



# BULLETIN

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Editors: Marcin Zaborowski (Editor-in-Chief) • Katarzyna Staniewska (Managing Editor)  
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## China and the CEE Look for New Development Opportunities

Justyna Szczudlik-Tatar

*On the eve of the 3<sup>rd</sup> summit in Belgrade, relations between China and Central and Eastern Europe are intensive. But, despite the dynamics that have put CEE on the agenda and shifted this region from the peripheries of Chinese foreign policy, the economic results such as the rise in Chinese imports and new Chinese investments, especially in the EU countries, are insignificant. China is facing problems with CEE as a heterogenous region with different legal frameworks and expectations. Poland, as a host of the China-CEE liaison mechanism for investment and associations of chambers of commerce, should use these forums to attract Chinese investors and explain any concerns and expectations.*

On 16 December, the 3<sup>rd</sup> summit between China and Central and Eastern Europe (CEE) will be held in Belgrade. The Chinese prime minister, Li Keqiang, along with the heads of government of 16 other CEE countries, will evaluate the implementation of the cooperation guidelines adopted a year ago in Bucharest, and update the agenda for the coming years. A new document defining priorities for 2015 and beyond will be adopted. Despite the high dynamics of cooperation between China and CEE within the 16+1 framework, tangible results, such as a rise in Chinese imports and new Chinese investments, especially in the European Union countries, are yet to materialise.

**Dynamics of the 16+1 Formula.** In recent years, following two decades of mutual disengagement, China is interested in reinvigorating relations with CEE. The PRC wants to increase its exports, but also imports from CEE (for example food), gain a foothold in CEE in the form of investments to diversify its foreign reserves, and gain access to CEE production bases, management resources and distribution channels. The PRC is also keen on expanding its transport connections, investing in infrastructure, and setting up economic zones and distribution centres within the framework the Silk Road concept—a new leading Chinese policy idea. CEE may help China to reach these goals, as they are convergent with CEE interests. The CEE, which has a huge trade deficit with China, wants to expand its exports (and not limit imports), attract investments, and set up multimodal logistics and distribution centres for China's transport links with Europe.

But to achieve these goals Beijing needs mechanisms and proposals that will both gain CEE attention and bring individual countries together. The latter is important, as for China is easier to cooperate with a larger entity. In April 2012, during Wen Jiabao's visit to Poland, China initiated a new type of cooperation in the form of summits of prime ministers from China and 16 CEE countries (the 16+1 format), and lower-level meetings in this format, as a tool for facilitating contacts. He also announced China's strategy towards CEE ("12 Measures")—a list of initiatives to reinforce relations. The most important were economic pledges, such as \$10 billion credit line, \$500 million investment fund at the initial stage, and more.

The "12 Measures" idea was developed unilaterally by China, and the implementation was initiated and carried by China and in China. But it was a single offer for 16 countries with different legal frameworks, expectations and needs. As a result, some of the proposals, such as a credit line with a demand to secure projects for Chinese companies or economic zones only for Chinese investors, were not attractive for EU Member States. Additionally, Brussels voiced concerns that the involvement of the 11 EU Member States and five non-EU countries in this format may undermine the EU's China policy or the competencies of the EU institutions, and there were worries about 16 countries formulating and executing their independent policy towards China.

Beijing noted these concerns, and, before the second summit, which was held in November 2013 in Romania, modified its approach, consulting the European Commission and CEE about its proposals in advance. As a result, the Bucharest

Guidelines—a successor and elaboration of the “12 Measures”—has been adopted by all 17 states, with conditions that cooperation must be carried out according to EU law, and that the 16+1 is an indispensable element of the strategic partnership between China and the EU. The same scheme has been adopted in the run up to the Belgrade summit. The main aim is to avoid proposals which are contrary to EU law.

**Bucharest Guidelines.** The Bucharest Guidelines have a richer agenda than the “12 Measures.” The guidelines list the initiatives to be implemented in 2014 and beyond, especially under the framework of the 2014 China–CEE Investment and Business Promotion Year. The document presents various areas of cooperation such as trade, investments, transport, infrastructure, agriculture, finance, culture, science and people-to-people contacts. It also introduces the joint mechanisms to be set up, and determines the scheme of cooperation, which will include ad hoc initiatives (such as ministerial meetings), cyclic events (for example, bi-annual dialogue between local leaders) and fixed mechanisms, such as associations.

The guidelines were implemented in 2014. The very broad agenda resulted in a huge number of meetings on various levels, which, to some extent, overshadowed bilateral relations between China and individual countries, and overwhelmed the limited capabilities of the CEE administration. Nevertheless, China tried to combine official meetings with fairs at which CEE had a special presence, to encourage businesses to cooperate with each other. For example, in June 2014, the Ministerial Meeting on Promotion of Trade and Investment and Economic Cooperation was held in Ningbo. Concurrently, the 13<sup>th</sup> China International Consumer Goods Fair was held in Ningbo, with the aim of presenting CEE’s export offer. In September, two investment events were held in Xiamen. These were the China–CEE Investment Promotion Symposium, attended by heads of investments agencies, and the China International Fair for Investment and Trade, which included a special invitation for CEE.

At the same time, the process of creating joint mechanisms is underway. In May, Hungary set up China-CEE association of tourism promotion agencies, while in late October, Bulgaria announced that it would host an association to promote agricultural cooperation. Work is in progress to construct infrastructure cooperation in Serbia, