporary international relations, the countries with democratic institutions rarely conflict each other, but because of the restriction of liberal democracy and normative power, there will be no war among democratic countries generally, but there are still disputes among the above statements. Therefore, the degree of democracy is regarded as a control variable affecting the bilateral relations. Information and data are selected from Freedom House’s Country Scores (See Appendix 2).

## **(4) Military expenditure**

Military spending is also a control variable that must be considered, the high military spending may mean in a hostile environment, where the relationship between countries is easy to change. Because of the high asymmetry between China and Central and Eastern European Countries in military spending, this indicator is measured by the proportion of each country’s annual military expenditure as a share of GDP. The data comes from the Stockholm International Peace Research Institute, (SIPRI, 2017)<sup>②</sup>.

① Conflict and Mediation Event Observations (CAMEO) is a framework for coding event data (typically used for events that merit news coverage, and generally applied to the study of political news and violence). <http://eventdata.parusanalytics.com/data.dir/cameo.html>

② SIPRI Military Expenditure Database, <http://www.sipri.org/database/milex>, accessed by 24th August, 2017.



### (5) Fitting degree of institutional participation

In recent years, researchers based on econometric analysis have made many indicators by the degree of interest similarity between countries, many of which are derived from the General Assembly of the United Nations voting records as a basis for the measurement of bilateral relations. First, all members of the United Nations are eligible to vote in the various motions in the General Assembly, while each state have three options for each proposal, yes, no and abstentions. Since the establishment of the United Nations General Assembly, there are dozens of votes every year, so the similarity of voting between the two countries becomes an important index to measure the fitting degree of bilateral institutional participation. This paper adopts the similarity between China and Central and Eastern European countries in the United Nations General Assembly as a control variable to examine bilateral institutional participation. The data was selected from United Nations General Assembly Voting Data by Erik Voeten (See Appendix)<sup>①</sup>.

### 3. Model Setting

As described earlier, this paper will set the following linear regression model:

$$value_{it} = inteX_{it} + dem_{it} + mili_{it} + alli_{it} + e$$

In this model, *i* denotes the Central and Eastern European countries, *t* denotes the year, and *value* representing the relationship with China. Which *inteX* contains three different indexes to measure the degree of economic interdependence: GDP, trade and investment. The above equation contains three regression models, these are called model I, model II, and model III respectively. *Dem* refers to the degree of democracy, *mili* refers to military expenditure, *alli* refers to the degree of institutional fitting of both parties,  $\varepsilon$  represents random interference.

Due to the lack of some data, for the collection of the panel data, Central and Eastern European countries were not included in Bosnia and Herzegovina, Slovenia, Serbia and Montenegro, and the data selected from 1989 to 2016 in total of 12 countries with China. In order to make the data stability, some variables take the natural logarithmic form, variables in percentage, negative or zero will maintain the original, log is strictly monotonic recursive increasing function, it does not change the causal relationship between data, the statistical description of variables is shown in the table below.

① United Nations General Assembly Voting Data, <http://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/12379>, accessed by 24Th August, 2017.

**Table 6. Statistical Description of Variables<sup>①</sup>**

Variable	Mean	Standard Deviation	Min	Max
Value	5.26	3.39	-10	10
InteGDP	-3.882557	1.893711	-11.51293	-0.6945994
InteTra	-3.229195	1.749534	-11.51293	-0.8067139
InteFDI	0.000878	0.0040751	0	0.0293
Dem	1.346988	6.501585	-8	10
Mili	3.029033	2.887069	0.3	18
Alli	1.933735	2.117735	0	7

Notes: The range of variables is following, value=Bilateral relationship score, inteGDP=Economic interdependence (logarithmic), inteTra=Trade interdependence (logarithmic form), inteFDI=Investment interdependence, dem=Democratic index, mili=Percentage of military expenditure as a percentage of GDP, alli=Fitting degree of institutional participation.

#### IV. Empirical Test and Result Analysis

The above data is used to empirically test the impact of economic interdependence between China and Central and Eastern European countries on bilateral relations, and then to verify whether the prediction of cooperation in the context of the asymmetric relationship could be enhanced. First, it makes a simple model screening of the regression equation. There are three models to deal with the panel data: mixed-effect model, fixed-effect model and random-effect model. The mixed-effect model is to treat panel data as a cross-sectional data, it directly using OLS estimator. The difference between the fixed effect model and the random effect model is that the random effect model assumes that the individual effect is not related to the explanatory variable, and it regards as part of the error term and the regression equation of the random intercept term. The fixed effect model assumes that the individual effect is related to the explanatory variable and treats it as an explanatory variable. For the above three models, I use the wald test, and excluded the mixed effect model. The selection of the fixed effect model and the random effect model is usually determined by Hausman test. When Hausman test is significant at 10 % level, then choose the fixed effect model. The results of Hausman test shows that the model I, II and III is at 5 %, so the results of the fixed effect are reported below.<sup>②</sup>

The results show that both inteGDP and inteTra in model I and II are significant at 1

① Detailed data in the annex.

② Made by R, version 3.4.1.

%, and the coefficient is positive. The core explanatory variable of model III, inteFDI cannot pass the saliency test. Models I and II shows that economic interdependence can promote bilateral relations. However, it cannot simply accept this conclusion without considering the endogenous. From a theoretical perspective, economic interdependence has a very high endogenous expectation in the equation of bilateral relations, because the relationship with economic interdependence is highly to interact and cause each other. For example, when bilateral relations tend to rise, it is highly likely that bilateral trade will be promoted, thereby affecting bilateral interdependence. On the contrary, when the degree of economic interdependence is getting higher and higher, it may also force the two sides to avoid the deterioration of relations. In the study of economic interdependence and conflict, some scholars with economic interdependence as independent variables, while others treated conflicting as independent variables, so there is reason to suspect inteGDP, inteTra and inteFDI is an endogenous variable.

**Table 7. Fixed-effect Model Estimation Results<sup>①</sup>**

Variable	Model I	Model II	Model II
InteGDP	0.575*** (8.41)		
InteTra		0.582*** (8.77)	
InteFDI			-31.51 (-0.83)
dem	0.0412* (0.08)	0.0393 (1.93)	-0.00739 (-0.27)
mili	-0.428*** (-7.87)	-0.414*** (-7.63)	-0.0439 (-0.49)
alli	-0.251** (4.11)	0.324*** (5.57)	0.513 (6.55)
CONS	4.311** (3.09)	4.240** (3.07)	1.385 (0.21)
N	36559	36559	36559
Adj-R <sup>2</sup>	0.8541	0.8561	0.7861

Notes: (1) \*\*\*, \*\*, \* means the variables at 1%, 5% and 10% level are significant respectively. The t value is in parentheses.

Moreover, in order to determine whether the existence of endogeneity can be tested or not, it could use the Davidson-MacKinnon method. The original hypothesis of the Davidson-MacKinnon test method is that if there is no endogeneity, the two estimates are consistent, whether using OLS estimation or tool variable method estimation. In this paper, the three models reject the null hypothesis at the 5% level, it indicates that the

① The results are estimated based on the variables in Table 6.

model is endogenous. The way to eliminate endogeneity is to find a tool variable that is highly relevant to the endogenous variable but not related to the disturbance term. Since it is difficult to find a tool variable that meets this condition, one of the measures is to use the endogenous variable as a tool variable. In this paper, inteGDP, inteTra and inteFDI (lag I and II) will be used as tool variables.

**Table 8. Final Estimated results<sup>①</sup>**

Variable	Model I	Model II	Model II
InteGDP	0.745*** (9.48)		
InteTra		0.798*** (9.94)	
InteFDI			-43.09 (-1.01)
dem	0.0486* (2.37)	0.0500* (2.43)	-0.00778 (-0.29)
mili	-0.435*** (-7.39)	-0.421*** (-7.11)	-0.0683 (-0.71)
alli	0.164* (2.55)	0.242*** (4.09)	0.546*** (5.54)
CONS	6.469*** (4.26)	6.641*** (4.35)	3.161 (1.70)
N	36559	36559	36559
Anderson LR-p	0.0000	0.0000	0.0001
Sargan test-p	0.2242	0.1663	0.1127

Notes: (1) \*\*\*, \*\*, \* means the variables at 1%, 5% and 10% level are significant respectively. The t value is in parentheses.

In order to test whether the tool variables are reasonable, here is using an under-identification and over-identification. From the AndersonLR and Sargan tests, the tool variables chosen in this paper are reasonable, there is no under-identification and over-identification. The regression results of the tool variable method show that the model I and II, inteGDP and inteTra are still significant at 1% level after the endogeneity is mitigated. In model III, inteFDI still did not pass the significance test. Since the level of interdependence of investment is negligible compared to the level of economic

① The results are estimated based on the variables in Table 6.

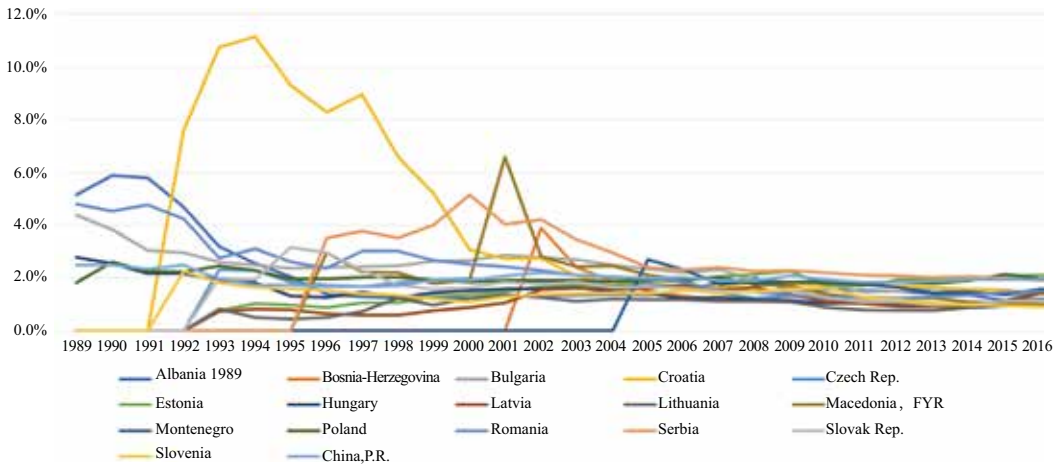
interdependence and trade interdependence, the main effect of inteGDP and inteTra on political relations is observed. Therefore, it believes that if other conditions remain unchanged, the economic relations between China and Central and Eastern European countries does have a positive effect on bilateral political relations. For every 1% increase in inteGDP, the scores of bilateral political relations correspond to increase 0.745 points, or inteTra increase 1% in bilateral political relations 0.798 points raised simultaneously.

## **V. Conclusion**

Based on the above analysis, I find that in asymmetric cooperation, the enhancement of cooperative efficiency can be realized by the individuals in the system with their corresponding influence, the accepting party of cooperation takes coercive tactics to punish the individual who do not cooperate, and the individual of the partner chooses to pay a certain cost to participate in the cooperation, or to take the speculation strategy. Obviously, if the recipient of the cooperation can effectively punish the partners of the cooperative, then the cooperative strategy will be their advantage strategy. However, due to the asymmetric information of the cooperative system, both parties do not know what kind of strategy by the two parties actually adopt, that is, the dominant individuals cannot observe the cooperative strategy in real time. Similarly, the recipient of cooperation is not entirely clear when and what extent the individual will punish non-cooperation actions, and therefore both sides tend to mix the strategy. For partners, the cost of conflict and the ratio of benefit is likely to be higher, the more credible by the dominant side of the system is to punish or suppress the speculative behavior, so the more likely the partners are to be forced to cooperate. So, in this sense, the asymmetric system is conducive to the evolution of cooperative behavior.

This results in accordance with the hypotheses of this article, with the end of the Cold War, this results in accordance with the hypotheses of this article, with the end of the Cold War, the economy has become a more and more important factor. In order to develop the economy cooperation, China and the Central and Eastern European countries have realized the importance of opening, they actively create various conditions and taking the opportunity of economic globalization, the economic contacts between the two sides is closer. In this process, the economic interdependence between countries is deepening, and this deepening makes the cost of disconnecting the economic link is increased, thereby inhibiting the conflict to some extent. When committed to the development of the economy, the countries with economic exchanges have taken the initiative to promote bilateral relations, it creates a good environment for economic exchanges, and promote political and economic mutual promotion.

### Appendix I. Military Expenditure by Country as Percentage of GDP, 1989-2016



### Appendix II: Freedom Score by Country (China and CEE-16)<sup>①</sup>

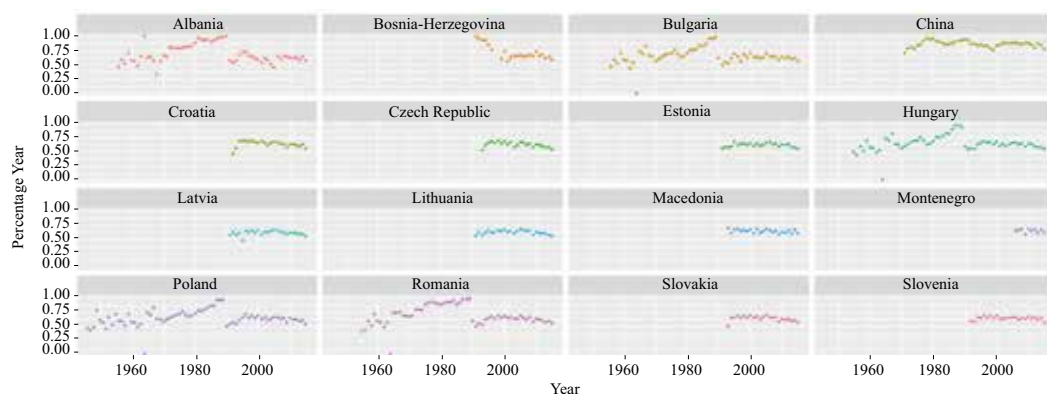
Country	Freedom Status	PR	CL	Freedom	Aggregate Score	Trend Arrow
Albania	Partly Free	3	3	3.00	68	
Bosnia-Herzegovina	Partly Free	4	4	4.00	55	
Bulgaria	Free	2	2	2.00	90	
Croatia	Free	1	2	1.50	87	
Czech Republic	Free	1	1	1.00	94	
Estonia	Free	1	1	1.00	94	
Hungary	Free	3	2	2.50	76	
Latvia	Free	1	2	1.50	87	

<sup>①</sup> <http://www.sipri.org/databases/milex>, accessed by 24<sup>th</sup> August, 2017. Note: PR=Political Right, CL=Civil Liberties, CL, PR, Freedom Rating Explanation: 1=most free and 7=least free, Aggregate Score Explanation: 0=least free, 100=most free. <http://freedomhouse.org/report/fiw-2017-table-country-scores>, accessed by 24th August, 2017.

(Contd.)

Country	Freedom Status	PR	CL	Freedom	Aggregate Score	Trend Arrow
Lithuania	Free	1	1	1.00	91	
Macedonia	Partly Free	4	3	3.50	57	
Montenegro	Partly Free	3	3	3.00	69	
Poland	Free	1	2	1.50	89	↓
Romania	Free	2	2	2.00	84	
Serbia	Free	3	2	2.50	76	
Slovakia	Free	1	1	1.00	89	
Slovenia	Free	1	1	1.00	92	
China	Not free	7	6	6.50	15	↓
A					77.23529412	

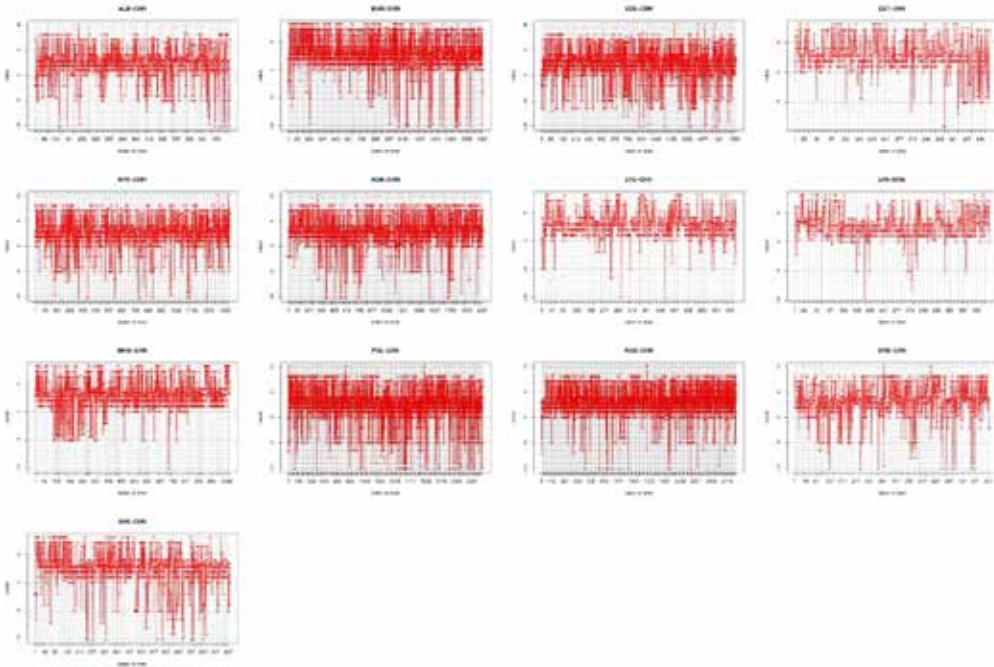
### Appendix III. The Voting Records by China and CEE-16<sup>①</sup>



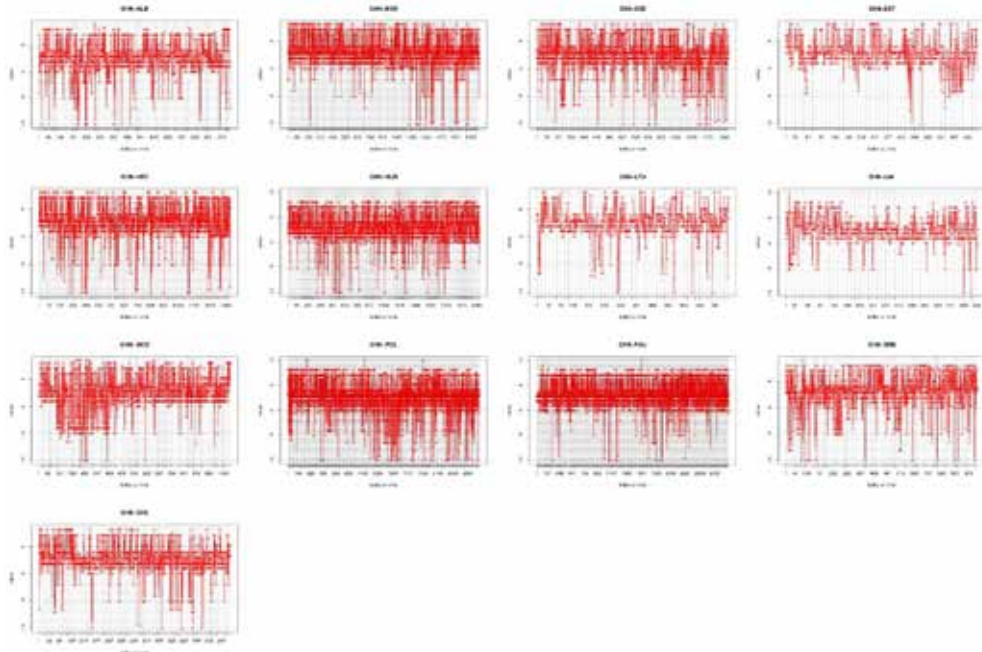
Notes: The Voting Records database provides access to voting information for General Assembly resolutions adopted: without a vote by a recorded vote beginning in the 1st session (1946), the information provided comes from the voting machine in the General Assembly Hall. If a Member State informs the Secretariat of an error in the vote, the data is not changed and the vote must therefore be researched in the meeting records.

① United Nations General Assembly Voting Data, <http://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/12379>, accessed by 24th August, 2017.

Appendix IV-i. GDELT Data by CEE-16 to China<sup>①</sup>



Appendix IV-ii. GDELT Data by China to CEE-16<sup>②</sup>



① GDELT Project, <http://www.gdelproject.org/>, accessed by 24<sup>th</sup> August, 2017.

② GDELT Project, <http://www.gdelproject.org/>, accessed by 24<sup>th</sup> August, 2017.



Notes:

IV-i	N	Min	1st Qu.	Median	Mean	3rd Qu.	Max
ALB-CHN	1045	-10.000	1.000	2.500	2.207	4.000	10.000
BGR-CHN	1928	-10.000	1.000	2.800	2.843	4.000	8.000
CZE-CHN	1784	-10.000	1.000	2.800	2.098	4.000	10.000
EST-CHN	516	-9.000	1.000	2.800	2.826	4.000	8.000
HUN-CHN	2043	-10.000	1.000	2.800	2.858	4.000	10.000
HRV-CHN	1428	-10.000	1.000	2.800	2.534	4.000	10.000
LTU-CHN	670	-10.000	1.000	2.800	2.816	4.000	8.000
LVA-CHN	528	-10.000	1.000	2.800	2.787	4.000	8.000
MKD-CHN	1086	-10.000	1.000	2.800	2.871	4.000	8.000
POL-CHN	2732	-10.000	1.000	2.800	2.384	4.000	10.000
ROU-CHN	2843	-10.000	1.900	2.800	2.997	4.000	10.000
SRB-CHN	879	-10.000	1.900	3.400	3.110	5.200	10.000
SVK-CHN	945	-10.000	1.000	2.800	2.281	4.000	8.000
SUM/A	18427				2.662		

IV-ii	N	Min	1st Qu.	Median	Mean	3rd Qu.	Max
CHN-ALB	1017	-10.000	1.000	2.800	2.469	4.000	9.000
CHN-BGR	1847	-10.000	1.000	2.800	2.937	4.000	8.000
CHN-CZE	1428	-10.000	1.000	2.800	2.234	4.000	8.000
CHN-EST	519	-10.000	1.000	2.800	2.790	4.000	8.000
CHN-HUN	2065	-10.000	1.000	2.800	2.871	4.000	10.000
CHN-HRV	1423	-10.000	1.000	2.800	2.611	4.000	8.000
CHN-LTU	579	-10.000	1.000	2.800	2.463	4.000	8.000
CHN-LVA	531	-9.500	1.000	2.800	2.544	4.000	10.000
CHN-MKD	1110	-10.000	1.000	2.800	2.611	4.000	8.000
CHN-POL	2741	-10.000	1.000	2.800	2.459	4.000	10.000
CHN-ROU	2935	-10.000	1.900	2.800	3.003	4.000	10.000
CHN-SRB	1019	-10.000	1.900	3.400	2.930	5.000	9.000
CHN-SVK	918	-10.000	1.000	2.800	2.657	4.000	8.000
SUM/A	18132				2.660		

# **“16+1 cooperation as a Long Lasting or *Ad-hoc* Project? Perspectives from Different Angles of Central and Eastern Europe”**

Jędrzej Czerep\*

## **Abstract**

Central and Eastern Europe's perception of the “Belt and Road” and its 16+1 partnership, is defined by specific characteristics of the region: its pivotal location, historical experience of domination by stronger powers, and being one of the last regions which is not familiar with China's role of economic superpower. These factors contribute to cautious reception of the new initiative and to raising questions about its long-lasting dimension. In different parts of the Central and Eastern Europe opinions among policy-makers, analysts, economists and public opinions vary on assessing seriousness of the project, its political and economic relevance. The article provides an overview of the major points of concern among the countries – participants to the 16+1 cooperation.

## **I. Entry gate / Testing ground?**

Central and Eastern Europe is clearly framed within the framework of the “Belt and Road” – a Chinese-led set of projects improving connectivity of the land and maritime routes between China and Europe. Region's location in the nearest proximity of the Western Europe defines its role to play within the new global scheme: it is the West which has always been the main target of the long-term Chinese policy of expanding its economic outreach and the Central and Eastern Europe is a step on the way towards this goal. Reflection on the meaning of the Central and Eastern Europe for China within this setting makes many analysts think of the region as the “gate” to Western Europe, and a “testing ground” for Chinese products before they reach their final destination. Perception of the “ground before the developed EU markets” brings questions about the region being an object, rather than a subject of the Beijing's policies. As Ma Junchi states, “many elites (...) think that after the EU does not admit the market economy status of China,

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China will take CEE countries as a way to broaden its diplomatic tools and form a lobby inside the EU"<sup>①</sup>.

While there is a widespread understanding that this is the real role of the region ascribed to it by the major global powers including China, there are varied strategies of coping with this assumption manifested. While some protest against the notion of "almost Europe" or a "worse", or "secondary" part of Europe, and reject the very idea of any relation which pushes the countries concerned onto the political peripheries, others try to make the best out of it. Approving positioning as such favors adopting an opportunistic approach and fueling the fiction of a "geopolitically significant partnership" while attracting as many investment opportunities as possible. Goal of such strategies is to raise one's profile both within the CEE-China relations and within the CEE-core Europe relations. Faced with the prolonged economic crisis, the CEE states concluded that "every new investor and trading partner is welcomed, and this is exactly what China has offered"<sup>②</sup>. Feeling "politically marginalized within the EU, with the feeling of not having enough assistance for their quest of development and with an unclear commitment from the US, it appears even more natural that China's offer of a 'special relation' has been welcomed"<sup>③</sup>. All of those calculations are taking into account the critical stance of the "core EU" towards the new initiative, with reservations that the same "core EU" would remain the CEE's major point of reference in the foreseeable future.

The notion of the "testing ground" brings assumptions that the 16+1 format shouldn't be analyzed in terms of a "project" or a "plan", but rather an "experiment" without clearly set long-term political goals: it is to be seen what results would it bring, or rather: what opportunities in economic terms would arise from it. From its foundation in 2012, there was a sense of "reluctance to institutionalize the 16+1 format" among the Central and Eastern European partner countries<sup>④</sup>. New mechanisms are being seen as "instruments facilitating bilateral contacts for each state of the 16 rather than institutions, as they do not have internal structure or budget"<sup>⑤</sup>.

## **II. Multilateral, bilateral, or a unilateral project**

The 16+1 project is seen through the lens of challenges faced by the Chinese economy:

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① Ma Junchi, The Challenge of Different Perceptions on the "Belt and Road" Initiative, *Croatian International Relations Review*, Vol.23 No.78, Kolovoz 2017, p. 153.

② R. Turcsányi, *Central and Eastern Europe's Courtship with China: Trojan horse within the EU?* European Institute for Asian Studies, 2014.

③ Ibidem.

④ J. Szczudlik-Tatar, *China and the CEE. Look for New Development Opportunities*, "PISM Bulletin", No. 134 (729), 2014.

⑤ Ibidem.

willingness to sustain growth requires finding new ways of managing overproduction, particularly by opening new markets for Chinese goods. If this logic is to be defining the Chinese economy-driven foreign policy, than the formulas like 16+1 can be reduced to satisfying needs of the Chinese economy. They shouldn't be considered in terms of “joint”, or “multilateral” initiatives as logic behind them and their key components are being set and implemented by Beijing in direct relation with requirements of China's internal economic situation. As Anastas Vangelis from the Polish Academy of Sciences put it: “the whole idea is to find ways to boost the economy outside China, to generate demand for Chinese goods”<sup>①</sup>. This way of understanding the 16+1 relations makes it being considered as a unilateral initiative. The main political forum, where the governments of the Central and Eastern European countries coordinate with China is the annual 16+1 summit. As argued by Agatha Kratz, expert from the European Council for Foreign Relations, for CEE countries, summits are in fact a set of bilateral mini-forums between individual capitals of the 16 with their Chinese counterparts – nothing more than one of many occasions to speak to the Chinese partners, and a chance to “explain what they (CEE countries) need from” 16+1<sup>②</sup>.

### III. 16+1 as a manifestation or a mirage of the major geopolitical shift

Political scientists, futurologists, as well as politicians tend to speculate on different scenarios deriving from shifts in relations between the political powers. Emergence of China as an economic front-runner with increasingly assertive foreign policy agenda is met with various interpretations in the Central and Eastern Europe. In a region historically haunted by dominance of external powers (Russia/USSR, Germany), proximity of much stronger economies (developed countries of the EU), and sentiments for distant alliances (Poland-USA), fears and hopes for a change that would elevate region's profile and restore its importance, continue to play a role in interpreting global developments. There are many authors in the region, who see access to the economic relations with China, parallel with (expected) weakening of these powers that used to thwart potentials of the countries of the CEE (Russia, the EU), as a means to regain strength. Jacek Bartosiak, an influential Polish author focusing on geopolitical analysis, in the text entitled “Poland on the Silk Road” written for *Nowa Konfederacja* (New Confederation) bimonthly<sup>③</sup> provided a hyper-enthusiastic assessment of the potential changes on the global chessboard related to establishing the link between China and

① E. Maurice, *China's 16+1 Foray into Central and Eastern Europe*, EU Observer, 26.06.2017, <https://euobserver.com/eu-china/138347>, [access: 31.10.2017].

② E. Maurice, *China's 16+1 Foray into Central and Eastern Europe*, EU Observer, 26.06.2017, <https://euobserver.com/eu-china/138347>, [access: 31.10.2017].

③ J. Bartosiak, *Polska na Jedwabnym Szlaku*, Internetowy Miesięcznik Idei, Nr 6 (72)/2016, 1 czerwca–5 lipca 2016.

Poland (Central and Eastern Europe): he assumed Warsaw should take the best out of the new format for the purposes of its development, expansion of influences in the region and for gaining power. In his narrative true importance of the "Belt and Road" (and the 16+1 as part of it) lays in changes that it brings to the traditional geopolitical rules of the game, defined by dominance of maritime powers. The new allocation of powers according to land routes would bring a "new opening" in which Poland, an emerging transportation hub, could gain more strength than it was possible in the traditional setting. But building its sphere of influence in the Baltic-Black Sea axis that will only be possible if country participates in the "Belt and Road" / 16+1 as a real partner. This kind of perspective is rather unusual among the expert community. A neutral tone dominates, where countries are facing some opportunities to gain from investments, but 16+1 is clearly seen as a marginal project for the global and regional settings. Others, like Petr Kratochvil, put it directly: "The idea of a strategic shift of the CEE countries towards China, instead of traditional allies is nonsense"<sup>①</sup>.

#### **IV. Problems in trust**

Central and Eastern Europe is one of the last regions in the world which are being approached by China in the role of the economic superpower<sup>②</sup>. Despite declared policy of "openness to the East" (as in case of Hungary), practical implementation of joint initiatives with China are often marred by difficulties deriving from "cultural, mental, technical and bureaucratic" obstacles<sup>③</sup>. Those lead to frustration and perception of the entire 16+1 process as a reality where plans and declarations are distant from what can be expected to be implemented. Realisations – in the eyes of the CEE partner states – are only "probable", they are likely to be hampered by various difficulties, delays or cancellations. Estonian analyst Viljar Veebel pointed that the perspective for successful cooperation within the 16+1 format are rather shaky due to experience of mutual economic contacts in the past decade: they "have remained rather modest, mostly due to long distances, but also China's unknown business environment and difficulties in finding direct business contacts, confidence problems for Estonians, the need to focus on particular regions or cities in China to be successful in the foreign market, and the lack

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① E. Maurice, *China's 16+1 Foray into Central and Eastern Europe*, EU Observer, 26.06.2017, <https://euobserver.com/eu-china/138347>, [access: 31.10.2017].

② J. Czerep, *Polish Reading of the New Silk Road*, to be published in the post-conference publication "Initiatives of the 'New Silk Road' - Achievements and Challenges" (12.07.2017), Institute of International Politics and Economics, Belgrade.

③ B. Góralczyk, *China's Interests in Central and Eastern Europe: Enter the Dragon*, European View 16, Winfried Martens Centre, 2017, p. 156.

officid resources to export to China”<sup>①</sup>. Estonians also “do not understand the logic behind the selection of the countries belonging to the “16+1 cooperation”, combining Baltic countries, Central European Countries and some of the Balkan countries with different economic development level, involving the EU countries and non-EU members, including countries with complicated bilateral relationships”, which would make it difficult to define “common interests and consensual solutions (...) for extensive cooperation”<sup>②</sup>. There are multiple levels of mistrust and competition between the 16 states of the Central and Eastern Europe who are members of the 16+1. With limited resources, and selective approach of Beijing, those differences may transform into a competition for attention. Ma Juchi states that “every CEE country describes itself as the gateway to Western Europe or Northern Europe, to attract Chinese investment. They are worried that China will invest in its neighbors”<sup>③</sup>. Anna Burjanadze, Analyst from Latvia states: “The root of all fears steams from the uncertainty about China and the project itself”<sup>④</sup> and that “if China is only interested in the relatively cheap labour and more free regulation of business activities, the CEE should start questioning its prospects in the cooperation”.

The shaky grounds for the cooperation and relevance of the 16+1 format and its potential collusion with the priorities of the CEE relations with EU bring questions for the Central and Eastern European states for their strategic calculations on the long-term perspective for stability. Baltic states-based researchers note clearly that the EU is being suspicious about the 16+1 format, which have the potential of playing a “divide and rule” game, weakening the EU from within and lifting the EU-aspiring states away from the course on European integration. There is also an understanding that Brussels considers 16+1 as a Beijing’s means to “outsmart EU rules and regulations”<sup>⑤</sup>. Awareness about the Brussels suspicion and reservations on the cooperation, makes the CEE states feel like pulling the strings of trust within the EU family. This results in restrainin in their openness for implementing the 16+1 vision in a more coherent and deeper way. There is also a perception of risk of conducting a conscious and effective foreign policy by the Central and Eastern European states, which “were not famous for being at the forefront of EU

① V. Veebel, *The China’s New Silk Road Initiative: Why is Estonia Rather Cautious About It*, in: M. Andžāns (ed.), *After thoughts: Riga 2016 International Forum of China and Central and Eastern European Countries*, Latvian Institute of International Affairs, Riga 2016, p. 53.

② Ibidem, p. 55.

③ Ma Junchi, *The Challenge of Different Perceptions on the “Belt and Road” Initiative*, *Croatian International Relations Review*, Vol.23 No.78, Kolovoz 2017, p. 153.

④ A. Burjanadze, *China and the EU within the Framework of “16+1”: Obstacles and Prospects*, Latvian Institute of International Affairs, 07.08.2017, <http://www.liia.lv/en/analysis/china-and-the-eu-within-the-framework-of-161-obstacles-and-prospects-631>, [access: 31.10.2017].

⑤ A. Burjanadze, *China and the EU within the framework of “16+1”: Obstacles and Prospects*, Latvian Institute of International Affairs, 07.08.2017, <http://www.liia.lv/en/analysis/china-and-the-eu-within-the-framework-of-161-obstacles-and-prospects-631>, [access: 31.10.2017].

relations with third countries. Since the fall of the communist regimes their foreign policies have been almost predominantly oriented towards the West, while trying to escape the East"<sup>①</sup>.

## **V. Perception of selective Chinese interest in the "16" club**

As reported in Latvian Institute of International Affairs, one of the main features which shapes perception of the 16+1 cooperation in the CEE region is that "cooperation level is inconsistent", and the Chinese investment is being concentrated on Poland, the Czech Republic and Hungary, while the rest of the "16" are being left aside. For countries which are not benefiting from participation in the cooperation, position of the "chosen ones" seems unjustifiably preferable. This makes them look at the entire 16+1 cooperation as stripped of its multilateral façade and reduced to "deal making" between the region's heavyweights.

### **Country-specific patterns of perceptions of the 16+1**

The Czech analysts focus on the fact that the *modus operandi* behind establishment of the 16+1 format "fits into China's global strategy to engage new partners in political and economic ties in different formats". What is clearly expressed is doubt in thoroughness and seriousness of the 16+1 format as the truly multilateral format. As reported by the EU Observer, participants of series of discussions at the Prague European Summit conference shared assessment that the 16+1 format should be understood as a loose collection of the bilateral agreements. Peter Kratochvil from the Czech think-tank Institute of International Relations summarized it: "It's not really a multilateral format (...) It's more a group of countries that China took to have bilateral ties with. It's mainly Poland and Hungary in terms of investment, and Romania and Serbia for building projects"<sup>②</sup>. From the Czech perspective, the criticism focuses on lack of coherence of the investment schemes. Instead, when looking for a common denomination, and a policy vision that can be read from it, one can find a rather random selection of areas where Chinese-funded projects are being implemented. They are mostly concentrated on real estate, sport (including acquisition of Slavia Prague football club) and the media. Kratochvil noted that those projects cannot be accounted as contributing to the kind of investment that is desired by the country, because "it doesn't produce anything"<sup>③</sup>. Still, in the eyes of Czech analysts, the overall volume of investment projects in the Central and Eastern Europe remains

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① R. Turcsányi, *Central and Eastern Europe's Courtship with China: Trojan horse within the EU?* European Institute for Asian Studies, 2014.

② E. Maurice, *China's 16+1 Foray into Central and Eastern Europe*, EU Observer, 26.06.2017, <https://euobserver.com/eu-china/138347>, [access: 31.10.2017].

③ Ibidem.

limited. From those which can be identified, the major infrastructure projects come as the most visible – the high-speed connection Belgrade-Budapest being one of the most exemplary.

In Estonia, the country sees itself as the most cautious in embracing the 16+1 vision for a number of fundamental reasons. Contrary to the Czechs, its optic doesn't favour a multilateral format in this specific example, and argues that “bilateral cooperation should not be prevented”. Views from Tallin suggest that one should not get excited about the opaque vision for success of the initiative, but should rather concentrate on careful monitoring of “challenges and risks involved in cooperation”<sup>①</sup>. In the Baltic states, the major security concern derives from geographical and historical proximity to Russia. Estonia is one of the countries with the strongest support for sanctions imposed on Russia after the annexation of Crimea and the Russian involvement in inciting conflict in the east of Ukraine. Estonia notes that presence of Chinese companies and Chinese-led projects “offers Russia new opportunities instead of the trade partners from the Western world and, therefore, diminishes the impact of the Western sanctions”<sup>②</sup>.

## VI. Conclusions

The 16+1 cooperation is perceived through different perspectives and points of reference in the Central and Eastern European countries. Although they share similar experience of non-democratic socialist forms of governance with centrally planned economies (in most of the cases marked by the Soviet political domination), which switched to the free-market in the 1990s, they represent such a variety of interests, political visions, economic potentials and political-economic settings, that it is difficult to expect them to form a coherent block, that could become a single partner for China. The very fact that some of the states are inside and some remain outside of the EU, makes them feel the format is too wide to be sustainable and too shaky to be able to produce a long-standing reality on the ground.

Analysts from the “16” represent individual approaches towards the 16+1 scheme, and constructive criticism from the expert community is based not only on general observations, regarding relations with the EU, global political and economic settings, but also on state-specific concerns, deriving from its historical experience, relations with neighbours and other local factors. When generalising about common points of concerns, it's fair to point to lack of a genuine multilateral spirit, uneven distribution of Chinese

① V. Veebel, *The China's New Silk Road Initiative: Why is Estonia Rather Cautious about It*, in: M. Andžāns (ed.), *Afterthoughts: Riga 2016 International Forum of China and Central and Eastern European Countries*, Latvian Institute of International Affairs, Riga 2016, p. 53.

② Ibidem, p. 55.



investments, a risky game with Brussels that accompany introduction of the new format, and highly opportunistic approach that the concerned states take to attract Chinese funds. If the initiative is to take roots and become a real economic entity it must overcome those key obstacles and challenges. Otherwise it would remain considered a “seasonal” proposal marked with great disparity between the declared goals and the reality on the ground.

# **Danube Sub-region: A New Dimension for the Cooperation between China and the Central and Eastern Europe**

Long Jing\*

In 2012, China initiated a cooperation mechanism between China and Central and Eastern European countries (CEECs) led by the annual meetings between Chinese premier and leaders of CEECs. One year later, Chinese President Xi Jinping proposed a much broader plan named “Belt and Road” Initiative (BRI), which covers the Eurasian continent and its peripheral regions.

The two Chinese initiatives has several common points: firstly, Central and Eastern Europe is an important region in both initiatives. The cooperation between China and CEECs (also referred as “16+1 cooperation”) is particularly aimed at promoting the interrelationship between China and Central and Eastern Europe in trade, investment, culture and people to people exchanges. The “Belt and Road” Initiative regards the Central and Eastern Europe not only the gateway from the Asia to the Western Europe, the final destination of the Belt and Road, but also an emerging market with increasing demands for infrastructure, commodities and high-tech products, etc. Countries in this region have long-term good relationships with China. This tradition has turned into mutual trust and friendly environment for economic cooperation as the solid foundation of the two initiatives. Besides, the fact that most of the countries in this region have been EU member states or candidates for EU membership also implies relatively stable political situation and complete legal system in their domestic, which makes the Central and Eastern Europe the safest place for overseas investment along the Belt and Road. Secondly, both initiatives take connectivity as priority area for their implementation. The content of connectivity includes policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds, which have created a very wide space for concrete cooperation between China and Central and Eastern European countries. Thirdly, both initiatives emphasize on the principles of “jointly build through consultation to meet the interests of all”.<sup>①</sup> This principle means that, though the two initiatives were raised by Chinese government, countries and regions involved are

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① Vision and Actions on Jointly Building Silk Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road, National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, March 2015.

encouraged to dock their development strategies with the Chinese ones, take part in the design of the concrete cooperative projects, and input their demands of interests during the materialization and implementation of the two initiatives.

That's why in recent years, after the completion of the first stage of the development of the two initiatives, in which common understanding and political agreements on the cooperation have been reached between China and Central and Eastern European countries in the forms of various guidelines and memorandums of understanding, we have witnessed that more and more concrete suggestions and proposals based on national or sub-regional interests have been raised by individual CEE countries. For instance, Romania emphasized on the cooperation on energy and called for the establishment of a China-CEEC Center for Dialogue and Cooperation on Energy Projects. Slovakia proposed to open new and direct route and flights between Beijing and Bratislava; Latvia hopes to cooperate with China and build itself into a logistic hub in the North of Europe; Poland also tries to rebuild the Amber Road and link it with the Chinese Silk Road.<sup>①</sup> Countries located along the Adriatic and Ionian Sea, such as Croatia and Montenegro also hope to realize the potential of their sub-region with the help of Chinese initiatives. Currently, many proposals for further cooperation with the sub-regions are in the process of planning and negotiation.

China's participation in the Danube sub-regional cooperation and development is also a major proposal raised by many Danube countries in this context. The cooperation between countries along the Danube River based on this shared natural endowment has had a relatively long history in Europe, and has been revitalized in recent years. In 2011, thanks to the strong and constant efforts of Austria and Romania, the EU kicked off the EU strategy for the Danube Region (EUSDR), which has become one of the four EU macro-regional strategies together with the Baltic Sea Region Strategy, the Adriatic & Ionian Region Strategy and the Alpine Region Strategy. Since 2013, several Central and Eastern European countries like Romania, Hungary and Serbia have proposed to China to have more engagement in the Danube sub-regional development. While these proposals reflect the strong wills of inviting China to participate in the Danube sub-regional cooperation, this paper is going to study on the feasibility of the cooperation from Chinese perspective, more specifically, the opportunities and the challenges for China to develop cooperation in the Danube sub-region.

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① Jacek Pałkiewicz, Poland could rebuild the Amber Road, Source: Rzeczpospolita, <https://poland.pl/politics/opinions/poland-could-rebuild-amber-road/>

## **I. The interrelationship between globalization, regional integration and the sub-regional cooperation**

The kick-off of the European macro-regional strategies and China’s attempt to strengthen the cooperation with European sub-region in the frames of the “16+1 cooperation” and the “Belt and Road” Initiative both reflect a new trend and a new dimension of the international cooperation, which conforms to recent international economic environment and the new situation of the European integration. It can be said that the revitalization of the sub-regional cooperation is a positive response to the current international and regional economic development.

Firstly, under the background of the increasing twists and turns of economic globalization, countries are trying to explore new ways of cooperation to promote the transformation and development of the globalization. Sub-regional cooperation is one of them.

After the outbreak of the global financial crisis in 2008, the world economy has not been able to quickly move out of the crisis as expected. The crisis has brought more long-lasting problems such as the shrinking of the global demands, the prominence of structural defects of national economy, and the weakening of the economic growth in many countries.

At the same time, many political and social problems, such as the extremalization of the political parties, the rising populism in many western countries, etc., are also becoming more and more prominent in the “post-crisis era” and damaging the political and social foundation of the economic globalization. Facing these problems, all countries in the world are actively seeking solutions. Taking China as an example, China is now taking the “Belt and Road” Initiative as a new impetus to the globalization. The initiative tries to mobilize its capacity in manufacturing and affluent capital to the much wider external market, work with countries and regions along the Belt and Road in respect of market rules, realize the win-win cooperation and ultimately reduce the imbalance of development between different regions. It is noteworthy that the “Belt and Road” Initiative attaches particular importance to the cross-border cooperation. In China’s official document as the guideline of the initiative--“Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road”, the Chinese government points out that the initiative is aimed to “carry out broader and more in-depth regional cooperation of higher standards, and jointly creating an open, inclusive and balanced regional economic cooperation architecture that benefits all”.<sup>①</sup> The “regions”

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① *Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road*, March 2015, People’s Daily, p. 04.

mentioned above also refer to numerous sub-regions formed by the neighboring countries along the Belt and Road. Thus, we can find that, China's "Belt and Road" Initiative is not only an upgraded version of China's bilateral relationships with countries along the Belt and Road, but also a new path to promote cooperation with sub-regions in order to find bigger opportunities for win-win cooperation, larger-scaled benefits and radiation effects of cooperation projects.

Secondly, the sub-regional cooperation is also a new form of cooperation emerging in the difficult process of European integration.

After several rounds of enlargements, the internal heterogeneity of the EU has become more and more serious. Controversies on many key issues, such as the priorities of development, the path of the future integration and the allocation of limited resources, etc., have seriously deteriorated the efficiency and effect of the integration and also led to the dissatisfaction in the public. In recent years, the EU has been suffering from multiple crises, such as the debt crisis, the influx of refugees, the Brexit, numerous terrorist attacks in the European cities, the rising of extremism and populism, etc. In this context, the cooperation at sub-regional level has become a new trend. On the one hand, the sub-region can respond rapidly and effectively to its development needs or common challenges without the opposition from the non-stakeholders out of the sub-region. On the other hand, through the more intensive cooperation and coordination, the sub-region can become more attractive to investors out of the EU, and make the driving force more multiple for the development of the sub-region. Currently, European sub-regions such as the Baltic Sea, the Black Sea, the Adriatic and Ionian Sea have all called for a much closer cooperation between neighboring countries. They do not only rely on the support from the EU through various policy instruments, but also look for non-EU economies, such as Japan, China, and India to get involved in their sub-regional development process.

The participation of extraterritorial countries in sub-regional cooperation should not be regarded as a form of counter-globalization or a deterioration of the regional integration. Firstly, both China's advocacy of sub-regional cooperation in its BRI and the emerging sub-regional cooperation in Europe uphold the principle of openness and inclusiveness. Unlike those traditional economic unions, participating countries of this form of cooperation do not establish a closed cooperation mechanism with exclusive operational rules. On the contrary, they actively invite extraterritorial countries to bring capital, advanced technologies and other resources to the sub-regions and also encourage them to take full use of the local advantages in natural endowment, labor resources and sound legal environment, etc. Secondly, the sub-regional cooperation has the features of non-antagonism and complementarity to existing international and regional systems and mechanisms. China's "Belt and Road" Initiative makes it clear that it endeavors to

promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system with WTO at its core.<sup>①</sup> The European sub-regional cooperation has also been recognized and adopted by the EU in the form of macro-regional strategies in respect of the EU’s regulations. There are four EU macro-regional strategies now working together with other EU policy instruments, such as the regional policy and the cohesion policy, for a more balanced development between different sub-regions within the EU.

## II. The development needs of the Danube sub-region

The Danube River is an international river passing through 10 European countries. It originates in the Black Forest of Germany and ultimately flows into the Black Sea at the shared boundary of Romania and Ukraine, with the total length of 2,850 km. According to the statistics of the EU, the catchment area of the Danube includes a region of approximately 800,000 km<sup>2</sup> or 10 percent of Continental Europe with 115 million inhabitants, extending over 14 states, among them nine EU-member states and five countries which are not EU-members.<sup>②</sup>

The Danube River has been an important inland water transport route in Europe for centuries. Historically, the Austro-Hungarian rule was nicknamed the Danube Monarchy, indicating its navigability between the east and the west. However, with the rise and development of maritime transport and land transport, inland water transport has been in a decline for nearly a century. Statistics show that the role of logistics and transportation of the Danube River has been decreasing while the infrastructure of those ports along the Danube River has been in an aging and laggard state. These two factors become cause and effect to each other, resulting in a vicious spiral to the river’s capacity, which is now far behind its potential and the highest level of time. In addition, the diverse political identities of the countries in the Danube Basin and their different legal systems governing inland water have also increased the difficulties of cross-border governance of this international river in terms of the navigation.

Secondly, the Danube River and its basin is also the most bio-diverse region in Europe. Originated in the Black Forest region, the river flows through geographically distinct areas, passing through mountains, valleys, flatlands and wetlands. The huge abundance and the complexity of fauna and flora along the river make the Danube Basin a European treasure of biology. The river’s water quality also greatly influence the life of habitants

① *Joint Communiqué of the Leaders Roundtable of the Belt and Road Forum for International Cooperation*, 2017/05/16. Ministry of Foreign Affairs of People’s Republic of China, <http://www.fmprc.gov.cn/web/zyxw/t1461817.shtml>

② <http://www.danube-region.eu/about/the-danube-region>

living along the river. However, problems like the shortage of clean drinking water, the threat of floods and the risk of water scarcity or industrial spills have long existed in the Danube region. It is mainly due to the under-investment in environmental protection in Central and Eastern European countries. Moreover, the complex of the political status of the countries along the river also makes the EU and other regional organizations difficult to implement effective governance in environmental protection. The sub-region is looking for more efficient solutions to these problems through joint efforts.

More importantly, the Danube Basin is also regarded as a sub-region having huge disparity in economic development and political and social systems, and high diversities in ethnicity, religion, language and custom, etc. On the one hand, the cultural diversity adds the charms of the Danube basin, but on the other hand, the disparity in economic, political and social dimension also has a negative impact on the efficiency of the sub-regional cooperation.

In 2011, after fully taking account of the above-mentioned characteristics, the EU identified four pillars when it launched the EUSDR: connecting the region, protecting the environment, building prosperity, and strengthening the region. The EU also divided these four pillars into 12 priority areas as more concrete directions for further development and cooperation, which provided a more systematic and complete summary of the development needs of the Danube sub-region.

### **III. China's opportunities in Danube sub-regional cooperation**

From Chinese perspective, the above-mentioned development needs in the Danube sub-region provide great opportunities for China's engagement.

Firstly, China can contribute to revitalize the function of transport of the Danube River with its expertise and capacity. China has the largest inland waterway transport network in the world. Since the year 2000, China's inland waterway transport has experienced fast growth with annual increase over 70% in traffic tonnage and more than 10% in tonne-kms.<sup>①</sup> The total traffic tonnage of Chinese inland ports has reached 4.6 billion tons (data of 2015). The rapid growth of inland waterway transport in China has also led to the fast development of related sectors in the transport industry chain, making China have strong capacity and advanced experience in port infrastructure construction, traffic flow management, administration of inland waterway transport, etc.

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① *Sustainable development of inland waterway transport in China*, the World Bank and the Ministry of Transport, People's Republic of China, <http://siteresources.worldbank.org/EXTPRAL/Resources/china.pdf>.

To assist the countries along the Danube River in the inland waterway transport is not conflicting with other infrastructure constructions carried forward by China in the Central and Eastern Europe. In fact, this can help achieve the mutual complementarity and coordinated development between the inland waterway transport and other patterns of transport, which may be more conducive to building a more complete and advanced inland transport network with relatively low cost. Currently, the China-Europe Land-Sea Express, the Hungary-Serbia Railway and the highway between the sea ports at the Adriatic coast in Montenegro to Serbia are under the construction. The cost of transport can be even lower if connecting these passage ways with the Danube River and generate the multimodal transport. According to the statistics, there are more than 78 ports along the Danube River. They are also the intersections of the domestic highways and railways. Taking full advantage of the existing ports will not only reduce the cost of infrastructure investment, but also make the hinterland of the Central and Eastern Europe more reachable and become a more promising market. Besides, it is particularly noteworthy that the inland waterway transport is also becoming more and more popular because of its environmentally-friendly features. As many studies have showed, ships have much better results in respects of energy consumption, pollution, traffic safety and noise than freight railway or trucks. Therefore, environmentally sustainable transport by inland water vessel has got more and more support at global, regional and national level. The Chinese participation in this area will definitely promote the development of this form of sustainable transport.

Secondly, China's involvement in the Danube sub-regional development can expand the areas of cooperation between China and the Central and Eastern European countries as well as the EU. More precisely, the area of cooperation can be more than infrastructure building, logistics and transport, but also touch upon the environmental governance, waterway maintenance and management, water quality management, hydrological data collecting and analysis, and many other cooperation and exchanges in non-economic areas. As an influx affecting the daily lives of 120 million people, the Danube River puts the environmental protection at the top of its agenda as the primary prerequisite for the full use of this natural endowment. In recent years, countries along the river have been working on the collecting, analyzing and digitalization of the hydrological data with the assistance of the EU and other relevant organizations in order to strengthen the capability in prevention and crisis management of natural disasters. As a country with abundance of inland rivers, China has a wealth of experience and expertise. Strengthening the cooperation and exchanges in these areas can not only benefit the public in a more direct and visible way, but also promote China's ideas, such as “common development”, “win-win cooperation” and “community of common destiny for all mankind” in its diplomatic practice.

Thirdly, China can also actively participate in the comprehensive development of port



cities and their surrounding areas. Most of the port cities are geographically important because they are also hubs of other models of transport and key nodes of the national or regional transport network. So the exploitation of inland ports may have radiation effect to simulate the industrial development in their surrounding areas. For example, industrial parks built close to the ports along the Danube River can be more attractive to the investors because of the lower cost by using the inland waterway transport. The development of the industrial parks may also bring the prosperity of the surrounding areas in many areas such as commerce, financial service, real estates, etc. The linkage between the infrastructure upgrading of the ports, the enhancement of the transport capacity of the river, and the stimulation to the industries in the surrounding areas can develop a more comprehensive model of economic growth in these Danube countries. In this process, China should not only focus on the ports' development, but also have a far-reaching vision to the development of the whole industrial chain covering wider areas.

#### **IV. The relationship between China and the EU in the Danube sub-regional cooperation**

The “16+1 Cooperation” established in 2012 and the “Belt and Road” Initiative raised in 2013 are both committed to enhancing the economic and trade relations between China and the Central and Eastern European countries, promoting the two-way investment, and working on the connectivity and industrial investment as the approaches for win-win cooperation and the regional development. In 2011, the EU Strategy for the Danube Region (EUSDR) released by the EU Commission also took the “win-win cooperation” and “development” as its fundamental goals. Thus, we can say, from the perspective of goals and principles, Chinese initiatives and the EU strategy are aligned with each other. Their relationship should be complementary and synergic, instead of competitive or confrontational to each other.

From a more specific point of view, Chinese initiatives and EU strategies can learn from each other, and offer concrete added values to themselves.

Firstly, the EUSDR provides more clear and focused directions for cooperation, which can help China precisely identify the development needs of the Danube sub-region. The four pillars and the 12 priority areas defined by the EU actually form a relatively complete roadmap for the outsiders to have a comprehensive understanding on the most urgent development needs of the sub-region. Besides, the EU also designated Priority Area Coordinators in the framework of the strategy. These coordinators are countries either with strong demand or with strong capacity in certain areas. So from Chinese perspective, they are ideal cooperators and coordinators in China's cooperation or investment in certain areas. This design of the EU Danube region strategy is quite similar

to the form of associations on sectoral cooperation within the “16+1 Cooperation”. Both of them is devoted to pushing the wills of cooperation into implementation.

Currently, though the two Chinese initiatives have received strong political supports from the central governments of individual countries, few concrete cooperative projects have been in implementation, let alone achieved. Central and Eastern European countries are hungering for concrete projects and their earliest harvests in order to “cash the check” they promised to the public when they expressed their strong political support to China’s proposals. However, it is undeniable that, many proposals raised by individual countries are too small-scaled with limited economic and social benefits and hard to attract Chinese investors. Therefore, by docking with this EU macro-regional strategy, China can accurately understand the development needs at the sub-regional level and find appropriate projects guided by the priorities highlighted by the EU strategy.

Secondly, The EUSDR provides China a ready-made platform for communication and exchange, an experienced coordination mechanism and a set of accepted operational guidelines, all of which can help China facilitate the launch of transnational projects and gain a better understanding of standards and rules for entering into the Danube region. The main purpose of the EUSDR is to create synergies and coordination between existing policies and initiatives taking place across the Danube Region and enable cooperation projects to be implemented in a more effective way. At present, the strategy holds an annual forum attended by high-level officials, enterprises, NGOs and other stake holders of Danube countries. The forum is an important occasion for all the participants to jointly answer how to best transform political commitments into operational policies and measures. Besides of this, there are also various dialogues in different specific areas with the participation of related EU institutions, governmental departments of member states, enterprises, think tanks and other stakeholders or partners. In a word, the EUSDR has greatly increased channels for dialogues and exchanges in the Danube sub-region. In terms of the experience of coordination, Interreg, an EU programme financed by the EU Regional Development Fund, has been taking this important role since the establishment of EUSDR. As a very experienced international team, Interreg specifically dedicates on helping European regions work together to find solutions to common economic, environmental, social and cultural challenges. It provides advices, organize learning events and develop a wide range of tools on how to manage a cooperation project and comply with EU rules on finance and controls, and how to successfully communicate funding opportunities, etc. All of these roles sound exactly what Chinese investors are looking for now. Regarding the EU norms, standards and rules, though the strategy covers the region in and out of the boundary of the EU, the EU is still striving to infiltrate its economic, political and social norms, standards and rules in all of the participating countries. According to the Communication from the European Commission in 2010, in which the strategy is defined, consistency with EU legislation and policies is at the

core of the strategy. It supports better implementation of EU legal obligations, especially in relation to the Single Market and the environment.<sup>①</sup> From the EU's perspective, this principle will make the strategy conducive to the transformation of non-EU member countries in the long run.

At present, from the limited past experience of the "16+1 Cooperation" and the "Belt and Road" Initiative, many cooperation projects are facing the challenges resulting from the different political status of the partner countries. These countries uphold different legal systems, standards for market access and decision making procedures, making the multilateral negotiations of the projects stuck in a very slow, sometimes even stagnant process. In order to prevent this kind of dilemma when China develops cooperation in the Danube sub-region, China can actively take use of the numerous exchange platforms provided by the EUSDR as an observer, strengthen exchanges and cooperation with Interreg, and get experience from both the lessons and the achievements of these platforms and institutions. Regarding the various standards and regulations set by the EU, put into the consideration the EU-oriented policy priority of all the countries in the Danube sub-region and the dominant regional influence of the EU there, to respect the EU's norms, standards and regulations, instead of keeping away from them, will be an optimal solution when China cooperates with the Central and Eastern European countries. By closely coordinating and cooperating with the EUSDR, China can gradually strengthen its understanding of the EU regulations, turn those EU standards or norms from the obstacles into a solid foundation for a closer and deeper cooperation with this sub-region, and also our qualification for entering the bigger EU market in the future.

Thirdly, the synergy of China's initiative and EUSDR may converge the resources and advantages of both sides, including capital, technique, capacity and the management kills, in order to make all these development plans more effective and efficient. When the first macro-regional strategy was launched in 2009, the EU claimed that this strategy would not be characterized by the establishment of new institutions, legislations or funds (the three "No"s"), but would influence existing institutions, the implementation of EU legislations and would require the alignment of projects funded through the EU Structural Funds. However, many Central and Eastern European countries have been often in the difficulty of getting enough EU funds or using the funds in a more flexible and efficient way. Therefore, many projects in the framework of EUSDR still require the involvement of diverse actors and resources, including those from private sectors and out of the EU. In Recent years, China has set up many innovative financial instruments, such as Silk Road Fund, China-CEEC Investment Cooperation Fund (stage one and stage two),

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① Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the regions: European Union Strategy for Danube Region, Brussels, 08/12/2010, <http://www.danube-region.eu/component/edocman/?task=document.viewdoc&id=36&Itemid=0>

and encourage them in actively expanding investment and cooperation in CEECs. The Danube region can also be developed as destination for these funds to solve the problems like the one-way and inadequate capital supply from the EU.

Last but not the least, the synergy of Chinese initiatives and EU strategy can largely improve the transparency of the planning and implementation of these strategic plans and consequently increase the mutual trust between China and the EU during coordination and cooperation. For example, the EU has attached great importance to the evaluation work during the implementation of the EUSDR. During the last five years, the EU has released several evaluation documents, including Commission Report on the added value of macro-regional strategy (2013), Commission Report concerning the EUSDR (2013), and Commission Report on the implementation of EU macro-regional strategies (2016), in order to provide more detailed information and analysis concerning the state of implementation of the EUSDR as well as the other macro-regional strategies. Comparatively speaking, though China has released four guidelines at the summits of “16+1 Cooperation” since 2013 with the annex of all the achievements and progress made in the previous year, there is still lack of more detailed and in-depth analysis and evaluations on the progress of concrete projects. China should learn from the EU by inviting more think tanks or independent organizations to do the evaluation work in order to make the progress of cooperation more transparent and encourage more open discussions and exchanges between China and Europe.

## **V. China’s challenges to participate in the Danube sub-regional cooperation**

Firstly, the different nature of the EUSDR and China’s initiatives may lead to the difficulty of the synergy. The EU strategy is aimed at promoting the sub-regional development, reduce the gap and imbalance between sub-regions within the EU. So the EUSDR as one of the macro-regional strategies is essentially a kind of aid instrument, working for the same goals together with the EU’s regional policy, cohesion policy and neighboring policy. Funds provided by the EU do not take the economic profit into consideration and do not care too much about the short-term effect. However, as part of China’s economic diplomacy at the new era, China’s cooperation with Central and Eastern European countries is still profit-oriented. Both the “16+1 Cooperation” and “Belt and Road” Initiative attach great importance to the short and middle term economic return from the cooperation. Thus, how to find benefit that is big enough to attract Chinese investors in the Danube sub-regional cooperation and how to find a junction point balancing both the warfare feature and the profit orientation between the EU and China will be key questions for the feasibility of the synergy. But, of course, for China, it should also seek for cooperation with a much boarder vision to the “profit”, which should

be evaluated in the overall layout of China's foreign policy and should not be narrowly understood as economic profit.

Secondly, the long-lasting problem of inefficiency may also have negative impact on China-CEEC cooperation in the Danube sub-region. In fact, the cooperation in the Danube sub-region has long existed, but due to the huge diversity of the sub-region, the cooperation has also been characterized by its inefficiency. So one main reason to launch the EUSDR is to transform words to results on the ground. That's why the EU always emphasizes that all the macro-regional strategies are results-oriented. However, there are still many complains from the Central and Eastern European countries about the efficiency of the strategy. Chinese diplomacy is well known by its pragmatism and efficiency. To avoid the talk shops during the cooperation will be one of the major tasks in front of China and CEECs.

Thirdly, the EU's attitude toward China's involvement is the key element for good cooperation and coordination between China and the EU in the Danube sub-region. Although the Danube is an international river, it can also be regarded as an internal river within the EU or EU's influence. In order to extend the China-CEEC cooperation in the Danube sub-region, China should release more goodwill for cooperation and coordination with the EU, do more and better explanation work about the approaches to be taken, the principles to be followed, and the achievements to be expected in the Danube sub-region, and also make the cooperation process to be more transparent by inviting the EU institutions to observe, evaluate and consult.

# **Analysis of the Suspicions of Germany Regarding the “16+1 Cooperation” and the further Policy Recommendations**

Huang Mengmeng\*

The “Belt and Road initiative” has pushed the “16+1 cooperation” to a new height. The Central and Eastern European countries are relatively more welcoming to the Chinese investment in the 16+1 framework. At the same time, together with some other EU major powers, Germany has shown suspicion and apprehension toward China’s intention in the CEE countries. Historically, the Central and Eastern European countries are considered to be the “backyard” of Germany in Europe. <sup>①</sup>Currently, Germany, who has taken on a leadership role within the EU in recent years, has wide geopolitical, economic and security interests in the Central and Eastern European countries (CEECs). Germany is concerned about China trying to use its economic relations for its ‘divide and rule’ policy within the EU. <sup>②</sup>Germany’s suspicions not only come from its own politician and the recommendations of German think tanks, but also derive from the German media opinions and the influence of the United States.

In the first part of the article, I will analyze the different factors that result in the suspicions of Germany and the EU toward the cooperation between China and CEE participants. In the second part, some policy recommendations will be presented to improve China’s cooperation with the CEE countries. It is suggested that better EU-China relations, especially improved economic relations, would also give impetus to the 16+1 format, both for the EU major powers and the CEE participants as a whole.

## **1. Suspicions from Germany of the “16+1 Cooperation”**

Firstly, Germany’s suspicions regarding the “16+1 Cooperation” stem from political, economic and geopolitical factors. After the Cold War, Germany’s political influence on CEE countries and southern European countries has grown due to its economic strength

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\* Huang Mengmeng, PhD, Chinese Academy of Social Sciences, German Chancellor Fellowship 2018.

① Rainer Eisfeld: “Mitteleuropa in Historical and Contemporary Perspective”, in: *German Politics and Society*, Issue 28, (Spring), 1993, p. 39-52.

② Angela Stanzel, Agatha Kratz, Justyna, Szczudlik, Dragan Pavličević: “China’s Investment in Influence: the Future of 16+1 Cooperation”, ECFR Council, [http://www.ecfr.eu/publications/summary/chinas\\_investment\\_in\\_influence\\_the\\_future\\_of\\_161\\_cooperation7204](http://www.ecfr.eu/publications/summary/chinas_investment_in_influence_the_future_of_161_cooperation7204), last accessed on 01.11.2017.

and growing political weight in the EU, which has penetrated into the Balkans. The “Return to Europe” of the CEECs is one of Germany’s concerns in its European policy following the country’s reunification. Meanwhile, Germany has also enlarged its political influence in Central and Eastern Europe. Germany fears that CEECs will be politically influenced by China as an effect of Chinese investment in the region. On the one hand, it would increase the possibility in the CEECs to ignore the political and economic reform on the EU’s request. On the other hand, it might give CEECs an alternative to accept another set of mechanisms that could disobey the EU rules and standards and that would constrain the influence of Germany and the EU mechanisms in Central and Eastern Europe. Germany is also concerned that the 16+1 format would be used by China to divide the EU, and that the cooperation of some CEE countries with China could undermine their relations with the EU institutions.

Economically, as largest and most powerful economy in Europe, Germany contributes the most money into the EU pot. The EU Commission has two major instruments, the Structural Funds and the Cohesion Fund, which have been designed to particularly target new Member States from Central and Eastern Europe, in order to help them to connect to the EU Single Market and to support them in carrying out the democratic transformation and market economy reform according to the EU principles. The two instruments make up the second largest items of the EU budget. Since 2007, Poland has been the largest recipient of the support from Cohesion Policy among all EU countries. From 2014 to 2020, Poland will receive around 82.5bn Euro. The second largest beneficiary of European funds in Central and Eastern Europe is Romania with 21.7bn Euro, while the third and fourth are the Czech Republic (20.5bn Euro) and Hungary (20.4bn Euro).<sup>①</sup> Meanwhile, after the enlargement of the EU, Germany also became the largest beneficiary of the market opening in CEECs, due to its stronger commodity competitiveness and the currency advantage of the Euro. Germany is the most important trading partner and the major foreign direct investment source (FDI) for the Central and Eastern European countries. The dependence of CEECs on the import of German goods and services is very strong. Since the European Sovereign Debt Crisis in 2009, Greece is reluctant to implement “tight fiscal policy” under the pressure of Germany, which also led to a lot of complaints within the EU. In recent years, the Piraeus port has become one of the leading projects in the framework of China’s “Belt and Road initiative” in Europe. However, it also is connected to a political issue: Greece held a different position than the EU regarding the issues of the South China Sea dispute and China’s market economy status. Due to the objections of Greece, the EU’s statement on China’s legal defeat over the South China Sea avoided direct reference to China.

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① “Structural Funds: UITP Central & Eastern Europe”, <http://www.ceec.uitp.org/structural-funds>, last accessed on 01.11.2017.

From a geopolitical and security perspective, Germany is no longer the frontier country in the confrontation between the West and East as it was during the Cold War. However, the Central and Eastern European countries became the EU's geographical barrier to thwart Russian ambition in the new century. It is worth to note that the perception that Germany and CEECs have of Russia are not consistent with each other. In recent years, the EU Member States have always had difficulty forming a common opinion on the Ukrainian crisis and the refugee crisis. The oppositions inside the EU have led to a retrogression in European integration, especially by the CEE countries, such as Poland. Hungary has questioned EU values and political proposals from Germany, France and the other EU powers. Therefore, when China developed the “16+1” initiative to expand its political and economic relations with the Central and Eastern European countries, Germany increasingly worried that the EU mechanism would reduce its own influence in CEECs, which would enlarge the differences between the new and old Member States, also in terms of European foreign and security policy, and eventually weaken EU solidarity.

Secondly, Germany is concerned that China intends to promote a parallel mechanism in the CEECs that would challenge the EU rules and standards. Germany considers the “16+1 cooperation” as a bilateral agreement between Central and Eastern European countries and China, which could increase the risk of ignoring the EU's multilateral mechanism and the common China policy by the CEECs.<sup>①</sup> Germany's view is that China is strengthening bilateral relations with some of the 16 countries. German politicians have even mentioned a “one EU principle”, comparing it to the “one China principle”. Germany argues that the EU should be the primary dialogue partner with China and that the “16+1 cooperation” should not influence the EU common position towards China. The German government, especially the German Federal Ministry of Economics and Energy, is relatively negative about the “16 +1 cooperation”. It assumes that China's initiative not only aims to transfer technology, production overcapacity, and capital, but also to export Chinese standards and rules to the Central and Eastern European countries. China's economic model could eventually challenge the Western-led international order and weaken the binding force of EU rules to the new Member States.

Germany insists that China's investment in CEECs should comply with the EU Rules and Standards, which include the following key points: 1. reciprocity and equal market access; 2. open and transparent government procurement tender; 3. compliance with EU society, legal and environmental standards.<sup>②</sup> While the bilateral cooperation between China

① Frans-Paul van der Putten, Mikko Huotari, John Seaman, Alice Ekman, Miguel Otero-Iglesias: “The Role of OBOR in Europa-China Relations”, in: Frans-Paul van der Putten, Mikko Huotari, John Seaman, Alice Ekman, Miguel Otero-Iglesias (ed.): *Europe and China's New Silk Roads*, ETNC Report, December 2016. p.10.

② “Seidenstraßen-Gipfel: EU riskiert Eklat in China”, *Frankfurter Allgemeine Wirtschaft*, <http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/seidenstrassen-gipfel-eu-riskiert-eklat-in-china-15014832.html>, last accessed on 18.06.2017.



and Germany has led the China-EU cooperation in the past, now China's investment interest is shifting to the new EU Member States, causing anxiety in German business circles. Finally, Germany's apprehension towards China's cooperation with CEECs is based on the request of German enterprises for further openness of the Chinese market to European companies. Germany is using bargaining chips to deal with China regarding the “16+1” and “the Belt and Road” initiative, including asking China to keep opening up its market for German and European companies and carrying out “fair trade” policies that comply with the EU standards and rules. German enterprises continually require “fair market access” in the China-EU trade and investment relations, having a strong will to establish a whole-owned company rather than joint ventures in China. In the medium and long term, EU and China will continue disagreeing on the terms of “standards and rules” and the issues regarding “market access”.

Third, the awareness from Germany and the EU about the “16+1 Cooperation” are also a result of the influence of the United States. Some think tanks from the U.S. remain highly vigilant about China's “Belt and Road Initiative”. The think tanks and policy advisors in the U.S. suggest that the “Belt and Road Initiative” and the “16+1 cooperation” are not only an economic strategy, but also a geopolitical strategy for China to improve its international discourse power and to expand its economic and political influence in Eurasia. It is considered to be a challenge to the western global power and the post-war international order, which is led by the United States and Europe. The U.S. political and academic circles have warned the EU powers to be cautious about the China's investment in Europe due to the risk to “national security”. They believe that China's infrastructure investments and trade in Central and Eastern Europe will expand to the mergers of strategic resources in the EU, resulting in the loss of European high-tech and affecting the EU's strategic interests and geopolitical security.

After the Second World War, the transatlantic alliance formed a mature exchange mechanism in the political, economic and cultural fields. Although German and U.S. leaders have argued over different issues in the areas of trade, security and climate change after Donald Trump began his U.S. presidency, the political and business exchanges between the transatlantic partners are still close.<sup>①</sup> It is no doubt that the United States and Europe will continue communication and coordination on policies involving China. Currently, Germany, France, and Italy have presented a proposal to the European Commission, calling for the establishment of a framework for screening of foreign direct investments to review whether the investment from non-EU countries will affect the strategic interests and security in the EU, which is similar to the Committee on Foreign Investment in the United States. At member state level, the German cabinet adopted the

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① “New Silk Road” and China's hegemonic ambitions”, Deutsche Welle, <http://www.dw.com/en/new-silk-road-and-chinas-hegemonic-ambitions/a-38843212>, last accessed on 14. 09.2017.

9th Ordinance amending the Foreign Trade and Payments Ordinance in July 2017, which was presented by the German Economic Affairs Ministry, introducing stricter rules for the scrutiny of corporate acquisitions by investors from countries outside the European Union. Specifically speaking, the acquisition of a shareholding of at least 25 percent in a German company by investors from outside the EU can be scrutinized by the Economic Affairs Ministry. The review considers whether the acquisition poses a threat to public policy or public security in Germany. The amendment to the Foreign Trade and Payments Ordinance would increase the complexity of corporate acquisitions. Most of the review periods are extended from two to four months so that more information can be obtained. It is also made unambiguously clear that “indirect” acquisitions are subject to scrutiny. These are targeted to the cases in which foreign investors establish a company in one of the EU Member State but with the aim to purchase a German firm.<sup>①</sup> So it is clear that the new amendment would be a challenge for the Chinese firms who established a subsidiary in one of the CEECs and plan to purchase a German firm in the future. Although the German regime varies considerably from the U.S. political and economic regime, the recent changes in the German Foreign Trade Ordinance have some kind of similarity with the framework of Committee on Foreign Investment in the United States (CFIUS).

In August 2017, the U.S. President Trump signed a memorandum to authorize the U.S. Trade Representative to review so-called “China’s unfair trade practices.” In September, the European Commission proposed a framework for the screening of foreign direct investments. President Jean-Claude Juncker stated in his annual State of the Union address: *“Europe must always defend its strategic interests. This is why today we are proposing a new EU framework for investment screening. If a foreign, state-owned, company wants to purchase a European harbor, part of our energy infrastructure or a defense technology firm, this should only happen in transparency, with scrutiny and debate. It is a political responsibility to know what is going on in our own backyard so that we can protect our collective security if needed.”*<sup>②</sup> By the end of 2018, the EU Commission will carry out an in-depth analysis of foreign direct investment flows into the EU, focusing on strategic sectors (such as energy, space, transport) and assets (key technologies, critical infrastructure, sensitive data) whose control may raise concerns for security, or public order reasons. Also, the EU Commission will set up a coordination group with member states to help identify joint strategic concerns and solutions in the area of foreign direct investment. The EU believes that it is not only detrimental to the EU’s technological advantage, but also a danger to the EU’s security and public

① Minister Zypries: “Fair competition and better protection in corporate acquisitions”, <https://www.bmwi.de/Redaktion/EN/Pressemitteilungen/2017/20170712-zypries-besserer-schutz-bei-firmenuebernahmen.html>, last accessed on 09. 11.2017.

② “State of the Union 2017 - Trade Package: European Commission proposes framework for screening of foreign direct investments”, European, [http://europa.eu/rapid/press-release\\_IP-17-3183\\_en.html](http://europa.eu/rapid/press-release_IP-17-3183_en.html) last accessed on 01.11.2017

order if too many foreign state-owned companies purchase key European technologies, operational infrastructure, and merge with European firms in strategic areas. It is obvious that the EU framework on trade and investment has adopted Germany's proposal targeting the mergers and acquisitions practices of Chinese enterprises in Europe in part due to the influence of the United States.<sup>①</sup>

Although the framework still needs the approval of the European Parliament and EU member states in the Council, it is foreseeable that in the short to medium term the EU institutions are likely to set limits on China's investment in Europe, particularly in Central and Eastern Europe. Moreover, twelve EU Member States, including Germany, France, Italy, Poland, Spain, and Britain, among others, have already established their national review mechanisms to screen foreign direct investments. However, it is worth mentioning that the review framework presented in the EU Commission is still different from the framework of the U.S. Committee on Foreign Investment, which has the right to veto foreign investments in situations related to national security. The European framework will maintain the necessary national flexibility, meaning that the member states have the last word in any investment screening.

In the future, China and Central and Eastern European countries will expand their cooperation; however, the EU mechanism remains a factor that will significantly affect the development of the “16+1 cooperation”. The major EU powers, such as Germany, have extensive political and economic interests in Central and Eastern European countries and could largely influence the EU's attitude towards China's trade and investment activities. Therefore, it is of important for China to take appropriate measures to ease the suspicions of the major EU powers, especially Germany, towards the “16+1 cooperation”.

Firstly, China and the EU could set up a committee to coordinate the cross-border project and use the pilot project to attempt a tripartite shareholding model, consisting of China, EU powers and Central and Eastern European countries. Germany worries that the “16+1 cooperation” will reduce Germany's economical dividend in Central and Eastern Europe and complains about the unequal market access between Europe and China. However, it is worth to note that as a global trading power, Germany is one of the first EU participants in the Asian Infrastructure Investment Bank (AIIB) who wishes to take advantage of China's “Belt and Road Initiative” for its economic benefits. In fact, China and Germany have a common interest to promote the “16+1 cooperation”. The Sino-German innovative cooperation in the area of “Industry 4.0” and “Infrastructure” could be practiced in the third markets, especially in the Central and Eastern European Countries and the Balkan countries. However, this kind of cooperation also needs to

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① 张琪：《欧盟欲新设外资投资审查框架，中国会首当其冲吗？》，财新网，参见：<http://international.caixin.com/2017-09-20/101147858.html>，访问日期：2017年9月20日。

take account of the Germany's core concerns about the EU common market rules and other EU norms. Therefore, China and the EU may consider establishing small or middle sized groups or committees to coordinate the cross-border projects, formulating detailed implementation plans for specific business projects, establishing concrete time frames to figure out which CEE investment projects should be conducted, inviting the EU firms to participate in the targeted projects through an more open and transparent tendering platform, and providing the possibility for EU personnel to gain access to the project coordination group or committee. This tripartite shareholding model is conducive for the related countries to take their respective responsibilities in the projects, which can promote an active participation of all parties in the “16+1 cooperation.” On the one hand, Germany and other EU countries may have the opportunity to participate in China's investment plan in CEEs, showing China's respect for the EU market principles and norms. On the other hand, it can mobilize the enthusiasm of CEECs to participate in the projects, achieving the efficient use of resources and increasing the input and output benefits of China's capital.

Secondly, provide opportunities for German and European SMEs to participate in the “16+1” project could ease Germany and the EU's suspicion of the “16+1” mechanism. At present, the EU has not completely come out of crisis. During the current refugee crisis, the Central and Eastern European countries are reluctant to accept the quota of refugees, which was suggested by Germany. In particular, Germany, Poland, and Hungary are experiencing increasing disputes over issues such as the rule of law and democracy. Internal political fragmentation and the European refugee crisis would aggravate the long-term structural problems of the EU's role as a global actor. Moreover, the EU powers are also deeply worried about the absence of the Trump administration in global free trade issues. Germany is actively seeking the support of international partners for free trade. In response to China's investment in CEECs, Germany's concern is to obtain an equal chance and access to participate the projects, protecting the standards and the common market principles of the EU. Therefore, Germany's small and medium-sized enterprises (SMEs) and component suppliers can be invited as the third-party participants in some China's infrastructure investment in CEECs. Take this as a pilot project in the “16+1 cooperation” to ease the suspicions of the EU major powers. Besides, China should also encourage the private and commercial interest-driven investment in addition to the traditional invest model that led by the state-owned enterprises in the CEECs.

Third, hire Chinese and European lawyers and international talents to carry out intermediary services for Chinese investment in Europe, and push lobbying activities in Europe. It is advisable to employ the legal professionals from both the Chinese and the EU side to promote China's investment with a full understanding of EU laws and business investment models. On the one hand, the rules and standards of the European market should be respected, and China could talk actively and openly with the German

media and think tanks. On the other hand, the professionals from non-governmental organizations should be hired to carry out lobbying activities in Germany and the EU in order to promote the approval of investment projects. Finally, it is important for Chinese firms to win public understanding and support in Europe and to reduce public bias.

Fourth, strengthen the dialogue and cooperation between China and the EU through the “Connectivity Platform”, attempt to invite EU institutions as participants in the “16+1 Cooperation”, and experiment with the “16 + 2” model in some areas of Chinese investment in Europe. At present, EU Member States have different attitudes towards the initiative from the EU to introduce stricter rules for the scrutiny of corporate acquisitions by investors from countries outside the European Union. Not only the Central and Eastern European countries, but also the Nordic countries, such as Finland, are doubtful about the proposal. Although EU has a strong suspicion of the “16+1 cooperation”, it still lacks the effective means to prevent member states from signing bilateral agreements with China. It is worth to note that the CEECs are in general optimistic about the technology and capital resources from China. However, the CEECs have the obligation to act according to the EU laws and regulations due to the EU treaty and its dependence of the European Structural and Investment Funds. Therefore, the cooperation mechanism between China and CEECs should also invite the EU institutions as its dialogue partner to ease the China-EU trade disputes. Actually, China and EU have already signed a memorandum on the establishment of EU-China connectivity platform at the 5<sup>th</sup>. China-EU High Level Economic and Trade Dialogue in 2015.<sup>①</sup> The EU’s key response to the Chinese initiative was the “Connectivity Platform”, a new vehicle for exchanging information on respective policies.

Fifth, continue promoting the negotiation of the EU–China Bilateral Investment Treaty (BIT). Currently, the EU market is still relatively open to Chinese investment when compared with the United States. If an EU Member State restricts the market access of Chinese enterprises, the Chinese firms may enter the EU market through other Member States. In contrast, although China can establish a cooperative relationship with one of the U.S. states, federal U.S. policies could influence the decisions of local businesses. Many Chinese investments are reviewed by the Committee on Foreign Investment in the United States, especially in the high-tech sector. China-EU trade relations have reached a critical crossroad. After Trump became the President of the United States, the U.S. and Europe have not reached a coordinated position about the political and economic issues in the Asia-Pacific region. Therefore, it is the time for China to expand China-EU relations through the BIT negotiation as soon as possible and to establish a relatively equal and transparent investment mechanism between the both sides to limit the risks

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① 《第五次中欧经贸高层对话在京举行 - 马凯和欧盟委员会副主席卡泰宁共同主持》，新华社，参见：[http://www.gov.cn/guowuyuan/2015-09/28/content\\_2940012.htm](http://www.gov.cn/guowuyuan/2015-09/28/content_2940012.htm)，访问日期：2017年9月20日。

faced by investors in host countries, to reduce investment barriers, and to safeguard the rights and interests of the foreign direct investments of both sides. According to the EU Lisbon Treaty, the trade and investment issues fall into the category of EU common commercial policies. Therefore, the EU's attitude and policies toward China's FDI play an important role in China's investment in the CEECs. BIT negotiations between China and the EU are the key to safeguard the investment and trade relations of the two sides, and it should also take into account the interests of both parties.

# The Multifaced Response of the German Government to China-CEEC Cooperation

Joanna Ciesielska-Klikowska\*

## Abstract

The cooperation between China and Germany is becoming more difficult since the Chinese activity on the European continent raises. Berlin is increasingly aware of the need for a common EU policy towards China and seeks the opportunity to build it in the situation of deepening cooperation between China and Central and East European countries. Germany sees the 16+1 initiative as a means to secure more Chinese investments in Europe and its wider neighborhood. Though, Berlin is also concerned about the initiative's potential to dilute European Union investment rules and to erode political unity among member states vying for Chinese investment. The Chinese initiative to build a cooperation with states in East and Central Europe is moreover perceived in Berlin as an attempt to take over the German position as a leader and "advocate" of CEEC interests on the European and world stage.

**Key words:** *Germany, China, 16+1 Cooperation, Central and East European Countries, the Belt and Road Initiative*

## Introduction

The achievement by the People's Republic of China of the position of one of the key players in the international arena and Beijing's foreign expansion policy are felt very well in Europe. Since the Belt and Road Initiative (BRI) engages the member states of the European Union, it also requires a strong response from the Community. The recent strategy of acquisition of main European companies by Chinese companies, which is often financed by the state, also draws attention of the Europeans. Although the EU's relations with the PRC are in the economic interest of its member states, they do not follow without complications.

The aim of the article is therefore to enlighten the problem of EU-China relations, with

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emphasis on relations between the People’s Republic of China and the Federal Republic of Germany considering the project of cooperation between China and Central and East European countries (16+1 Cooperation). Moreover the paper seeks the answers to the question of the economical cooperation between China and CEEC and its perception in Germany, that was and is the main business partner in the region.

Establishing the context it has to be underlined that bilateral relations with European countries remain the most important way Beijing pursues its policy towards Europe. Cultivation of bilateral relations allows Beijing to avoid dependence on one partner. Especially since the crisis in the euro zone, individual states try to gain from China and take the position of key partner and “gate” to Europe. Whereas the Chinese side favors the individual countries ad hoc, the main and long term partners on the European continent remain stable and consist of Great Britain (important because of its political significance, including constant membership in the United Nations Security Council and close relations with the United States; in economic terms the United Kingdom is valued also for its great economic openness, an expanded service sector, especially financial and a liberal economic model), France (vital because of membership in UN Security Council and economic potential, including the civilian nuclear sector) and Germany, which occupies first place in terms of Chinese investments in Europe (31% of the total investment from the PRC to the EU), thus bilateral relations with Germany are the most far-reaching, encompassing 60 dialogue mechanisms and regular government visits that are complemented by intergovernmental consultations since 2011 as well as issues on foreign policy and security launched in 2014<sup>①</sup>.

## **Germany, CEEC and China**

Germany is distinguished for its principal role in European politics and due to the significance of imported high technology. China still seems to be impressed by the effectiveness of economic policy run by Berlin. It is also acknowledged that the Germans emerged as a leader in the euro zone crisis, replacing the former strong Franco-German duo, and a country that could be seen by the Chinese as the initiator and patron of their interests in Europe (Germ. Schrittmacher), what was underlined by the Foreign Minister of the PRC Wang Yi during the intergovernmental meeting in April 2014<sup>②</sup>. Important is also the key role of Germany in the Russian-Ukrainian conflict. At the same time, Germany is assessed as not being able to totally dominate the Union or transform itself into a world power.

① Thilo Hanemann, Mikko Huotari, Record Flows and Growing Imbalances. Chinese Investment in Europe in 2016, MERICS Papers on China No. 3, 10 January 2017.

② MERICS China Update, No. 10, 10-16. April 2014, p. 2.



Thus the cooperation between China and Germany begins to turn into a “harsh friendship”. Recent acquisitions of German companies by the Chinese show that the Federal Republic of Germany has difficulty in assertively defending its interests in bilateral relations with China, especially when it comes to the realization of the Belt and Road Initiative, which is an unprecedented investment project to develop an infrastructure linking the Middle East with Europe. BRI is a much broader initiative to build airports, ports, railways, roads, power stations, pipelines and oilfields to expand the Chinese economy to the Asian, African and European markets and involves more than 60 countries. The BRI project is also an expression of China’s “Go Global Policy” aimed at a stronger involvement in the process of shaping globalization and shifting the accents in the global economic system towards the PRC through opening new markets for Chinese enterprises and creating a vast network of economic and diplomatic links, thus strengthening China’s position as a global player. New openness in the global politics of the PRC and implementation of the BRI plan will have direct implications for Europe, primarily for Central and Eastern European countries. Frame this perspective, Germany - the leader of the cooperation with the countries of that region - takes into account two important points: firstly the occurrence of conflicting areas with the interests of the EU and European countries (also non-EU-states), and secondly China’s ability to exploit Germany for its particular interests (as it was the case of solar panels in 2012-2013, when the European Commission launched an anti-dumping and anti-subsidy investigation on solar panels imported from China)<sup>①</sup>.

Central and East European countries have been a focus point of German policy and economy for the last 30 years. It was a matter of historic responsibility for the tragedy of the World War II as well as business interests in this huge East European market that German governments were active in searching for the possibilities to cooperate. For the CEE countries the chance to gain German investments was a key issue, especially after 1989/1990 and collapse of the Iron Curtain when the former intensive economic cooperation with the Soviet Union and the Council for Mutual Economic Assistance (COMECON) was already over. At that time German companies have been attracted by high economic growth and demand, increasing legal security of investment (especially

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① An example of Chinese solar installations illustrates the problem of German-China relations. On the one hand, Germany itself has a strong solar sector, but as a result of the reduction in the scale of state subsidies and competition from Chinese producers (China sells 21 billion euro worth solar installations on the EU market), many companies are on the verge of bankruptcy. Hence one of the leaders of the German industry has filed a complaint to the European Council for dumping China. On the other hand, many German companies are involved in China and are investing heavily there. Therefore, the trade war with Beijing could greatly hinder expansion and rebound on the results of the German economy. An additional problem is that German solar panel manufacturers import components from China, which may lead to higher prices for these devices. Yu Chen, EU-China Solar Panels Trade Dispute: Settlement and challenges to the EU, “EU-Asia at a Glance”, European Institute for Asian Studies, June 2015.

after the beginning of accession negotiations with the European Union and World Trade Organization and implementing the rules of *acquis communautaire*), relatively cheap labor force, geographical proximity and cultural ties. The CEE countries, while aspiring to the European Community, were determined to encourage the capital from the West, and the competitiveness of German products, the financial potential of German companies as well as the efficient and coordinated support system of German public institutions made it possible to build strong economic relationships<sup>①</sup>.

Today the German companies are still seen as a desirable partner, that is contributing to the modernization of the economy and job creation, and their activity is regarded as independent of political considerations. The expansion of German corporations is moreover combined with investments in human capital and help to the societies of CEE countries. The exception is the energy sector which has a great meaning for the German politicians, interested in developing energy infrastructure (based upon pragmatic German-Russian cooperation, which is fueled by trade and investment in the energy industry)<sup>②</sup>.

The importance of investment and trade with the Federal Republic of Germany for the economies of CEE countries, especially the Czech Republic, Hungary, Poland and Slovakia (the Visegrad Group), makes the economic growth of these countries dependent to some extent on the economic situation in Germany and on the plans of German investors. The importance of research and development, automotive, chemical or machinery sectors are still strong and have enormous consequences for the labor market and exports of these countries, however the CEE countries have to adapt to the change in the structure of the German economy, where increasingly important nowadays are green technologies, i.e. the broadly understood sector of renewable energy and energy saving<sup>③</sup>.

The Visegrad Group countries have become the most important Germany's partner in both export and import. They succeeded - as one of the few poor in natural resources states - in maintaining relatively balanced relationships in trade, showing a surplus or a slight deficit in trade with Germany. Other CEE countries are mostly negative in

① Joanna Ciesielska-Klikowska, *Francja i Niemcy w procesie integracji europejskiej 1992-2007*, Łódź 2017, pp. 425-440.

② Beata Molo, *Die Energiepolitik Deutschlands im 21. Jahrhundert: Determinanten – Ziele – Maßnahmen*, OEZ Berlin-Verlag, Berlin 2014, p. 215; Agnieszka Łada, Stephen Bastos, Andreas Speiser, *Energy Union: a German perspective* [in:] Agnieszka Łada, Magdalena Skłodowska, Melchior Szczepanik, Łukasz Wenerski, *The Energy Union: Views from France, Germany, Poland and the United Kingdom*, Warszawa 2015, pp. 55–90.

③ Federal Ministry of Economics and Technology (BMWi); Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), *Energy concept for an environmentally sound, reliable and affordable energy supply*, Berlin (28 September 2010), <http://www.bmwi.de/English/Redaktion/Pdf/energy-concept,property=pdf,bereich=bmwi,sprache=en,rwb=true.pdf> (accessed: 28 October 2017).

trade balance with the Federal Republic of Germany, which is largely a result of the competitiveness of German products. Furthermore Germany owes its financial strength and active participation in privatization processes in the region, as is the case of the energy sector, medias, automotive and financial industry.

The period of political and economic instability in the world increases in importance of Central Europe for Germany. Firstly, the geographical proximity of this region ensures that economic cooperation with it does not interfere geopolitical problems and there is no risk of interruption of supply. Secondly, due to the euro zone crisis, the dispute over the future has intensified the shape of economic policy in the EU. Germany needs allies, that will support the free-market model of the Union, based on the principles of the fiscal discipline - in a confrontation with the vision of the EU based upon statism featured by France, Greece and Portugal that represent the idea of wide permissions for the state<sup>①</sup>.

Last data show that relations of the Visegrad Group countries and Germany are crucial to their economic development. Germany's trade volumes with Poland, Hungary, the Czech Republic and Slovakia reached 257 billion euro in 2016 (compared with 170 billion euro in China). In the period between January and August 2017, trade has reached 183 billion euro, what was an increase of 9% in comparison with the comparable period of 2016. The value of German direct investment reached almost 60 billion euro at the end of 2016. Crucial role play also employees from these four countries - over half a million of them is active on the German market and after Brexit their relevance will probably increase<sup>②</sup>.

Due to the faster GDP growth in these countries than in the EU and the continued strengthening of cooperation with German concerns, the importance of this region for Germany is steadily increasing, though Berlin is aware that this economic bond - although strong - is not guaranteed once and for all. The latest statements of the German politicians show clearly, that Berlin is afraid of disintegration of the European Community, which can have its genesis in multiple reasons (e.g. consequences of the economic crisis, migrant crisis and different perceptions of its possible solutions, Brexit), hence there is the fear that the EU project can explode also because of the outside reasons - such as searching for new partners in exterior environment.

German crucial fears focus on issues concerning China's possible efforts to break the

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① Konrad Popławski, *Rola Europy Środkowej w gospodarce Niemiec. Konsekwencje polityczne*, Warszawa 2016, pp. 5-64.

② Rangfolge der wichtigsten Handelspartner Deutschlands nach Wert der Exporte im Jahr 2016 (in Milliarden Euro), <https://de.statista.com/statistik/daten/studie/2876/umfrage/rangfolge-der-wichtigsten-handelspartner-deutschlands-nach-wert-der-exporte/> (accessed: 28. October 2017); Andrea Gawrich, Maxim Stepanov, *German Foreign Policy toward Visegrad Countries. Patterns for integration in Central Europe*, Deutsche Gesellschaft für Auswärtige Politik, DGAP Analyse 17, September 2014.

EU’s unity and pull countries from the euro zone, as well as on opportunities, that the leaders of the PRC look for to strengthen its position by weakening the EU. During his speech at a gathering of French ambassadors in Paris, the German Vice Chancellor and Foreign Minister Sigmar Gabriel claimed in August 2017, that the members of The European Union must pursue a joint foreign policy towards China, otherwise “China will succeed in dividing Europe”<sup>①</sup>. Gabriel argued that Beijing’s cooperation with 16 Eastern and Southeastern European countries is a threat to the EU’s unity and therefore has to be stopped and China ought to create a “One Europe policy” just as it demands of Europe that it will “pursue a One China policy”. Referring to a multilateral cooperation agreement, the German politician warned against China’s great impact on policies of the European Union and justified, that the New Silk Road project is a “huge geopolitical, cultural, economic and ultimately, no doubt, also military strategy” that cannot be compared anyway with standards and values represented by Berlin and Brussels and therefore has to be ceased<sup>②</sup>.

## **BRI, 16+1 and German response**

The Belt and Road Initiative is meant to be China’s next step towards economic integration with Europe. Due to geographical location, the East Europe could be the best “gateway” through which the New Silk Road could reach the European Union. That is why China puts a great focus on the 16+1 Cooperation format, launched in 2012 during the visit of China’s Premier Wen Jiabao in Warsaw, that aims to intensify and expand cooperation with the 11 EU member states and the 5 Balkan countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Hungary in the fields of investment, transport, finance, science, education and culture - integrated in the frames of three potential priority areas for economic cooperation: infrastructure, modern technologies and environmental technologies. The 16+1 format is to be an integral part of the BRI project and should facilitate conversations with the countries of the region on the implementation of Chinese investment.

However, because of the fact that the platform consists of EU and non-EU member states, the European Community raises the questions about the threat of the European unity. And one of the leaders of that discussion is Germany, the pillar-state of the Union that feels responsible for its integrity and cohesion.

① Rede des Bundesministers des Auswärtigen, Sigmar Gabriel, bei der 25. französischen Botschafterkonferenz am 30. August 2017 in Paris, “Bulletin der Bundesregierung”, No. 91-1, 06. September 2017.

② Ibidem.

Therefore in recent years German think tanks and mass media have been harshly criticizing Chinese economic activities in Eastern and Southeastern Europe arguing that Beijing strives to create a pro-Chinese lobby within the European Union and tries to indirectly develop market activity in Western Europe, avoiding EU trade barriers in the form of antidumping or high-level procedures. Germany's Chancellor Angela Merkel alone has named the initiative as a means to secure more Chinese investments in Europe and its wider neighborhood<sup>①</sup>.

The German political and economical circles consider the 16+1 Cooperation as an attempt to put bilateral relations before the ones with the EU and put the Union in front of the facts. They also raise the argument that the initiative is a Chinese "Trojan horse" in Europe. Yet, China does not need that kind of instrument to enter the EU market - it is already present on it, what can be certified by the high level of trade and economic links with West European states - especially Germany. In addition, the guidelines of the 16+1 platform collaboration, presented at the annual meetings of leaders of the member states, are drawn up with respect for European legislation and in line with the strategic partnership between China and the EU<sup>②</sup>.

The Vice Chancellor and Foreign Minister's statement was a result of growing offense Germany has been expressing over the cooperation, that the Central and East European countries are developing with the People's Republic of China. Already in 2015, the German media noted, that the CEEC were trying to position themselves, to benefit from the planned Chinese investments within the framework of the New Silk Road. The great beginning was at the 16+1 Summit in Serbia in 2014, where Chinese infrastructure investments from the Baltics to the Black Sea were enacted, as well as the construction of a rail link between Belgrade and Budapest, and freeway projects in Montenegro and Macedonia (with the budget of 10 billion euro). The 16+1 format and the BRI design were therefore seen as a further expansion elements of this partnership, complementary to other initiatives, like the established in 2015 EU-China Connectivity Platform mechanism, linking the Belt and Road Initiative with the European Commission's Investment Plan for Europe (known as "Juncker Plan", an ambitious infrastructure investment program announced in November 2014, which aims at unlocking public and private investments in the "real economy" of at least 315 billion euro over a three years fiscal period 2015–2017)<sup>③</sup>.

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① Merkel: China ist wichtiger Akteur in der Welt, <https://www.bundesregierung.de/Content/DE/Reiseberichte/2015-10-29-merkel-china.html> (accessed: 20. October 2017).

② Tomasz Morozowski, "Jeden Pas i Jedna Droga" Chin do Europy?, "Biuletyn Instytutu Zachodniego", No. 319/2017, p. 3.

③ M. Nicolas J. Firzli, 2014 LTI Rome Conference: Infrastructure-Driven Development to Conjure Away the EU Malaise?, *AnalyseFinancière* No. 54, janvier-fevrier-mars 2015, p. 10.

2015 was the time when German business circles started to worry about China’s growing economic activities in East and Southeast European states, which have been perceived by the governments of the region as a counterweight to the prior German dominance<sup>①</sup>. It is mainly the case of Central European states such as Czech Republic or Hungary, for which the German government visibly fears the growing rapprochement between Prague, Budapest and Beijing, both on political and economic level. Already in spring 2016 governments of the PRC and Czech Republic were claimed to raise a strategic alliance between Prague and Beijing, which had been initiated during President Xi Jinping’s state visit with investments valued at 3.5 billion euro, and criticized by German circles for promotion of controversial economic interests with the problem of human rights only “in the shadows”<sup>②</sup>.

As it was also marked in a last analysis of the Friedrich Naumann Foundation for Freedom that devotes to promote liberal principles, China is growing economic presence and could have an influence on the government’s policies in Prague, which could lead to “political power games” of devastating effects. Czech President Miloš Zeman has pushed since his election in 2013 for closer ties with China and Russia rather than with European Union and NATO allies. The state has already significantly changed its policy toward China by signing a “declaration on the territorial integrity of the People’s Republic of China” and Miloš Zeman had also been the only head of a EU member state on hand at Beijing’s military parade celebrating the 70th Anniversary of China’s victory over Japan. Earlier, German think tank had argued that China is gradually intensively influencing key sectors of the Czech Republic’s economy and infrastructure, especially concerning the automotive industry and directly the car manufacturer Škoda, a company which is one of the leaders of automobile manufacturers in Europe and a wholly owned subsidiary of the German Volkswagen Group. Because of that the German analysts and politicians are afraid of China getting too close to German strategic companies and technologies. A big concern are also serious Chinese investments in Czech media sector (Mědea Group and Empresa Media), as well as the the finalé of investment arrangements within the framework of the China Investment Forum and a close cooperation between a Czech businessman, former deputy and Minister of Defence, Jaroslav Tvrdík, with the Chinese government and the Communist Party of the People’s Republic<sup>③</sup>.

Hungary is likewise an important location, receiving about 40% of China’s investments. China is the largest source of Hungarian imports outside the European Union, however

① Anton Spisak, EU uneasy over China’s efforts to woo central and eastern European states, “Financial Times”, 08. May 2017.

② Adéla Klečková, Peking ante Portas. Wie die Volksrepublik China ihren Einfluss in Tschechien ausbaut, <https://www.freiheit.org/peking-ante-portas> (accessed: 15. October 2017).

③ Ibidem.

Chinese imports still are smaller than the import from Germany<sup>①</sup>. Hungary has welcomed Chinese investments because of the way China is received politically in other countries of the block - like Serbia, which raised two-thirds of all Chinese capital to non-EU countries in the Balkan region, or Greece which is also an important recipient of Chinese investments and a strategic partner in the Mediterranean region<sup>②</sup>. Seeing the problem Germany introduces measures to control the takeovers of European companies by investors outside the EU, striving to block the most adverse transactions from the point of view of their state's interest. Germany is aware that China's policy is a long-term challenge and needs to be worked out through coherent and vast EU response. To achieve this goal a compromise between the interests of individual member states and their EU commitments will be needed.

Taking all that into account Chinese activity in Central and East European Countries raises concerns of China taking over Germany's first place as business partner and intentional cooperator for those states and causes anxiety about the EU's ability to speak with one voice. Berlin is also anxious about the initiative's potential to dilute European Union investment rules and to erode political unity among member states vying for Chinese investment. Furthermore, German analysts are critical depicting the initiative either as a geopolitical threat or as an over-ambitious attempt doomed for failure.

Nevertheless it has to be underlined that German political circles cannot be too critical towards the 16+1 Cooperation since the state itself is the biggest economic partner of the PRC in Europe. German trading hubs look forward to new business opportunities from expanding links with the sea and land routes created through the BRI. Like Hamburg, Germany's biggest seaport (and third harbor in Europe) or DuisPort, leading logistics hub in Central Europe (in Duisburg), which have articulated interest in becoming hubs for BRI investments and - feeling heavier competition from different sea and inland ports from Southern Europe, where China seeks to establish many maritime gateways for all the Belt and Road Initiatives - search for the possibilities to draw the attention of larger volumes of maritime trade from East Asia.

Taking into account all uncertainties about the geopolitical repercussions and economic development of 16+1 Cooperation as well as whole BRI project, the German government has become active in trying to coordinate a consistent and responsible reply to and its participation with the initiative through numerous organizations, such as the European Union, the G20 and the Organization for Security and Cooperation in Europe (OSCE). Germany is in a perfect place to play this role – on the one hand as Europe's biggest

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① Tamás Rózsás, *China in Europe. Hungary's Key Role in a Strategic Partnership*, "Civic Review", Vol. 13, Special Issue, 2017, 216–238.

② Bartosz Kowalski, "Monitor Chiński", czerwiec 2016, pp. 2-5; "Monitor Chiński", maj 2017, pp. 4-5.

economy, on the other hand because, contrasting to countries in Central and Southeastern Europe, its economic wealth does not depend on attracting Chinese investments into its own infrastructure.

Till that moment Germany's experience with the BRI investments concentrates on five projects already linking existing railroads - Leipzig-Shenyang railway link initiated 2011; Chongqing-Xinjiang-Europe Railway created 2012; Trans Eurasia Express launched 2013; as well as Hamburg-Harbin and Nurnberg-Chengdu railway link, both initiated 2015 (altogether almost 400 trains a year). The year 2016 brought 40.000 transported containers through this Eurasian landbridge (which is a respectable increase compared to 2015 with 35.000 containers) and the recent plans talk about almost tripling this number to 100.000 containers in 2020<sup>①</sup>, what is a direct indicator that there is an increased demand for close Chinese-German railway cooperation, particularly in car industry.

The whole BRI plan did not provide any created specially infrastructure investment or was a visible incentive for Chinese investment in mergers and acquisitions (M&A) or greenfield projects realized in Germany. This is a completely different situation than the one of CEE countries, that are willing to catch the attention of Chinese funds to improve their own infrastructure, what causes a headache in Berlin where a strive for a constructive and forward-looking European program for engagement in the Belt and Road Initiative and adoption of a “multilateralization” approach is getting more and more desirable<sup>②</sup>.

Therefore it should not surprise that Germany itself tries to cooperate with China on the multilateral level such as Organization for Security and Cooperation in Europe - in May 2016 the Minister of Foreign Affairs organized an OSCE conference in Berlin, where high-level delegations from all 57 OSCE member countries and China took part and Germany was able to set the cooperation with China on the OSCE agenda for the upcoming years. Also taking over the G20 presidency from China in 2017, Germany organized the Chinese-German G20 Cooperation for Sustainable Infrastructure Investment, that should balance the objectives of economic transformation and sustainable development<sup>③</sup>.

① Deutsche Bahn will Fracht nach China bis 2020 verdreifachen, *Süddeutsche Zeitung*, 18. March 2016.

② The lack of conformity of European states with respect to the conduct of the Asian power was visible mainly in discussions on China's market economy status, the threat of price dumping and the introduction of EU antidumping duties on Chinese products (solar panels, over-production of Chinese steel) or territorial dispute in the South China Sea. This reflects the general tendency of European countries to compete for Chinese capital and investment at the expense of formulating a single European strategy for the PRC.

③ Rolf J. Langhammer, Chinese-German G20 Cooperation for Sustainable Infrastructure Investment, Council of Global Problem-Solving, March 2016, p. 1-4.



In light of the above it can also be understandable that German politicians support the European Union-China Connectivity Platform as an instrument of a better control of Chinese investment projects in Central and Southeast European countries<sup>①</sup>, however wish to build a new European-Chinese economic corridors as the answer to the initiatives created by the 16+1 Cooperation alone. Germany wants to put the China-CEEC partnership under control of the European Community through, for instance, internal working group of the European External Action Service, which aims to develop a European vision of Eurasian link beyond pure infrastructure ventures. Berlin pushes moreover the European Investment Bank to provide the Asian Infrastructure Investment Bank (AIIB) with technical support and to support the AIIB plans referring to 16+1 Cooperation and whole BRI project<sup>②</sup>. This is an indirect signal, that Germany intends to have influence on the partnership between CEEC and China<sup>③</sup>.

Yet the task for Berlin is to combine its own ambitions with the ones of CEE countries and China itself, taking into account the needs of the whole (very diverse) European Union. Even though it is understandable that Germany wants to secure its dominant status within the Community, it must be clearly said that EU's splitting up would not only be a disadvantage for Germany, but also for China which is at times accused of realizing the "divide et impera" strategy on the European continent. In fact analyzing China's development of relations with the countries of Central and Eastern Europe leads to the conclusion, that its activity is not motivated by an anti-European attitude, but rather by Chinese interests. Economically strong, the EU is a desirable partner for Beijing. Opening of new trade links can bring benefits to all parties, and for 16+1 countries especially represents an opportunity for economic growth and modernization.

## Conclusions

Taken together, the results of the analysis suggest that in cooperation with the PRC, Germany should seek to maximize the benefits in the terms of synergy. This is also

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① "Implications of the One Belt, One Road Initiative for Europe and the Eurasian Continent" – Rede von Staatssekretär Markus Ederer bei der Veranstaltung "Bestandsaufnahme OBOR" (02. Februar 2016), [https://www.auswaertiges-amt.de/DE/Infoservice/Presse/Reden/2016/160202-StS\\_E\\_Seidenstrasseninitiative.html](https://www.auswaertiges-amt.de/DE/Infoservice/Presse/Reden/2016/160202-StS_E_Seidenstrasseninitiative.html) (accessed: 20. October 2017).

② 2015 the PRC joined the European Union Bank for Reconstruction and Development (EBRD) and 18 Member States of the EU are a part of the Asian Infrastructure Investment Bank (AIIB), which is one of the sources of funding for the BRI initiative. Moreover, the "EU-China 2020 Strategic Cooperation Agenda" envisages the development of infrastructure cooperation through joint financing and implementation of projects by the PRC and the member states of the EU.

③ Jan Gaspers, Germany Wants Europe to Help Shape China's Belt and Road Initiative, "The Diplomat" 17. December 2016, <https://thediplomat.com/2016/12/germany-wants-europe-to-help-shape-chinas-belt-and-road-initiative/> (accessed: 21. October 2017).

China’s declared approach, which describes the 16+1 project as a vision of building prosperity and peace in the states involved, through which all parties gain (the win-win principle).

It is possible that the demand for Chinese presence in the region can only be periodic and dependent on the situation on the European continent. In the event of a sustained economic recovery in Western Europe, its capital involvement in CEEC will increase, and demand for goods from the region will also raise. It may undermine the position of Chinese investors and reduce the involvement of local governments in building relations with China. This scenario is especially foreseen for the Western Balkans and causes China to see the current situation in terms of a temporary open “window of opportunity” that could be closed as the EU’s economy improves.

Finally, tensions between Berlin and Beijing caused by the growing Chinese activity in the region may have a bearing on the development of Central Europe’s relations with China, which should be taken into account. The resistance of Germany (as well as some other European states such as France<sup>①</sup>) is seen as a potential threat to China’s strategy in Eastern and Southeastern Europe that is reluctant to cooperate in the region itself. States have difficulty coordinating their own policies and are not ready to accept one of them as a leader or an intermediary in contacts with Beijing.

Though following initial criticism of the German media on the 16+1 format, commentators have been lately more reticent. It cannot be ruled out, however, that if the Chinese companies’ involvement in Central Europe is accelerated, the new German government will look at this process more critically, fearing in the longer term the threat to their strategic economic interests in the region.

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① French President Emmanuel Macron proposed inter alia to increase the protection of European businesses against practices of unfair competition from non-European countries in the form of antidumping instruments.

# China-CEE Maritime Cooperation: Polish Intermarium Project and 16+1 Nexus

Dominik Mierzejewski\*

## Abstract

The Riga Summit gave new directions into the maritime cooperation between Central Europe and China. The “three seas’ port cooperation” between Baltic Sea, Adriatic Sea and Black Sea should be analyzed from two different perspectives: interests and goals of Polish foreign policy concept and the motivations and actions taken by the Chinese diplomacy towards the region of the region. The paper introduces the basic concept of Polish policy of “intermarium zone” delivered by Josef Pilsudski who planned to counterweight Russian and Germans influences in the Central Europe. This concept was revived by the President of Poland A. Duda and with the support of Croatian president Ms Grabar-Kitarović Polish government tried to revive South-South orientation of its foreign policy. The second important point here is to discuss the outcome of Riga Summit in 2016. During the meeting sides agreed to open the Maritime Cooperation Secretariat. Finally the *raison d’etat* of the People’s Republic of China in the relations with the Central Europe and its regional and global aspects are discussed. From this perspective the CEE region became very important in China’s relations with Russia and the United States. The basic hypothesis to be discussed is that the maritime cooperation between China and Central Europe should be placed in the global politics. In this particular case Poland and China can develop their relations on the principles of “seeking common ground while holding back differences” (*qiutongcunyi* 求同存异). Having different interests both sides can develop the same, multilateral framework of Baltic, Adriatic and Black Seas’ port cooperation.

The paper is divided into three parts: first discusses Polish Intermarium (Międzymorze) project from historical and contemporary perspective, then relation between Central European countries and their approaches toward Intermarium project, and finally Riga Summit decisions, China’s policy towards three seas cooperation as well as its possible interaction with the United States and Russia will be examined and discussed.

**Key words:** *Intermarium project, China, CEE, Poland, global politics*

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## I. Introduction

The origins of Intermarium traced back to the post First World War period. After regaining its independence after 123 year of partitions Polish decision makers hoped to secure their newly established state. The project of the Confederate States (states between Baltic, Adriatic and Black Seas): Poland, Ukraine, Belarus, Lithuania, Latvia, Estonia, Moldova, Hungary, Romania, Yugoslavia, Czechoslovakia was proposed to recreate a tradition of the former Polish-Lithuanian Commonwealth (1569-1795). The Commonwealth of Two Nations was the political project made by Jagiellonian dynasty. This paradigm oriented Polish foreign policy towards the East. The most important pillars of this were the re-establish power over the Eastern territories and the desire to exercise control over the lands of modern Ukraine and Belarus. In 1920s, the major purpose was to avoid the dominance of big power in the Central Europe region Germany or Russia. Due to being afraid of the Soviet Union domination and prevent German and Russian expansionism and imperialism this concept was supported by countries in Central Europe. What should be noticed a similar concept was proposed by the Ukrainian historian, statesman, head of the Ukrainian People's Republic Mykhailo Hrushevsky, who promoted the Baltic-Black Sea Federation. This Polish foreign policy concept is named as “Prometheism-Intermarium” and can be understand within Mackinder (1919) concept of establishing of a number of buffer states around Russia. This understanding was followed by Zbigniew Brzezinski—the former security advisor to President Jimmy Carter. To the certain extant this approach was an answer to the security threats coming out of Russia and push Poland to support Ukrainian independence, “Orange Revolution”, Georgian position *vis a vis* its conflict with Russia (2008) or Ukrainian position in Donbas' conflict. In his book *Grand Chessboard* emphasized the importance of Ukraine: “*Ukraine, a new and important space on the Eurasian chessboard, is a geopolitical pivot because its very existence as an independent country helps to transform Russia. Without Ukraine, Russia ceases to be a Eurasian empire*”<sup>①</sup>.

Moreover, official document delivered by the President Office or the Polish government (2007, 2014) postulated the expansion of the EU and NATO, especially to Ukraine, Moldova, the South Caucasus, and the Western Balkans. From the view of Polish security the democratization of Eastern neighbours and “Eastern Partnership” should be perceived as a critical to stability in Poland. This understanding implies that Poland needed to be supported by the United States and this Intermarium doctrine has its Atlanticist nature. According to the American scholar Alexandros Petersen, the “Prometheist Intermarium” strategy is a typically Atlanticist that contrary to Kennan's policy of containment advocates for common identity of those who border with the Atlantic Ocean. Kennan advocates that the main element of any US policy towards the Soviet Union must be

① Z. Brzezinski, *The Grand Chessboard*, 1998, pp. 60-61.

of a long term containment of Russian expansion. For Petersen it was a “strategic involvement” of the “myriad of captive Eurasian peoples within the Russian orbit” in an Atlanticist project. Petersen in his work “The World Island” remarks: “*Pilsudski’s vision had been partly realized with the break up of the Soviet Union ... Eurasia today still encompass hundreds of minorities, and the small states of Eurasia are still fighting for their sovereignty*”<sup>①</sup>.

In the context of post 1989 international realities the first policy maker in Poland that called for rejuvenation of Intermarium project was taken by President Lech Kaczynski. In 2005 the political platform was mainly based on cooperation within the “Intermarium ABC” which, for example, supported Croatia in its efforts to join the EU and strove for cooperation with Yushchenko’s Ukraine. The “Intermarium ABC” project was further discussed by then the opposition party of Peace and Justice. In the parliamentary debate of 2013 Witold Waszczykowski who was then a deputy to the parliament stressed the need to “*regain the role as spokesman of the region*” and “*rebuild the autonomous region, e.g. Carpathian*”<sup>②</sup>. Andrzej Duda, after being elected as a president, recalled the idea of a bloc of countries stretching from the Baltic Sea in the north to the Adriatic and Black Seas in the south. In January 2016 in his annual foreign ministerial speech, Witold Waszczykowski underlined the need for a more active cooperation in the region and particularly within the Visegrad Group. Moreover in February 2017 the Minister of Foreign Affairs admitted that the regional cooperation connecting three seas Baltic, Adriatic and Black Sea became the clear sign of Polish active foreign policy that secure national security. The same argumentation was repeated in his article in the Frankfurter Allgemeine Zeitung.<sup>③</sup>

When a new idea, the Three Seas Initiative, appeared in 2015 and was followed by two summits (Dubrovnik 2016 and Warsaw 2017), the old Polish strategies began to once again emerge. This paper discusses the issue of Sino-Polish Sea cooperation and tends to answer to the following questions: does Poland still aspire to play the role of regional leader and want to use the newest initiative for its own purposes? What is the real reason for the 12 countries of Central and Eastern Europe, all members of the EU, to unite around some common goals? How does China can interact within the 3SI’s cooperation delivered by the Riga Summit? And what are the condition of possible pragmatic cooperation between China and Poland in this field?

① A. Petersen, *The World Island: Eurasian Geopolitics and the Fate of the West*, Santa Barbara: ABC-CLIO, 2011, p. 60.

② D. Nałęcz, *Intermarium vs the Three Seas Initiative*, online: <http://neweasterneurope.eu/2017/07/06/intermarium-vs-the-three-seas-initiative/>

③ Witold Waszczykowski *przedstawia informację na temat polityki zagranicznej w Sejmie*, online: <http://www.rp.pl/Rzad-PiS/170208950-Witold-Waszczykowski-przedstawia-informacje-na-temat-polityki-zagranicznej-w-Sejmie.html> and Wit Donstal, *Intermarium: the story of the pipe-dream coming from Warsaw*, online: <http://visegradplus.org/intermarium-the-story-of-the-pipe-dream-coming-from-warsaw/#sdfootnote4sym>

## II. Intermarium project: relations between CEE countries

The most important issue for the future of the Intermarium project is its reception in the Central European countries. The interesting observation was made by George Friedman that this project might be explained by nostalgia for the Austro-Hungarian Empire, a significant multinational success that united small countries and largely gave them a degree of autonomy. From this perspective countries from the North Poland, and the South of Europe like Croatia should be interested in this project that recalled their positive feelings of unification under Austro-Hungarian Empire<sup>①</sup>. On the other hand as discussed by Andrew Korybko inside “Intermarium ABC” bloc there are three different historical narratives: first of Neo-Commonwealth created by the former experiences of Poland and Lithuania and their negative experiences with relations with Russia, second Austria-Hungary that perceives Balkans as the zone of influence and tries to cooperate with Russia on rather pragmatic way, and last the Black Sea Block of Romania and Bulgaria “are equally beholden to the EU and Russia for different economic reasons” strategic anti Russian as NATO members, and having controversies with the EU on austerity measures<sup>②</sup>.

The core issue is how to shape common interest between countries involved in the Intermarium project. The answer is not easy. As mentioned by Daria Nałęcz: “*Many partner countries are still afraid of Polish ambitions*”<sup>③</sup>. The next issue is that these countries are afraid of losing its position in the European Union, or threaten their relations with Russia like in case of Hungary. As was said by Fedorenko “*most states in the region do not want to get into a conflict with Germany or France to any serious degree*”. What is even more important Austria, the Czech Republic, and Slovakia initiated new format of cooperation to counterbalance Visegrad Four<sup>④</sup>. Although CEE has different positions towards Russia, the European Union or the United States, they can build their relations on the common projects. The first important issue is to improve infrastructure and trade and to develop better connections in energy, transportation and digital communications along a north-south axis, so the members of the group might benefit from more mutual exchanges and investments, while strengthening their ties and getting more cohesive<sup>⑤</sup>. The ongoing projects are co-sponsored by the European Union

① G. Friedman, *From the Intermarium to the Three Seas*, online: <https://geopoliticalfutures.com/intermarium-three-seas/?format=pdf>

② A. Korybko, *Geostrategic Insights Into the Joint Polish-Croatian “Three Seas Initiative”*, <https://www.globalresearch.ca/geostrategic-insights-into-the-joint-polish-croatian-three-seas-initiative/5598048>

③ D. Nałęcz, op.cit.

④ K. Fedorenko, A. Umland, *How to solve Ukraine’s Security Dilemma?* Online: <https://warontherocks.com/2017/08/HOW-TO-SOLVE-UKRAINES-SECURITY-DILEMMA-THE-IDEA-OF-AN-INTERMARIUM-COALITION-IN-EAST-CENTRAL-EUROPE/>

⑤ *The Three Seas Initiative: Strengthening Cooperation in Central and Eastern Europe* <https://visegradpost.com/en/2017/05/13/the-three-seas-initiative-strengthening-cooperation-in-central-and-eastern-europe/>

the Via Carpathia connecting the Baltic Sea (Klaipeda, Lithuania ) and the Aegean Sea (Thessaloniki, Greece). According to the Polish government work on the north-south transport corridor could be completed by 2025. Furthermore in March 2016 the Lancut Declaration was signed, and governments from Poland, Slovakia, Hungary, Romania, Bulgaria and Turkey supported the initiative<sup>①</sup>. The Via Carpathia initiative has to be seen as an opportunity to reinvigorate the connections of Visegrad High Level Working Group on Transport, which should by March 2017 provide a joint list of projects to be realized in the next EU Budgetary Financial Framework. The second important project is the LNG terminals connecting pipeline, from Croatia to Poland (from Krk in 2019), and the construction of the pipeline from the Black Sea through Bulgaria, Romania, Hungary and Austria. The Krk-based LNG is expected to have annual capacity of four to six billion cubic meters. Poland's Gaz-System is to open a 14-kilometre pipeline on September 12, 2017, which will ultimately form part of a connection between Poland and Croatia<sup>②</sup>. Moreover this regional initiative stimulated smaller cross regional projects as the Ionian-Adriatic Pipeline (IAP) that was also introduced during the Dubrovnik Forum. From the perspective of growing role of Croatia in Southern Europe this project contribute to the diversification of energy supply in central and southeastern Europe, and enhance Croatia's geopolitical position in Europe. Moreover it is worth mentioning that this project was supported not by Russian companies, but Azerbaijan's state-owned oil and gas company SOCOR<sup>③</sup>.

The positive approach towards Polish "Intermarium project" is mainly based on the relations to Russia. Countries like Estonia, Latvia, Lithuania, and Romania that perceives Russia as a major security problem especially regard vowed for strengthening regional cooperation and multiply the platforms for regional stability by balancing Russia's dominance. From Lithuanian point of view this project ensures energy independence by eliminating dependence on a single source from Russia. This point was particularly important in the context of Nord Stream 2 project. The second important support comes from non-NATO members namely Georgia, Ukraine, Azerbaijan, and Moldova. The particular place here is given to Ukraine that is looking for alternative models for regional cooperation and in fact has an impact on Polish-Ukrainian relations.

"Intermarium" project stimulated also voices of skepticism and doubts. In Germany, for example, the revival of "Intermarium" proposed by Polish leader Jozef Pilsudski

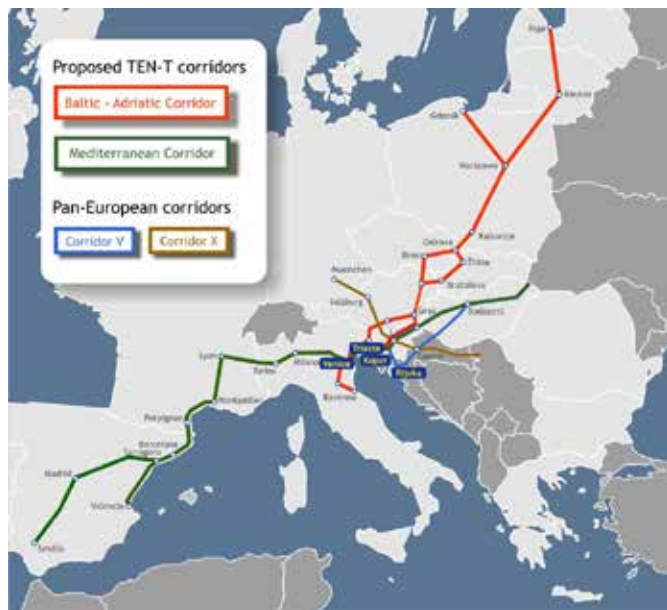
① *The Lancut Declaration of Ministers of Transport*, online: <https://mib.gov.pl/files/0/1796967/deklaracjalancucka.pdf>

② *Poland opens part of gas pipeline to link with Croatia*, online: <https://neftegaz.ru/en/news/view/164809-Poland-opens-part-of-gas-pipeline-to-link-with-Croatia>

③ *Croatia hosts forum on Three Seas Initiative to strengthen north-south corridor*, online: <http://www.internationallawoffice.com/Newsletters/Energy-Natural-Resources/Croatia/Macesic-Partners/Croatia-hosts-forum-on-Three-Seas-Initiative-to-strengthen-north-south-corridor>

might bring the memory of necessity of preventing domination by either the Russians or the Germans or even both. From this perspective it might have a negative impact on Russian-German cooperation especially in energy security sector. Moreover the Western European countries worries that this initiative about the future of European unity. Apart from the geopolitical dimensions the growing interdependence of Central European Countries is visible in the light of pan states organizations dedicated to intermarium cooperation. From this perspective there are three illustrative examples. First, North Adriatic Ports Association, second The Baltic Ports Organization and third International organization Black and Azov Seas Ports Association. The first organization is association of five seaports are located at the northern tip of Adriatic Sea. Moreover during the last EU-China Summit (June 2017), both sides presented List of the TEN-T related projects presented in the framework of the Expert Group on Investment and Financing of the EU-China Connectivity Platform. Ten out twelve will be delivered in Central Europe: Poland, Slovakia and Bulgaria with two projects in Italy<sup>①</sup> (see map No. 1). Then Baltic Organization was established in 1991 in Copenhagen facilitate cooperation among the ports and to monitor and improve the possibilities for shipping in Baltic region (see map No. 2). Third organization is dedicated for cooperation between countries in Black Sea region and was established in 1999.

**Map No. 1 North Adriatic Ports Association International Projects**



Source: North Adriatic Ports Association, online:<http://www.portsofnapa.com/#!lightbox/0/>

① List of the TEN-T related projects presented in May 2017 in the framework of the Expert Group on Investment and Financing of the EU-China Connectivity Platform, online: <https://ec.europa.eu/transport/sites/transport/files/ten-t-rel-projects-may-2017.pdf>



**Map No.2 Baltic Port Organization.**

Source: About Baltic Port Organization, online: <http://www.bpoports.com/about-bpo.html>

## II. Intermarium, China and the United States in the strategic region of Europe

From the perspective of future relations and maritime cooperation two points should be discussed: China's approach and approach taken by the United States. During the first Intermarium conference in Dubrovnik both powers send their delegates. Liu Haixing then the assistant of Foreign Minister of the People's Republic of China admitted that relation between Croatia and China had been more frequent and more practical. The most important issue was to find synergy between the construction of The "Belt and Road" initiative and long-term development strategy of Croatia, and *"create synergy between China's The 'Belt and Road' initiative, '16+1 cooperation' with Croatia's 'Three Seas Initiative' and deepen bilateral cooperation in economics and trade, infrastructural construction, global productivity and other fields"*<sup>①</sup>.

In February 2016, during a meeting in Zagreb with Croatian Prime Minister Tihomir Oreskovic, representatives of the Chinese National Development and Reform

① Assistant Foreign Minister Liu Haixing Attended "Dubrovnik Forum" and Held Political Consultation Between the Two Foreign Ministries, online: <http://hr.china-embassy.org/eng/dssghd/t1393864.htm>

Commission stressed that China was interested in connecting the “Adriatic-Baltic-Black Sea Initiative” and the “Belt and Road” initiative. When in October 2016 Chinese president Xi Jinping held talks with Kitarovic in Beijing, the Adriatic-Baltic-Black Sea Initiative was also supported. As was said the development of a north-south corridor in Europe, based on the ports of Adriatic and Baltic nations, was complementary to China’s Silk Road initiative. Following this remarks Chinese National Development and Reform Commission vice chairman Ning Jizhe (February 2017) mentioned that Chinese government’s interest in boosting the container train traffic from China to the Baltic region and Northern Europe and investing in both the Rail Baltica project and the port of Latvian capital city Riga<sup>①</sup>. As discussed by Croatian Presidential Office the China-Europe Land-Sea Express Line launched at the China+16 CEECs summit in Suzhou corresponds greatly with the objectives of the Adriatic-Baltic-Black Sea Initiative. Developing the seaport corridor based on the ports of Adriatic and Baltic countries is in line with the development of the Belt and Road and cooperation on industrial capacity<sup>②</sup>.

Following all this declaration in Riga, the topic of connectivity prevailed over that of trade. The main focus was on maritime issues. The Riga Declaration broadly presents the “Three Seas ABC” initiative announced at the Suzhou summit in 2015. It assumes the development of ports, including those in the hinterland, as well as logistic hubs, economic zones and transport corridors. The stress on maritime issues arises from the host country’s interests, as maritime trade is crucial for Latvia. But it could also be that the thus far modest results of land transport under the 16+1 and the Silk Road initiative led to a search for new areas of cooperation. The significance of maritime cooperation has been confirmed by the decision to set up a secretariat for maritime issues in Poland, in 2017. This will be the third 16+1 mechanism in Poland, after the Business Council and an association of investment agencies. It is managed by the Ministry of Maritime Economy and Inland Navigation<sup>③</sup>. The Secretariat was opened in October 2017 during the Second China-CEE Transport Cooperation Summit.

During the Summit Polish PM Beata Szydło supported all ongoing initiative with China. She also urged both sides to find appropriate projects in inland navigation, intermodal logistic and port facilities. According to Polish government estimations transshipment record set 2016 by the Port of Gdansk, Gdynia, Szczecin-Swinoujcie at 18.5, 19.5 and 21.5 million handled tonnes respectively<sup>④</sup>.

① *China, Russia and the EU's intermarium bloc*, online: <https://euobserver.com/eu-china/132635>

② *Newsletter of the Office of the President of the Republic of Croatia*, December 2015, online: [http://predsjednica.hr/files/NEWSLETTER%20VIEWS%20and%20NEWS\\_no%202.pdf](http://predsjednica.hr/files/NEWSLETTER%20VIEWS%20and%20NEWS_no%202.pdf)

③ J. Szczudlik, *Prospects for China-CEE Relations in the 16+1 Format*, online: <https://www.pism.pl/publications/bulletin/no-76-926>

④ *Polskie porty morskie biją rekordy. Rząd ma kolejny plan*, online: <https://www.money.pl/gospodarka/wiadomosci/artykul/polskie-porty-beata-szydlo,45,0,2381101.html>

Moreover in the document passed in June 2017, Chinese government declared to support maritime connectivity through different types of channels<sup>①</sup>. From the Intermarium project perspective two are worthy mentioned: first the China-Indian Ocean-Africa-Mediterranean Sea Blue Economic Passage, and second leading to Europe via the Arctic Ocean. Although the second does not provoke controversies, the first that crossed the South China Sea might stimulate further discussion on China's territorial disputes. As mentioned by Joseph Babel from Europe Institute the above mentioned issues made the China involvement in CEE maritime cooperation controversial<sup>②</sup>.

From the Chinese perspective this initiative should be understood as main economic corridor from South (Pireus) to North (Klaipeda, Gdansk), and play important role in having an access to the European market. On the other hand, however, it might be used as leverage in power politics especially in triangle between China, Russia and the United States.

From the above mentioned perspective the involvement of the United States should be noticed with attention. During the meeting with Croatian President then the vice-president of the United States Joe Biden supported the initiative especially in terms of developing infrastructure. The most important support came from D. Trump visit to Warsaw at the begging of July 2017. As was proclaimed, *"America will be your strongest ally and steadfast partner in this truly historic initiative."* In his speech he only mentioned the energy security as the key value added of Intermarium project<sup>③</sup>. Apart from his presence at the TSI summit *"support of Duda's governing Law and Justice Party and the initiative to forge a Central and Eastern European union"* and play a balance role to the role of Germany in this part of Europe. From the American perspective the Intermarium project enhances the presence of NATO in the region. By strengthening the relations between Central European countries America might exercise its "hard policy" of containment. The illustrative example here is relation between Poland and Romania. Romania positive responded to the Polish Intermarium project and by forming the Polish-Romanian initiative supported NATO policy during the Warsaw Summit. To the certain extent by *promoting a pro-American bloc in the middle of Europe, the US can counterbalance the anti-American Western Europe and gave new Trump's administration new partners in "new Europe"*.

① *Full text of the Vision for Maritime Cooperation under the Belt and Road Initiative*, online: [http://english.gov.cn/archive/publications/2017/06/20/content\\_281475691873460.htm](http://english.gov.cn/archive/publications/2017/06/20/content_281475691873460.htm)

② *"Three Seas Initiative" for Eastern Europe (8/2)* online: <https://www.europeainstitute.org/index.php/ei-blog/305-july-2017/2233-three-seas-initiative-for-eastern-europe-8-2>

③ *Trump Stumbles Into Europe's Pipeline Politics*, online: <http://foreignpolicy.com/2017/07/06/trump-stumbles-into-europes-pipeline-politics-putin-europe-poland-liquified-natural-gas-three-seas-initiative/>

## **IV. Conclusions**

From the perspective of the Central European Countries, the Three Seas Initiative should reduce the dependence on Russian energy, strengthen the development of infrastructure and develop economic ties in North-South directions. What might be discovered as a paradox, this initiative was strongly supported by the United States and China. Washington tries to reach this part of Europe with its gas and oil, and counterbalance Russian influences in Europe. China is also interested in connecting the north-south corridor to its own Silk Road initiative and finding another corridor for its products to European market. From the political angle it is hard to say whether think in more geopolitical zone but this part of Europe is perceives as the gate to enter Europe with China's products. From this perspective we might assume that the Central Europe might be an interesting case of Sino-American cooperation as it was in the past. What might limit the maritime cooperation between China and Central Europe is the growing tension over South China Sea and Sino-American relations in this context. To the certain extant the cooperation through "Intermarium" project might be limited by growing tensions in South East Asia, and Washington and Beijing might compete with each other over the support from the Central European countries.

To sum up, the author sees some short term limitations and difficulties for maritime cooperation, but from the long term perspective this cooperation is not impossible. The most important issue here is not even find the common interest but by having different interests find the same platform of cooperation and from the perspective of 16+1 maritime cooperation this cooperation that benefit both sides is possible.

# China's strategic narrative and challenges: The case of Poland

Yuan Hang\*

## Abstract

The rejuvenation of China's relations with Central and Eastern European countries, including Poland, receives more attention than ever. While China tends to take optimistic views about Chinese-Polish relations, Poland remains prudent over wishful anticipation. The extent to which China and Poland have consensus on understanding and developing their relations requires further investigation. From the perspective of a strategic narrative, this article examines whether Warsaw accepts Beijing's narratives of Chinese-Polish relations as a strategic partnership. The main hypothesis is that differences between Beijing and Warsaw in understanding the Chinese-Polish relations can neither be easily overcome nor ignored. The findings indicate that Poland partially welcomes China's suggestions by limiting its understanding and support towards Chinese-Polish strategic partnership merely to diplomatic and economic aspects.

**Key words:** *strategic narrative, China-Poland relations, strategic partnership*

## I. Introduction

Since 1949 the China-Central and Eastern Europe (CEE) relationship has experienced ups and downs due to the changing landscape within and outside their borders. In 2012, China and 16 CEE countries held the first 16+1 Summit in Warsaw, signaling the rejuvenation of China-CEE relations that has been facilitated by recent cooperation under the Belt and Road Initiative.<sup>①</sup> Meanwhile, China is also attempting to enhance bilateral relations with individual CEE countries, such as Poland, through high-level visits and cooperation in fields including trade, investment, connectivity, finance and people-to-people dialogues. Chinese-Polish relations have been upgraded from "long and stable

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① For official information of 16+1 cooperation, see <http://www.china-ceec.org/chn/>.

friendly cooperation” in 1997<sup>①</sup> to a “friendly cooperative partnership” in 2004<sup>②</sup> to a strategic partnership (SP) in 2011<sup>③</sup> and to a comprehensive strategic partnership (CSP) in 2016.<sup>④</sup> Poland is one of China’s first strategic partners in CEE and the eighth in the European Union (EU). Chinese-Polish trade volume has increased significantly (see Table 1). Since 2005, Poland has been China’s largest trading partner in the region. China has become Poland’s second largest importing country since 2015. By contrast, their mutual direct investment has much potential to rise. Until mid-2016, China’s foreign direct investment (FDI) in Poland remained only 0.462 trillion euros, much lower than those in Hungary (2.1 trillion euros) and Romania (0.741 trillion euros)<sup>⑤</sup>. Yet, China and Poland are trying to unlock the potential cooperation in fields such as connectivity, infrastructure and logistics through synthesizing their development plans with the “Belt and Road” initiative. One example is the Chengdu-Europe Express Rail, one line of China Railway Express, which strengthens economic ties between Chengdu and Lodz and other cities in Europe.<sup>⑥</sup>

**Table 1. Polish-Chinese trade during 2007-2016 (billion US dollars)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Export-Import Volume	7.93	10.46	9.21	10.99	12.46	12	13.38	16.19	16.53	17.47
Exports to China	1	1.28	1.47	1.65	1.85	1.76	2.12	2.23	2.02	1.9
Imports from China	6.93	9.18	7.74	9.34	10.61	10.24	11.26	13.97	14.51	15.57
Poland’s trade deficits	5.93	7.9	6.26	7.7	8.76	8.48	9.14	11.74	12.5	13.66

Source: Ministry of Commerce of China.<sup>⑦</sup>

① Joint Communiqué of the People’s Republic of China and Republic of Poland (Beijing, 17 November 1997).

② Joint Statement of the People’s Republic of China and Republic of Poland (Warsaw, 8 June 2004).

③ Joint Statement of the People’s Republic of China and Republic of Poland on Establishing a Strategic Partnership (Beijing, 20 December 2011).

④ China-Poland Joint Statement on Establishing a Comprehensive Strategic Partnership (Warsaw, 20 June 2016).

⑤ “中国在波兰的投资远低于预期” (China’s Investment in Poland Far Lower Than Expected), *Economic and Commercial Counsellor’s Office of the Embassy of China in Poland*, <http://pl.mofcom.gov.cn/article/jmxw/201704/20170402560766.shtml> (accessed on 29 September 2017). China’s FDI in Poland seems tiny compared with that in Europe (10.69 trillion US dollars in 2016) and in the world (196.15 trillion US dollars in 2016). See “2016 年度中国对外直接投资统计公报” (Statistical BulletinChina’s FDI 2016), <http://fec.mofcom.gov.cn/article/tjsj/tjgb/201709/20170902653690.shtml> (accessed on 29 September 2017).

⑥ “Silk Road to Expand Reach via Chengdu-Europe Express Rail”, *China Daily*, 17 November 2016, p.6.

⑦ “国别报告” (Country Report), *Ministry of Commerce of China*, <https://countryreport.mofcom.gov.cn/record/index110209.asp> (accessed on 30 September 2017).

Whether Chinese-Polish relations may develop smoothly is one question open for debate. Noting the favorable atmosphere for cooperation, Chinese observers tend to take optimistic views about it, particularly in the economic fields. Yet European commentators would remain prudent over China's relationship with Poland and the CEE in general, given the differences between the two sides to which China has not paid sufficient attention.<sup>①</sup> After all, since 1990 being integrated with the West has been the main priority of Poland's foreign policy, within which China has received much less attention until recent years. Moreover, Poland attaches importance to elevating its global profile and the promotion of democracy and human rights. Indeed, the two countries' ways of dealing with their common ground and differences may have great impact on their bilateral relations.

This article argues that it is essential to examine to what extent the two countries share consensus in understanding and developing their SP. Since the 1990s, China has developed various partnerships with other states and non-state actors, which could be understood as strategically constructed and projected by China to explain its way of thinking and behavior to international audience in order to achieve a desired intention.<sup>②</sup> Whether Poland understands its relations with China in the same sense of SP as what China's narrative suggest remains an unanswered question.

This article will firstly review academic literature on China-Poland relations, a still under-researched field compared with China-EU relations. Secondly, I will introduce a strategic narrative approach as an appealing analytical framework to direct our attention to the Polish government's level of discourse regarding China's narrative on their SP. Research design is also introduced on how to identify hints of Warsaw's response.<sup>③</sup> Thirdly, an overview of China's narrative on SP illustrates general features, such as pragmatic orientation and top-down approach. Fourthly, the case of Poland includes China's narrative on its SP with Poland and the latter's governmental discourse on its SP with China. Given the scope of this article, the analysis focuses on most authoritative documents and websites to deepen our understanding of the typical discourse of the Polish government. Findings indicate the gaps between China and Poland in understanding their SP.

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① See more discuss in the next section.

② Although there is no single standard category of China's partnership, various partnerships could be largely located according to their importance and closeness, from lower levels such as partnership (including cooperative partnership, comprehensive friendly cooperative partnership) to higher levels such as strategic partnership and comprehensive strategic partnership.

③ While this article generally concerns China-Poland relations during 1990-2017, it focuses on years since 2011 when China-Poland strategic partnership was announced.

## II. Literature on Chinese-Polish relations

In English literature, compared with Chinese-EU relations, Chinese-CEE relations is a relatively new emerging topic. Some contend that China's approaching of the CEE may constitute a challenge to Western influence in the region.<sup>①</sup> Studies on Chinese-Polish relations remain few, mainly focusing on trade imbalance and gaps in developing local cooperation.<sup>②</sup> Research on Chinese-Polish SP is even less. Two articles from one of Poland's leading think tanks believe that this SP has involved in tense dialogues but few tangible results, and needs “real content” such as concrete cooperation projects rather than talks.<sup>③</sup> Another paper ascribes its “symbolic” feature to the “disappointing” stance of the current Polish government, which seems to “look Westwards only” and is “incapable of scenario-thinking” in seizing cooperation opportunities with China.<sup>④</sup>

In China, research on the CEE did not grow remarkably until the late 2000s.<sup>⑤</sup> While Chinese authors noted the challenges in Chinese-CEE relations, they generally prefer to underscore promising prospects for economic cooperation.<sup>⑥</sup> They also have optimistic

① B. Kowalski, “China's Foreign Policy towards Central and Eastern Europe: The ‘16+1’ Format in the South-South Cooperation Perspective. Cases of the Czech Republic and Hungary”, *Cambridge Journal of Eurasian Studies*, Vol. 1, No. 1, #7R65ZH, <https://doi.org/10.22261/7R65ZH>.

② K. Palonka, “Economic and Trade Relations between Poland and China Since 2004”, *Asia Europe Journal*, Vol.8, No.3, pp. 369-378; B. Drelich-Skulska, S. Bobowski, A.H. Jankowiak, P. Skulski, “China Trade Policy towards Central and Eastern Europe in the 21st Century, Example of Poland”, *Folia Oeconomica Stetinensia*, Vol. 14, No.1, pp.149-174; L. Yang, X. Chen, L. Jiang, “The Characteristics and Functions of International Friendship Cities of China – and Prospects of Local Cooperation in Sino-Poland Relations”, in D. Mierzejewski, K. Żakowski (eds), *On Their Own Paths. Japan and China Responses to the Global and Regional Challenges*, Łódź: Wydawnictwo Uniwersytetu Łódzkiego, 2015, pp.81-95.

③ J. Szczudlik-Tatar, “Poland-China Strategic Partnership: Waiting for More Results”, *BULLETIN*, No. 106 (838), 19 November 2015 © PISM, [https://www.pism.pl/files/?id\\_plik=20936](https://www.pism.pl/files/?id_plik=20936) (accessed on 14 April 2017); A. Skorupska, J. Szczudlik-Tatar, “Regional Cooperation Key to Polish-Chinese Strategic Partnership”, *BULLETIN*, No. 25 (61), November 2014 © PISM, [https://www.pism.pl/files/?id\\_plik=18741](https://www.pism.pl/files/?id_plik=18741) (accessed on 14 April 2017).

④ J. Gorski, “PRC's co-operation with Central and Eastern European countries in the context of the One Belt One Road initiative. The case of 2016 Comprehensive Strategic Partnership between the PRC and Poland”, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2837546](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2837546) (accessed on 11 May 2017).

⑤ See more in 黄平 (Huang Ping), “‘一带一路’倡议背景下的中国与中东欧国家合作” (China-CEE Countries Cooperation in the Context of the “Belt and Road” initiative), *欧洲研究 (European Studies)*, 2015, No. 6, pp. 1-2.

⑥ E.g. 刘作奎 (Liu Zuokui), “‘一带一路’倡议背景下的‘16+1合作’” (“16+1” Cooperation in the Context of the “Belt and Road” initiative), *当代世界与社会主义 (Contemporary World and Socialism)*, 2016, No.3, pp. 144-152; 朱晓中 (Zhu Xiaozhong), “中国—中东欧国家关系中需要注意的问题和几点建议” (Issues and suggestions on China-CEE Relations), *国家智库 (National Think Tank)*, 2015, Z1, pp. 150-154; 于军 (Yu Jun), “中国—中东欧国家合作机制现状与完善路径” (Present Situation and Paths in China-CEE Cooperation Mechanism), *国际问题研究 (International Studies)*, 2015, No. 02, pp.112-126.



views on the Chinese-Polish economic relations.<sup>①</sup> Yet in comparison to English literature, Chinese literature has also covered Chinese-Polish ties beyond the economic field, including history and recent development since the 1990s.<sup>②</sup> Recently, some authors (including few foreign authors) have published literature in Chinese on the China-Poland SP, an emerging research theme, concerning the opportunities and challenges in its development.<sup>③</sup> According to Chinese researchers, challenges may lie in Poland's domestic politics, differences between China and Poland in cultural tradition and political values, trade deficit and different international priorities.<sup>④</sup> Given the "China threat" discourse that appeals to many of its opponents, the Polish government has to seek balance between value orientation and pragmatic cooperation with China.<sup>⑤</sup> Opportunities identified include enhancing Poland's independence and distinctiveness in Europe, developing a non-European dimension and a more pragmatic attitude towards cooperation with the biggeseconomies (including China), which are partially driven by Poland's domestic politics, in particular its incumbent government.<sup>⑥</sup> More importantly, these authors

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- ① E.g. 张迎红 (Zhang Yinghong), "波兰特别经济区的建设与中波合作的实施路径探讨" (Polish Special Economic Area Construction and China-Poland Cooperation Paths), 上海商学院学报 (*Journal of Shanghai Business College*), 2015, Vol.16, No.3, pp.84-91; 姚玲 (Yao Ling), "新时期扩大中国对波兰投资合作的思考" (On extending Chinese Investment in Poland in New Era), 国际经济合作 (*International Economic Cooperation*), 2015, No. 1, pp. 24-30; 高潮 (Gao Chao), "'一带一路' 建设中波兰的投资机遇" (Investment Opportunities in Poland in the Context of the "Belt and Road" Initiative), 中国对外贸易 (*China International Trade*), 2015, No.8, pp.84-85.
- ② E.g. 沈志华, & 李丹慧 (Shen Zhihua & Li Danhui), "1956 年的波兰危机与中波关系——来自中国的档案文献和内部报道" (1956 Polish Crisis and China-Poland Relations: Achieves and Media Coverage in China), 俄罗斯研究 (*Russian Studies*), 2006, No. 3, pp. 45-58; 于洪君 (Yu Hongjun), "携手共进, 推动中国与波兰和中东欧国家关系新发展" (Hand in Hand to Promote New Development of China's Relations with Poland and CEE), 当代世界 (*Contemporary World*), 2012, No.7, pp. 10-11; 崔宏伟 (Cui Hongwei), "中波战略伙伴关系: 基础、问题及前景" (China-Poland Strategic Partnership: Basis, Issues and Prospect), 俄罗斯东欧中亚研究 (*Russian, Eastern European and Central Asian Studies*), 2013, No.4, pp. 69-74; 刘作奎 & 卡特里娜·高里克 (Liu Zuokui & Katarzyna Golik), "2015 年波兰宪法危机根源、前景及对中波关系影响分析" (The Roots and Prospects of 2015 Polish Constitution Crisis and its Impact on China-Poland Relations), 欧洲研究 (*European Studies*), 2016, No. 2, pp. 106-120; 刘作奎 & 鞠维伟 (Liu Zuokui & Ju Weiwei), "中国 - 波兰外交政策论坛: 进展、潜力与前瞻" (China-Poland Foreign Policy Forum: Development, Potential and Prospect), 欧洲研究 (*European Studies*), 2016, No.4, pp. 151-154; 茅银辉 (Mao Yinhui), "波兰对外关系的变化及中波关系的机遇与挑战" (Changes in Polish Foreign Relations and Opportunities and Challenges in China-Poland Relations), 现代国际关系 (*Modern International Relations*), 2016, No. 6, pp.57-64; 刘作奎 (Liu Zuokui), "波兰的外交政策走向与中波关系", 当代世界 (*Contemporary World*), 2016, No.7, pp. 24-27.
- ③ 于洪君 (Yu Hongjun), op.cit.; 崔宏伟 (Cui Hongwei), op.cit.; Waldemar Pawlak, "中国和波兰——战略合作伙伴关系新篇章" (China and Poland: New Chapter of Strategic Cooperation Partnership), 上海商业 (*Shanghai Business*), 2012, No. 1, pp.10-10; Paulina Sylwia Hryniewicz, "波兰—中国战略伙伴关系的建立与发展", Master Degree, Beijing University of International Studies, Beijing.
- ④ 刘作奎 (Liu Zuokui), op.cit.; 茅银辉 (Mao Yinhui), op.cit..
- ⑤ Ibidem.
- ⑥ 刘作奎 & 卡特里娜·高里克 (Liu Zuokui & Katarzyna Golik), op.cit.; 刘作奎 (Liu Zuokui), op.cit.; 茅银辉 (Mao Yinhui), op.cit..

highlight China’s role in encouraging Poland to extend pragmatic cooperation through alignment of development strategies within “16+1” and the “Belt and Road” initiative.<sup>①</sup>

Although Chinese observers often take a balanced position on challenges and opportunities, they generally prefer an optimistic view on the prospect of a Chinese-Polish SP. They stress that extending pragmatic cooperation between the two and more bilateral dialogues may strengthen mutual trust and accordingly helps to surmount differences in ideologies, values and narrow world views.<sup>②</sup> This is not unusual for Chinese commentators in reviewing China’s relations with the CEE and the EU in general. For instance, even in 2006 when the EU demonstrated tough positions towards China, Chinese scholars still believed that Chinese-EU relations sooner or later “would be back on track, due to common interests”.<sup>③</sup>

Yet, one key question is whether China and Poland understand their SP in the same way. Without answering this question, one may be prone to wishful thinking on the Chinese-Polish SP. While the Chinese tend to regard the China-Poland CSP as a commitment to this relationship that should not be disturbed by ideological differences, Polish observers consider the concept of SP as empty and not well-defined rhetoric often used by China rather than common thinking between the two countries.<sup>④</sup> Indeed, even Chinese scholars have scarcely clearly defined the Chinese-Polish SP or systematically investigated this.<sup>⑤</sup> Moreover, in Chinese literature on the Chinese-Polish SP, theoretical perspectives remain vague. While some authors may be inspired by IR perspectives such as Realism, Liberalism and Constructivism, they scarcely explicitly justify their analysis by engaging with existing theoretical approaches in the West or China. A lack of clearly-defined theoretical perspectives and research design may impede effective international dialogue among scholars on this topic. From strategic narrative perspective, this article focuses on whether Poland understands its relations with China in terms of SP which China proposed.

### III. Analytical framework and methodology

Since the end of Cold War, different lines of thought underline the ideational dimension of international relations, including the perspectives such as constructivism, soft power

① 于洪君 (Yu Hongjun), op.cit.; 崔宏伟 (Cui Hongwei), op.cit.; 茅银辉 (Mao Yinhui), op.cit..

② Ibidem.

③ See XN. Song, “Challenges and Opportunities in EU-China relations”, in R. Vogt (ed.), *Europe and China: Strategic Partners or Rivals?*, Hong Kong: Hong Kong University Press, 2012, p28.

④ See more details in 刘作奎 & 鞠维伟 (Liu Zuokui & Ju Weiwei), op.cit..

⑤ Few scholars like Liu Zuokui analyzed how Polish official documents mentioned China, see 刘作奎 (Liu Zuokui), op.cit.

and norms diffusion. While capabilities or resources of ideational influence have been discussed, the effects of such soft capabilities receive little attention. Noting the weakness of the soft power analysis in “effectively trace or measure its impact”, some proposed the concept of strategic narrative as ‘a new means to understand soft power’.

<sup>①</sup>One definition of strategic narrative is “a means for political actors to construct a shared meaning of the past, present and future of international politics to shape the behaviour of domestic and international actors”.<sup>②</sup> In pursuing its interests, an international player may employ material and non-material means, such as its narratives, to influence transnational audience or other players in understanding their own interests and identities, to shape behavior of international actors and influence the structure, politics and policies of the international system.<sup>③</sup> The component parts of a strategic narrative include character or actors, setting/environment/space, conflict or action, and resolutions or suggested resolutions.<sup>④</sup> Narratives may exist at three inter-linked levels: international system, national and issues.<sup>⑤</sup> Strategic narrative involves processes from formation and projection to reception, in which media and communication play important roles.<sup>⑥</sup> Recent studies have discussed the employment of strategic narrative by the EU, Germany and Italy.<sup>⑦</sup> For instance, some suggested that terms such as human security could be used as an “organizing frame” through which the EU may be able to better bestow meaning to its foreign policy integration.<sup>⑧</sup> While China's strategic narrative is a newly emerging topic,<sup>⑨</sup>

① L. Roselle, A. Miskimmon, & B. O'Loughlin, “Strategic Narrative: A New Means to Understand Soft Power”, *Media War & Conflict*, 2014, Vol.7, No.1, pp. 70-84.

② A. Miskimmon, B. O'Loughlin & L. Roselle, “Strategic Narratives: A Response”, *Critical Studies on Security*, 2015, No.3, pp. 341-344.

③ A. Miskimmon, B. O'Loughlin & L. Roselle, *Forging the world: strategic narratives and international relations*, Michigan: University of Michigan Press, 2017.

④ L. Roselle, A. Miskimmon, & B. O'Loughlin, op.cit., pp.75-76.

⑤ Ibidem, p.76.

⑥ A. Miskimmon, B. O'Loughlin & L. Roselle, *Strategic Narratives: Communication Power and the New World Order (Vol. 3)*, Abingdon: Routledge, 2014.

⑦ J. Bain & N. Chaban, “An Emerging EU Strategic Narrative? Twitter Communication During the EU's Sustainable Energy Week”, *Comparative European Politics*, 2017, Vol.15, No.1, pp.135-155; F. Coticchia & C. De Simone, “The War That Wasn't There? Italy's ‘Peace Mission’ in Afghanistan, Strategic Narratives and Public Opinion”, *Foreign Policy Analysis*, 2014, Vol. 290, No. 1, pp.99-105; I. Hertner & A. Miskimmon, “Germany's Strategic Narrative of the Eurozone Crisis”, *German Politics and Society*, 2014, Vol.33, No.1, pp.42+.

⑧ M. Kaldor, M. Martin & S. Selchow, “Human Security: A New Strategic Narrative for Europe”, *International Affairs*, 2007, Vol.83, No.2, pp.273-288.

⑨ JH. Zeng, “Constructing A ‘New Type of Great Power Relations’: The State of Debate in China (1998-2014)”, *British Journal of Politics & International Relations*, 2016, Vol.18, No.2, pp.422-442. JH. Zeng, YF. Xiao & S. Breslin, “Securing China's Core Interests: The State of the Debate in China”, *International Affairs*, 2015, Vol. 91, No.2, pp. 245-266; B. Anny, “The Power of Language: Globalizing ‘the Chinese Dream’”, *Fudan Journal of the Humanities & Social Sciences*, 2015, Vol. 8, No.4, pp.533-551; F. Hartig, “Communicating China to the World: Confucius Institutes and China's Strategic Narratives”, *Politics*, 2015, Vol.35, No.2-4, pp. 245-258.

few have focused on the reception of China’s strategic narrative of SP.

This contribution concentrates on the reception of China’s strategic narrative of SP in Poland. In strategic narrative studies, analysing reception requires efforts to “identify whether audiences come to understand international affairs in those terms or in what ways they differ”.<sup>①</sup> The full examination of Polish audience may be a huge task far beyond the scope of this article, which instead narrows its aim down to identify some observable hints of Polish governmental discourse. The main task here is to examine whether Warsaw understands Chinese-Polish relations in within the scope of SP and CSP or in other ways. Specifically, this study investigates how those terms appear in Polish governmental discourse (including their frequency, context and meaning), whether other terms also used, and whether response of Polish policy makers is positive or not (negative or neutral), and in which category (support, acquiescence protest, appropriation, etc) do their responses fall into.

This article adopts a mixed-method research design,<sup>②</sup> combining qualitative content analysis (QCA), process tracing and critical discourse analysis (CDA). It focuses on the years after 2011 up to 31 July 2017 to examine how Polish government accepted China’s narrative of SP, covering two periods of Polish governments led by the Civic Platform (PO) (2011-2015) and the Law and Justice (PiS) (2015-present) respectively. The data sets include available texts from official documents on foreign policy and official websites of President, Premier and Foreign Ministry. QCA is employed,<sup>③</sup> to investigate whether key terms (such as SP and CSP) appear in official texts and to examine their context and meanings. Process tracing entails the comparison of PO and PiS to reveal the influence of partisan factors. Drawing on the approach represented by Norman Fairclough, texts are viewed as a part of social practice involving genres (ways of acting and interacting), discourses (ways of representing the world) and styles (ways of being, or constructing identities).<sup>④</sup> Accordingly, CDA involves examining the internal and external relations between texts, often concerning intertextuality, interdiscursivity and recontextualisation.<sup>⑤</sup> Analysis of intertextuality means “how texts draw upon, incorporate, recontextualise and dialogue with other texts”.<sup>⑥</sup> Interdiscursivity refers to mix of genres,

① L. Roselle, A. Miskimmon, & B. O’Loughlin, op.cit., p.79.

② A mixed method design is required to better understand whether audiences accept the narratives. For more discussion, see L. Roselle, A. Miskimmon, & B. O’Loughlin, op.cit., pp.78-79.

③ E.g. HF. Hsieh & SE. Shannon, “Three Approaches to Qualitative Content Analysis”, *Qualitative Health Research*, 2005, Vol.15, No.9, pp.1277-1288.

④ N. Fairclough, *Analyzing Discourse: Textual Analysis for Social Research*, New York: Routledge, 2003, p.26.

⑤ See discussion in T. van Leeuwen, *Discourse and Practice: New Tools for Critical Discourse Analysis*, Cary: Oxford University Press, 2008.

⑥ N. Fairclough, op.cit., p.17.

discourses and styles in a text where they are articulated together.<sup>①</sup> Recontextualisation refers to “the appropriation of elements of one social practice within another, placing the former within the context of the latter, and transforming it in particular ways in the process”.<sup>②</sup>

Given that this study draws on Chinese, Polish and English sources, I did manual coding with careful attention to ensure correct and proper translation between languages. In order to reduce the information distortion through translation, I used original Chinese sources when examining Chinese texts, and English version of discourses of Polish side whenever available.

#### IV. SP as a strategic narrative

Although many authors have analysed China's SP with the EU, United States (US) and other countries, there appears to be no single agreed definition on China's SP.<sup>③</sup> In fact, China's strategic narrative on its partnerships is based on its broader narratives regarding the international system and China's foreign policy.<sup>④</sup> As early as 1980s, the Chinese government stated that “peace and development are the two major issues of today's world”.<sup>⑤</sup> This narratives on international relations serves as an anchor for China's narrative regarding its foreign policy, which basically pursues a peaceful, stable, and cooperative international environment for its domestic development.<sup>⑥</sup> A full discussion on China's SP may go beyond the scope of this article. Here, I focus on its two essential connotations.

The first is the pragmatic approach. The central tenet of China's partnerships is to seek pragmatic cooperation on the basis of the Five Principles of Peaceful Coexistence while

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① Ibidem, p.218.

② Ibidem, p.32.

③ E.g. XW.Gu, “China and the United States - A Partnership in Search of A Strategic Basis”, *International Politik*, 2002, Vol.57, No.2, pp. 7-16; R. Maher, “The Elusive EU-China Strategic Partnership”, *International Affairs*, 2016, Vol.92, No.4, pp. 959-976; L. Yu, “China's Strategic Partnership with Latin America: A Fulcrum in China's Rise”, *International Affairs*, 2015, Vol.91, No.5, pp.1047-1068.

④ For overview see 门洪华, & 刘笑阳 (Men Honghua & Liu Xiaoyang), “中国伙伴关系战略评估与展望” (Review and Forecast of China's Partnership Strategy), *世界经济与政治 (World Economics and Politics)*, 2015, No.2, pp.65-95.

⑤ 中国的和平发展 (*China's Peaceful Development*), Beijing: 国务院新闻办公室 (The State Council Information Office), [http://www.scio.gov.cn/zfbps/ndhf/2011/Document/1000031/1000031\\_1.htm](http://www.scio.gov.cn/zfbps/ndhf/2011/Document/1000031/1000031_1.htm) (accessed on 22 May 2017).

⑥ E.g. 杨洁勉 (Yang Jiemian), “改革开放 30 年的中国外交和理论创新” (Innovation in China's Diplomacy and Theory in Three Decades of Reform and Opening-up), *国际问题研究 (International Studies)*, 2008, No.6, pp.6-11.

keeping differences or disputes in ideologies, political values and cultural traditions from hampering bilateral relations. This idea has its roots in China’s philosophical tradition regarding the world, where different peoples can live together peacefully, or simply put: “peace while different” (和而不同).<sup>①</sup> In 2004, China’s Premier Wen gave a typical definition on China’s SP when he talked about Chinese-EU CSP as the cooperation covering many areas in long term which transcends ideological difference and social systems.<sup>②</sup> From China’s perspective, these partnerships differ from traditional alliances such as the trans-Atlantic alliance which are based on similar political values or common security threats. On the contrary, as China’s top leaders stressed, “following the general principles of non-alignment to establish as many as friendships and forge partnership networks across the world”.<sup>③</sup>

The second is the top-down approach in planning bilateral relations. This top-down approach involves firstly setting up a long term objective or a framework for the future by proposing concepts such as “partnership” and later filling it by adding more concrete proposals or the discourse of prospects. China is strengthening its top-down approach by proposing more Chinese initiatives to shape its external relations. For instance, during the annual EU-China Summit in 2013, Chinese President Xi Jinping for the first time met EU leaders and issued the EU-China 2020 Strategic Agenda for Cooperation, the first document for medium and long term-agenda in this new relationship.

Yet there are also debates on China’s partnerships in terms of definitions, categories or types and criteria to assess.<sup>④</sup> The lack of clear and systematic definitions and classification of various partnerships by the Chinese government leaves room for divergence in understanding and often confusion. It has become apparent that the new ideas proposed by Chinese leaders for China’s strategic narratives lack precise definition and have become subject to debates among scholars and observers on the exact meanings of the proposed terms.<sup>⑤</sup> Meanwhile, the top-down approach may invite further discussion and even confusion on concrete meanings and implications for the proposed framework. For instance, scholars have different understandings of the China-EU partnership.<sup>⑥</sup>

① 李杰 (Li Jie), “中国传统文化与中国外交理论建设” (Chinese Traditional Culture and Chinese Diplomatic Theoretical Construction), 外交评论 (*Diplomacy Review*), 2006, No.92, pp.36-40.

② XN. Song, op.cit., p31.

③ “中央外事工作会议在京举行” (Central Foreign Affairs Meeting in Beijing), 人民日报 (*People’s Daily*), 30 November 2014.

④ 门洪华, & 刘笑阳 (Men Honghua & Liu Xiaoyang), op.cit..

⑤ JH.Zeng JH. op. cit.; JH. Zeng, YF. Xiao & S.Breslin, op.cit..

⑥ E.g. R. Maher, op.cit.; P. Taneja, “China-Europe Relations: The Limits of Strategic Partnership”. *International Politics*, 2010, Vol. 47, No.3-4, pp. 371-387.

## **V. Chinese-Polish relations: from SP to CSP**

Since the 1990s, Poland and other CEE countries have experienced changes within and outside their borders. At least two challenges exist in Chinese-Polish relations. One is the differences in political, social and economic situation between China and these countries. Another is the low level of bilateral relations. In response, through bilateral visits, summits and publications in Poland,<sup>①</sup> China is promoting its strategic narrative of SP to encourage pragmatic cooperation and the top-down approach.

China is trying to develop pragmatic cooperation without being trapped or hindered by these differences. Chinese leaders have expressed this position in joint documents with Poland. For instance, the 2011 Joint Statement claimed that the two sides should “transcend differences in social institutions and ideologies and respect and support each side’s development route as well as interior and exterior policies based on domestic conditions”. The 2016 Joint Communique stressed the spirit of “win-win cooperation”. In 2016, Chinese President Xi published one article in a Polish newspaper, claiming that the two should “accord each other understanding and support on issues of core interests and major concern”.<sup>②</sup>

China is encouraging more top-down elements in framing this bilateral relationship. As intensely reflected in President Xi’s newspaper article in 2016, China tends to stress the importance of viewing this bilateral relationship from the “strategic and long term perspective” to “ensure steady and sound growth of Chinese-Polish relations in the coming years”.<sup>③</sup> At the level of strategic and economic cooperation, China encourages the integration of development strategies between two countries, including bilateral cooperation planning, preparing major cooperation projects and early harvest on “Belt and Road”. In addition, as the name of CSP implies, China expects to develop relations in more fields such as people-to-people exchanges, culture, education, tourism and local cooperation in order to maintain friendship between young people.

China also stresses the international dimension of its CSP with Poland. China’s CSP with Poland is ranked as top levels in its partnerships with the CEE (See Table 2). In China’s narrative, a good CSP with Poland should also be relevant on three levels: CEE, EU and

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① Chinese President Xi Jinping published a signed article on leading Polish newspaper *Rzeczpospolita* under the title of “Setting Sail for Full Speed Progress of China-Poland Friendship” on 17 June 2016, ahead of his state visit to the European country, [http://news.xinhuanet.com/english/2016-06/17/c\\_135445947.htm](http://news.xinhuanet.com/english/2016-06/17/c_135445947.htm) (accessed on 25 January 2017).

② *Ibidem*.

③ *Ibidem*.

the world. China views the CEE as the “most promising area” in Europe<sup>①</sup> and Poland as one of the leading CEE countries.<sup>②</sup> Chinese-Polish CSP plays important symbolic roles in China’s relations with the CEE as a whole. Furthermore, China views Poland as one important EU member state that should play a crucial role in integrating China’s international initiatives with Europe. On a global level, China appreciates Poland’s support for its initiatives on the Asian Infrastructure Investment Bank (AIIB) and “Belt and Road”, since Poland is one of first CEE countries which joined the AIIB (Poland signed in 2015) and signed a MoU on the Belt and Road Initiative with China during 4th 16+1 summit (November 2015).

**Table 2 Five levels of relations between China and CEE countries**

Comprehensive strategic partnership	Poland, Hungary, Serbia
Strategic partnership	Czech
Comprehensive friendly cooperative partnership	Romania, Bulgaria
comprehensive partnership	Croats
Other relations	Other CEE Countries

Source: one academic article.<sup>③</sup>

## VI. Poland’s perspective: findings

This section will present the most important findings, illustrated by key policy documents, such as the Annual Addresses by Polish Foreign Ministers presented to the Council of Ministers (2002-2017)<sup>④</sup> and the Polish Foreign Policy Priorities for 2012-2016<sup>⑤</sup> as well as relevant news posted on the official webs of Polish President and Premier.

① “习近平同波兰总统杜达举行会晤” (Xi Jinping Met Polish President Duda), 新华社 (*Xinhua News Agency*), [http://news.xinhuanet.com/politics/2016-06/20/c\\_1119071755.htm](http://news.xinhuanet.com/politics/2016-06/20/c_1119071755.htm) (accessed on 11 December 2016).

② President Xi sees Poland as the bellwether of the CEECs, see [http://news.xinhuanet.com/english/2016-06/17/c\\_135445947.htm](http://news.xinhuanet.com/english/2016-06/17/c_135445947.htm) (accessed on 25 January 2017).

③ 朱晓中 (Zhu Xiaozhong), (2017). “中国—中东欧合作：特点与改进方向” (China-CEE Cooperation: Features and Improvement Directions), 国际问题研究 (*International Studies*), 2017, No.3, pp.41-50.

④ These are the most important and systematic governmental texts on Polish foreign policy. The Addresses during 2002-2017 are available online at [http://www.msz.gov.pl/en/foreign\\_policy/goals\\_of\\_foreign\\_policy/annual\\_address\\_2011/](http://www.msz.gov.pl/en/foreign_policy/goals_of_foreign_policy/annual_address_2011/) (accessed on 22 March 2017).

⑤ This is a key document issued in March 2012 presenting the first multiannual strategy of Polish foreign and European policy since 1989. See <http://www.msz.gov.pl/resource/d31571cf-d24f-4479-af09-c9a46cc85cf6:JCR> (accessed on 22 March 2017).



## Key terms

Key terms such as SP and CSP are not as widely used in Polish official discourse to frame relations as in that of Chinese official discourse. Firstly, a delay can be seen from the bilateral announcement of the terms to their appearance in the Annual Addresses (see Table 3). For instance, when mentioning Chinese-Polish relations, Polish Foreign Ministers have not referred to the term SP until 2013, two years after that it was announced. Nor did the 2017 Address refer to the term CSP, which had been first-mentioned in 2016. Furthermore, the Polish Foreign Policy Priorities for 2012-2016 did not mention the Chinese-Polish SP, which had been announced five months prior.

**Table 3 The references to China-Poland relations in each side's official documents**

	China	Poland
Before 2004	Friendly cooperation	Economic and trade partner (2002, 2003)
2004-2010	Friendly cooperative partnership	One leading trade partner in Asia(2004) Economic and trade partners(2006, 2007) New power (2008, 2010), One of terrorism hit countries like Poland (2009)
2011-2015	Strategic partnership	Biggest business partner in Asia (2011) Strategic partnership (2013-2015)
2016-	Comprehensive strategic partnership	Strategic partnership (2016, 2017)

Source: author's own compilation. On Chinese Side, documents refer to its joint statements/communiqués with Poland. On Polish Side, documents refer to Annual Addresses (2002-2017).

Secondly, Polish policy makers did not frequently use the key terms. For instance, the Polish President's official website contains 23 news and galleries on Chinese-Polish relations (including 18 during 2011-2016), of which only eight explicitly refer to SP, and three to CSP. The Polish Premier's official website contain 59 news stories on China until 2017, of which only one in 2017 explicitly refers to Chinese-Polish CSP.<sup>①</sup> The frequency with which the terms SP and CSP are used by Polish governmental websites to describe Chinese-Polish relations are much lower than those of the Chinese Central government's official website.<sup>②</sup> In addition, while the official website of China's Foreign Ministry

① "Beata Szydło Prime Minister in Beijing: Poland Has High Expectations of the Project of Belt and Road", 12 May 2017, <https://www.premier.gov.pl/wydarzenia/aktualnosci/premier-beata-szydlo-w-pekiniu-polska-wiaze-duze-oczekiwania-z-projektem-pasa.html> (accessed on 2 May 2017).

② The official web of the State Council (in Chinese) contains 1407 items on Poland, including 186 items mentioning "China-Poland Strategic Partnership". See <http://www.gov.cn/> (accessed on 10 June 2017)

(updated till January 2017) clearly referred to the Chinese-Polish CSP,<sup>①</sup> its Polish counterpart only mentioned their political relations with China until 2012<sup>②</sup>.

Third, Polish leaders also used other terms to describe Chinese-Polish relations (see Table 3). On the one hand, in the Annual Addresses, Polish Foreign Ministers began to explicitly use SP starting in 2013, in place of other terms such as the "biggest business partner in Asia" (2011). This implies that to an extent that the Polish government accepted SP as a better term than others in its official discourse to describe Chinese-Polish relations. On the other hand, Poland's top leaders tend to use other labels, such as Poland's "pivotal partner" or "natural" "attractive and reliable" partner of China.<sup>③</sup>

## VII. Frames

A discourses analysis of policy documents and online text helps us understand informs on how Poland sees itself, how China is being represented, and how interaction between them is. Poland evidently identifies itself as part of Europe and has adopted European perspective to inform its foreign policy. The ideological dimension is not a major factor in Chinese-Polish-China relations, since ideological differences between the two countries does not seem to be a prime concern for Warsaw. For instance, the official webpage of the Polish Ministry of Foreign Affairs states "no disagreements in present political relations and bilateral cooperation focuses on economy as well as cultural and academic exchanges".<sup>④</sup> Although this is diplomatic rhetoric, it seemingly meets Chinese expectations for transcending differences and drawing attention to pragmatic cooperation.

A corpus analysis of "China" as a key word in the Annual Addresses and Polish Foreign Policy Priorities for 2012-2016 reveals its changing image in Polish foreign relations. China was represented in terms of geographical, international status relative to the EU and common policy of the EU. Firstly, China was viewed geographically as one country in Asia and the Pacific, a distant non-European state and market in the Far East and in Southern sphere to be covered in Poland's non-European dimension of foreign policy and Polish foreign economic policy (see in the Address in 2002, 2003). Secondly, from

① [http://www.fmprc.gov.cn/web/gjhdq\\_676201/gj\\_676203/oz\\_678770/1206\\_679012/1206x0\\_679014/](http://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/oz_678770/1206_679012/1206x0_679014/) (accessed on 10 June 2017)

② Future research may examine whether this is mainly due to technical reasons such as delay in updating that website.

③ E.g. "Prime Minister of Beata Szydło: We have many projects with China business, we would like to jointly implement", <https://www.premier.gov.pl/wydarzenia/aktualnosci/wizyta-przewodniczacego-chinskiej-republiki-ludowej-w-polsce.html>. See more details in next paragraphs.

④ [http://www.mfa.gov.pl/en/foreign\\_policy/other\\_continents/asia\\_pacific/bilateral\\_cooperation/china\\_1.jsessionid=7D4646BF080F8B631189067606B1A09B.cmsap1p](http://www.mfa.gov.pl/en/foreign_policy/other_continents/asia_pacific/bilateral_cooperation/china_1.jsessionid=7D4646BF080F8B631189067606B1A09B.cmsap1p) (accessed on 11 June 2017).

the viewpoint of international status, China was noted as one of “two supra-regional powers” in Asia, including India (2006), one of the rising “new powers on the world stage” (2008, 2010), a “supra-regional power” and one of the “non-European powers” (2013), one of the “greatest world economies” and “global power” (2015) alongside the US (see in 2016 and 2017 Address). Thirdly, Poland pursues joining and influencing the EU’s external relations with China. China is regarded as one country in cooperation with the EU (2002), being important to common European foreign policy (2008) and EU’s SP and “global engagement” (2011). For Poland, China was viewed as an economic, trade and business partner (before 2011). The trade deficit between China and Poland is also mentioned (2007). Poland’s relations with China are of importance for the success of its non-European policy (2015).

Since 2013, the Addresses started to highlight the perspective of CEE and the 16+1 framework. Poland’s perspective on Chinese-Polish relations also shifted. The 2014 Address explicitly spoke of the ‘rejuvenation’ of Chinese-Polish relations and China-CEE region relations and justified Poland’s leading role in promoting cooperation by noting the increased Chinese investment in Poland. The 2015 Address linked the Chinese-Polish relations with enhancing the 16+1 mechanism and presenting more details on the political and economic benefits to justify Poland’s plans and efforts to do so. The 2016 Address continued to situate Chinese-Polish relations “also in the framework of 16+1 initiative”, and anticipated that China’s “regional and global initiatives”, such as the “Belt and Road” and the AIIB, would be beneficial for Poland’s economy. The 2017 Address expressed confidence with Chinese-Polish relations through further cooperation in the 16+1 format, including through the Secretariat for Maritime Affairs based in Poland.

Warsaw seemingly differs from Beijing in understanding the nature of their SP. In China’s discourse, its relations with Poland have already been updated as CSP since 2016, which, just as the name implies, should be “comprehensive” in cooperation, ranging from building mutual political trust, practical cooperation, to traditional friendship and people-to-people ties.<sup>①</sup> In contrast, Warsaw would understand this SP/CSP as:

- China is viewed as a non-European emerging power and strategic partner of Poland in Asia alongside Japan, India and Korea.
- The centerpiece of the Chinese-Polish SP is economic ties. This SP is often mentioned in the context of, through the perspective of, and explained/justified immediately by highlighting economic concerns such as trade, markets, investments and business cooperation. For instance, bilateral presidential visits between China and Poland “were momentous on a practical level, especially in economic terms”.<sup>②</sup>

① [http://news.xinhuanet.com/english/2016-06/17/c\\_135445947.htm](http://news.xinhuanet.com/english/2016-06/17/c_135445947.htm) (accessed on 25 January 2017).

② See Annual Address in 2017.

- This SP is generally linked to China-EU relations and recently to the 16+1 cooperation. Sometimes, it also bears significance at international and global levels.

## VII. Attitudes

The changing attitudes in Warsaw towards Chinese-Polish relations could be identified, from negative towards neutral and even positive. A typical example is the change towards framing Poland's external relations in the Annual Addresses. Against the background of “rivalry on the global stage”, China was once viewed as a rising non-European economy, which is in competition with European states (2005). Stating the possible “worst-case scenario” of the EU and the West, the then-Foreign Minister Radosław Sikorski warned that “Russia fills the void left by the West in the East; China fills the void in Asia” (2012), implying China as an assertive power which might threaten Europe. Attitudes towards China have recently begun to shift towards neutrality and on occasions are even positive. For instance, China was represented as one emerging economy in Asia, bringing challenges and opportunities to the EU, towards which Poland should influence EU policy to enhance cooperation mainly in the economic field.<sup>①</sup> The 2017 Address views China as an opportunity for Poland, particularly in the economic field. To express confidence in the future Chinese-Polish cooperation, that Address even quoted a Chinese saying: “A journey of a thousand miles begins with a single step.” This is the first time a Polish Foreign Minister has quoted a Chinese saying since 2002, implying a favourable gesture towards China.

President Bronisław Komorowski (2011-2015) and President Andrzej Duda (2015-present) seemingly share an understanding of and support for the Chinese-Polish SP or CSP in economic terms. In 2012, President Komorowski asked his government to “build a comprehensive strategy towards China to think about drawing benefits from Chinese development”.<sup>②</sup> When he summed up his term, he “listed China, Turkey and South Korea as some of the countries he had visited and with which Polish entrepreneurs had then signed contracts worth billions of zlotys”,<sup>③</sup> implying that he understood the Chinese-Polish SP mainly in terms of economic cooperation. Similarly, President Duda also framed his first visit to China in November 2015 as “an important opportunity for

① See the Polish Foreign Policy Priorities 2012-2016.

② “Poland Needs Comprehensive Strategy Towards China”, 9 January 2012, <http://www.president.pl/en/president-komorowski/news/art,248,poland-needs-comprehensive-strategy-towards-china.html> (accessed on 25 May 2017).

③ “President Sums up His Term in Office”, 15 April 2015, <http://www.president.pl/en/president-komorowski/news/art,812,president-sums-up-his-term-in-office.html> (accessed on 25 May 2017).

meetings on economic matters”.<sup>①</sup> Briefing on the Chinese top leader’s official visit to Poland in June 2016, his office announced the main topics as “opening the Chinese market to Polish products and the development of trade and infrastructure investments”.<sup>②</sup> At the press conference after the meeting, he described Chinese President Xi’s visit as having indicated “a clear intensification” of Chinese-Polish relations “at the diplomatic and economic levels”.<sup>③</sup>

Yet President Duda seemingly would brand China-Poland relation with the style of his government. He has not adhered to using terms such as SP or CSP. For instance, in an interview with *China Daily* (one of China’s major newspaper) on the eve of Chinese President Xi’s official visit to Poland in 2016, Duda stressed the “long-lasting and fruitful partnerships” between Polish companies and Chinese firms instead of mentioning the Chinese-Polish SP.<sup>④</sup> He welcomed China’s “Belt and Road” initiative and highlighted Poland’s geographical advantage in connecting China and Europe. In 2015, when he visited China, Duda identified Poland as “a serious partner and China’s door to Europe”<sup>⑤</sup> and “China’s important, key partner in Europe, a place from where Chinese economic influence will beam across the European Union”,<sup>⑥</sup> and would hope a “continued partnership with China”.<sup>⑦</sup> In 2016, after the announcement of the Chinese-Polish CSP, he told the press “I hope that Poland will become a gateway to Europe for China, not only in symbolic terms, but primarily in actual economic terms, that joint investment projects will be carried out”.<sup>⑧</sup> He seemingly pays more attention to substantive cooperation through taking maximum advantage for Poland in Chinese-European economic relations rather than to rhetoric or symbolic terms to describe Chinese-Polish bilateral relations.

① “President Hopes For Continued Partnership With China”, Wednesday, 25 November 2015, <http://www.president.pl/en/news/art, 70, president-hopes-for-continued-partnership-with-china.html> (accessed on 25 May 2017).

② “Chinese Leader Pays Official Visit To Poland”, 19 June 2016, <http://www.president.pl/en/news/art, 189, chinese-leader-pays-official-visit-to-poland.html> (accessed on 28 May 2017).

③ “President Duda Hopes Poland Will Become China’s Gateway To Europe”, 20 June 2016, <http://www.president.pl/en/news/art, 191, president-duda-hopes-poland-will-become-chinas-gateway-to-europe.html> (accessed on 28 May 2017).

④ “President For “China Daily”: We Are Developing Fast; So Is China”, 20 June 2016, <http://www.president.pl/en/news/art, 192, president-for-china-daily-we-are-developing-fast-so-is-china.html> (accessed on 28 May 2017).

⑤ “We Hope For More Chinese Enterprise”, 23 November 2015, <http://www.president.pl/en/news/art, 68, we-hope-for-more-chinese-enterprise.html> (accessed on 29 May 2017).

⑥ “President Meets China’s PM And Attends CEE-China Economic Summit”, 24 November 2015, <http://www.president.pl/en/news/art, 69, president-meets-chinas-pm-and-attends-cee-china-economic-summit.html> (accessed on 29 May 2017).

⑦ <http://www.president.pl/en/news/art, 70, president-hopes-for-continued-partnership-with-china.html> (accessed on 25 May 2017).

⑧ <http://www.president.pl/en/news/art, 191, president-duda-hopes-poland-will-become-chinas-gateway-to-europe.html> (accessed on 28 May 2017).

He has not attached as much significance to discerning the difference between SP and CSP as China when evaluating external relations.<sup>①</sup>

## IX. Concluding remarks

The above findings bring us hints of whether Poland understands its relations with China in terms of the SP. Firstly, on a rhetorical level are three features—delay in using key terms, their low frequency of appearance, and other terms’ appearance—imply Warsaw’s limited endorsement of key terms such as SP or CSP. Secondly, Warsaw seemingly downplays ideological differences and highlights economic ties with China as the centerpiece of Chinese-Polish SP/CSP. Thirdly, while Warsaw holds more favorable attitudes towards China as an important international player than ever before, the current Polish government urges more substantive cooperation, particularly in the economic field, than rhetoric or symbolic gestures. Therefore, it would be too early to claim that Warsaw tends to accept China’s narrative on their relations.

Warsaw’s partial support of China’s narrative on their relations implies its mixed position in developing relations with the latter. On the one hand, by limiting its major concerns to diplomatic and economic aspects, Warsaw echoes Beijing’s suggestions to develop pragmatic cooperation. China’s pragmatism in its foreign policy tends to transcend ideological differences and encourage substantive cooperation, particularly in the economic field. To avoid irritating Beijing, Warsaw downplays the ideological differences between the two countries. More importantly, Poland’s one prime concern is to boost its growth by extending economic relations with non-European countries. One leading Polish think tank concluded that the strategic partnership “serves as an indispensable instrument for the implementation of economic cooperation, which is Poland’s main priority in relations with China”.<sup>②</sup> Therefore, both sides have consensus on pragmatic cooperation, particularly in economic field.

On the other hand, by limiting its understanding and support towards the Chinese-Polish SP/CSP merely to diplomatic and economic aspects, Warsaw demonstrates its hesitation and reluctance in accepting China’s suggestion to increase top-down elements in defining their relations. Warsaw’s prime concern with Beijing is economic cooperation, not closer political or security cooperation which Poland is pursuing with its European and

① The current Polish Premier adopts similar positions. For instance, at the Belt and Road forum for international cooperation in Beijing, May 2017, her central message to international audience is that Poland will strengthen its economic relations with China. See Beata Szydło prime minister in Beijing: Poland considered China as a serious economic partner, <https://www.premier.gov.pl/wydarzenia/aktualnosci/premier-beata-szydlo-w-pekinie-polska-brana-pod-uwage-jako-powazny-partner.html> (accessed on 26 May 2017).

② J.Szczudlik-Tatar, op. cit..

Western allies. Even in the economic field, Warsaw urges more substantial meanings and tangible results of this relationship rather than symbolic labels in describing it. Therefore, Warsaw's understanding of the Chinese-Polish SP/CSP is not as "comprehensive" and symbolic as what Beijing would expect following the top-down perspective.

The asymmetrical understandings of their SP reflect deep differences and gaps between Beijing and Warsaw which cannot be easily overcome or ignored. Scholars have recognised the difficulty of narrowing down gaps between China and the EU in defining their strategic partnership.<sup>①</sup> Further research may investigate whether the case of Poland differs from other countries in the CEE and how the potential competition in strategic narratives between China and others such as the EU and US may influence the behavior of these countries.

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① See XN. Song, *op.cit.*, pp.30-32.

# New opportunities for further improvement of economic cooperation between Serbia and China

Sanja Jelisavac Trošić\*

## Abstract

China and Serbia in recent years have started new forms of cooperation within the established China-CEEC “16+1 cooperation” mechanism. This cooperation is far more comprehensive and bearing a number of completed and planned concrete projects. Chinese companies already have a number of infrastructure projects in Serbia, as well as some major investments in several sectors of the Serbian economy. Since those projects have been proven to be fruitful, apart from deepening the existing forms of cooperation, it would be desirable to start investing in new sectors of the Serbian economy that have potential for growth and development. Since it is possible to export from Serbia to many countries of the world China would have benefits from production in Serbia. Investments in the agriculture and food processing industry have a great potential for further growth of these production sectors, and they occupy a significant place in Serbian exports. Based on the foreseen possibilities of growth, primarily in the processing industry of Serbia, the paper gives a few recommendations for industrial cooperation between China and Serbia.

**Key words:** *Serbia, China, EU, investment, industry, trade, production, development.*

## Short summary of China’s transport and energy infrastructure projects in Serbia

The 16+1 format is an initiative by the People’s Republic of China aimed at intensifying and expanding cooperation between China and 16 Central and Eastern European countries (CEEC). CEEC includes 11 EU Member States and 5 Balkan countries.<sup>①</sup> In the framework of this initiative facilitation of cooperation first began in the fields of investments, transport, finance, science, education, and culture. China has defined three potential priority areas for economic cooperation: infrastructure, high technologies, and

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① 16 Central and Eastern European countries (CEEC): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.



green technologies.

Cooperation 16+1 first of all comes from political co-operation, which builds on the construction of infrastructure as a start and financial cooperation in order to achieve interconnection as an incentive for the promotion of bilateral cooperation and trade promotion. According to the statements of the Chinese officials, China is considering Serbia as a reliable partner and a large number of projects implemented by China, for the first time in Europe, were carried out in Serbia.<sup>①</sup>

### **Transport infrastructure projects**

People's Republic of China and Republic of Serbia in 2010 concluded an agreement on the construction of the bridge in Belgrade, over the Danube River. In the following years the bridge, which was named as the great Serbian scientist Mihajlo Pupin, was built and opened in the presence of the highest state officials of both countries in December 2014 during the China-CEEC summit 16+1 in Belgrade. The bridge was built by Chinese state company China Road and Bridge Corporation, with the help of domestic companies. The total value of the bridge Mihajlo Pupin together with all connecting roads amounted to 260 million USD. The China Exim Bank financed 85% and the rest was financed by the Republic of Serbia and the city of Belgrade.<sup>②</sup> That was the first completed China large scale infrastructural project in Southeast Europe.

The project of the Belgrade-Budapest High-Speed Railway construction was conceived in 2013 on the China-CEEC Summit. In the Serbian territory modernization and construction of railway section from Belgrade to the border with Hungary in the north (Belgrade-Noví Sad-Serbia Hungary border) has total length of 188 kilometers. The works on a project for the overhaul of the Belgrade-Budapest railway line in Serbia should start in November 2017, with the modernization of the Stara Pazova-Belgrade section.<sup>③</sup> The whole project should setup unified railway-transport and customs system that would connect the Greece port Piraeus, through Macedonia with Serbia and Hungary and the rest of Europe, transporting the goods from China to Central Europe and vice versa.

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① H.E. Li Manchang, Ambassador of the People's Republic of China to Serbia, <http://www.politika.rs/sr/clanak/384774/Srbija-najaktivnija-clanica-projekta-Novi-put-svile>, 28/10/2017.

② Stakić Nikola, Zakić Katarina, Challenges of business and financial transformation of China in New Normal Economy, *The Review of International Affairs*, Vol. LXVII, No. 1161, Institute of International Politics and Economics, Belgrade, p. 96.

③ See more at: <https://seenews.com/news/serbia-mulls-talks-with-china-on-revamp-of-railways-south-of-belgrade-571116#sthash.9NTD7xiv.dpuf>

## Energy infrastructure projects

The Chinese investment in the Serbian energy sector started with the investment relates to the revitalization of Kostolac B Coal Power Plant. Kostolac power station comprises the 310-megawatt (MW) Kostolac A plant and the 700 MW Kostolac B plant. In 2010 Elektroprivreda Srbije (EPS) and China Machinery Engineering Corporation (CMEC) signed a preliminary contract for the redevelopment of the Kostolac Power Plant, called block B3. Under the terms of the preliminary contract CMEC will contribute 85% of the cost of the refurbishment of the plant and the installation of sulphur controls. EPS and CMEC started in January 2017 the installation of a modern BTO system, a rotary excavator, on the surface mine Drmno in Kostolac, which started the second phase of the modernization of Kostolac Thermal Power Plant, and the value of the entire project is 715.6 million dollars. Works on the assembly of the rotor excavator, which is part of the project for construction of the third block in the Kostolac B, of 350 MW, started. It will be the first large power plant that Serbia will get after three decades. Block B should be completed in 2020.<sup>①</sup>

Founded in 1913 under the name SARTID Ltd. and after the World War II named Smederevo Steel was sold to U.S. Steel in 2003, which was the owner until 2012. In 2016 Serbian Ironwork was sold to Chinese company Hesteel (98%) and was given the name Hesteel Serbia.<sup>②</sup> Hesteel plans to invest 120 million USD in improving the structure of production, in order to improve energy use and to cut costs and improve technology.<sup>③</sup> Hesteel's acquisition of Ironwork Smederevo is the most important project of cooperation between the two countries. The new Chinese investment should boost steel production and the company's international competitiveness, and it should benefit local employment and the standard of living.

## Signed economic cooperation agreements between Serbia and China

Cooperation between China and Serbia are now at the highest level since the establishment of diplomatic relations in 1955. The relationship between the two countries went mainly in a positive direction. The first agreement between Federal People's Republic of Yugoslavia (whose Serbia was a part of) and People's Republic of China was

① Brnabić i Džang u poseti TE Kostolac, 17. 07. 2017., Tanjug, <http://studiob.rs/brnabic-dzang-u-poseti-te-kostolac/>, 19/10/2017.

② Vasić Nenad, "Geo-economics of the Danube Region and the Treaty on the privatization of Smederevo Iron Works Ltd. With Hesteel", in: Danube and the New Silk Road, ed., Dimitrijević Duško, Institute of International Politics and Economics, Belgrade, p. 364.

③ Brnabićeva i Džang obišli Železaru i "Termoelektranu Kostolac B", 17. 07. 2017, <http://www.rts.rs/page/stories/sr/story/13/ekonomija/2807007/kostolac-izgradjena-postrojenja-za-odsumporavanje-u-blokovima-b1-i-b2.html>, 18/10/2107.

about cultural cooperation, and was signed on 1957. Later, over the years, are also signed agreements on the commercial air transport (1972), cooperation in the field of veterinary medicine (1979), the waiver of the visa requirement for holders of diplomatic, official and ordinary passports with the “business” clause (1979), etc.<sup>①</sup> In the field of economic cooperation the first significant agreement was Agreement on trade and economic cooperation, signed on 1996. During the turbulent years of Yugoslavia’s breakup, very important for the continuation of cooperation was the signing of Agreement between the Council of ministers of Serbia and Montenegro and the Government of the People’s Republic of China on the succession of bilateral agreements between the Socialist Federal Republic of Yugoslavia and the People’s Republic of China, concluded in the period from 1955 to 27 April 1992.

The new wave for the cooperation between China and Serbia gave Framework Agreement on Economic and Technical Cooperation between the Government of the Republic of Serbia and the Government of The People’s Republic of China, which was signed in 2009. This Framework Agreement initiated the intensification of economic relations, which resulted in the cooperation on several (mentioned before) major infrastructure projects in the Republic of Serbia.

President of the People’s Republic of China Xi Jinping made the first official visit to Republic of Serbia on 2016, when 23 agreements and memoranda of cooperation were signed. The relations between the China and Serbia are characterized by a comprehensive strategic partnership, and are traditionally good and friendly. The bilateral cooperation between China and Serbia is at a higher level than before. Most of the cooperation fields are, according to the Chen Xin and Yang Chengyu research, doing well, including politics (9.81), investment (7.59), people-to-people exchange (7.59) and finance (6.15), while the trade cooperation should be improved. The business environment of Serbia is still very backward while its financial environment is modest. But there is a close cooperation relationship between China and Serbia.<sup>②</sup> For People’s Republic of China Serbia is one of the 16 CEEC with whom she wants to strengthen cooperation, while on the other hand the People’s Republic of China is one of the major pillars in the foreign policy of the Republic of Serbia. Among the four pillars of Serbia foreign policies (EU, Russia, USA and China), China gained some weight. The Serbian government has maintained a close cooperation with China in global and regional affairs.<sup>③</sup>

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① A list of bilateral agreements between Serbia and China can be found on [http://www.mfa.gov.rs/en/images/stories/bilateral\\_ugovori/CHINA.doc](http://www.mfa.gov.rs/en/images/stories/bilateral_ugovori/CHINA.doc), 08. October 2017.

② Chen Xin, Yang Chengyu, An quantitative analysis on China-CEEC economic and trade cooperation, Figure 14, Working paper series on European studies, Institute of European studies, Chinese academy of social sciences, vol. 10, no. 5, 2016.

③ Zuokui LIU, The Pragmatic Cooperation between China and CEE: Characteristics, Problems and Policy Suggestions, Institute of European Studies Chinese Academy of Social Sciences. 2013;7(6):6.

## **The production in Serbian economy**

The Republic of Serbia is a landlocked country in the Balkan Peninsula in European continent. In the past Serbia was predominantly agricultural country, but began industrialization in the early fifties of 20th century and ended it during eighties. During the process of industrialization the most developed sectors were furniture, base metals, chemicals, mining, textiles and food processing. Industrial decline started during nineties, which was accompanied with disintegration of Socialist Federal Republic of Yugoslavia and overall loss of economic space. Privatization of industrial capacities in Serbia with the goal of industrial recovery has made even deeper decline in industry, which was particularly felt in the metal and textile industry.<sup>①</sup>

### **Industrial production**

Looking at the latest trends, we see that in 2016, compared with 2015, industrial production in the Republic of Serbia increased by 4.7%. The volume of industrial production in 2016, compared with 2015, saw a growth in 20 divisions, with a share of 79% in the structure of industrial production, and a fall in nine divisions with a share of 21%. Observed by sections, in 2016, compared with 2015, the following trends were recorded: section of processing industry – increase of 5.3%, section of mining and quarrying – increase of 4.0% and section of electricity, gas, steam and air conditioning supply - increase of 2.7%.<sup>②</sup> Data on industrial production by MIGs (the main industrial groupings - MIGs) in 2016 compared with the previous year expressed growth in the production of: durable consumer goods (9.5%), intermediate goods, energy excluded (9.1%), non-durable consumer goods (4.2%), energy (1.9%) and capital goods (1.6%) (See Table 1). The largest influence on industrial production growth in 2016, compared to 2015, had the divisions of: manufacture of food products, manufacture of chemicals and chemical products, production of electricity, manufacture of rubber and plastic products and manufacture of tobacco products.<sup>③</sup> Processing industry and within it primarily manufacture of food products, shows a trend of growth and an increase in the share in the total production of the Serbian economy. That is why we consider it to be a promising sector for future higher investment. By investing in modern equipment and by knowledge-based investment, the processing industry has the opportunity to multiple increase profits. Also, the increase in production volume creates the potential for the growth of exports of products from this sector of the economy.

① Jelisavac Trošić Sanja, Serbia's Sustainable Development Strategy and Industrial Policy for the European Union and the World Trade Organization, in: M. Yülek (ed.), *Industrial Policy and Sustainable Growth, Sustainable Development*, Springer Nature Singapore Pte Ltd. 2017 DOI 10.1007/978-981-10-3964-5\_23-1

② The Statistical Office of the Republic of Serbia.

③ Statistical Yearbook of the Republic of Serbia 2017, p. 273.

**Table 1. Base indices of industrial production by MIGS and sections, 2012–2016, 2010 = 100**

	2012	2013	2014	2015	2016
Energy	98.9	112.0	92.5	108.1	110.0
Intermediate goods, energy excluded	97.6	96.2	93.1	98.5	107.4
Capital goods	112.6	143.7	137.8	142.1	144.3
Durable consumer goods	88.1	100.0	100.4	101.5	111.1
Non-durable consumer goods	101.7	98.3	99.1	104.2	108.6
Industry total	100.2	105.6	98.8	107.1	112.1
Processing industry	98.9	103.5	102.1	107.7	113.3

Data source: Statistical Yearbook of the Republic of Serbia 2017, p. 276.

**Table 2. Indices of industrial production by economic activities, 2012–2016, previous year = 100**

	2012	2013	2014	2015	2016
Processing industry	99.1	104.8	98.6	105.3	105.3
Processing of food products	100.7	95.4	104.5	100.1	106.0
Processing of beverages	103.4	92.7	99.5	104.6	99.9
Processing of tobacco products	93.3	92.7	97.5	157.7	122.6
Processing of textile	98.1	97.7	80.7	124.6	84.8
etc.	...	...	...	...	...

Data source: Statistical Yearbook of the Republic of Serbia 2017, p. 276.

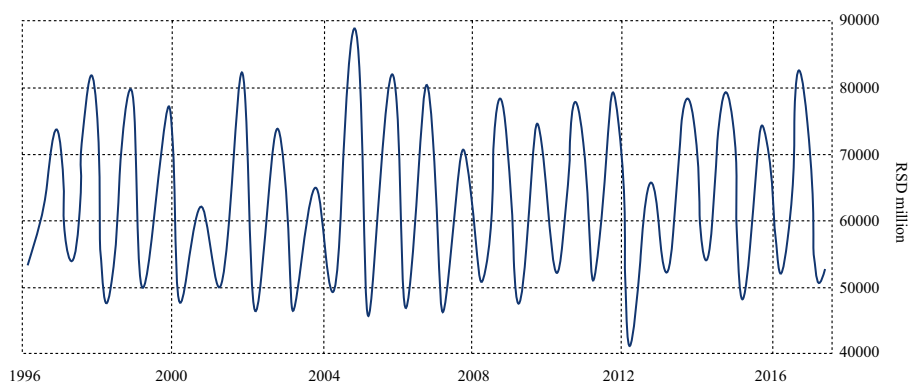
According to the indices of industrial production by economic activities since 2012 (See Table 2) the processing industry total industrial output has been on a relatively steady growth path. The production level fell continuously for one year (2014) when it was more than 6 percentage points below its former peak and then reached its highest value in 2015 and 2016. Accordingly the indicator steadily increased again in the last two years and regained over of its pre-crisis value. When distinguishing between the main processing industries groupings the growth rates in different industry groups of the processing industry in Serbia had been also on a growth path. We paid a special attention on processing of food products, beverages, tobacco products and textile which we consider to have the greatest chances to maintain a positive growth trend in the future years.

## Agricultural production

Serbia has favorable natural conditions for the cultivation of variety of agricultural products. In 2016, the share of crop production in the total value of agricultural production equaled 66.6% and that of livestock production equaled 33.4%. When compared to 2015, the net index of physical volume of agricultural production increased by 8.3%. In relation to the previous year, crop production increased by 18.9%. Within crop production, the value of crop farming grew by 24.7%, while the values of fruit growing and viticulture fell by 3.9% and 14.5%, respectively.<sup>①</sup> Especially in recent years positive trends in the production and export of fruit have been observed. Horticultural activity in Serbia is characterized by the absence of significant shifts in production and sales, despite the comparative advantages that Serbia has (natural conditions, tradition, position, trade agreements, labor force, etc.), and so far it has not been able to exploit them. Insufficient customs protection, low level of knowledge about new technologies with insufficient investment potential and a short market chain that usually ends up in local markets has affected unfavorable trends in this business.

In 2016, arable land participated with 75.5% in the total agricultural area, fruit plantations/orchards with 4.8%, vineyards with 0.6%, permanent grassland with 10.0% and pastures with 9.0%. In the structure of sown arable land areas cereals participated with 67.9%, industrial crops with 15.7%, vegetables with 2.6%, and fodder crops with 9.1%. When compared to 2015, in 2016 the total production was recorded to increase for wheat by 18.8%, maize by - 35.2%, sugar beet – by 22.9% and sunflower – by 42.1%.<sup>②</sup>

**Graph 1: GDP from Agriculture in Serbia**



Source: Tradingeconomics.com and Statistical Office of the Republic of Serbia.

The importance of agriculture in the economy of Serbia and other countries is measured

<sup>①</sup> Statistical Yearbook of the Republic of Serbia 2017, p. 235.

<sup>②</sup> Ibidem.

as the value added of the agricultural sector as percent of GDP (see Graph 1). According to the World Bank data for Serbia the average value for Serbia during period from 1995 to 2015 was 14.02 percent with a minimum of 8.18 percent in 2015 and a maximum of 21.34 percent in 1996. The future of Serbia is possible to lie in the development and modernization of agriculture.

## **Sectors of the Serbian economy which are suitable for Chinese investments**

Increased interest in cooperation in the field of agriculture between China and Serbia is indicated by signed agreements in this area, such as:

- Memorandum of understanding between the Ministry of agriculture, forestry and water management of the Republic of Serbia and the general authority for quality control, inspection and quarantine of the PR of China on cooperation in the field of protection of the health of animals, plants and food safety, signed in 2007
- Protocol on phyto-sanitary conditions for wheat imports from the republic of Serbia to the PR of China between the ministry of agriculture, forestry and water management of the Republic of Serbia and the general authority for quality control, inspection and quarantine of the PR of China, signed in 2007
- Agreement on cooperation in the field of agriculture between the ministry of agriculture, forestry and water management of the Republic of Serbia and the ministry of agriculture of the PR of China, signed in 2007.

However, after this initial momentum the focus has been shifted to other areas of cooperation, so that the field of agriculture and processing industry remained just at the starting point. In the near future, focus should be given back to these areas of cooperation. Our recommendation is to make joint efforts to revive and increase agricultural production and processing industry.

Serbia is the 73rd largest export economy in the world and the 42nd most complex economy according to the Economic Complexity Index (ECI). The product space is a network connecting products that are likely to be co-exported and can be used to predict the evolution of a country's export structure. The economy of Serbia has an ECI of 0.317 making it the 42nd most complex country. Serbia exports 289 products with revealed comparative advantage.<sup>①</sup> In 2015, Serbia exported \$14 billion and imported \$18.2 billion, resulting in a negative trade balance of \$4.18 billion. In 2015 the GDP of Serbia was \$37.2 billion and its GDP per capita was \$14.1k.

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① Meaning that its share of global exports is larger than what would be expected from the size of its export economy and from the size of a product's global market

The top exports of Serbia are cars (\$1.3 billion), corn (\$564 million), insulated wire (\$481 million), rubber tires (\$411 million) and frozen fruits and nuts (\$381 million), using the 1992 revision of the HS (Harmonized System) classification. Its top imports are vehicle parts (\$870M), crude petroleum (\$709 million), petroleum gas (\$570 million), cars (\$567 million) and packaged medicaments (\$538 million).<sup>①</sup>

The top export destinations of Serbia are Italy (\$2.1B), Germany (\$1.66B), Bosnia and Herzegovina (\$1.08B), Russia (\$752M) and Montenegro (\$638M). The top import origins are Germany (\$2.15B), Italy (\$1.76B), Russia (\$1.59B), China (\$1.3B) and Hungary (\$1.02B).<sup>②</sup>

**Table 3. Republic of Serbia Balance of Payments, 2007-2016, direct investment (millions of EUR)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
A	-2,528	-2,486	-2,068	-1,133	-3,320	-753	-1,298	-1,236	-1,804	-1,899
B	691	226	32	145	225	256	250	264	310	228
C	3,219	2,711	2,100	1,278	3,544	1,009	1,548	1,500	2,114	2,127

Source: National Bank of Serbia, Balance of payments of Serbia, 2007-2016 (BPM6).

In order to develop a more favorable environment for foreign investments, Serbia has adopted a number of laws and regulations. In 2002, passed the Law on Foreign Investments, and in 2005 a new Law on Foreign Trade was voted. In 2006, the Law on Foreign Exchange Operations entered into force, and the same year the Strategy for the Promotion and Development of Foreign Investments was adopted, as well as the new Constitution of the Republic of Serbia, which guarantees the rights of foreign investors and provides freedom of investment. Despite these measures after 2006, there is a decline in the inflow of foreign direct investments into Serbia (see Table 3, 4 and 5). The decline in inflows can in part be explained by the global economic crisis, but also due to the poor macroeconomic and institutional environment, but the most significant impact was slowing down the privatization process in Serbia, since most foreign capital was invested through privatization.<sup>③</sup> In 2015, the Law on Investments entered into force in order to further liberalize international business and to accelerate the inflow of foreign investments.<sup>④</sup>

① The Observatory of Economic Complexity, <http://atlas.media.mit.edu/en/profile/country/srb/>, 03/10/2017.

② Ibidem.

③ Marko Novaković, Stevan Rapaić, “Uticaj Zakona o ulaganjima na priliv stranih direktnih investicija”, Srpska politička misao, vol. XIII, broj 47-48, god. 2014, Institut za političke studije, Beograd, p. 170-175.

④ Zakon o ulaganjima (“Sl. glasnik RS”, br. 89/2015).



**Table 4. Republic of Serbia: Foreign Direct Investments, net (=assets - liabilities) 2010-2016, mil EUR**

	2010	2011	2012	2013	2014	2015	2016
Total	-1,133.411	-3,319.626	-752.829	-1,298.135	-1,236.298	-1,803.794	-1,899.175
China	-1.972	-5.965	-1.028	0.425	-82.530	-24.110	-68.171

Source: National Bank of Serbia, Foreign direct investments, by country, 2010-2016 (BPM6).

**Table 5. Republic of Serbia: Net Foreign Direct Investments Liabilities, 2010-2016, mil EUR**

	2010	2011	2012	2013	2014	2015	2016
Total FDI liabilities	1,278.415	3,544.487	1,008.806	1,547.880	1,500.450	2,114.242	2,126.9
Agriculture, forestry and fishing	19.842	30.898	9.225	65.805	-0.330	63.846	43.3
Processing industry	329.439	631.124	521.244	679.199	535.204	721.135	749.5
Food products, beverages and tobacco products	38.023	249.257	157.830	166.181	108.522	122.939	145.7

Source: National Bank of Serbia, Foreign direct investments, net liabilities, by branch of activity, 2010-2016 (BPM6).

## The place for Chinese investments in the Serbian industrial production with trade growth effects

The recommendation for future investments in Serbia would be in the sectors where production, profits and exports are expected to grow.

### Trade

The rise of Chinese investments in Serbia in the last decade is the best indicator of the development prospects of the Serbian economy. According to the data of National Bank of Serbia, in the period from 2005 to 2013, total net inflows in money from China amounted of 20 million euros. On the list of countries from which Serbia imported goods, China was in fourth place. In total export of Serbia during 2015, China has participated in 0.1% and in total imports on the same year 7.3%.

**Table 6. Value of trade between China and Serbia, USD 10000**

	Total	Exports	Imports
2012	51422	41288	10135
2013	61204	43191	18013
2014	53730	42456	11274
2015	54883	41510	13374

Source: National Bureau of Statistics of China.

For China, Serbia is a trading partner of little significance and value (for trade data see Table 6). If we look at China's trading partners, they, for example, with the European Union achieve incomparably higher turnover. On the other hand, for Serbia, China has become increasingly important among the most important trading partners. Despite this asymmetry that arising from real economic dominance of China, the two countries have a clear will to improve their economic and trade relations.

Looking externally, Serbia can serve as a manufacturing hub for duty-free exports to a market of more than 1 billion people that includes the European Union, the Russian Federation, USA, Kazakhstan, Turkey, South East Europe, the European Free Trade Agreement members, and Belarus. This customs-free regime covers most key industrial products, with only a few exceptions and annual quotas for a limited number of goods.<sup>①</sup> Serbia is not a member of World Trade Organization. Serbia has bilateral free trade agreements with the Russian Federation, Belarus and Turkey, and multilateral agreements with the EU (Transitional Trade Agreement as part of the EU Stabilization and Association Agreement), the Unique Multilateral Free Trade Agreement in South East Europe - CEFTA 2006 and Free Trade Agreement with EFTA States. In addition, the US returned in 2005 Serbia to the list of beneficiaries of the General Preferential Scheme.

Serbia sees People's as the most important foreign trade and financial partner in Asia and as a major partner in achieving its strategic economic objectives. Lack of financial resources needed for realization of the planned economic development goals, enables China to invest own financial resources on favorable terms using the Serbian market openness and good mutual relations permeated with mutual trust and benefits.

### **Investment in agriculture and processing industry**

Serbia has very favorable natural conditions (land and climate) for varied agricultural production, as well as experienced producers, experts and scientists. In the structure of the realized value of the agricultural production 70 percent is from the crop field production, and 30 percent is from the livestock production. For comparison, in the EU 70 percent is the agriculture originates from the livestock and 30 percent is from the crop field production. Serbia's food exports to the world consist mainly of grains, sugar, fruits and vegetables (fresh and frozen), confectionary products and beverages. Serbia has around 5 092 000 ha of agricultural land (0.68 ha per capita), out of which 4 218 000 ha arable land (0.56 ha per capita) and is beyond the EU standards. The most important agricultural products in Serbia are: maize, wheat, sunflower, sugar beet, soya bean, potato, apple, plums, grapes, pork meat, beef, poultry meat and dairy. Agriculture is the most important sector in the Republic of Serbia, which in the GDP participates with

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① Development Agency of Serbia, <http://ras.gov.rs/en/export-promotion/free-trade-agreements>, 07/10/2107.

around 17 percent, as follows: Agricultural production 10.6%, Food industry 6.4%.<sup>①</sup>

Since Serbia is located at the crossroads of Central and Southeast Europe with fertile Danubian Plain in the northern part of the country and it has a good climate and soil conditions, organic products can be one of the factors of economic development and promotion of a country.<sup>②</sup> According to the data of the Customs Administration in 2015, total organic products worth EUR 19.6 million were exported. Organic export mostly went to Germany, USA, Netherlands, Belgium, Austria and Poland. Only one percent of total organic food products is sold on the domestic market. Export has been steadily growing and has risen by as much as 500 percent since 2012. From fruits the largest export is frozen raspberries and blackberries, as well as fresh organic apples, while most of the exported processed products are apple concentrates, dried fruit, raisins, quinces and blackberries. That is why it is important to develop the processing industry, since the processed products are even more demanding and have a higher value in the foreign market. This sector has a great perspective for development in Serbia, and it is conditioned by the growth in Europe, where the average share of organic soil in total agricultural land is about 6 percent, while in Serbia it is only 0.44 percent. It is currently one of the sectors with the largest and fastest growth in Serbia.<sup>③</sup> Making high commitment at entry, experimentation, quick assimilation, and utilization of new knowledge seem to be part of the ‘Chinese way’ of internationalization of Chinese private firms, and appear to be critical to their success abroad so it could also be the way to do business in Serbia.<sup>④</sup> Serbia with the help of foreign capital should be able to re-industrialize its production and to restore and develop its agricultural and industrial capacity.

## **Conclusion**

China and Serbia have good political relations that lasts for many years. Regarding the economic relations between the two countries, they have a lot of space for improvement. Given that currently is present political will and support for the improvement of economic relations between the two countries, it is the right time to use this favorable climate. Economic relations need to be improved, as there is a large inequality between

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① Chamber of Commerce and Industry of Serbia, <http://www.pks.rs/PrivredaSrbije.aspx?id=13>, 14/10/2017.

② Jelisavac Trošić Sanja, Serbia's Sustainable Development Strategy and Industrial Policy for the European Union and the World Trade Organization, in: M. Yülek (ed.), *Industrial Policy and Sustainable Growth, Sustainable Development*, Springer Nature Singapore Pte Ltd. 2017 DOI 10.1007/978-981-10-3964-5\_23-1.

③ Gde investirati, Organska proizvodnja: Sektor sa najvećim i najbržim rastom u Srbiji, <http://gdeinvestirati.com/2016/07/26/organska-proizvodnja-sektor-sa-najvecim-najbrzim-rastom-u-srbiji/>, 12/10/2017.

④ M. Lyles et al., Chinese Outward FDI Performance: The Role of Learning, Management and Organization Review 10:3, November 2014, 432, doi: 10.1111/more.12056, 14/10/2017.

two economies. Since China is far stronger partner it gives her the opportunity to invest in Serbia's economy and capitalize on its potentials. In addition to the already started direction of investment in transport and energy infrastructure, the best way is to invest in production and increase production, especially in those sectors of the Serbian economy that have the biggest chance of experiencing an increase in exports of their products in the near future. The new forms of cooperation should be a concrete projects, investments in promising Serbian agriculture and processing industry. Investments in the agriculture and food processing industry would paw the new way of economic cooperation on a win-win bases for the both countries.

Further incitement of Chinese investments in Serbia would represent the mutual benefit because they promote the mutual economic cooperation, raises the level of political relations and improves technological exchanges and cooperation. This direction and thus way create the preconditions for the realization of long-term development strategy of the “New Silk Road” as an undertaking for a common future. Cooperation between the two countries is constantly developing. If the planned is realized Hesteel Serbia will have an impact on the increase of Serbian exports, and this would be a direction and a good example of what we wanted to emphasize in our work.

# The State of Manufacturing Industry in the Republic of Serbia and Its Potentials for Cooperation with the People's Republic of China

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## Abstract

In recent years, Industry 4.0 or Internet +, has been introduced as a popular term to describe the trend in industrial production towards digitization and automation of the manufacturing environment. This paper presents the overview of European Manufacturing Survey conducted in manufacturing industries in transitional economy – Republic of Serbia. The current Serbian dataset of 2015 includes 280 observations of Serbian firms of all manufacturing industries. Empirical results indicate that manufacturing companies in Serbia have a lot of room for improvements in the following areas: automation and robotics, energy and resource efficiency, processing techniques for new materials, additive manufacturing technologies, and digital factory. This can be done through cooperation with People's Republic of China.

**Key words:** *Industry 4.0 · EMS · Serbia · China · Made in China 2025*

## 1. Introduction

The Belt and Road Initiative introduced by President of the People's Republic of China, Mr. Xi Jinping, and inspired by the ancient routes of trade and cultural exchange, consists of the land route (Silk Road Economic Belt) and the sea route (21<sup>st</sup> Century Maritime Silk Road). It connects China with Europe, through the routes that lead across the countries of Central Asia, Southeast Asia and Central and Eastern Europe, as well as South Asia and North Africa. This part of the world is home to almost two-thirds of the world's population and The Chinese government is expected to facilitate more than \$2 trillion in investment, including energy, port, road, and railway projects. China and Central and Eastern European Countries (CEEC) initiated the “16+1” Cooperation Mechanism in 2012, an international platform for cooperation and enhancement of the Silk Road land

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routes. The initiative is directed towards projects that will provide additional incentive to the economic prosperity and mutual collaboration in various fields of interest, and it should help many under-developed regions to integrate better into global markets.

The purpose of this paper is to analyze and understand the potential of Serbian manufacturing sector and to provide recommendations for potential future cooperation between People’s Republic of China and Republic of Serbia as one of the Central Eastern European Countries (CEEC).

## 2. Literature review

### 2.1. Innovative manufacturing technologies

Today, the manufacturing industry is undergoing a huge transformation. Companies in transitional economies are adopting new technologies and experiencing organizational changes. Furthermore, manufacturing firms in developing countries are utilizing new technologies and trying to increase productivity and to optimize resource allocation to develop and implement optimal production strategy<sup>①</sup>. The manufacturing strategy as one of the key elements of overall competitiveness remains in the focus of manufacturing companies. The number of available manufacturing technologies, as well as their range of performance, is increasing due to the advances in information technologies and engineering sciences<sup>②</sup>. Industrial applications such as the use of industrial robots include assembling, finishing, machine loading, materials handling, welding and other<sup>③</sup>. Manufacturing systems are utilizing robots with different capabilities and specifications<sup>④</sup>. The utilization of automation and robotics is enabling the reduction of costs and increase in productivity<sup>⑤</sup>, and is considered as a dominant enabling technology for the improvement of the competitiveness of the European manufacturing industry<sup>⑥</sup>.

Additive manufacturing technologies, based on layer-by-layer manufacturing, have been used for prototyping and in recent times have also become a technology that enables

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① Tracey, M., Vonderembse, M. A. & Lim, J. S. Manufacturing technology and strategy formulation: Keys to enhancing competitiveness and improving performance. *J. Oper. Manag.* 17, 411–428 (1999).

② Khouja, M. The use of data envelopment analysis for technology selection. *Comput. Ind. Eng.* 28, 123–132 (1995).

③ Ibid..

④ Ibid..

⑤ Dean-Leon, E. et al. Robotic technologies for fast deployment of industrial robot systems. *IECON Proc. (Industrial Electron. Conf.)* 6900–6907 (2016).

⑥ Jäger, A. et al. *Analysis of the impact of robotic systems on employment in the European Union: final report* (2015).

mass production. The distinctive characteristics of additive manufacturing process include the benefits such as reducing production time and expense, shorter lead times, lower inventories, reduced waste, single unit production and small production batches<sup>①</sup>.

Developments in the existing production technologies and the demand for more complex products result in application of processing techniques for new materials<sup>②</sup>. Energy and resource efficiency are considered as one of the key issues in production environment of today, being especially crucial for energy intensive manufacturing industries. Manufacturing companies are putting the reduction of energy consumption in focus due to scarcity of specific resources<sup>③</sup>. Identification of ways to increase energy and resource efficiency in production management is considered as one of the positive contributors of overall high performance<sup>④</sup>.

Overall, the use of advanced or innovative technologies in manufacturing is today's strategy for achieving competitiveness. Moreover, the utilization of cyber-physical manufacturing, or Industry 4.0, is a new strategy.

## **2.2. Industry 4.0**

Industry 4.0 is a term that was introduced for the first time in Germany in 2011. Internet+ is the term in use in the People's Republic of China, while the term in use in the United States is Industrial Internet.<sup>⑤</sup> The underlying concept indicates highly flexible mass production facilitated by the emergence of internet of things technologies and cyber-physical systems that represent technologies for managing interconnected systems.<sup>⑥</sup> Digital factories are completely equipped with sensors, actors and autonomous systems. The implementation of internet 4.0 advanced technologies enables the increase in overall performance.<sup>⑦</sup>

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① Holmström, J., Partanen, J., Tuomi, J. & Walter, M. Rapid manufacturing in the spare parts supply chain: Alternative approaches to capacity deployment. *J. Manuf. Technol. Manag.*, 21, 687–697 (2010).

② Çam, G. & Mistikoglu, S. Recent developments in friction stir welding of al-Alloys. *J. Mater. Eng. Perform.* 23, 1936–1953 (2014).

③ Mukherjee, K. Energy use efficiency in U.S. manufacturing: A nonparametric analysis. *Energy Econ.* 30, 76–96 (2008).

④ Bunse, K., Vodicka, M., Schönsleben, P., Brühlhart, M. & Ernst, F. O. Integrating energy efficiency performance in production management - Gap analysis between industrial needs and scientific literature. *J. Clean. Prod.* 19, 667–679 (2011).

⑤ Wang, S., Wan, J., Li, D. & Zhang, C. Implementing Smart Factory of Industrie 4.0: An Outlook. *Int. J. Distrib. Sens. Networks* (2016).

⑥ Lalic, B., Majstorovic, V. & Marjanovic, U. Advances in Production Management Systems. The Path to Intelligent, Collaborative and Sustainable Manufacturing. 514, 298–305 (2017).

⑦ Ibid..

Internet of things has enabled the fourth industrial revolution - Industry 4.0 that is expected to radically change industrial context which is highly flexible in production volume and customization, extensive integration between customers, companies, and suppliers.<sup>①</sup>

Exchange of data and information between different devices in real time is the key element of smart factories, such as production status, energy consumption, suppliers' data, etc. Therefore, one the main characteristics of smart factories is the ability to adapt in real time to ever changing market demands and consequently, production strategies.<sup>②</sup>

The Industry 4.0 concept indicates the increasing digitization and automation of the manufacturing environment with encompassing digital value chain that enables the communication between products, their environment and business.<sup>③</sup> One of the fundamental concepts of Industry 4.0 is “smart factory”.<sup>④</sup>

“Smart factories” or “digital factories” are autonomously controlled systems with following technologies:<sup>⑤</sup>

- Software for production planning and scheduling,
- Systems for automation and management of internal logistics,
- New systems in the development of products and services,
- Product-Lifecycle-Management-Systems (PLM),
- Mobile/wireless devices for programming and operation of equipment and machinery,
- Digital solutions in production (e.g. tablets, smartphones).

### 2.3 Made in China 2025

On May 19, 2015, the State Council has issued the Made in China 2025 plan and deployed a comprehensive strategy of improving China's manufacturing industry structure<sup>⑥</sup>. According to data as from 2014, China's manufacturing output is accounted for 20.8% of global manufacturing and China has become the second largest country for

① Shrouf, F., Ordieres, J. & Miragliotta, G. Smart Factories in Industry 4.0 : A Review of the Concept and of Energy Management Approached in Production Based on the Internet of Things Paradigm. 697–701 (2014).

② Lasi, H., Fettke, P., Kemper, H. G., Feld, T. & Hoffmann, M. Industry 4.0. *Bus. Inf. Syst. Eng.* 6, 239–242 (2014).

③ Ibid..

④ Ibid..

⑤ Lalic, B., Majstorovic, V. & Marjanovic, U. Advances in Production Management Systems. The Path to Intelligent, Collaborative and Sustainable Manufacturing. 514, 298–305 (2017).

⑥ Xia, J. A Review to the Development of Foreign Capital Manufacturing Industry in China: Looking forward to Made in China, 2025. *Am. J. Ind. Bus. Manag.* 7, 604–613 (2017).



global manufacturing<sup>①</sup>. At the same time, there was a rapid increase in wages in China during the last ten years and Chinese labor has become twice as expensive as in other low-cost countries in the region. China has to avoid being squeezed by emerging and frontier markets' producers who compete at low cost and more developed industrialized economies. Knowing that it is very important for China to upgrade its industry, Chinese government has issued its "Made in China 2025" strategy, which outlines plans to upgrade its industries. 13<sup>th</sup> Five-Year Plan, adopted in March 2016, sets out to deepen the implementation of this strategy in the next five-year period (2016-2020).

The main inspiration for "Made in China 2025" strategy came from Germany's "Industry 4.0" plan, which was first discussed in 2011 and later adopted in 2013. The main difference is plans from two countries. The base of the "Industry 4.0" idea is intelligent manufacturing, or applying the tools of information technology to manufacturing for Germany to more efficiently engage both in mass production and in products customization and Chinese plan is far broader.

In comparison to German plan, it is possible to conclude that "Made in China 2025" has more clear goals, measures and sector focus. The Chinese effort is far broader, and Its guiding principles are to enhance industrial capability through innovation-driven manufacturing, optimize the structure of Chinese industry, emphasize quality over quantity, train and attract talent, and achieve green manufacturing and environment<sup>②</sup>. Basically, it seems that "Made in China 2025" represents a holistic approach to manufacturing whereas Industry 4.0 focuses primarily on internet integration. For their "Made in China 2025" strategy to become success, China will need to establish manufacturing innovation centers, to strengthen intellectual property rights protection, improve industrial standards and produce more advanced equipment suitable for this industrial transformation.

In April 2016, China's Ministry of Industry and Information introduced their Development Plan for the Robotics Industry (2016-2020) that calls for the accelerated development of China's robotics industry. At the same time, this will automatically increase demand for industrial robotic facilities, but also related parts, components and services. In 2015, International Federation of Robotics announced that China has already become the world's largest market for industrial robots, accounting for about 28% of global sales. China's Tianjin Economic-Technological Development Area (TEDA) is one

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① Li, J. Analyzing 'Made in China 2025' Under the Background of 'Industry 4.0' BT - Proceedings of the 23rd International Conference on Industrial Engineering and Engineering Management 2016: Theory and Application of Industrial Engineering. in *Proceedings of the 23rd International Conference on Industrial Engineering and Engineering Management* (eds. Qi, E., Shen, J. & Dou, R.) 169–171 (Atlantis Press, 2017).

② Li, L. China's manufacturing locus in 2025: With a comparison of 'Made-in-China 2025' and 'Industry 4.0'. *Technol. Forecast. Soc. Change* 0–1 (2017).

the good examples of country's “Made in China 2025” strategy. In June 2017, TEDA unveiled the Intelligent Industrial Zone, a 20 km<sup>2</sup> area intended to host companies developing new technologies, including artificial intelligence, intelligent finance and healthcare and smart logistics. Currently, there are roughly 60 TEDA-based companies that specialize in intelligent manufacturing, including industrial robot maker Baolai Industrial Robotic and Yiersu Easy-Robot<sup>①</sup>.

### 3. Methodology

Our analysis used the Serbian dataset from the European Manufacturing Survey<sup>②</sup>, a survey on the manufacturing strategies, the application of innovative organizational and technological concepts in production, and questions of personnel deployment and qualifications in European manufacturing industry<sup>③</sup>. For the purposes of this study, the survey was conducted among manufacturing firms (codes from 10 to 33 according to Statistical Classification of Economic Activities in the European Community – NACE)<sup>④</sup>, having at least 20 employees. Total population that meets the above criteria was 2043. The initial population was obtained from the Serbian Business Registers Agency. To obtain a representative sample, 826 companies were contacted evenly distributed across all NACE sectors and in all the districts in Serbia. Data collection was done through a pre-test phase and the two mass distribution phases. Total number of companies who participated in the study is 280, representing a response rate of 34%. About 41% of the firms in the sample are small firms between 20 and 49 employees, another 48% of the firms have between 50 and 249 employees, and around 11% of the firms have more than 250 employees. The largest industry in the sample is the manufacture of food products (NACE 10), followed by manufacture of fabricated metal products, except machinery and equipment (NACE 25) and the manufacture of rubber and plastic products (NACE 22). Tables 1 and 2 give an overview of the sample.

① Wright, I. What Does Industry 4.0 Look Like in China? Engineering.com (2017). Available at: <https://www.engineering.com/AdvancedManufacturing/ArticleID/15555/What-Does-Industry-40-Look-Like-in-China.aspx>. (Accessed: 1st January 2017)

② Fraunhofer Institute. European Manufacturing Survey. Available at: <http://www.isi.fraunhofer.de/isi-en/i/projekte/fems.php>. (Accessed: 2nd February 2017)

③ Lalić, B., Tasić, N., Marjanović, U., Delić, M. & Cvetković, N. Inter-organizational collaboration for innovation in manufacturing firms. in *Annals of DAAAM and Proceedings of the International DAAAM Symposium 27*, 721–729 (2016); Bikfalvi, A., Jäger, A. & Lay, G. The incidence and diffusion of teamwork in manufacturing - evidences from a Pan-European survey. *J. Organ. Chang. Manag.* 27, 206–231 (2014).

④ European Communities. NACE Rev. 2 - Statistical classification of economic activities in the European Community. (2008).

**Table 1. EMS database – distribution of firms by size**

Firm size	N	%
20 to 49 employees	120	40.9
50 to 249 employees	142	48.5
250 and more employees	31	10.6

Source: EMS Serbia

**Table 2. Classification on manufacturing sectors according to share on total sample**

NACE Rev. 2	Manufacturing industry	Share on total sample (%)
10	Manufacture of food products	18.2
25	Manufacture of fabricated metal products, except machinery and equipment	13.6
22	Manufacture of rubber and plastic products	8.3
28	Manufacture of machinery and equipment n.e.c.	6.0
14	Manufacture of wearing apparel	6.0
27	Manufacture of electrical equipment	5.3
23	Manufacture of other non-metallic mineral products	5.3
18	Printing and reproduction of recorded media	4.6
31	Manufacture of furniture	4.3
29	Manufacture of motor vehicles, trailers and semi-trailers	4.0
16	Manufacture of wood and of products of wood and cork, except furniture	3.6
20	Manufacture of chemicals and chemical products	3.3
17	Manufacture of paper and paper products	3.3
13	Manufacture of textiles	3.3
	Others	10.9

Source: EMS Serbia

## 4. Results and discussion

First, using the frequency analysis, we are going to present the level of use and the

upgrade of specific technology concepts in Serbian manufacturing companies. Our research included 20 technology concepts. We asked companies whether they use specific innovation concept and if they upgraded it in past three years. Table 3 presents the level of use of technology concepts and their upgrade in Serbian manufacturing companies. As we can see the most widely used technology concept is digital visualization (share of 87.4 %). Other technologies are present in less than half of manufacturing companies.

Results in Table 4 show that, on average, the most used technology concepts in Serbia are from medium size manufacturing companies (50.09%), followed by large companies (25.3%) and small companies (24.61%).

**Table 3. Use and planned use of advanced technologies in Serbian manufacturing industry**

Technology		Use				Planned use until 2018	
		Yes		No			
		N	Share [%]	N	Share [%]	N	Share [%]
Automation and robotics	Industrial robots for manufacturing processes	36	13.6	229	86.4	28	10.0
	Industrial robots for handling processes	28	10.6	235	89.4	28	10.0
Energy and resource efficiency	Control system for shut down	37	14.3	222	85.7	31	11.1
	Control-automation systems	44	16.9	216	83.1	30	10.7
	Technologies for recuperation	34	13.1	225	86.9	29	10.4
Processing techniques for new materials	Manufacturing technologies for micromechanical components	2	0.8	257	99.2	11	3.9
	Nano-technological production processes	8	3.1	251	96.9	9	3.2
	Processing techniques for composite materials	3	1.2	255	98.8	9	3.2
	Biotechnology / genetic engineering methods	3	1.2	255	98.8	6	2.1
	Processing techniques for alloy construction materials	2	.8	258	99.2	9	3.2
Additive manufacturing technologies	Additive manufacturing technologies for prototyping	6	2.3	250	97.7	18	6.4
	Additive manufacturing technologies for mass production	13	5.1	243	94.9	13	4.6

(Contd.)

Technology		Use				Planned use until 2018	
		Yes		No			
		N	Share [%]	N	Share [%]	N	Share [%]
Digital factories	Software for PP and scheduling	86	33.5	171	66.5	32	11.4
	Near real-time production control system	70	27.00	189	73.00	45	16.1
	Supply chain management	57	22.4	197	77.6	27	9.6
	Systems for automation and management of internal logistics	50	19.8	203	80.2	30	10.7
	Mobile/wireless devices - for machines	17	7.1	222	92.9	27	9.6
	Product Lifecycle Management-systems	22	8.8	229	91.2	24	8.6
	Technologies for safe human-machine interaction	29	11.5	224	88.5	12	4.3
	Digital Visualization	30	87.4	209	12.6	27	9.6

Source: EMS Serbia

**Table 4. Use of advanced technologies in Serbian manufacturing industry by company size**

Technology		Size						Total
		Small	Share [%]	Medium	Share [%]	Large	Share [%]	
Automation and robotics	Industrial robots for manufacturing processes	7	19.4	22	61.1	7	19.4	36
	Industrial robots for handling processes	7	25.0	15	53.6	6	21.4	28
Energy and resource efficiency	Control system for shut down	14	37.8	15	40.6	8	21.6	37
	Control-automation systems	11	25.0	19	43.2	14	31.8	44
	Technologies for recuperation	4	11.8	21	61.7	9	26.5	34

(Contd.)

Technology		Size						Total
		Small	Share [%]	Medium	Share [%]	Large	Share [%]	
Processing techniques for new materials	Manufacturing technologies for micromechanical components	1	50.0	0	0	1	50.0	2
	Nano-technological production processes	1	12.5	4	50.0	3	37.5	8
	Processing techniques for composite materials	2	75.0	1	25.0	0	.0	3
	Biotechnology / genetic engineering methods	0	.0	3	100.0	0	.0	3
	Processing techniques for alloy construction materials	1	50.0	1	50.0	0	.0	2
Additive manufacturing technologies	Additive manufacturing technologies for prototyping	1	16.7	4	66.7	1	16.6	6
	Additive manufacturing technologies for mass production	3	23.1	6	46.2	4	30.7	13
Digital factories	Software for PP and scheduling	17	19.8	46	53.5	23	26.7	86
	Near real-time production control system	18	25.7	34	48.6	18	25.7	70
	Supply chain management	17	29.8	26	45.6	14	24.6	57

(Contd.)

Technology		Size						Total
		Small	Share [%]	Medium	Share [%]	Large	Share [%]	
	Systems for automation and management of internal logistics	13	26.0	26	52.0	11	22.0	50
	Mobile/wireless devices - for machines	7	41.2	8	47.1	2	11.7	17
	Product Lifecycle Management-systems	9	40.9	6	27.3	7	31.8	22
	Technologies for safe human-machine interaction	3	10.4	15	51.7	11	37.9	29
	Digital Visualization	6	20.0	17	56.7	7	23.3	30
	Total	142	24.61	289	50.09	146	25.3	577

Source: EMS Serbia

Table 5 represents the planned use of advanced technologies in Serbian manufacturing industry by company size. The results indicate that majority of medium size companies is planning further implementation of the observed technologies (57.43%), followed by small companies (34.14%). Most of large companies do not intend to use advanced technologies in the near future (7.43%).

Results depicted in Figure 1 indicate the number of companies in different industries that are currently utilizing the advanced technology concepts. The companies in food manufacturing, as well as the companies that manufacture fabricated metal products, are the ones with the dominant application of the observed technologies.

**Table 5. Planned use of advanced technologies in Serbian manufacturing industry by company size**

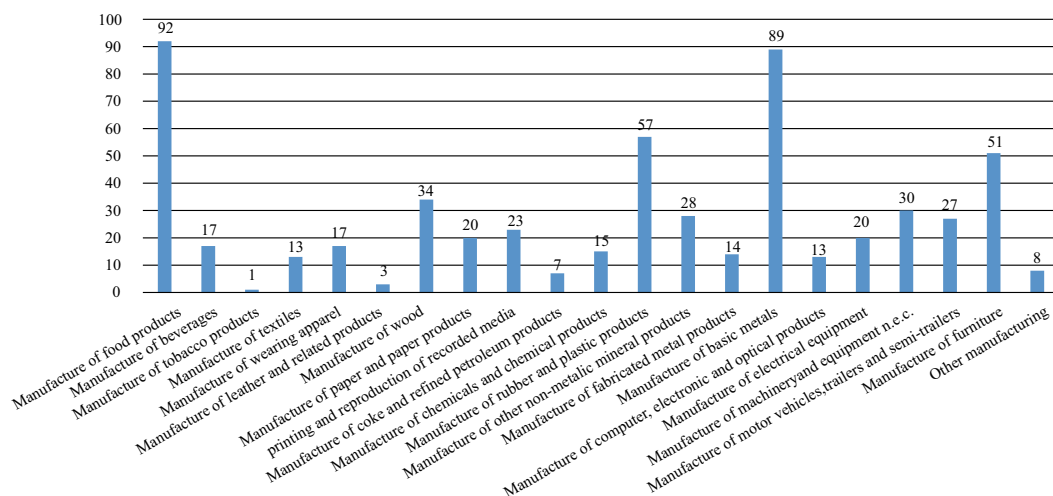
Technology		Size						Total
		Small	Share [%]	Medium	Share [%]	Large	Share [%]	
Automation and robotics	Industrial robots for manufacturing processes	11	39.3	16	57.1	1	3.6	28
	Industrial robots for handling processes	9	32.1	16	57.1	3	10.8	28
Energy and resource efficiency	Control system for shut down	10	32.3	18	58.0	3	9.7	31
	Control-automation systems	9	30.0	18	60.00	3	10.00	30
	Technologies for recuperation	12	41.4	14	48.3	3	10.3	29
Processing techniques for new materials	Manufacturing technologies for micromechanical components	4	36.4	6	54.5	1	9.1	11
	Nano-technological production processes	4	44.4	5	55.6	0	.0	9
	Processing techniques for composite materials	3	33.3	6	66.7	0	.0	9
	Biotechnology / genetic engineering methods	3	50.0	3	50.0	0	.0	6
	Processing techniques for alloy construction materials	4	44.4	5	55.6	0	.0	9
Additive manufacturing technologies	Additive manufacturing technologies for prototyping	6	33.3	11	61.1	1	5.6	18
	Additive manufacturing technologies for mass production	5	38.5	7	53.8	1	7.7	13



(Contd.)

Technology		Size						Total
		Small	Share [%]	Medium	Share [%]	Large	Share [%]	
Digital factories	Software for PP and scheduling	15	46.9	16	50.0	1	3.1	32
	Near real-time production control system	14	31.1	27	60.0	4	8.9	45
	Supply chain management	4	14.8	22	81.5	1	3.7	27
	Systems for automation and management of internal logistics	10	33.3	16	53.3	4	13.4	30
	Mobile/wireless devices - for machines	10	37.0	14	51.9	3	11.1	27
	Product Lifecycle Management-systems	7	29.2	14	58.3	3	12.5	24
	Technologies for safe human-machine interaction	5	41.7	7	58.3	0	.0	12
	Digital Visualization	11	40.7	14	51.9	2	7.4	27
Total		156	35.14	255	57.43	33	7.43	444

Source: EMS Serbia



**Figure 1: Use of advanced technologies in different industries by NACE**

On the other hand, industries such as manufacture of textiles, manufacture of coke and refined petroleum products, manufacture of computer, electronic and optical products, are implementing advanced technologies on a minimal level. The food manufacturing industry, industry of rubber and plastic products and industry of fabricated metal products are applying the Industry 4.0 technologies more intensively than other industries.

According to the results presented in Figure 2, most of companies that are planning to implement advanced manufacturing technologies are in the industry of manufacturing fabricated metal products, food manufacturing and manufacturing of machinery and equipment.

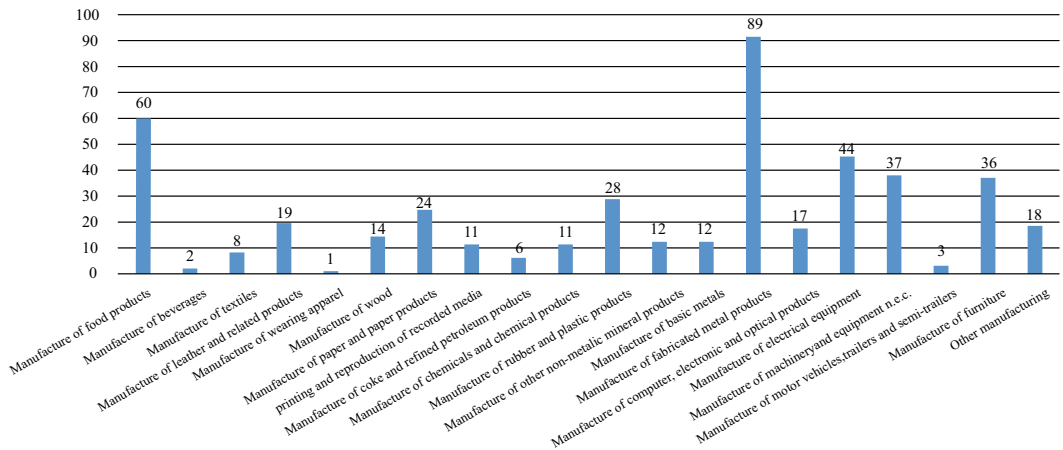
Based on the results concerning the planned use of Industry 4.0 technologies, it can be concluded that companies in the food manufacturing industry, as well as the companies in the industry of manufacturing fabricated metal products are intending to further implement the Industry 4.0 technologies.

Overall results indicate that Serbian manufacturing industry is not using its full potential. In comparison with developed countries from the European Union, Serbia is still far behind. Manufacturing industries in developed countries (i.e. Spain, Slovenia) are more competitive since the level of utilization of innovative technologies is greater. The results of the European Manufacturing Study conducted in the Republic of Slovenia, show that information and communication technologies, as key enablers of Industry 4.0 implementation, have the highest use frequency (over 50%). The most widely used advanced technology concept are industrial robots that are used in more than half of manufacturing companies (55%)<sup>①</sup>. In addition, results from Spanish manufacturing industries are like Slovenian. Industry 4.0 technologies in Spain are at more than 50% utilization<sup>②</sup>. The dominant innovative technologies in Spanish manufacturing industry are Computer aided design (73%) and Enterprise resource planning (59%)<sup>③</sup>.

① Koren, R. & Palčič, I. The impact of technical and organisational innovation concepts on product characteristics. *Adv. Prod. Eng. Manag.* 10, 27–39 (2015).

② Llach Pagès, J., Bikfalvi, A. & De Castro Vila, R. The use and impact of technology in factory environments: Evidence from a survey of manufacturing industry in Spain. *Int. J. Adv. Manuf. Technol.* 47, 181–190 (2010).

③ Ibid..



**Figure 2: Planned use of advanced technologies in different industries by NACE**

Comparison of the results from Serbia as a developing country and the developed countries indicates the need for further utilization of advanced technological concepts, especially the ones relating to Industry 4.0. Serbia needs to change the overall strategy of manufacturing industry if wish to become more competitive and speed up the pace on the path towards developing countries and European Union.

## 5. Conclusion

Using large-scale survey data, this paper provides an overview of the Serbian manufacturing landscape in the context of advanced technologies and provides recommendations for improvement of practices in the field of innovative technologies. We have observed the implementation of 20 advanced technologies, with 8 of them relating to Industry 4.0 concepts. The results indicate that almost all the companies in the manufacturing industry of the Republic of Serbia are underutilizing the innovative technologies. In addition, the results have shown that medium sized companies are dominant in the use of the innovative technologies (50.09%). Most of medium sized companies plan to intensify the utilization of advanced technologies (57.43%), opposed to the only small fraction of large companies (7.43%). Leading industries in utilizing the innovative technology are food and manufacture of fabricated metal products.

The Republic of Serbia, as one of the former Yugoslavian republics, has undergone a period of economic stagnation and is facing the period of transition. Therefore, there is a significant gap related to the level of industrial development between Serbia and the western countries. The results of the research indicate that the manufacturing industry has not implemented the advanced technological concepts at the desirable level. To increase competitiveness and achieve higher productivity rates, the implementation of advanced

technologies, especially the ones in the Industry 4.0 context, should be considered as a potential platform for overcoming current barriers of insufficient attractiveness of the Serbian manufacturing industry.

As a final conclusion it obvious that Belt and Road Initiative as well as "Made in China 2025" strategy, both proposed by leaders of People's Republic of China, could have a strong influence on Republic of Serbia and improvement of its manufacturing industry structure. By improving its manufacturing industry competitiveness, China will develop a lot of modern solutions that should be also offered to Serbia and other CEEC. This way China will show to the world that its modern solutions possess very good quality and that they are able to produce results not only in China, but in Europe as well.

One more important news goes in favor of this suggestion. Ningbo, the coastal city in Zhejiang province, is one of the main cities in China to cooperate with CEEC, including strong cooperation with Republic of Serbia. At the same time, since 2016 Chinese authorities have appointed Ningbo as the first pilot area for implementing "Made in China 2025" strategy. This way, Ningbo will be able to experiment and develop new models of manufacturing and afterwards potentially offer them to Serbia. As it was mentioned in the paper of Xia<sup>①</sup>, "Made in China 2025" is only the first step for China to achieve its strategic goal. The second step is for China's manufacturing sector to reach the medium level of the world's manufacturing powerhouses by 2035. The third step that shall be concluded the 100<sup>th</sup> Year Anniversary of People's Republic of China in 2049 and it is for China to reach the forefront of the world's manufacturing power.

Since by nature, Belt and Road Initiative is also a long term and comprehensive plan, it undoubtedly looks like China and Serbia will have a lot of potential for the cooperation in coming decades. On one side, China's will pay more attention to foster intelligent manufacturing to satisfy the needs of its industrial development and decrease the dependence on foreign modern technologies. On the other side, Serbia urgently needs to increase its industrial competitiveness and it can serve as a pilot area for internationalization of China's modern solutions in Europe. China and its companies have the historical opportunity to offer their modern, high-tech industrial solutions to Serbia and to create partnerships for mutual benefits.

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① Xia, J. A Review to the Development of Foreign Capital Manufacturing Industry in China: Looking forward to Made in China, 2025. *Am. J. Ind. Bus. Manag.* 7, 604–613 (2017).

# Approaches of the EU towards the 16+1 Cooperation: Three Cases in the Framework of the Belt and Road Initiative

Marek Hrubec\*

## Abstract

Approaches of the EU towards the 16+1 Cooperation within the framework of the Belt and Road Initiative are an important issue, especially the approaches of the European Commission and the Western countries which dominate in the EU. The article analyses three cases of the 16+1 Cooperation which have become points of dispute between the Western countries of the EU, on one side, and the Central and Eastern European countries (CEECs) and PR China, on the other. The three cases cover the thematic issues: the trends in shipping industry, the infrastructure rail project, and an attitude of the major EU country (Germany) towards the China's activities in Europe. Then, the article touches several promising examples of cooperation between PR China and author's home country (Czech Republic) which are in agreement with the EU.

**Key words:** *European Union, China, Central Europe, Balkans, Germany, Belt and Road Initiative, 16+1, Shipping, Railway*

In this paper, I will deal with approaches of the EU towards the 16+1 Cooperation within the framework of the Belt and Road Initiative. I will focus mainly on the European Commission and the Western countries which dominate in the EU, particularly on three cases of the 16+1 Cooperation which have become points of dispute between the Western countries of the EU, on one side, and the Central and Eastern European countries (CEECs) and PR China, on the other. As for the latest development of the relations, the most of the Western politicians offered their neutral or positive comments on the current 19<sup>th</sup> Congress of the CPC, including its international and global agenda linked to the Belt and Road Initiative. The reason is a predicted continuation and stability of the future development of the Chinese economy and politics which is expected a precondition of the fruitful cooperation between China and the EU countries. Moreover, they see the possible stability of the Chinese way regarding a long-term and more general vision of the China's development. The time structure connected to years of 2021, 2035 and 2049 is considered as a strategic plan with the concrete landmarks.

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## **1. The three cases: container shipping industry, high-speed railway, the EU major power and 16+1**

The three cases I would like to address cover three aspects of the 16+1: first, the relation between the shipping industry in the Western countries of the EU and the shipping industry in the 16+1; second, the relation of the EU Commission towards the industry in the 16+1; the ideological relation between major Western countries of the EU, particularly Germany, and the 16+1.

### **1.1. Container shipping industry**

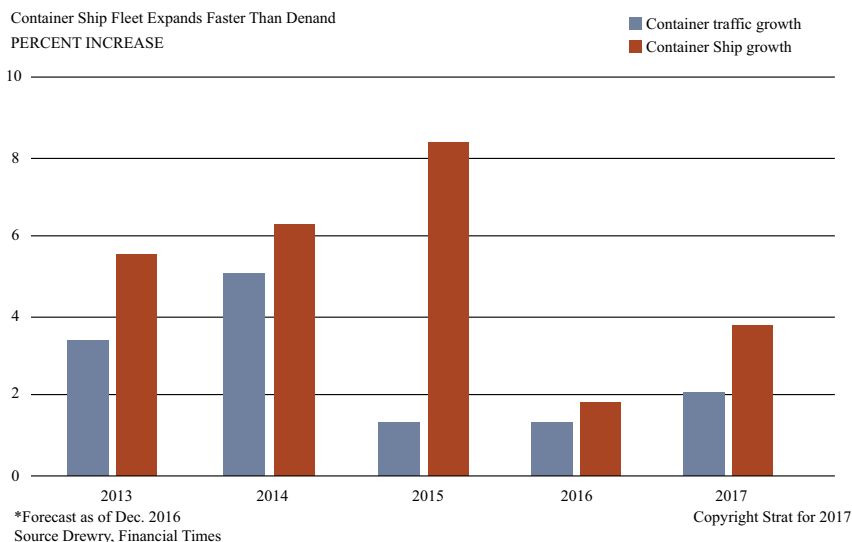
Concerning the specific point of analysis linked to the relation between the industry in the Western countries of the EU and the industry in the 16+1, I will focus on the shipping industry which is a key element of the contemporary global trade. Taking into account that PR China is a strong world player in the shipping industry, I want to address the case of Greek Piraeus versus the ports in Western Europe, from the more innovative point of view of the broader time picture of shipping overcapacity and also of raising and declining container ports according to the ranking of the box facilities on annual terms. On the one side, the owners of the port facilities and the German, Dutch and other governments worry about a decline of the major ports in Western Europe in the future because of the Chinese Piraeus port in Greece and following railways through Macedonia, Serbia, Hungary and other countries. On the other side, there are also other important trends which keep the significance of the issue from the long-term perspective but make it irrelevant from the short-term perspective. The contemporary perspective is the real reason why several Western owners and governments worry now even if they mention only the long-term perspective.

The contemporary problems in the shipping industry in a global scale are linked mainly to excess capacity, and possible protectionism of the USA, Germany and other states. Before the global economic crisis 2008, transnational shipping firms made orders to build new ships to satisfy growing global trade by vessels. However, the crisis brought a slowdown in trade and new vessels could not be used as it was originally expected. After the crisis started, shipping companies made paradoxically even more ships because they wanted to reduce costs by bigger ships (mega-vessels) which are able to be more efficient. However, this overcapacity did not bring bigger profits for companies but it has increased competition and lowered costs and fees for ship transport. Last year around 10% of container shipping capacity in the global scale was out of service. It is not, and it will not be probably, solved by rise of the global volume of trade these years<sup>①</sup>. See the imbalance between container shipping capacity and trade demand in the last years (2013

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① Stratfor, *Why the Global Shipping Industry Will Be Tough to Salvage*. Stratfor Enterprises 2017.

– 2017) in the table below.



Aside from shipping overcapacity, another disputed issue is container terminals. See the map of the global significance of the port macro-regions below. Even if growth is not a guarantee of successful development, as we saw in the previous issue of overcapacity, there has been no real stable continual or degrowth alternatives in the container terminals sphere so far. Thus, it is still evaluated mainly in growth terms. As for the results, there is growth and decline at the same time last years because the global outputs are highly fragmented there. While the Chinese ports are responsible for the biggest growth and some other ports in Asia also rose (Busan, for example), the European ones had just a very moderate growth last years, and some of them even decline, and therefore, lost in comparison with the Chinese ones. While Tangshan in China experienced growth of 27% last year, Zeebrugge in Belgium significantly lost because of the EU separatist trends (particularly the Brexit pessimistic expectations), and Rotterdam and Bremen stagnated, for example.<sup>①</sup>

The main port agents achieved growth of 2% only last year. Moreover, the Western European ports had a complicated structure and cannot be evaluated in the same way. The ports in North America have even more fragmented statistics last years, and experienced various trajectories.

<sup>①</sup> Lloyd's List's One Hundred Container Ports 2017.



It should be added that at least one more aspect of shipping industry has started play a relevant role: industrial revolution 4.0. Application of the big data via various apps finds its use step by step there, and, for example, Norway plans to use automation in navigation of ships. It will open a new era of container shipping soon.

The mentioned three issues, i.e. the contemporary shipping overcapacity, the stagnation of the EU container ports, and the big date with automation, should be closely analysed and solved instead of accusing the China-CEEC future plans linked to the Piraeus port and trade going through several CEEC. There are various complex reasons why the Western countries of the EU have problems in shipping industry.

As for the problem itself, while several Western countries try to protect in the possessive way trade in their port facilities, prepared bigger future trade going through Piraeus and the Balkan and Central European countries should be taken, on the contrary, as one of dimensions of the possible redistribution of the potential wealth among the various EU countries in order to increase a more egalitarian EU. The EU already makes a long-term redistribution within the EU countries by its various programs in favour of CEEC, and the new possibilities opened by the China-CEEC Cooperation should be welcomed as another dimension of redistribution.

## **1.2. High speed railway**

Because railway plays an important role in the Belt and Road Initiative, a highly careful organization of the rail projects must take place in its application. It is relevant not only from international and supranational legal perspectives but also from the points of view of diplomacy and the media. The sensitive case is the European Commission decision to investigate the high-speed rail project connecting Belgrade in Serbia with Budapest in Hungary. It is one of landmark projects within the Belt and Road Initiative. The offices of the European Commission made assessment of the compliance of the rail project with



EU law, and has discussed the issue with the Hungarian government and other offices. The EU law stresses that tender competition should be applied. The problem has not been basically on the Serbian side because Serbia is not the EU member. That is why there is not a similar problem with steel plant in Smederevo (near Belgrade), and now is owned by HBIS Group, China's state-owned company.

The issue has a strategic meaning because (a) it is significant part of the south railway from the Piraeus port to the north, and also (b) Hungary was the first European state which joined the Belt and Road several years ago, and Serbia has been one of the most important European partners within the 16+1 Cooperation.

To take a comparative perspective, the public discussion in the Czech Republic on the project of high-speed rail between Belgrade and Budapest is connected with the similar case which has been discussed also because tender competition and other legal aspects of the EU law. It is the case of canal connection between the major European rivers Danube, Elbe, and Oder. The Czech President Zeman has suggested an implementation of the long-term dream of the famous person of the Czech history, particularly the Czech King Charles IV from the 14<sup>th</sup> century and his followers: the proposal to make a water link between the rivers Danube, Elbe, and Oder. It would be an ambitious project at the European scale. Of course, first, it would need detail analyses in order to satisfy necessary transport, energetic, and environmental requirements. The Czech project is similar to the Chinese project on the south to north water transfer although the Chinese project is much bigger because it includes three major canals in the project (the eastern canal, the canal across the north China plane, and the western canal).

The proposal of the river canal connection is discussed as the most ambitious Czech project of M. Zeman, the President of the Czech Republic. He has pursued overcoming unilateralism and developing a multilateral world order. While the previous epoch was characterized by developing connections with the Western countries, the President has kept the intensive connections with the EU and the USA and, at the same time, he has revitalized the contacts especially with PR China, and also with Russia and other countries. He is aware of the importance of the B&R.

While the proposal of the river connection has been just a long-term future project, the Czech Republic signed agreements on various activities within the B&R already in the previous years. In the One Belt, One Road Forum in Beijing in May this year, the Czech Republic signed 22 projects. Other projects were prepared in the Czech-Chinese Investment Forum in July this year. They are a smaller but significant contribution to the B&R, and they create the beginning of other bigger projects. It is the realistic approach how to start smaller projects first, and then, to continue in formulating the bigger projects such as the river connection. Thus, there are similarities in dealing with the high-speed

rail between Belgrade and Budapest. Various participants of the projects (4B = Belgrade, Budapest, Beijing, Brussels) can recognize each other requirements concerning smaller projects during the time, and then, get better problem solutions regarding the landmark rail project.

### **1.3. Germany, China and CEEC**

The main political and economic power of the EU, i.e. Germany, has articulated step by step its own approach to the Belt and Road Initiative and the 16+1 Cooperation. Taking into account the fact that Germany can use its own opportunities in the most effective way within the broader framework of the EU (mainly because of its historical and territorial size reasons), it has a prominent interest in the EU integrated policies. Germany is highly sensitive to various activities of the EU members which cross the line defined by existing state of affairs. Even if the Western countries of the EU have developed its economic cooperation with China since the late 1970s, the new cooperation of China and CEEC is considered by some politician from Germany and some other Western countries of the EU as a problem.

The example is one of the latest statements of Sigmar Gabriel, the then German Foreign Minister, who focused on PR China in Paris in August in 2017 when talking about the trend towards division of the EU and its decline. His talk mentioned the issue of various opinions of the EU countries on the principle of freedom of navigation concerning the dispute in the South China Sea. Surprisingly, he recommended Beijing to “adopt a ‘one-Europe’ policy that doesn’t attempt to divide us”. It was said in a comparison to the ‘one-China’ policy. “If we do not succeed for example in developing a single strategy towards China, then China will succeed in dividing Europe,” he added. The issue was discussed in relation to the 16+1 Cooperation which was considered by him a dividing factor because – according to his opinion – the CEEC wanted to be in harmony with China in order to develop 16+1. He thinks that it is the reason why some CEEC did not want to stay against China regarding an international court ruling on the claims in the South China Sea. The case created a reaction of the spokesperson of the Chinese Ministry of Foreign Affairs, Hua Chunying, in the standard press conference.<sup>①</sup> China stressed that its long-term interest is a support of the united EU.

Even if Gabriel sees division of the EU here, and he is not alone with his opinion among the EU Western politicians, the good news is that he stressed that the EU should have a positive approach to China based on partnership. In this way, he and other politicians from the EU countries should not be more suspicious than in cases of the Western

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① Foreign Ministry Spokesperson Hua Chunying’s Regular Press Conference on August 31, 2017. Web of the Ministry of Foreign Affairs of the People’s Republic of China.

countries of the EU related to China in the previous decades. The learning from this case can be similar like from the first case mentioned above. It means that the new possibilities opened by the China-CEEC Cooperation should be welcomed as a compensation of the more developed partnership with China developed by the Western countries during the last decades. Now CEEC can develop it as well.

## **2. The Czech promising cases: the examples of aviation**

In this article, I wanted to focus on the three cases of the 16+1 Cooperation which have been points of dispute between the Western countries of the EU, on one side, and the Central and Eastern European countries (CEECs) and PR China, on the other. In the end of the article, on the contrary, I would like to touch shortly several promising issues of cooperation between PR China and my home country, the Czech Republic, which are not contested in the EU, and which are in full agreement with all the involved sides. In a discussion, I can open the issues in detail, if somebody would be interested.

First, aviation as for (a) direct flights between China and the Czech Republic influencing tourism and travel of various professionals, (b) training of Chinese pilots at the Czech Technical University in Prague, and (c) innovation and production in aviation, as it was presented in the Czech involvement in the Aviation Expo China in China National Convention Center in Beijing in September 2017, for example. Moreover, I can also mention the Czech-Chinese cooperation between think tanks which include not only the institutions focusing directly on the 16+1 Cooperation and the Belt and Road Initiative but also other institutions: CCCWS in Beijing, Czech Academy of Sciences and Charles University in Prague, for example.

## **Conclusion**

To conclude, it is possible to formulate a systematic basis of evaluation of the mentioned cases. It is the fact that while the USA and Western European countries have developed their intensive cooperation with China since the late 1970s, Central and Eastern European countries started a new era of cooperation only several years ago (2012), and should have an equal opportunity to do that. Moreover, the main Western European countries (Germany, France, the UK, and Italy) have even developed their cooperation by joining the Chinese-led Asian Infrastructure Investment Bank, for example. The mutual understanding of this kind among the Western countries of the EU and the CEEC in cooperation with China should lead to problem solution in order to achieve a consensual 16+1 Cooperation within the Belt and Road Initiative in a communication and cooperation with the EU, including its Western countries. Specifically, the three cases

which I addressed in this paper show this interpretation and the facts in relation to three aspects of the 16+1: the relation between the shipping industry in the Western countries of the EU and the shipping industry in the 16+1, mainly within the more complex problems of shipping overcapacity and the short-term declining and stagnating trends of the EU ports; second, the relation of the EU Commission towards the rail infrastructure in Hungary and Serbia in relation to other smaller and bigger projects of the 16+1; the possessive relation of major Western countries of the EU, particularly Germany, in relation to the 16+1 which can be improved by understanding of the broader picture of the Western, Central and Eastern European cooperation with China. Now it is the CEEC's turn. I mentioned several promising examples of cooperation between China and the Czech Republic which are in harmony with all the involved sides, including the EU countries.

As for my home country, the Czech Republic, the mentioned positive communication and cooperation will be expected to be made in the context of the new results of the Parliamentary elections which took place on the 20<sup>th</sup> and 21<sup>st</sup> October, 2017. It will require solutions of new problems. The results have moved the Czech politics more towards the political line which is already in place in Hungary and Poland for several years even if the Czech politics has, of course, its own specific characteristics.

# **The “Belt and Road” and 16+1 Initiative – the Baltic States in the Geopolitical and Geo-economic Context – Russia, EU and U.S.**

Magnus Ilmjärv\*

The issues under investigation are the economic relations of the Baltic States in the context of the “Belt and Road” and 16+1 cooperation (transit commerce, harbours, foreign investment), China and Kazakhstan transit prospects, Russia and the transit via the Baltic States; the Baltic States and Russian relations; the main geopolitical players and the “Belt and Road” and 16+1 cooperation. For compiling the present research paper, the following sources have been used: internet resources, journalism, scientific articles, the documents of Estonian Parliament and Ministries, and statistical data.

Despite the fact that at the time of regaining independence both Estonia, Latvia and Lithuania had a similar situation in their relations with China, while the following developments differed. The communication of Latvia with Taiwan<sup>①</sup> damaged the ability to conduct constructive dialogue with China and both diplomatic and economic communication between Latvia and China started to develop at the end of the last decade.

The Baltic States follow today the politics of one China, although occasionally there are events causing tension that put this position under doubt. The question of Taiwan and visits by Dalai Lama fall into this category, permitting some politicians and intriguers' claiming to present public opinion, put into doubt the mutual interest-based foreign and economic politics.<sup>②</sup> Lithuania's relationship with China suffered disruption when in 2013 President Dalia Grybauskaite met “unofficially” with the Dalai Lama in the capital Vilnius. Another example is the meeting of the Tibet supporting members of parliaments from the Baltic States meeting Dalai Lama in September 2017 in Riga. The meeting was followed by the suggestion by several members of Lithuanian parliament to re-establish

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① During the period from 6 November 1991 to 9 March 2004 there was an agreement of economic cooperation between Latvia and Taiwan. A consul of Taiwan was active in Riga 1992-1994. Due to this China withdrew its ambassador from Riga.

② <http://eng.lsm.lv/article/politics/politics/support-for-tibet-at-saeima-can-jeopardize-china-ties.a121225/>

the former Tibetan support group.<sup>①</sup> In the Estonian parliament the Tibetan support group was established in 2011 and a similar group exists in the Latvian parliament. In March 2016 some parliament members from Estonia, Latvia and Lithuania, together with Tibetan supporters from the three Baltic States, issued a memorandum that called the Chinese government to start a dialogue with Dalai Lama.<sup>②</sup> But it remains unclear how big a proportion of the population of the Baltic States supports the few irresponsible's cultural figures and politician's views on Taiwan and Tibet. No public opinion poll on how the Baltic States people see or what they think about Tibet and Taiwan has ever been conducted to the knowledge of the present author.

## **I. Russia and the transit via the Baltic States**

There are four main ports in the Baltics: Klaipėda in Lithuania, Riga and Ventspils in Latvia and Tallinn in Estonia. From 2000 to 2013 the carriage of cargo in the four ports increased from 97 million tonnes to 132 million tonnes. The carriage of cargo in Riga grew 2.7 times and in Klaipėda 1.9 times during this period. The carriage of cargo in Tallinn remained the same while that of Ventspils diminished by 18 percent. The leading position also changed during this period: in 2000 the leaders by the amount of cargo were Tallinn and Ventspils, by 2013 the leaders were Riga and Klaipėda. The diminishing of the cargo capacity during the period in Ventspils and Tallinn was related to reductions of transshipment of Russian oil and oil products. It is worth mentioning that for some Baltic ports (for example, Ventspils and Riga) the status of free economic zone has been granted making the harbour territory a tax free zone, the investors starting their activities there will receive the status of licensed companies which permits them to gain direct and indirect tax advantages.<sup>③</sup>

Presently the transit of Russia to Kaliningrad via Lithuania, the transit of oil produce from Belorussia via Lithuanian, Latvian and Estonian ports, and more widely any transit via the three Baltic States is under threat. Since Russia has developed its ports in the Baltic Sea and increased the capacity of the railroad network in the Leningrad Oblast, the railroads and ports of the Baltic States have lost a considerable amount of

① <http://www.tibetanreview.net/tibet-friendship-group-to-be-set-up-in-lithuanias-parliament/>; <http://tibet.ca/en/library/wtn/13396>;

② <http://tibet.net/2016/03/joint-statement-by-members-of-parliament-and-tibetan-supporters-of-the-baltic-states-on-sino-tibetan-dialogue/>

③ Поподько Г.И., Нагаева О.С. Возможности и ограничения реализации крупномасштабного инвестиционного проекта в новых экономических условиях на примере морского порта Усть-Луга. [Opportunities and Challenges of Large Investment Projects in the New Economy: The Port of Ust-Luga] Балтийский регион, 3, 2015, 93. <http://cyberleninka.ru/article/n/vozmozhnosti-i-ogranicheniya-realizatsii-kрупnomasshtabnogo-investitsionnogo-proekta-v-novyh-ekonomicheskikh-usloviyah-na-primere>

the Russian transit. From 2014 all the Baltic ports have a serious competitor, the Ust-Luga port, which is situated in the Gulf of Finland, close to the European Union border and remains virtually ice-free around the year. It is the only Russian port in the Baltic Sea that is capable of receiving ships with a capacity up to 16 000 TEU-s<sup>①</sup>.<sup>②</sup> The port is the termination point for the oil pipe *BTC-2*<sup>③</sup> (The Baltic Pipeline System-2).<sup>④</sup> The Ust-Luga port has 18 terminals, including transshipment terminals, warehouse facilities etc. According to the Russian sources the bulk of cargo shipments via Ust-Luga port grew in 2015 by 16 percent, the cargo shipment in total by 87.9 million tonnes. The Ust-Luga port holds 19.1 percent of the market share of the cargo shipments of all the ports situated on the eastern coast of Baltic Sea.<sup>⑤</sup> The amount of cargo shipments of the Tallinn Port in 2015 diminished in comparison with 2014 by 21 percent. The reduction in all Estonian ports in total by 17.7 percent. The total fall of the cargo shipments volume in all Baltic ports in 2015 in comparison with 2014 was 5.5 percent.<sup>⑥</sup> In 2015 the level of the amount of cargo shipments at the larger ports of the eastern coast of Baltic Sea remained at the level of 2014 but the growth of the previous years has stopped. In comparison with different countries the cargo shipment amounts grew in Russian and Polish ports and the Baltic ports in Lithuania. As a result, the Tallinn Port dropped from seventh to eighth (by cargo volume) among the larger Baltic Sea ports holding a market share of 4.9 percent.

Russia has announced their intention to build at least five more terminals in the Ust-Luga Port by 2018 and they estimate the volume of shipments to be 180 million tonnes. Russia has also declared that they intend to modernise Primorsk Port, situated near Vyborg in the Finnish Gulf. The port is the termination point for the oil pipe *BTC-1* (The Baltic Pipeline System-1). In 2013, 63.8 million tonnes of oil and oil products were loaded in Primorsk Port. The plan is to build a cargo loading area «*Высокинский*» to Primorsk Port for loading containers, bulk substances and exceptional cargo in projected volume up to 50

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① 20 feet sea (shipping) container. TEU – twenty-four equivalent unit.

② The ports of the Baltic countries are able to receive ships with capacity of 4000-6000 TEU. See. Tatjana Jerjomina. The transit of containers and Estonian opportunities. Conference of transit Transestonia 2010. [http://www.transestonia.ee/index.php?lang=est&main\\_id=166; file:///C:/Users/M/Downloads/2010051810512020.pdf](http://www.transestonia.ee/index.php?lang=est&main_id=166; file:///C:/Users/M/Downloads/2010051810512020.pdf)

③ Russian oil transport system operated by the oil pipeline company Transneft.

④ Екатерина Быркова. Грузооборот портов Балтики: ключевые тенденции 2014 года. <http://провэд.рф/analytics/research/19841-gpuzoobopot-poptov-baltiki-klyuchevye-tendentsii-2014-goda.html>; see also Грузооборот российских портов Балтики растет на удобрения и зерне [http://www.dp.ru/a/2016/06/13/Zerno\\_i\\_udobrenija\\_tesnjat/vt\\_ka](http://www.dp.ru/a/2016/06/13/Zerno_i_udobrenija_tesnjat/vt_ka) <http://uecs.ru/marketing/item/3580-2015-06-22-06-56-53?pop=1&tmpl=component&print=1>

⑤ Фдусандр Носович. Прибалтика потеряла российский транзит. <http://www.rubaltic.ru/article/ekonomika-i-biznes/190416-tranzit/>

⑥ Tallinn Port. Analysis of operating results 2015; Tallinn Port. Analysis of operating results 2015. [file:///C:/Users/M/Downloads/2015\\_Tegevustulemuste\\_analyys.pdf](file:///C:/Users/M/Downloads/2015_Tegevustulemuste_analyys.pdf);

million tonnes.<sup>①</sup> The cargo turnover of the Russian ports situated in the Finnish Gulf, Ust-Luga, Primorsk and St. Petersburg, was 230.7 million tonnes in 2015. By comparison, the volume of cargo in the four Baltic ports listed above was 151.5 million tonne in 2015.

According to the report of *PricewaterhouseCoopers*, the amount of cargo passing through Estonia diminished from 2005 to 2015 by 50 percent, the cargo transportation in the ports by 26 percent and on the railroads by 68 percent. In 2015 the Russian transit passing through Estonian, Latvian and Lithuanian ports amounted to 52.71 million tonnes, in 2016 to 42.5 million tonnes. In October 2016 the company *Транснефть* announced that they intend to cease the export of their goods via the ports of the Baltic States in 2018. According to *Росморречфлота* (The Federal Agency for Maritime and River Transport), the capacity of goods and cargo in the ports of North-West Russia must increase to 60 million tonnes by 2020. Additional cargo, 25 million tonnes, should be rerouted from the ports of the Baltic States. This would mean that the Baltic ports will lose approximately 60 percent of the cargo that they still have today.<sup>②</sup> By 2020, another 60 percent of Russian transit passing through the Baltic States may disappear.<sup>③</sup>

In case of the Kaliningrad enclave the issue is of strategic importance for Russia since during the NATO exercises the blocking of Kaliningrad enclave was practiced. As an alternative, Russia intends to develop marine transport to service Kaliningrad. For this purpose three additional ferry boats will be added to the route between Baltiysk and Ust-Luga. Each of these ferries should accommodate 66 railroad wagons, vehicles and passengers. At the moment there are two ferries running between Baltiys and Ust-Luga with the transportation capacity of approximately one million tonnes of cargo per annum.<sup>④</sup>

In autumn 2017 Russia demanded that Belorussia should transfer from the Baltic ports to

① Екатерина Быркова. Грузооборот портов Балтики: ключевые тенденции 2014 года. <http://провэд.рф/analytics/research/19841-gpuzoobopot-poptov-baltiki-klyuchevye-tendentsii-2014-goda.html>

П. Е. Железкова. Эффективность функционирования портов стран Балтии (The efficiency of functioning of the Baltic countries ports). <http://uecs.ru/marketing/item/3580-2015-06-22-06-56-53?pop=1&tmpl=component&print=1>

<http://> Грузооборот российских портов Балтики растет на удобрениях и зерне. [www.dp.ru/a/2016/06/13/Zerno\\_i\\_udobrenija\\_tesnjat](http://www.dp.ru/a/2016/06/13/Zerno_i_udobrenija_tesnjat); S. Lachinsky, I. Semenova. Saint Petersburg as a Global Coastal City: Positioning in the Baltic Region. <https://cyberleninka.ru/article/n/pozitsionirovanie-mirovogo-primorskogo-goroda-sankt-peterburga-v-baltiyskom-regione> ; <http://www.russianports.ru/>;

② <http://rusnext.ru/news/1501619539>; <https://ru.sputniknews.lv/economy/20171017/6189899/Latvija-otkladyaet-pohorony-tranzita.html>;

③ [https://ru.sputniknews.lv/economy/20171013/6157479/Jeksperty-povoda-dlja-optimizma-tranzitnoj-otrasli-Latvii-net.html?utm\\_referrer=https%3A%2F%2Fzen.yandex.com](https://ru.sputniknews.lv/economy/20171013/6157479/Jeksperty-povoda-dlja-optimizma-tranzitnoj-otrasli-Latvii-net.html?utm_referrer=https%3A%2F%2Fzen.yandex.com);

④ [https://ru.sputniknews.lv/world/20171025/6269276/Litva-poshla-konflikt-EK-sosedjami-radi-kaliningradskogo-tranzita.html?utm\\_referrer=https%3A%2F%2Fzen.yandex.com](https://ru.sputniknews.lv/world/20171025/6269276/Litva-poshla-konflikt-EK-sosedjami-radi-kaliningradskogo-tranzita.html?utm_referrer=https%3A%2F%2Fzen.yandex.com)



the Russian ports (Ust-Luga and Primorsk) the oil produce processed from the Russian oil that has so far been transported via the Baltic ports: approximately 12, 000 tonnes per annum.<sup>①</sup> The Russian railroads also lowered the charges for the Belorussian oil cargo. Russia has announced that it cannot leave unanswered the anti-Russia rhetoric of the Baltic States caused by the context of anti-Russian sanctions and *Nord Stream 2* gas pipe project. Poland, the Baltic States and Denmark demand, that the European Union should abandon this project.<sup>②</sup> The reasons given by the above mentioned countries are: the gas supplies of Russia are a threat to European energy security, the project is of political not of economic or commercial nature, and carrying out the project has negative influences on the environment.<sup>③</sup> The real reasons are the interests of the U.S., to prevent the cutting off of Ukraine from the Russian oil transit and the wish of these opposing countries to gain for themselves some profit from the Russian gas transit.<sup>④</sup>

The transfer of the Belorussian oil produce transit into the Russian ports would significantly diminish the amount of cargo passing through Ventspils (Latvia) and Klaipeda (Lithuania) ports. In addition it would enable Russia to compensate in some capacity the losses caused by the western sanctions, and some revenge for the Baltic States whose leadership participated actively in imposing the sanctions against Russia.<sup>⑤</sup> If the Baltic States would stop the anti-Russian rhetoric and would make far reaching political concessions to Russia, then it would not be very likely, that the capacity of Russian transit on the Baltic railroads and in the Baltic ports would remain the same or grow.

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- ① [http://u-f.ru/news/economics/u9/2017/10/22/246091?utm\\_referrer=https%3A%2F%2Fzen.yandex.com; https://newinform.com/75836-tranzitnaya-dominaciya-novye-pravila-rf-vyshvyrnut-pribaltiku-s-rynka?utm\\_source=24smi&utm\\_medium=referral&utm\\_term=2581&utm\\_content=1282002&utm\\_campaign=2582; https://ru.sputniknewslv.com/economy/20171023/6241923/Ventspils-mozhet-lishitsja-belorusskih-nefteproduktov-v-jetom-godu.html?utm\\_referrer=https%3A%2F%2Fzen.yandex.com; https://ru.sputniknewslv.com/economy/20171020/6221598/Mjer-Rezekne-Latvija-nuzhna-tranzite-kak-appendicit-vpishhevaranii.html?utm\\_referrer=https%3A%2F%2Fzen.yandex.com;](http://u-f.ru/news/economics/u9/2017/10/22/246091?utm_referrer=https%3A%2F%2Fzen.yandex.com; https://newinform.com/75836-tranzitnaya-dominaciya-novye-pravila-rf-vyshvyrnut-pribaltiku-s-rynka?utm_source=24smi&utm_medium=referral&utm_term=2581&utm_content=1282002&utm_campaign=2582; https://ru.sputniknewslv.com/economy/20171023/6241923/Ventspils-mozhet-lishitsja-belorusskih-nefteproduktov-v-jetom-godu.html?utm_referrer=https%3A%2F%2Fzen.yandex.com; https://ru.sputniknewslv.com/economy/20171020/6221598/Mjer-Rezekne-Latvija-nuzhna-tranzite-kak-appendicit-vpishhevaranii.html?utm_referrer=https%3A%2F%2Fzen.yandex.com;)
- ② [http://expert.ru/2017/10/18/stali-izvestnyi-stranyi-es-vyistupivshie-protiv-severnogo-potoka-2-na-sammite-v-bryussele/?utm\\_referrer=https%3A%2F%2Fzen.yandex.com;](http://expert.ru/2017/10/18/stali-izvestnyi-stranyi-es-vyistupivshie-protiv-severnogo-potoka-2-na-sammite-v-bryussele/?utm_referrer=https%3A%2F%2Fzen.yandex.com;)
- ③ <https://majandus24.postimees.ee/4106047/balti-riikide-peaministrid-on-resoluutsed-nord-stream-2-on-politiline-projekt>
- ④ <https://zen.yandex.ru/media/id/59df49549d5cb3f8dedf04ed/baltochernomorskii-soiuz-pogubit-ukrainu--59e5ed21a8673153775b1c78?;>
- ⑤ [https://ru.sputniknewslv.com/radio/20171019/6211065/Kovalev-Rossija-budet-zagruzhat-svoi-porty-ne-kormit-Latviju.html; https://russian.rt.com/russia/article/425934-kaliningrad-pribaltika-tranzit?utm\\_referrer=https%3A%2F%2Fzen.yandex.com](https://ru.sputniknewslv.com/radio/20171019/6211065/Kovalev-Rossija-budet-zagruzhat-svoi-porty-ne-kormit-Latviju.html; https://russian.rt.com/russia/article/425934-kaliningrad-pribaltika-tranzit?utm_referrer=https%3A%2F%2Fzen.yandex.com)

## II. The Baltic States as a corridor of transit, China and Kazakhstan transit prospects

Based on the previous projections, the Baltic States actively search for alternative means of income. One of these is the transit transportation of Chinese, Kazakhstan, Iranian and Belorussian goods. If marine based transportation of goods from China to Europe takes on average 40 to 45 days, then on railroads it would take approximately 15 days.

On 16th of October, 2017, the first train from China, consisting of 41 containers, reached Riga. The train started its journey from Urumqi in China and reached the port in Riga via Kazakhstan and Russia. A so-called test container train from China reached Riga a year earlier, in November 2016. In relation to the train that arrived on 16 October, it was announced that it was mainly for the transit of Kazakhstan goods. In December 2010, the Kazakhstan government launched the establishment of a special economic zone *Хоргос – Восточные ворота* (KTZE-Khorgos Gateway).<sup>①</sup> The aim of the company is to develop an effective transportation, logistic and industrial hub by 2035 which would ensure the export of the goods and realise the transit potential of Kazakhstan.<sup>②</sup> On 29 September 2017, the representatives of Latvian and Kazakhstan railways signed a strategic partnership memorandum in which the parties declare that they would continue active collaboration in order to increase transcontinental container transportations on the Silk Road route and to create a multi-mode logistic link. Should this project work the goods exchange of Latvia and Kazakhstan would increase up to 500 million Euros instead of the 200-250 million Euros so far.<sup>③</sup> It is estimated that 200 000 containers from Kazakhstan could pass through the Latvian ports annually. In 2017 during the eight month period the transport of goods between Latvia and Kazakhstan increased by 19 percent when compared to the same time period in 2016, from 324.4 thousand tonnes to 386.1 thousand tonnes.

Latvia intends to create an industrial park in Riga that would be analogous to the Chinese-Belorussian park and special economic zone created in Belorussia, the «*Белый камень*» (Great Stone). According to the plan, a terminal, logistic park and appropriate infrastructure will be built at the Riga port and airport to service the Chinese goods. The realisation of the project will take place in cooperation with Duisburg port in Germany.<sup>④</sup> At present, it remains unclear whether the container cargoes from Kazakhstan and China

① <http://en.khorgosgateway.com/>

② <http://www.la.lv/kazahstana-izvelas-latviju-par-galveno-kravu-logistikas-mezglu-baltija>; [http://www.mcps-khorgos.kz/sez\\_ptez](http://www.mcps-khorgos.kz/sez_ptez); <http://www.mcps-khorgos.kz/sites/default/files/1.pdf>

③ [http://www.baltic-course.com/rus/good\\_for\\_business/?doc=134024](http://www.baltic-course.com/rus/good_for_business/?doc=134024)

④ <https://ru.sputniknews.lv/economy/20171026/6277596/Matiss-kitajskom-tranzite-uchitsja-Minska-ili-otzhat-chast-FRG.html>; <http://rus.lsm.lv/statja/analitika/analitika/kitayci-nikomu-nichego-ne-darjat-im-nuzhno-delat-vigodnie-predlozhenija-eksperti.a254967/>

to Latvia will become regular. Presently the container cargoes from China cannot replace the quickly diminishing cargoes of Russia: if it is about one Chinese container train per month to Riga that contains 52 to 58 wagons, it amounts to 3000 to 3500 tonnes, but if it is about the Russian coal, it amounts to ten such trains each day. It would mean ten times as much transit cargoes each day, not each month.<sup>①</sup>

Latvia has also announced that they should occupy a place in the Indo-Iranian Transport Corridor and for this purpose cooperate with Russia, Azerbaijan and Iran. The Russian company *Трансконтейнер* (Transcontainer) has already developed a base in the Bandar Abbas port in Iran. According to the plan the North-South transit corridor should become as profitable project for the Latvian railroads as the Chinese destination, and it would mean that thousands of trains from India would arrive in Latvia where the cargo is handled and reloaded to be despatched to Europe. Certain signs of Iranian interest towards Latvian railroads and ports do exist when the participation of an Iranian delegation at a transit conference at Riga can be taken as a sign.<sup>②</sup>

Lithuania and Estonia as well would like to service the cargo transit from Kazakhstan and China. Lithuania intends to build a logistics centre in Kaunas from where the transit cargo would move to the port of Klaipeda.<sup>③</sup> Latvia and Estonia could perhaps hope to attract the portion of transit cargo that should move from China to Scandinavia and could therefore help to avoid sending the goods meant for Scandinavia via Belorussia and Poland to the Duisburg logistic centre in Germany.<sup>④</sup>

In the case of the Baltic States the transit of Chinese goods has come to fore in relation to the Rail Baltic project, according to which a railroad with 1435 millimetre rail gauge will be built from Tallinn to Berlin. It is a joint project of Estonia, Latvia and Lithuania and should be financed by the European Union. The Chinese national railroad company *China Railway Construction Limited* has announced its interest in the big scale projects of the European Union, including Rail Baltic.<sup>⑤</sup> In the second stage of Rail Baltic, the undersea rail tunnel of 90 kilometres would be built between Tallinn and Helsinki. This

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① [https://ru.sputniknews.lv/economy/20171023/6246488/Berzinsh-Latvija-uvazhaet-strategiju-RF-po-portam-predlagaet-kooperaciju.html?utm\\_referrer=https%3A%2F%2Fzen.yandex.com](https://ru.sputniknews.lv/economy/20171023/6246488/Berzinsh-Latvija-uvazhaet-strategiju-RF-po-portam-predlagaet-kooperaciju.html?utm_referrer=https%3A%2F%2Fzen.yandex.com)

② <https://ru.sputniknews.lv/Latvia/20171019/6214255/Shlesers-skazal-Shlesers-sdelal-Latvija-poluchila-vyhod-Kaliningrad.html>

③ <http://rus.lsm.lv/statja/novosti/ekonomika/govorit-o-nachale-kitayskogo-tranzita-cherez-latviyu-esche-rano-uchastniki-otrasli.a254050/>

④ <https://ru.sputniknews.lv/economy/20171016/6176304/Latvija-boretsja-kitajskij-tranzit-pervogo-poezda-zhdali-god.html>

⑤ <https://majandus24.postimees.ee/4130619/hiina-raudteehiid-on-huvitatud-rail-balticu-arendamisest>; <http://www.aripaev.ee/uudised/2013/11/26/hiina-on-huvitatud-rail-balticust>;

would be a joint project of Estonia and Finland.<sup>①</sup> Research into the costs, cost benefits and technical solutions of the tunnel have begun. Procurements for projects and building of Rail Baltic have not begun yet.

No noticeable results towards establishing the transit corridor through Estonia have been achieved. An analyst of Estonian LHV bank poignantly said that at present not even 0.2 percentage of Chinese goods reaches the European Union via Estonia and via Estonia less than 0.1 percentage of European exports goes to China.<sup>②</sup>

### **III. Foreign investments**

According to the 2014 statistics of Estonian, Latvian and Lithuanian central banks, 16 countries have invested more than 0.5 billion Euros into the Baltic States. Among them are 15 European countries, including Russia, Norway and Switzerland. The leading position in investments is held by Sweden who alone, according to the data of 2014, made up 25.4 percent of Lithuanian, 21.7 percent of Latvian and 26.5 percent of Estonian total foreign investments (9,794 billion Euros in total into the three Baltic States). When looking at the three Baltic States separately, then Finnish investors have been most active in Estonia: 21.7 percent of all foreign investments. The proportion of Finnish investors in the Latvian and Lithuanian economy is 2.3 and 5.0 percent respectively (the three states in total 4,282 billion Euros). Finland is followed by the Netherlands, whose investments comprise of the total foreign investments made into the Baltic States 9.2 percent of the Lithuanian, 8.2 percent of the Latvian and 11.3 percent of the Estonian foreign investments. Outside the European Union the biggest investors into Estonia are Norway and Russia (both approximately 5 percent of all the foreign investments).

The foreign investments made into Estonia comprised at the end of 2014 altogether nearly 36 billion Euros. Of these 55 percent were direct investments, followed by other investments (39 percent). The remaining were portfolio investments, derivative instruments (excluding reserves) and employee stock options. The foreign investors have invested in Estonia mainly into providing financial services (36% of the whole position), in a smaller capacity into real estate related activities (9%), wholesale (7%) and head office activities (5%). Of the foreign investment position in Estonia, Sweden and Finland together comprise 39 percent, followed by Germany, Netherlands and Great Britain 5–7%.<sup>③</sup>

① <https://www.railway-technology.com/projects/helsinki-tallinn-railway-tunnel-gulf-of-finland/>; <https://tallinncity.postimees.ee/4287175/ministeerium-tallinna-helsingi-tunnel-tuleb-niikuinii>;

② Heido Vitsur. With or without China? LHV finantsportaal 26.8. 2016. <http://lhv.delfi.ee/news/5035370?locale=et>

③ See information on economy and investments: <http://estonia.eu/about-estonia/economy-a-it/economy-in-numbers.html>; file:///C:/Users/M/Downloads/mbaastaraamat\_2014\_est.pdf;

The investments coming from Sweden are mostly directed into the banking sector, into the Baltic States branches of Swedish banks: *Skandinaviska Enskilda Banken AB*, *Swedbank* and *Luminor<sup>①</sup> Bank*. The Finnish investments are more diverse and spread along various sectors. The amount of enterprises registered in Estonia but owned by Finns is almost 5000. An equal share of one quarter of Finnish investments is targeted on the processing industry and real estate sector, and almost a 20% into the retail and wholesale sector. Of the Netherland investments a fourth is targeted into real estate and a fifth into transport and warehousing. The Russian investors have allocated more than a quarter of their investments into the retail and wholesale sector and a fifth into real estate and financial services. Half of the Norwegian investments go into the retail and wholesale sector.<sup>②</sup> At the moment Estonia, compared to other European countries, has remained in the background as a destination for foreign investments.

According to the Estonian Bank, the position of Chinese direct foreign investments (FDI) into Estonia in 2013 was 3 million Euros. Investments made to China in the name of Estonia comprised 2.9 million Euros in 2013. The investments of Scandinavian countries into Estonia and Lithuania permit a claim that Scandinavian capital has fended off the capital of other countries in this area and achieved a monopoly status. For the foreign investors who have invested into the processing industry in the Baltic states the main incentive has been the cheap workforce. This advantage is starting to disappear due to resources becoming more expensive. Because of investments the Baltic States will require specialists with different qualifications. Internally the number of them is limited in Estonia, Latvia and Lithuania. But the work age population in the Baltic States diminishes due to low natural growth, aging of the population and emigration.<sup>③</sup> Henceforth, bringing in foreign competence is unavoidable. In the context of future investment, it should be mentioned that for several trans-national corporations the Baltic States small-sized internal market does not create a stimulus despite the low local protectionist barriers and the corporations are not interested in establishing their subsidiary manufacturing companies or service offering branches here.

For the reasons described above the exporting capabilities of Baltic States enterprises and the possibilities for involving foreign capital are significantly limited.

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① Swedish, Finnish and Danish bank

② Made in Estonia 3.0 The Estonian foreign investments and export action plan for the years 2014-2017 for increasing the export capacity of Estonian companies and involving foreign investments. Tallinn, 2014.  
[https://www.mkm.ee/MIE3/download/made\\_in\\_estonia\\_3.0.pdf](https://www.mkm.ee/MIE3/download/made_in_estonia_3.0.pdf); [https://www.mkm.ee/sites/default/files/mie\\_3.0\\_english\\_version.pdf](https://www.mkm.ee/sites/default/files/mie_3.0_english_version.pdf);

③ Made in Estonia 3.0 The Estonian foreign investments and export action plan for the years 2014-2017 for increasing the export capacity of Estonian companies and involving foreign investments. Tallinn, 2014  
[https://www.mkm.ee/MIE3/download/made\\_in\\_estonia\\_3.0.pdf](https://www.mkm.ee/MIE3/download/made_in_estonia_3.0.pdf);

#### IV. The Baltic States and Russian relations

Russia, a State beside the Baltic States holding abundant natural resources, has notable economic and military potential. Due to this it is a great power having vast economic, military and political interests in the Baltic Sea region, and affects, based on this, a great and multi-layered (political, economic, cultural, security etc) influence on the Baltic States. These interests are visible, although several great states refuse to recognise them. As early mentioned the economic interests of Russia are based on the fact that a significant proportion of Russian foreign trade with Europe, USA, Canada and Cuba is going through the Baltic Sea ports (2013-2014 up to 40 percent). The Kaliningrad enclave is supplied via the Baltic Sea and the gas pipe to Germany (*Nord Stream*) goes via the Baltic Sea. In the Russian doctrine of foreign policy accepted in 2013, Baltic States are not mentioned directly but the document mentions developing relations with the European Union. It is assumed that the participation of Russia in the Council of Baltic Sea States has great importance for Russia. Russia will continue to apply for the utilisation of the potential of the project the *Northern Dimension*<sup>①</sup> since it is seen as the basis of North European regional cooperation.<sup>②</sup> The *Northern Dimension* is a joint policy between four equal partners – the European Union, Russia, Norway and Iceland—regarding the cross-border and external policies geographically covering North-West Russia, the Baltic Sea and the Arctic regions, including the Barents region.

Problems in the relations between the Baltic states and Russia: The reasons for the Russia and the Baltic States tense relations: Historical conflict, citizenship politics (only in Latvian and Estonian case), the active participation of the Baltic States in the Eastern Partnership programme<sup>③</sup>, Ukrainian crisis, placing of NATO units and weaponry continuously into the Baltics (i.e close vicinity of the Russian territory), Russian sanctions.

Non-citizens A large proportion of Russians living in Estonia and Latvia are not Estonian or Latvian citizens. After becoming independent (1991) Lithuania, unlike Estonia and Latvia, offered citizenship to everybody living on their territory at the time of the dissolution of the Soviet Union. Estonia considered the people who had arrived after 1940 to be foreign citizens, whereas Latvia treated them as non-citizens which left Latvia

① The *Northern Dimension* is a joint policy between four equal partners – the European Union, Russia, Norway and Iceland - regarding the cross-border and external policies geographically covering North-West Russia, the Baltic Sea and the Arctic regions, including the Barents region.

② Концепция внешней политики Российской Федерации *Утверждена Президентом Российской Федерации В.В.Путиным 12 февраля 2013 г.* [http://archive.mid.ru/brp\\_4.nsf/0/6D84DDEDEDBF7DA644257B160051BF7F](http://archive.mid.ru/brp_4.nsf/0/6D84DDEDEDBF7DA644257B160051BF7F)

③ The Eastern Partnership (EaP) is a joint initiative involving the EU, its Member States and six Eastern European Partners: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine.

with wider opportunities to interpret the status of the Russian speaking minority. In 2015 there were 365, 000 Russian speaking inhabitants in Estonia, among them approximately 120, 000 Russian citizens and approximately 81, 000 persons without citizenship. The large number of people without citizenship has caused the European Union Commission to reprimand Estonia.<sup>①</sup>

Historical conflict: The issue here derives from the agreements signed by Germany and the Soviet Union in August and September, 1939. Mainly two issues cause disputes with contemporary Russia: 1. Did the Baltic States, who were in the Soviet Union interest sphere according the secret additional protocol of 1939, join the Soviet Union voluntarily in August, 1940; 2. Or was their joining of the Soviet Union due to the military power of the Red Army and the situation of occupation ending in annexation. The politicians and historians of Estonia, Latvia and Lithuania are using the terms occupation, annexation and incorporation when discussing the events of 1940. The official position of contemporary Russia is that the signing of mutual assistance pacts between the Soviet Union and Baltic States in autumn of 1939 does not allow the claim that the Soviet Union occupied the Baltic States in June 1940; the international law that existed between the two World Wars did not forbid coercion, and that we cannot talk of annexation because in July, 1940 there were elections in Estonia, Latvia and Lithuania which resulted in new governing institutions who approached the Supreme Soviet of the USSR with the wish to join the Soviet Union.<sup>②</sup>

Further tensions are caused by the question whether the Estonians and Latvians who fought in the German armed forces in 1941-1945 should be treated as collaborators or as Estonian and Latvian freedom fighters. The viewpoint of Estonia and Latvia is that the Estonians and Latvians who fought in the German armed forces fought primarily for the freedom of Estonia and Latvia. The official viewpoint of Russia is that they were collaborators of whom a proportion of are guilty of war crimes.

The Estonian, Latvian and Lithuanian and the Russian-speaking population memory of history differs primarily in their evaluation of the events of the Second World War. Polls conducted in the 1990s showed that the memory of history of the two communities was antithetical to each other, especially when it concerned Russia's role in the fate of the Baltic States. One of the main narratives in the collective memory of the Russian speaking population in the Baltic States concerns the expulsion of the foreign invaders from the Baltic States, liberation from the German occupation, and the Baltic States

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① [file:///C:/Users/M/Downloads/Eesti\\_statistika\\_aastaraamat\\_2015.pdf](file:///C:/Users/M/Downloads/Eesti_statistika_aastaraamat_2015.pdf); <http://www.pealinn.ee/newset/kristina-kallas-eesti-kodakondsus-halli-passi-omanikke-ei-vaimusta-n155223>; <http://www.ohtuleht.ee/754225/halli-passi-omanike-arv-on-10-aastaga-vahenenud-45-000-vorra>;

② See: Борьба за Прибалтику. – Историк, 11, 2015, 71.

voluntary entry into the Soviet Union in 1940. In the case of the Post-Soviet Baltic States the politics of memory created a "true" history based on a shared concept of victim status under the Soviets, thereby excluding a majority of the Russian-speaking population from this communal history.

Estonia, Latvia and Lithuania have strongly used Russia as the negative so-called "Other" in its identity formation. The Baltic States foreign policy has aimed at finding ways to emancipate itself from Russian dependency. There are studies which focus clearly on the confrontation between Estonia, Latvia and Lithuania and Russia and reach the conclusion that the root of the conflict is deeply integrated in identity formation. Several authors also claim that the integration into European and transatlantic structures should influence the Baltic States to change its strong identity confrontation with Russia. Thus, identity as a research focus has been strongly presented in the Estonian, Latvian and Lithuanian case but the collective memory as an important variable in Baltic States relations with Russia has been less studied. Escalation of tension in the Baltic-Russian relations related to World War II in 2004-2005 and the monument crisis (removal of the Soviet War monument in Tallinn, Bronze Soldier, Bronze Night) in Estonia 2007 has increased political scientists interest in the role of political memory in Estonian Russian relations.<sup>①</sup>

In the 1990s the politicians of Russia and the Baltic Sea region stated the basic assumption that they all share the values stated in the documents of the European Union Council. An example of this is the cooperation and partnership agreement between the European Union and Russia, dating back to 1994.<sup>②</sup> The Baltic States joining the European Union and NATO did not cause initially any tensions in the Baltic Sea region. As said before, the relations between Estonia and Russia deteriorated especially in 2007 after the monument commemorating the victory of the Soviet Union in the Second World War, the so-called bronze soldier, was removed from its long-time location in Tallinn.

After Vladimir Putin was elected the President of Russia in 2012, the leadership of Russia started to seek to make the world multi-polar. To achieve this aim a special role is played by the Eurasia customs union (Eurasian Economic Community) and the BRICS grouping.

Two conflicts: Ukraine and Syria caused a significant acceleration of tensions and appearance of negative tendencies in the Baltic Sea region. The Baltic States acknowledged the Ukrainian coup as legitimate, refused to recognise the annexation of

① <http://en.academic.ru/dic.nsf/enwiki/7569879>

② Соглашение о партнерстве и сотрудничестве, учреждающее партнерство между Российской Федерацией, с одной стороны, и Европейскими сообществами и их государствами-членами, с другой стороны. <http://docs.cntd.ru/document/1900668>; <http://russiaeu.ru/en/basic-documents>; <http://russiaeu.ru/en/brief-overview-relations>



Crimea and treated the East Ukrainian conflict as Russian aggression against Ukraine. Despite the fact that the Middle-East is geographically a remote area from the Baltic region, the Syrian crisis has had its influence on the Baltic States (migration crisis). The migration quota issued by Brussels caused wide discussions in the Baltic States as to what extent can the European Union demand the member states to take responsibility for solving problems that strike Europe.

On the other hand, there have been published, and still are to this day, articles in the media of the Baltic States and the Western countries that predict that Russia will attack the Baltic States and possible reaction of the European Union and/or NATO. Some Baltic politicians have made appeals to blockade the mainland connection between Russia and the Kaliningrad enclave.<sup>①</sup>

The dominant trend of the Baltic States internal and external politics is antagonistic towards Russia. It manifests itself as constant criticism of Russian internal and external politics and their interpretation of history. However, it is targeted at achieving internal political attention, mobilising the electorate, and diverting attention from the critical condition of the economy, as well as, guaranteeing the military assistance of Western countries including the U.S. It can be only assumed that the constant deterioration of the relations with Russia meets the interests of the Scandinavian countries as it entails the parrying of Russia as an economic competitor.

The Baltic States are participating in the sanctions against Russia caused by the crisis in the Ukraine. In response to Western economic sanctions, the Russian Federation decreed a ban on agricultural products and foodstuffs from the EU, USA, Norway, Canada and Australia on 6 August, 2014 for a period of one year. At the moment it can be stated that due to these sanctions, the volume of goods exchange including transit, has diminished significantly as has tourism from Russia to the Baltic States. According to European Parliament statistics the three Baltic States are among the 11 countries whose economy has been damaged most due to the Russian sanctions: Estonia has lost 147, Latvia 87 and Lithuania 374 million Euros.<sup>②</sup> Even if the European Union and Russia should normalise their relations and the sanctions waived it is quite unlikely that the deliveries of the Baltic agricultural produce to Russia will recover. Russia has increased significantly its investments into agriculture and is gradually becoming a country exporting agricultural

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① Угне Каралюняйте. В Литве прозвучала идея блокады Калининграда. <http://ru.delfi.lt/news/economy/v-litve-prozvuchala-ideya-blokady-kaliningrada.d?id=65537378>

② The Russian Embargo: Impact on the Economic and Employment Situation in the EU. [http://www.europarl.europa.eu/RegData/etudes/BRIE/2014/536291/IPOL\\_BRI\(2014\)536291\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2014/536291/IPOL_BRI(2014)536291_EN.pdf); Who are the Major Losers of Russian Sanctions? <http://blog.euromonitor.com/2014/08/who-are-the-major-losers-of-russian-sanctions.html>; Потери Европы от антироссийских санкций <http://ru.sputnik-news.ee/infographics/20150916/181727.html>;

products.<sup>①</sup> This means that fulfilment of the hope of the politicians and business circles<sup>②</sup> of the Baltic States, that after the end of sanctions the return to the Russian market with the agricultural products would happen, is not very realistic. Due to the sanctions on Russia and Russian counter sanctions, Estonia and other Baltic States started to look for new markets for their agricultural produce. In this context the issue of selling the Baltic states agricultural produce to China has come into focus especially during the past two years. An example of this is the optimistic announcement of the Ministry of Agriculture from June 2014, that export of agricultural produce between Estonia and China is rising which is proven by the fact that in 2013, the amount of food products sold in China exceeded for the first time 10 million Euros. But the main agricultural export article of Estonia sold to Chinese market today is frozen blueberries (comprise more than 80% of agricultural produce exported to China). In addition, various fish products, shrimps and honey is sold to China.<sup>③</sup>

## V. The main geopolitical players and the “Bect and Road” and 16+1 cooperation

First question: how to balance the Chinese 16+1 politics in the China and EU relations. During the Cold War era Chinese relations with the Central and Eastern European countries functioned in a triangle: Soviet Union and China, Soviet Union and Eastern European satellite countries. As a result of the dissolving of the Soviet Union a situation evolved where relations with China and Central and Eastern European countries are significantly influenced by the European Union, Russia and U.S..

Russia: Several articles published in Russia permit one to claim that Russia wishes to counteract the Chinese influence in Central and Eastern European countries. For example, Professor Konstantin Khudoley, Head of the Department of European Studies of International Relations St Petersburg State University, predicts in his article *The Baltic Sea region and increasing international tension*, published in 2016 in the Kaliningrad University journal *Балтийский регион*, that in the near future, one can expect China to be increasingly active in the Baltic Sea region. Khudoley surmises that the Chinese will start paying special attention to the creation of modern infrastructure and logistic in the Baltic Sea region and it is not out of question that one cannot exclude that, one day, Chinese cargo traffic will replace that from Russia in some Baltic ports. According to Khudoley, Russian activities in the Baltic Sea region will need to focus on preventing

① [https://ru.sputniknewslv.com/radio/20171025/6261572/zubec-pribaltijskim-fermeram-nuzhno-iskat-rynki-sbyta-v-jugo-vostochnoj-azii.html?utm\\_referrer=https%3A%2F%2Fzen.yandex.com](https://ru.sputniknewslv.com/radio/20171025/6261572/zubec-pribaltijskim-fermeram-nuzhno-iskat-rynki-sbyta-v-jugo-vostochnoj-azii.html?utm_referrer=https%3A%2F%2Fzen.yandex.com)

② See for example [https://politexpert.net/70100-glava-minselkhoza-litvy-markauskas-my-khoteli-by-vernutsya-na-rossiiskii-rynok?utm\\_referrer=https%3A%2F%2Fzen.yandex.com](https://politexpert.net/70100-glava-minselkhoza-litvy-markauskas-my-khoteli-by-vernutsya-na-rossiiskii-rynok?utm_referrer=https%3A%2F%2Fzen.yandex.com)

③ <https://maablogi.wordpress.com/2014/06/12/millist-toitu-eesti-hiinasse-viib/>

the weakening of its position and creating prerequisites for further strengthening.<sup>①</sup> Another example is the visit of a Chinese delegation to Estonia in June 2016. The Russian information portal Sputnik-News declared irritably that although the purpose of the visit remained unclear attention should be drawn to the fact that this, “in diplomatic scales very modest delegation”, had the former head of the ICBC bank, Jiang Jianqing, as one of its members. It also mentioned that Jiang Jianqing had been appointed the head of the financial fund Sino-Central Eastern Europe Financial Holding which would be launched for the purpose of Chinese and Central and Eastern European countries financial cooperation. The purpose of the fund would be to invest into the infrastructure and business projects in Central and Eastern Europe, as well as, into projects related to the Central and Eastern European enterprises worth 10 billion Euros.<sup>②</sup>

The competitors, or solutions excluding the Baltics: Russia wishes to have a share of servicing the transit coming from Asia. The aim is to create a transport corridor from China via Russia to Europe, making the cargo to pass by the Baltics. For example, Austria and Russia plan to extend the trans-Siberia highway across Ukraine and Slovakia to Vienna. This plan consists of building a new 450 kilometre railroad, with 1,520 millimetre track gauge, from Kočice, near the Ukrainian border, to Vienna. A cargo terminal would be built in Vienna that would be able to receive annually 200,000 trains, 67 wagons each. It is envisaged that the Chinese goods could be transported within three to four days through Russia if a railroad was built where the cargo trains could travel with speeds of nearly 200 kilometres per hour. A new joint enterprise, *Breitspur Planungsgesellschaft mbH*, has been established by Russia, Ukraine, Slovakia and Austria for developing this new railroad track. The vision of *Breitspur Planungsgesellschaft* is to be the most effective rail transport connection between Asia and Central Europe with the goals of creating a sustainable transportation corridor. The resulting direct link guarantees accelerated freight times between Asia and Europe: only 15 days will be needed between Eastern China and Vienna.<sup>③</sup> Russia, Azerbaijan and Iran have announced the plan of establishing an international multi-mode transport corridor: North-South (INSTC). It would start from Mumbai, go through Iran, Azerbaijan and Russia and end in Helsinki. One of its branches would move from Moscow across Belorussia and Poland to the Western Europe.<sup>④</sup> Russia and Norway have started to invest into the ports of the Arctic Ocean. The utilisation of the Arctic Ocean would reduce the transportation time of the Chinese goods by approximately two to three weeks.

① К.К. Худoley. Регион Балтийского моря в условиях обострения международной обстановки, 17-18. <http://cyberleninka.ru/article/n/region-baltiyskogo-morya-v-usloviyah-obostreniya-mezhdunarodnoy-obstanovki>; [https://journals.kantiana.ru/upload/iblock/df9/Khudoley\\_4-16.pdf](https://journals.kantiana.ru/upload/iblock/df9/Khudoley_4-16.pdf)

② [http://sputnik-news.ee/finance\\_and\\_companies/20160810/2955361.html](http://sputnik-news.ee/finance_and_companies/20160810/2955361.html), <http://sputnik-news.ee/economy/20160811/2965643.html>;

③ <http://www.breitspur.com/idea.html>

④ Vt. [http://dergachev.ru/geop\\_events/311216-02.html#\\_Wf3IA9gY6d0](http://dergachev.ru/geop_events/311216-02.html#_Wf3IA9gY6d0)

European Union and Poland: The old European Union countries are antagonistic towards the activities of China in relation to Central and Eastern European countries. The following negative arguments are given beside the positive arguments related to the 16+1 cooperation: 1. The “Belt one Road” is a prerequisite to Chinese economic expansion, of which in the long run promotes the Chinese world order and upstaging USA as a global force. 2. The “Belt and Road” project is a subcontract that does not meet the requirements of the European Union in the fields of transparency, democracy and environmental requirements. The economic expansion of China accelerates the disappearance of the work place and makes the European Union dependant on China. 3. The European countries will be flooded with cheap goods from China since their transportation time and costs will diminish considerably as the new transport corridors are opened. 4. The trains from China to Europe will return either empty or half-loaded. 5. The internal policy, economy and legal system of the European Union countries are developed by the European Union. The European Union members from the CEE countries, and the EU membership candidates have to harmonize with the EU the issues that pertain upon cooperation with China.<sup>①</sup> Examples: In May 2017, just before the *Belt and Road Forum* held in Beijing the Vice President of EU commission, a Finnish politician Jyrkki Katainen, accused, in one interview given to a Finnish newspaper, China of taking over strategically important enterprises in Europe but at the same time of protecting their own market against foreign investments. He surmised that “unfortunately the European Commission cannot prohibit the selling of enterprises to the Chinese or for some third parties”.<sup>②</sup> At the roundtable of Beijing *Belt and Road Forum* Katainen said that continuous globalization cannot be halted and presented a platform consisting of nine principles, or the conditions of the European Union on which the *Belt and Road* cooperation activities should be based.<sup>③</sup> When the market share of Finnish capital in the Baltic States is taken into consideration, the statement seeking for regulations is understandable. However, if attention is given to how Finland and the Scandinavian countries seized the notable positions in the economic life of the Baltic States after the dissolution of the Soviet Union a question may be posed: how fair is the demand for such regulations. Director of the German Development Institute Peter Wolff stated that the Belt and Road initiative should be developed further from a bilateral Chinese initiative to a more ‘multilateralised’ mechanism, which would include private business as well as national and regional government institutions.<sup>④</sup>

① <https://sputnik-news.ee/economy/20170521/5804483/eesti-kahtleb-siiditee-mottekuses.html>; The Economist explains. What is China’s belt and road initiative? <https://www.economist.com/blogs/economist-explains/2017/05/economist-explains-11>;

② Katainen tahtoo turbovaihteen Kiina-neuvotteluihin. In: Kauppalehti 11.5. 2017. <https://www.kauppalehti.fi/uutiset/katainen-tahtoo-turbovaihteen-kiina-neuvotteluihin/pFG8iyxF>

③ [http://europa.eu/rapid/press-release\\_SPEECH-17-1332\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-17-1332_en.htm)

④ Peter Wolff. China’s ‘Belt and Road’ Initiative – Challenges and Opportunities German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE). [http://www.die-gdi.de/uploads/media/Belt\\_and\\_Road\\_V1.pdf](http://www.die-gdi.de/uploads/media/Belt_and_Road_V1.pdf)

Poland established a strategic partnership with China in 2011 and is often regarded as the leader of the 16 Central and Eastern European countries in their relations with China through the 16+1 platform.<sup>①</sup> In 1936 to 1938, Poland found that it was time for the so-called *Międzymorze* (*Intermarium*) plan to be brought to life. The *Międzymorze* plan was initially made by Józef Piłsudski after the WW I and aimed to create a federation of Central and Eastern European countries under Polish dominion. This federation should have included the Baltic States.<sup>②</sup> The issue is, whether the *Międzymorze* plan reflected the political reality of the Eastern Europe between the two world wars and if realising such a plan was conceivable. Despite the Polish attempts to be a superpower, interwar Poland lacked political, economic and military prerequisites for forming and leading such a union of states. Neither could Poland do anything to overcome the mutual contradictions of the countries between the Baltic and the Black Sea. In present Poland the *Międzymorze* plan has been resuscitated. Poland, with Sweden, was one of the initiators of the Eastern Partnership programme. The aim of Poland is to liquidate Russian influence in Central and Eastern European countries and become the leader state of the Eastern and Central European countries. Nevertheless, even today a pre-requisite for this is the political and economic support of some superpower.

U.S.: For the USA, Central and Eastern Europe, including the Baltic States, represent a geo-strategic area with great military importance which allows to deter possible Russian expansion by continuous political and military pressure upon it and adding to the military forces present in the region. This mean, that U.S. considers the Baltic States at present their sphere of interest and encourages the Baltic leadership to continue the anti-Russian rhetoric. For example, US analyst Paul A. Clobe emphasised that "I believe that there are many things we should be doing to promote Baltic security that have nothing to do with NATO or our own military ... we should promote transparency of all economic and political activities in the three ... we should promote in every possible way conversations between the Estonian, Latvian and Lithuanian government and society with their opposite number in Russia"<sup>③</sup> At the same time, it should be assumed that the statements of several

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① <https://thediplomat.com/2017/11/slovakias-overdue-china-strategy/>

② See Waldemar Rezmer. Małe państwa bałtyckie 1918-1940. Próby sojuszy wojskowych. – Nad Bałtykiem. W kręgu polityki, gospodarki, problemów narodowościowych i społecznych w XIX i XX wieku. Księga jubileuszowa poświęcona Profesorowi Mieczysławowi Wojciechowskiemu, red. Z. Karpus, J. Kłaczko, M. Wołos. Toruń, 2005, 931-935; Марек Корнат. Польская концепция «Междуморя» в 1937-1938 гг.: политический миф и историческая реальность. – Мюнхенское соглашение 1938 года: История и современность. Матералы международной научной конференции Москва, 15-16 октября 2008 г. Редактор Н.С. Лебедева, М. Волос. Составитель Ю.М. Коршунов, Москва, 2009, 61.

③ Paul A Clobe. Testimony Prepared for a Hearing on US Policy toward the Baltic States, US House of Representatives Committee on Foreign Affairs' Sub-Committee on Europe, Eurasia and Emerging Threats. March 22, 2017 Washington D.C.

USA politicians put into doubt the idea of NATO help to the Baltic States.<sup>①</sup>

Although USA has expressed their verbal support to the “Belt and Road” initiative, since the USA companies could also profit from it, USA similarly to the European Union has expressed negative attitudes towards both the OBR initiative and the 16+1 initiative.<sup>②</sup> The arguments of USA are the following: supporting the “Belt and Road” means boosting China’s political and economic power across much of the world; there are significant risks in the 16+1 strategy, most notably the common problem of great expectations toward China being met with brute reality; for all the promises of investment, commentators in the region have noted that the cases of Chinese job-creating greenfield investment are few and far between; the EU and the United States remain by far the most important investors, a phenomenon that is unlikely to change for decades; and no one, least of all the Chinese with very little experience in the region, should be complacent about the ancient but currently largely dormant antagonisms in the Balkans and across the region more generally. The 16 European countries put together to engage with China offer evidence of a new era of global China. In none of these countries, until now, has China ever appeared significant. They lived under different geopolitical umbrellas and within a different context. But in the second decade of the 21st century, this diverse grouping, with so many differences between the members, is united by a common desire to get more from the opportunities coming from China. Optimism is thick in the air; the 16+1 summits are popular events. The issue, however, as elsewhere, is that while the expectations toward China are diverse, disappointment often takes an eerily similar form. For China, ensuring that it fulfils some of the hopes expressed toward it will be very important.<sup>③</sup>

## V. Conclusions

1. The transit and logistical potential of the CEE countries has so far not been used to its full capacity, especially concerning the railways and ports of the Baltic States and Poland. The main northern destination for China in the Central and Eastern European region today is Poland. Nevertheless, Poland itself would like to dominate the Baltic region both economically and politically. There is only one transportation and logistics

① See for example Newt Gingrich: NATO countries “ought to worry” about U.S. commitment. <http://www.cbsnews.com/news/newt-gingrich-trump-would-reconsider-his-obligation-to-nato>

② <https://www.forbes.com/sites/northwesternmutual/2017/09/22/how-two-major-hurricanes-will-affect-the-economy/#4c0ef4aa25f2>

③ Kerry Brown. China’s Geopolitical Aims: The Curious Case of 16+1. <https://thediplomat.com/2017/05/chinas-geopolitical-aims-the-curious-case-of-the-16-plus-1/> See also Barbara Surk. As China Moves in, Serbia Reaps Benefits, With Strings Attached. <https://www.nytimes.com/2017/09/09/world/europe/china-serbia-european-union.html>

centre in Poland at present: Łódź. The main transport and logistics centres of Chinese goods in Duisburg and Hamburg are already overloaded and the opportunities for their expansion are limited.

2. The strengths of the ports of the Baltic States derive from their geographical position, they are a link between Europe and Asia. The ports of Latvia and Lithuania are ice free, the Estonian ports freeze over if the winter is very cold. This is a certain advantage when compared to the Russian ports in the Baltic Sea where during the winter period navigation ice breakers have to be used. Major weaknesses here are caused by geopolitical influences and the tense relations between the Baltic States and Russia as described above. The political factors have already made the economic relations between the Baltic States and Russia difficult and in the longer run may diminish the role of the Baltic States ports to a minimum in the Europe-Asia chain. It remains unclear to the author of the present paper whether Russia is ready to guarantee the use of its railroads for Chinese companies in order to enable the Baltic States, who harbour a hostile attitude toward Russia, to earn added value by utilizing the Russian railways. It should be added that the realisation of the plan will depend on the Russian infrastructure costs, Russian bureaucracy and licenses, the Russian railway infrastructure capacity and its technical condition. In addition, Russia itself may wish to gain profit from Chinese transit and reroute it to the Russian ports in the Baltic Sea region. Due to this reason it is not possible to make long term economic projections. Russia may decide to accept only such portions of the 16+1 project that meet their economic and political interests. For example, in September, 2017 it was announced that Lithuanian Railroads in cooperation with Kaliningrad Railroads would open a new transport corridor: Poland (Łódź), Kaliningrad Oblast, Belorussia, Russia, Kazakhstan, China (Urumqi).
3. The development level of the Baltic States economy, existing resources and diminishing work force does not permit Estonia, Latvia and Lithuania to compete successfully in the European Union market (excluding the IT sector) and is an obstacle in attracting big foreign investments. The competitive capacity of the Baltic States is very small and the profit gained by the openness of the market as in case of European Union is small, possibly non-existent when taking into consideration the competitiveness deriving from the rate of Euro, the small enterprise bankruptcies, a declining tax base caused by active labour age people leaving the country etc. The Baltic States has not become a strong independent actor able to regulate the rules of the political and economic game.
4. The foreign investments made into the Baltic States and the developing of the Baltic States export depends to a great extent upon guaranteeing the availability of a qualified work force. In present there is lack of skilled workers, needed both by the local and

foreign owned companies, but also of people who would be capable to guarantee success for the entrepreneurs in the export markets. When taking into consideration that Baltic market investments are dominated by Sweden, Finland, Norway, Netherlands and Russia, adding one player would not be in the interest of the financial sectors of these countries. For realising the “Belt and Road” project the prerequisite demanded by the representatives of the European Commission is enforcing definite rules.

5. As part of the “Belt and Road” project and 16+1 cooperation, China will dispatch their capital, expertise and employees to CEE countries where at the present time there is U.S. military presence and influence and which is a geopolitically important region for U.S..
6. The lack of historical conflict in Estonian, Latvian and Lithuanian-Chinese relations permits to put aside the ideological considerations and to act pragmatically in bilateral relations. But the Baltic States lack a clear vision in relation to the 16+1 cooperation, there is no action plan that would state clearly the aims and objectives in relation to the initiative. Latvia and Lithuania are more interested in the “Belt and Road” project than Estonia. No Estonian delegation participated at the Belt and Road Forum in Beijing in May, 2017 where approximately 130 countries were represented. Estonia refused to sign the Protocol on the Common Intentions.



# **Belt and Road Construction for Europe<sup>①</sup>: Protectionism and Influence<sup>②</sup>**

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As a representative developed market and China's largest trading partner for years, Europe is an important region in China's Belt and Road blueprint. Most of the countries along the Belt and Road are developing countries. Europe as a developed market has an important and special position and significance in the construction of the Belt and Road.

Over the past five years, Europe witnessed profound changes. The rise of protectionism, especially the emergence of populism and ultra-right forces, have had a certain impact on the implementation of the Belt and Road Initiative. The author focuses on analyzing the EU's views on Belt and Road construction, their protectionist behaviors in this process, as well as the prospects of China-Europe Belt and Road cooperation under the influence of protectionism.

## **I. Europe's Stance on the Belt and Road Initiative: From "Wait-and-See" to Self-Protection**

The attitude of the EU can be divided into three stages: wait-and-see, prudent cooperation, and active self-protection. The EU institutions took a wait-and-see attitude upon the birth of the Belt and Road Initiative.

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① This paper mainly discusses the European Union, but it also touches upon some European countries. In different contexts, it may refer to the EU or its member states.

② As a comprehensive concept, "protectionism" is mostly used in international trade to refer to trade protectionism. In international studies, this term is also widely used in the fields of politics, economy and culture. In this paper, protectionism is mainly divided into three dimensions: politically, it refers to policy conservatism, nationalism and nativism; economically, it refers to market and investment protection; and culturally, it emphasizes ideological differences and threats.

This stage lasted from 2013 to 2014. During this period, when China launched the "One Belt" and "One Road" initiatives, the EU did not directly express its position. At the same time, EU institutions and their think tanks were busy studying the purpose, plans and vision of the Belt and Road Initiative. The EU was mainly concerned with whether China's connectivity programs could adapt to EU rules, and insisted that they should be implemented under EU rules. For example, Ellis Mathew, European External Action Service Head of Division for China, Hong Kong, Macao, Taiwan and Mongolia, emphasized in 2014 that the existing projects of the Belt and Road Initiative, especially the standards for the China-Europe Land-Sea Express Line, must meet EU requirements, and should be subject to review and supervision by the EU.<sup>①</sup> David Cunningham, an EU official from the same institution, also insisted that China's Silk Road Economic Belt should effectively synergize with the plans and rules of the Trans-European Transport Networks (TEN-T). The EU could discuss cooperation possibilities on that basis.<sup>②</sup> What cannot be ignored is that some negative talks on the initiative started to emerge in Europe.

The official responses from the EU appeared mainly in 2015. In May 2015, Jean-Claude Juncker, President of the European Commission, said that there were no major obstacles against the integration of the European investment plan (referring to the Juncker Investment Plan) and China's Belt and Road Initiative. "It just needs transparency and the will to work together. We must engage to make sure that our plans fit at both the macro level and the operational level."<sup>③</sup> With the deepening of bilateral exchanges, there were proposals for cooperation between China's connectivity initiative and the TEN-T. In June 2015, when the Chinese Premier Li Keqiang visited Brussels to attend the China-EU Summit, the two sides put forward a series of initiatives, including the integration of the Belt and Road Initiative and the Juncker Investment Plan, and the establishment of a platform for connectivity between China and the EU. Instead of continuing waiting, the EU began to try to take a part. In 2015, China led the establishment of the Asian Infrastructure Investment Bank (AIIB). Major Western European countries, including Britain, France, Germany and Italy, joined the AIIB, which expanded the cooperation foundation of the new financial institution.

Since 2016, the attitude of the EU and some of its member states has begun to change significantly. As the EU deepened its understanding of the initiative, it started to take a preventative and self-protective position, and enhanced protection of the European

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① Record of the exchange between officials of the European External Action Service and the author on January 21, 2014.

② Remarks by George Cunningham, 2<sup>nd</sup> High Level Symposium of Think Tanks of the People's Republic of China and Central and Eastern European Countries, 2 and 3 September, 2014, Bled, Slovenia.

③ [http://news.xinhuanet.com/english/2015-05/07/c\\_134218780.htm](http://news.xinhuanet.com/english/2015-05/07/c_134218780.htm)

market and interests.<sup>①</sup>

## **II. Europe's Protectionist Policies or Initiatives for the Belt and Road Initiative**

In fact, since the outbreak of the global financial crisis, China's investment in Europe has started to grow rapidly, from about 2 billion euros in 2009 to about 20 billion euros in 2015. In 2016, the number soared to 35 billion euros, a staggering increase of 77% from 2015, and 1500% from 2010.<sup>②</sup> Because most of the Chinese investment in infrastructure construction, energy and production capacity programs in Europe were labelled as "Belt and Road" projects, the strategic implications of the initiative were strengthened, which attracted close attention of the EU and some of its member states.

### **(I) Impose investment security review on China and strengthen market protection.**

The EU is increasingly worried that through Belt and Road construction, China's foothold in key European sectors will create important points of influence for Beijing across the continent. While Europe's eyes are set on threats emanating from terrorism or Russia's aggressive behaviour, the rapid growth of China's strength makes Europe not confident any more, and in the long-term, China is the one external power that could pose the greatest challenge to Europe's cohesion as an economic superpower.<sup>③</sup> European powers, especially Germany, are increasingly wary of the loss of key technological know-how, data protection, and Chinese state-owned enterprises' acquisition of their high-tech companies. And the protection of their domestic markets has been strengthened on the grounds of national strategy and public security.

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① As far as the EU members are concerned, their attitudes towards the initiative were also clearly differentiated: the eastern and southern member states were active, while the northern and western member states were not; the old member states were less active, while new ones (especially those in Central and Eastern Europe) were generally active.

② Mathieu Duchâtel, "Trump trade reset gives China and Europe opportunity to rebalance relations", *ECFR*, 16 March, 2017, [www.ecfr.eu/article/commentary\\_trump\\_trade\\_reset\\_gives\\_china\\_and\\_europe\\_opportunity\\_7246](http://www.ecfr.eu/article/commentary_trump_trade_reset_gives_china_and_europe_opportunity_7246); Thilo Hanemann and Mikko Huotari, "Record Flows and Growing Imbalances - Chinese Investment in Europe in 2016", Rhodium Group and Mercator Institute for China Studies, January 2017, [http://rhg.com/wp-content/uploads/2017/01/RHG\\_Merics\\_COFDI\\_EU\\_2016.pdf](http://rhg.com/wp-content/uploads/2017/01/RHG_Merics_COFDI_EU_2016.pdf); Gisela Grieger, "Foreign Direct Investment Screening: A debate in light of China-EU FDI Flows", European Parliamentary Research Service, May 2017, [http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/603941/EPRS\\_BRI\(2017\)603941\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/603941/EPRS_BRI(2017)603941_EN.pdf).

③ "Foreign Investment Screening and the China Factor: New Protectionism or New European Standards?" November, 16, 2017, <http://cn.bing.com/search?q=Europe+protectionism+China&q&qs=n&sp=-1&pq=undefined&sc=0-25&sk=&cvid=77D35329CFC54F098429CC247B26194A&first=11&FORM=PERE>

In 2017, Germany, Britain and France called for a regime to increase the review of foreign acquisitions in Europe (or across the EU). The German government approved in July 2017 the ninth amendment to the Foreign Investment Regulation in order to control mergers and acquisitions by non-EU countries. According to the new regulation, if at least 25 percent of the voting rights in a German company with key technologies and security-related technologies are to be acquired by countries outside of the EU, the German government can strengthen scrutiny on the grounds of “threat to public order,” and even stop the acquisition, and the review period has been extended from two months to four months.<sup>①</sup> By amending the law, the United Kingdom has also extended the coverage of scrutiny of FDI to include small-scale overseas mergers and acquisitions, especially in such sectors as military-civilian systems, advanced technology, and military. Other countries like France are also announcing tighter investment scrutiny to strengthen protection of domestic high-tech markets.

There is no coordinated foreign investment review mechanism within the EU, and the scope of application of foreign investment review by member states are different from each other. In view of this, the European Commission President Juncker proposed in September 2017 that member states should actively strengthen coordination and establish a mechanism similar to the Committee on Foreign Investment in the United States (CFIUS) in Europe, so as to make sure the acquisition of strategic resources such as critical technologies, infrastructure, and sensitive information by foreign state-owned or controlled companies will not lead to the detriment of the EU’s technological edge, nor will it put their security or public order at risk.<sup>②</sup> There are already European think tanks suggesting to redefine what types of investors (indicating China) will pose a strategic threat to European investment, and to redefine what a strategic asset is. Some European countries plan to include critical infrastructure (such as international airports, power plants) in strategic assets for protection. Several European national think tanks support the establishment of investment review mechanisms for key infrastructure in Europe, and even propose to define media as a strategic asset, so as to prevent them from being purchased by Chinese companies and speaking for the Chinese.<sup>③</sup> At present, the EU is accelerating the coordination of an investment review mechanism.

① “New German Regulation on Foreign Investment Control”, <https://www.chinalawinsight.com/2017/07/articles/global-network/new-german-regulation-on-foreign-investment-control/>

② “State of the Union 2017 - Trade Package: European Commission proposes framework for screening of foreign direct investments”, European Commission - Press release, [http://europa.eu/rapid/press-release\\_IP-17-3183\\_en.htm](http://europa.eu/rapid/press-release_IP-17-3183_en.htm)

③ Ivana Karaskova, Tamas Matura, Richard Turcsanyi and Matej Simalcik, “Central Europe for Sale: the Politics of China’s Influence”, *Policy Paper*, Association for International Affairs, Czech, April 2018, <http://www.chinfluence.eu/central-europe-for-sale-the-politics-of-chinas-influence-2/>

The implementation of investment security review by the EU and its member states is not simply out of concerns for the loss of key technological know-how. The reasons behind are multi-dimensional. Among them, the growing protectionist mentality is the main reason. Germany, Spain, Italy and other European powers are deeply influenced by populist and extreme right forces. Protectionist thinking has gradually gained a position in public opinion, thus putting pressure on the ruling party (see Table 1). In addition, the United States has a great influence on the protectionist policies all over Europe. Trump's coming to power has encouraged the European populist forces. The US has also been actively promoting the practice of strengthening market protection in a bid to work in concert with Europe to build a security review mechanism for foreign investors. Affected by major European countries, the attitude of some new EU members has also changed. Poland, Slovakia and the Czech Republic have cautiously or passively treated China's investment in areas such as highways, electric power and hydropower construction projects, not only because of the pressure imposed by the EU's big powers, but also affected by the rising influence of right-wing populist parties in Central and Eastern European countries, and the doubts of domestic public opinion and media about China's investment. The security review of Chinese investment involves a number of elements, including the EU/Europe's protection of national interests, maintenance of their own core technologies, and catering to the extreme political atmosphere in Europe.

**Table 1. Representative populist parties in European countries<sup>①</sup>**

Categories	Political Parties	Political Influence
Radical left-wing populist party	Five Star Movement of Italy <sup>①</sup>	Ruling party, votes obtained 31% (2018)
	Podemos (We Can) of Spain	Opposition party, votes obtained 21.2% (2016)
	Coalition of the Radical Left of Greece	Ruling party, votes obtained 35.5% (2015)

① Populist parties have demonstrated wide influence in many European countries, and have become a force hard to be ignored in the political landscape of Europe. In the Southern European countries of Greece, Portugal, and Italy, Central European countries of Austria, Poland, Hungary, and the Czech Republic, and the Nordic countries of Finland and Switzerland, populist parties have become ruling parties through elections, playing an important role in these countries' political arena. In countries like Spain, the Netherlands, and Sweden, although the populist parties are opposition parties, they are also major parties in the parliaments, which have far-reaching influence on the countries' decision-making. Even in the EU's engines, Germany and France, the influence of populism cannot be ignored. The Alternative for Germany quickly rises to become the third largest party in parliament.

② The positioning of the Italian Five Star Movement is complicated. Its claims have both far-right and far-left contents. But within the European Parliament, the party belongs to a far-right party group.

(Contd.)

Categories	Political Parties	Political Influence
Conservative right-wing populist party	FIDESZ-Magyar Polgári Szövetség of Hungary	Ruling party, votes obtained 49.27% (2018)
	ANO2011 of Czech	Ruling party, votes obtained 29.64% (2018) <sup>①</sup>
	Alternative for Germany (AfD) of Germany	Opposition party, votes obtained 12.6% (2017)
	Fleieitliche Partei Östereichs of Austria	Ruling party, votes obtained 27.4% (2017)
	Liberal Party of the Netherlands	Opposition party, votes obtained 13.1% (2017)
	Front National of France	Opposition (2017)
	United Kingdom Independence Party	Opposition (2017)
	The True Finns of Finland	Ruling party, votes obtained 17.65% (2015)
	Prawo i Sprawiedliwość of Poland	Ruling party, votes obtained 37.6% (2015)
	Partido Popular of Portugal	Ruling party (by coalition with CDS), votes obtained 36.86% (2015)
	Schweizerische Volkspartei (SVP) of Switzerland	Ruling party, votes obtained 29.4% (2015)
	Dansk Folkeparti of Danmark	Opposition party, votes obtained 21.1% (2015)
	Sverigedemokraterna of Sweden	Opposition party, votes obtained 12.9% (2014)

*Data source: Summary of information collected by the author*

## **(II) Refuse to recognize China’s full market economy status, and further consolidate Europe’s tools for trade defense.**

Since the establishment of diplomatic relations between China and the European Community in 1975, bilateral economic and trade relations have developed smoothly. After the EU’s eastward expansion in 2004, the market also expanded. Since then, the EU

<sup>①</sup> The ANO2011 team experienced twists and turns in cabinet building. It tried to form a cabinet after winning the election at the end of 2017, but failed. In June 2018 it tried again, but it is still not completed.

has been China's largest trading partner, while China is the second largest trading partner for the EU. The two sides have always insisted on multilateral trade and free trade.

The financial crisis that swept the world in 2009 profoundly affected China-EU relations. The 2012-2013 photovoltaic dispute became a landmark event of this turning point. On the one hand, the ongoing crisis has led to the decline of the influence of the EU, the internal structure of which is facing profound adjustments. The EU is transforming into an "inward-looking" actor, changing from leading the world by norms to consolidating its own unity by norms, which has significantly weakened its external influence. On the other hand, the crisis has stimulated the EU's trade protectionism. The EU has frequently used "anti-dumping and anti-subsidy" policies for Chinese industries such as the PV to protect their fragile domestic industries.

China's national strength has been constantly improved. Chinese companies' competitiveness has been continuously enhanced. And its advantageous position in global trade has been gradually consolidated. EU institutions believe that China's state intervention and the development model of support for enterprises make it impossible for Europe to compete fairly with Chinese companies. In 2017, China and the EU disputed from time to time on whether to recognize China's full market economy status. On December 20, 2017, the "Commission Staff Working Document on Significant Distortions in the Economy of the People's Republic of China for the Purposes of Trade Defence Investigations" was officially released in the European Commission.<sup>①</sup> The EU used market intervention by the Chinese government as an excuse to deny China's full market economy status, and maintained an attitude of restriction toward trade with China. Through anti-dumping and anti-subsidy, environmental protection, human rights and high labor standards, the EU has launched protectionist actions against China.

The above-mentioned "Working Document" believes that the Communist Party, as the ruling party of China, not only has an unparalleled influence in the field of political life, but also has a strong control of the country at the macroeconomic and microeconomic levels. China's national economy is not based on market rules, but rather, is controlled by the state power represented by the Communist Party of China (CPC). On such basis, the report draws three conclusions: 1. China's socialist market economy is not a full market economy, especially the market economy defined by the West; 2. The distortions of the Chinese economy lie in the involvement of the state will represented by the CPC, so many economic actions of China are full of strong ideologic color and national will; 3. In China, both the production factor market and the specific production sectors are

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① Commission Staff Working Document on Significant Distortions in the Economy of the People's Republic of China for the Purposes of Trade Defence Investigations, [http://trade.ec.europa.eu/doclib/docs/2017/december/tradoc\\_156474.pdf](http://trade.ec.europa.eu/doclib/docs/2017/december/tradoc_156474.pdf)

controlled by the state, rather than functioning under market regulation.

Based on the above conclusions, the EU insists that: 1. China’s full market economy status should not be recognized; 2. As China’s economic behavior features strong state will, China’s direct investment in EU countries, especially Chinese state-owned enterprises’ investment and mergers and acquisitions in EU member states, should be reviewed with more strict standards; 3. The barriers to entry into the EU for Chinese products in specific production areas (steel, aluminum, photovoltaics, etc.) should be raised, and the right to conducting anti-dumping investigations against Chinese products should be retained.

As a result, the EU has set up new rules and framework under the WTO framework. In order to protect its own market, it is creating limits for future China-EU economic and trade cooperation. The EU’s interpretation of the new law is that it aims to ensure that the EU has a trade defense tool that can cope with the reality, while complying with the EU’s international obligations under the WTO legal framework.

Protectionism has become an important background for the EU’s refusal to recognize China’s market economy status. China-EU trade is highly complementary. However, the EU has always criticized the huge trade deficit between the two sides, and that the strong competitiveness of some Chinese goods is unfavorable to the development of related industries in the EU and also threatens employment. In the fields of steel, photovoltaic, plexiglass, electrolytic aluminum, etc., the EU has frequently launched the anti-dumping and anti-subsidy investigations to protect the European market and jobs. Furthermore, it also emphasizes China’s international responsibility, fair opening to each other, equality, reciprocity, and fair trade. It opposes China’s engagement in social dumping.<sup>①</sup>

### **(III) Be more cautious about infrastructure projects with loans from Chinese.**

Infrastructure construction is one of the areas where the Belt and Road Initiative has witnessed rapid growth in Europe. With the support of various financial instruments in China, China’s infrastructure projects in Central Europe and the Balkans have developed rapidly. Such rapid growth has triggered the EU’s alert and uneasiness, which resulted in their increased review of infrastructure projects, using EU rules to limit these projects. The most prominent cases are: (a) China-EU cooperation in the connectivity of West Balkan; (b) EU review of the construction of the Hungary-Serbia Railway.

In the early days, the EU was vigilant about China’s infrastructure programs in West

<sup>①</sup> Thilo Hanemann and Mikko Huotari, “EU-China FDI: Working towards more reciprocity in investment relations”, New research by MERICS and Rhodium Group, 17/04/2018.



Balkan. However, as time goes by, the EU has begun to actively seek to negotiate with China and work together in infrastructure construction of West Balkan. Even if both sides have played a role, the EU hopes that China's infrastructure programs can be implemented under the EU's infrastructure construction framework. However, as many infrastructure projects with Chinese loans have landed in West Balkan, the EU has become suspicious again, and has actively introduced the "Berlin Process",<sup>①</sup> the new EU Strategy for Balkans Expansion,<sup>②</sup> etc., with a view to curb China's influence in the field of infrastructure construction, and gradually exclude cooperation with China. At present, the EU has launched a series of plans to promote connectivity in West Balkan, in an effort to strengthen the EU's voice and influence in the infrastructure market in the region. This changing process shows that the EU also regards connectivity as its important strategic interest. As a result, it has begun to increase protection, and has strengthened the review of China's loan behavior and approaches. The EU is also developing its own Eurasian connectivity plan. To offset the influence of China's Belt and Road Initiative, the EU is actively launching a new connectivity plan for Eurasia, which is currently being discussed within the EU, and will be proposed in the Asia-Europe Meeting at the end of 2018 to ask for opinions of Asian partners.<sup>③</sup> This move of the EU is also intended to unite India, Japan, and ASEAN to jointly develop rules for connectivity, and to balance the influence of China's Belt and Road Initiative with multilateral measures.

The review of the Hungary-Serbia Railway can be regarded as an important case in which the EU uses rules to strengthen protection of the infrastructure market. The construction of the Hungary-Serbia Railway was co-initiated by China and Central and Eastern European countries in 2014, and had been progressing smoothly. However, since 2016, the EU has strengthened its review of the project. In March 2017, Chinese and foreign media enthusiastically hyped the EU's review of the Hungary-Serbia Railway, an landmark project of the Belt and Road Initiative.<sup>④</sup> In fact, it reflects the EU's vigilance and preventative mentality for Belt and Road construction. Most importantly, the EU infrastructure market is also a big cake. And the involvement of Chinese forces will affect the interests of local infrastructure companies. With this kind of precautionary mentality, at the end of 2017, the European public opinion hyped that Belt and Road construction was actually creating "debt imperialism," criticizing the Chinese investment for the so-

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① The Western Balkan's Berlin Process: A new impulse for regional cooperation, Briefing 4 July 2016, European Parliament.

② Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans, Strasbourg, 6.2.2018, COM(2018) 65 final, European Commission.

③ Eurasian connectivity: the EU and India enter the fray,  
<http://www.atimes.com/eurasian-connectivity-the-eu-and-india-enter-the-fray/>

④ "The Hungary-Serbia Railway built by Chinese enterprise investigated by the EU, bidding process questioned."  
<http://international.caixin.com/2017-02-22/101058017.html>

called doing harm to developing countries and emerging markets.<sup>①</sup> In the infrastructure sector, China has provided loans to some European countries. European countries that accept loans need to provide sovereign guarantee to China, which may raise the risk of debt distress in some borrower countries, and may cause a break of the warning line of 60% of debt. Moreover, because China chooses projects based on their long-term strategic value, sometimes the short-term returns these projects generate are not enough to repay their debts, which increases the weight for China in negotiations. China can use them to force borrower governments to turn these debts into equity, thereby expanding China's influence in these countries, making more and more countries to fall into the “debt slave trap.”

The EU is also concerned about whether the infrastructure projects supported by China can meet the its governance standards, technology and environmental protection requirements, and if China's investment in member countries will bypass EU rules and sepearate the EU, affecting the solidarity of the union. Therefore, strengthening the restrictions and review of rules for infrastructure projects has become another approach to better protect the EU.

#### **(IV) Launch a new round of “China Threat rhetoric” to strengthen ideological protection.**

In the field of cultural and people-to-people exchanges, European countries have also introduced new initiatives to strengthen the construction of Western ideology communities, and has been criticizing Chinese models, values and soft power. The most typical event is that in 2017, Europe and the United States worked together to coin the term “sharp power.” They argued that China played “sharp power,” which was exclusive to centralized regimes, in Asia, Africa, Latin America and Europe. Authoritarian influence efforts are “sharp” in the sense that they pierce, penetrate, or perforate the political and information environments in the targeted countries. It is different from “sharp power” in that the latter mainly uses public diplomacy, media or cultural exchanges to “win hearts and minds” of the targeted countries.<sup>②</sup> The most typical example is that the National Endowment for Democracy from the US supports scholars, including those from Central and Eastern Europe, to coin the concept of “sharp power” for China,<sup>③</sup> criticizing that

① John Hurley, Scott Morris, Gailyn Portelance, Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective, CGD Policy Paper 121 March 2018, <https://www.cgdev.org/publication/examining-debt-implications-belt-and-road-initiative-policy-perspective>

② Christopher Walker and Jessica Ludwig, “The Meaning of Sharp Power: How Authoritarian States Project Influence”, *Foreign Affairs*, December 2017. David Parkins, “What to do about China's ‘Sharp Power’”, *Economist*, December 2017, <https://www.economist.com/news/leaders/21732524-china-manipulating-decision-makers-western-democracies-best-defence>

③ National Endowment for Democracy, “Sharp Power: Rising Authoritarian Influence”, December 2017, <https://www.ned.org/sharp-power-rising-authoritarian-influence-forum-report/>

China's authoritarian power is using economic strength to spread Beijing's development model. While they spread such an idea in international public opinion, Western media, journals and websites also take advantage of the situation to demonize China. Think tanks have also become one of the main drivers of this wave of propaganda. European think tanks work together on "Authoritarian Advance: Responding to China's Growing Political Influence in Europe,"<sup>①</sup> which comprehensively analyzes the characteristics of China's "authoritarian system" and its practices in Europe, arguing that Europe should strictly guard against the penetration of the Chinese model in the field of humanity. The trend of strengthening ideological protection in the field of cultural and people-to-people exchanges has become more apparent.

Generally speaking, Belt and Road construction faces Europe's protection and prevention from economy, politics to culture. The protectionism adopted by Europe against China has become one of the biggest risks facing the Belt and Road construction in Europe.

### **III. Europe's concern for the risks of the Belt and Road Initiative has grown significantly**

In nature, the Belt and Road Initiative is an open and inclusive initiative. China and its partners cooperate in a voluntary spirit and on the principle of mutual benefit. However, Europe has begun to misinterpret the original intention of such cooperation, and pays closer attention to various risks that the initiative may bring. Concerns about various risks have become an important driving force for Europe to further strengthen self-protection. In general, the EU and some of its member states believe that the initiative will bring about the following four major risks to Europe.

#### **(I) EU rules out of control.**

Initially, China officially announced that all 16 countries in Central and Eastern Europe would be included in the Belt and Road countries, and the "16+1" cooperation platform was launched to promote their participation in the connectivity of Eurasia. The EU is concerned that such an open approach may cause EU rules to go out of control. Therefore, EU officials have repeatedly stressed on various occasions that the plans of China must comply with EU rules, standards or plans. The EU adheres to its leading role in the promotion of infrastructure in Central and Eastern Europe via the Trans-European Transport Networks (TEN-T), and closely monitors the adverse effects that the initiative and actions of China may have on the EU's existing rules and arrangements.

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① Thorsten Benner, Jan Gaspers, Mareike Ohlberg, Lucrezia Poggett and Kristin Shi-Kupfer, "Authoritarian Advance: Responding to China's Growing Political Influence in Europe", Global Public Policy Institute and Mercator Institute for China Studies, February 2018.

The EU also continues to pay attention to the challenges that may be brought to its rules, including the Hungary-Serbia Railway and the China-Europe Land-Sea Express Line. In January 2018, the report “The new Silk Route - opportunities and challenges for EU transport” written by a third party under the requirement of the European Parliament touched upon the possible risks in the cooperation projects between China and the EU: (a) The infrastructure projects funded by China may reduce the concern of relevant European countries about sustainable development issues; (b) Due to the lack of clear investment plans in Europe, the initiative may lead to the competition of projects from inside and outside of Europe or repeated construction; (c) The dominance of China in railway transportation or its control of the entire logistics chain will significantly increase its ability to control the market; (d) The promotion of Chinese standards, which are lower, in non-EU countries in Europe may weaken the influence of EU standards.<sup>①</sup>

## **(II) Western order out of control.**

Many European countries are worried that the Belt and Road Initiative is likely to make the Western-led international order out of control. Some British scholars believe that the rise of China provides the world with an option other than the Western capitalist world. China has gradually been able to establish orders and rules that are different from Western preferences. This is also an important background for the Belt and Road Initiative.<sup>②</sup> There are also British scholars who believe that the initiative is China’s geopolitical strategy, and will definitely change the old international order landscape and rules.<sup>③</sup> Former German Foreign Minister Sigmar Gabriel even bluntly pointed out that the Belt and Road Initiative is just a move to promote a comprehensive alternative to the Western system, which is different from our model based on freedom, democracy and human rights.<sup>④</sup>

## **(III) Financial unsustainability.**

The EU has been concerned about the financial sustainability during the implementation of the initiative. China has continuously used various financial investment tools, such

① Steer Davies Gleave, “Research for TRAN Committee: The new Silk Route - opportunities and challenges for EU transport”, DIRECTORATE-GENERAL FOR INTERNAL POLICIES, Policy Department for Structural and Cohesion Policies, European Commission, January 2018.

② Shaun Breslin, “Global Reordering and China’s Rise: Adoption, Adaptation and Reform”, *The International Spectator*, Italian Institute of International Affairs, March, 2018.

③ Christian Ploberger, “One Belt, One Road – China’s new grand strategy”, *Journal of Chinese Economics and Business Studies*, Vol.15, 2017.

④ “China undermining us ‘with sticks and carrots’: Outgoing German minister”, *The Age*, 19 February 2018, <https://www.theage.com.au/world/europe/china-undermining-us-with-sticks-and-carrots-outgoing-german-minister-20180219-p4z0s6.html>

as the Silk Road Fund, Asia Infrastructure Investment Bank, China-Central and Eastern Europe Investment Fund, and US\$10 billion special loan, to maintain investment in Europe. This has caused concern in the EU whether China's investment is sustainable financially. Such concern is more based on the serious crisis caused by the excessive debt in the European sovereign debt crisis. In addition, the EU is also worried that if member governments participate in project under the initiative, sovereign guarantees must be provided in accordance with China's preferential loan regulations. That will add to the debt burden of member states, thus causing the borrower countries to take risk debt crisis.<sup>①</sup>

#### **(IV) Damage of specific interests.**

Many European countries are also worried that Chinese investment may control European ports, electricity and some energy sectors. Besides, mergers and acquisitions of advanced processing industries also endanger some of Europe's core industries, such as automobiles, machinery and high-tech products.<sup>②</sup> A German think tank analyzes that with the support of the "Made in China 2025" project, the country has been able to produce more and more high-tech products. And the infrastructure partnerships reached through the Belt and Road Initiative can quickly transport the products to the traditional markets of Germany, and even to the big European market, thus becoming a big rival to the industrial development of Germany.<sup>③</sup>

Italian scholar Jonathan Holslag believes that China's Belt and Road Initiative has a strong intention to open up external markets, and China is moving from defensive mercantilism (mainly aimed at protecting the domestic market) to offensive mercantilism (mainly to seek gains in the international market). China's market share has gradually increased in the countries along the Belt and Road, posing a big challenge to Europe. EU members have not only lost market share, but will also witness the shrink of their exports.<sup>④</sup> When analyzing the construction of China's Maritime Silk Road, a French scholar believes that China is competing with Europe in maritime trade, shipbuilding, marine economy, marine military and marine rule-making. The development of Maritime Silk Road has created more competition than cooperation in the relations between China

① Liu Zuokui, *Europe and the Belt and Road Initiative: Response and Risk 2017*, Beijing: China Social Sciences Press, (2017), pp. 11-12.

② Ronald H. Linden, "The Open Door Swings Back: The Challenge of Chinese Investment", *The International Spectator*, Italian Institute of International Affairs, March 2018.

③ Jost Wübbeke, Mirjam Meissner and Max J. Zenglein, "Made in China 2025: The making of a high-tech superpower and consequences for industrial countries", Mercator Institute of China Studies, 2. December 2016.

④ Jonathan Holslag, "How China's New Silk Road Threatens European Trade", *The International Spectator*, 52:1, 46-60, 2017.

and the EU. Europe must be aware of China’s motives for seeking specific power.<sup>①</sup>

As Europe’s concerns about the risk of Belt and Road construction is increasing, it has invisibly affected the EU policy-makers’ understanding of the initiative. As a result, they have gradually begun to strengthen self-protection, thus putting pressure on the initiative in Europe.

## **IV. The influence of Europe’s protectionism on Belt and Road construction**

### **(I) The specific influence of Europe’s protectionism on Belt and Road construction.**

Nowadays, European protectionist sentiment is strong. The refugee crisis, terrorism and other problems will not be eased in the short run. The political ecology will remain conservative for some time. And the protectionist forces may even grow. A large number of voters in Europe still complain that globalization and the rise of emerging powers pose a threat to Europe. Therefore, in the short term, European governments will adopt protectionist measures to ease the pressure on their governance of their countries. There is still big room for protectionism. This kind of atmosphere also has impacts on the construction of the Belt and Road, including:

#### **1. It is more difficult for China and the EU to reach important cooperation agreements under the Belt and Road Initiative, and the obstacles to cooperation have increased.**

With growing protectionist atmosphere, barriers to policy communication between China and the EU under the framework of Belt and Road Initiative have increased.<sup>②</sup> Previously, on many occasions, including the Belt and Road Forum for International Cooperation (BRF), China-EU Summit, and bilateral meetings between China and major European countries, China and Europe failed to reach agreements on documents related to the Belt and Road Initiative. The European side insisted on incorporating conditions such as “transparency,” “fair tendering processes” and specific EU standards in the agreements. While adhering to high standards, the United Kingdom has involved the “best practices” and “best standards” upheld by the EU, which adds to the difficulties in reaching cooperation agreements.<sup>③</sup> It is expected that the EU and its member states will still impose pressure on China by adding the premise of relevant conditions. The

① Mathieu Duchâtel and Alexandre Sheldon Duplaix, “Blue China: Navigating the Maritime Silk Road to Europe”, *Policy Brief*, European Council on Foreign Relations, April, 2018. [http://www.ecfr.eu/publications/summary/blue\\_china\\_navigating\\_the\\_maritime\\_silk\\_road\\_to\\_europe](http://www.ecfr.eu/publications/summary/blue_china_navigating_the_maritime_silk_road_to_europe)

② “EU backs away from trade statement in blow to China’s Modern Silk Road Plan”, the Guardian, 15 May 2017, available at <https://www.theguardian.com/world/2017/may/15/eu-china-summit-beijing-xi-jinping-belt-and-road>

③ “May resists pressure to endorse China’s ‘new silk road’ project”, Financial Times, 31 January 2018.

competition between the initiative and EU rules and practices will become more apparent. European powers or EU institutions will continue to use their own rules and practices as a protective wall, and enhance protection of the EU common market and common interests.

## **2. The EU and its member states have accelerated building the investment security screening mechanism, which adds to the difficulties in China's investment in Europe.**

The EU will continue to promote the investment security screening mechanism, and set up an effective investment screening mechanism for China at the EU level. In order to avoid more controversy, the EU will define the strategic industries more clearly. The EU will set clear standards for investment from China, and integrate Chinese financial instruments into the frameworks of existing EU mechanisms, such as the trans-European network, and serve them.<sup>①</sup> Therefore, China's investment in Europe will face more and more difficulties, and cases of investment failure will increase significantly.

To date, the most typical case is that the German government announced on August 1, 2018 that it refused to allow Chinese capital to acquire a well-known German machinery manufacturer due to "strategic security" reasons. This is the first time the German government has used the Foreign Investment Regulation (Amendment) adopted in July 2017 to refuse Chinese acquisition. At the EU level, the investment security screening mechanism is being discussed in depth in the European Parliament and the European Council, and is likely to be implemented within 2018.

## **3. Trade disputes between China and the EU will further increase.**

The EU's refusal to recognize China's market economy status indicates that trade disputes and frictions between the two sides will continue. The EU's abandoning of the concepts of "market economy status" and "non-market economy status" and adoption of "economic distortion" is a move to maintain the legal basis for anti-dumping investigations against China. Once the EU deems that there is a "serious distortion" of market in China, it can use the price of a third country to determine whether there is dumping. The new approach of the EU's anti-dumping investigation has not changed in real terms compared with the past. It only changes the applicable conditions from the previous "non-market economy countries" to "seriously distorted market." Under the guidance of this principle, the existing anti-dumping weapons are still valid, while the number of anti-dumping investigations against China will not decrease. Instead, anti-dumping and anti-subsidy

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① Foreign Investment Screening and the China Factor: New Protectionism or New European Standards? Nov.16, 2017, <http://cn.bing.com/search?q=Europe+protectionism+China&qsn=n&sp=-1&pq=undefined&sc=0-25&sk=&cvid=77D35329CFC54F098429CC247B26194A&first=11&FORM=PERE>

investigations in specific areas will increase according to public opinion needs. Behind the conflict of interests between China and the EU, the competition over systems and development models may intensify.

## **(II) The prospects of Belt and Road cooperation between China and Europe under the influence of protectionism**

To discuss the prospects of China-EU cooperation under the Belt and Road Initiative, it is important to consider how long the protectionist trend will last in Europe. If the difficulties and challenges faced within Europe cannot be effectively solved, then populism and far-right forces will still exist and play an important role for a long time, thus posing a threat to the big environment for China-EU cooperation. Under the assumption that the EU institutions or Europe gradually solve their own problems, and the populist or far-right forces gradually weaken, the author believes that the cooperation prospects are still optimistic.

### **1. Under the initiative, the cooperation has great potential, and the prospects are still bright.**

In the medium and long term, the mutual needs between China and the EU will become an important driving force for cooperation. First, European countries still have strong motivation to attract external investment, and share development opportunities brought about by emerging economies. Second, with the increase of investment in Belt and Road projects, Chinese companies will be more familiar with Europe's business environment, shoulder more social responsibilities and create more jobs. With these efforts, the Europeans' understanding of the Belt and Road Initiative will change, and they will start to truly welcome this initiative.

It is only five years from the proposal to the implementation of the initiative. And it has only been three years since Europe started to understand the initiative and work with China under the Belt and Road framework. Europe needs some time to understand the initiative in an all-round manner. And China needs to have patience and faith. In the cooperation with the EU, China should try to increase trust and dispel doubts. While strengthening economic, trade and investment cooperation, China needs to constantly accumulate experience, and work for mutual benefit and win-win progress with the EU.

### **2. The EU will use a more balanced approach to respond to the investment under the Belt and Road Initiative.**

In the future, while refining the rules and regulations for secure investment screening mechanism, the EU will also strike a balance between market protection and openness. As analyzed by a European think tank, market protectionism under the pretext of national security is not sustainable. As a pioneer of the free market, the EU must adhere to the



true principles of openness and use smarter measures to avoid the situation that some protection measures add to the vulnerability of the EU market. A level playing field is highly important for maintaining the long-term competitiveness of EU products as well as the multilateral system of international trade. Therefore, the EU has to strike a balance between the principle of free trade and the protection of key sectors, so as to avoid being misinterpreted by the outside world that the market protection against China is an anti-China act.<sup>①</sup> Therefore, although the investment environment facing Belt and Road construction will be tightened, there will still be large space and opportunities for it.

**3. Europe will strengthen “rules access” against China. As Belt and Road construction continues, the connectivity of rules will become more and more important and will achieve breakthroughs.**

In Belt and Road cooperation, in addition to the five major goals of connectivity, the connectivity of rules has become more important. That is to say, the synergy of investment and trade rules is an urgent issue that must be solved.

Europe’s investment security screening and non-recognition of full market economy status are both acts to strengthen protection in the form of rules. They also believe rule first in pushing China to expand market access, increase import, and protect intellectual property rights. Even in the maintenance of the international multilateral trading system, Europe has a larger voice for a reform of WTO rules. Therefore, in the future, the access and integration of rules will be more and more important for China-EU cooperation under the Belt and Road Initiative. In particular, the integration in terms of “transparency”, “protection of IPR” and “environmental and labor standards” will be inevitable.

With the further development of Europe’s market protection mechanism, it may force China and the EU to accelerate their negotiation of the investment agreement, thus consolidating and standardizing bilateral investment cooperation via laws, and bringing Belt and Road-related investment under a legal framework recognized by both sides.

Draft Paper, to be published in *China International Studies*, 9, 2018

① Foreign Investment Screening and the China Factor: New Protectionism or New European Standards? Nov.16, 2017, <http://cn.bing.com/search?q=Europe+protectionism+China&qsn=n&sp=-1&pq=undefined&sc=0-25&sk=&cvid=77D35329CFC54F098429CC247B26194A&first=11&FORM=PERE>

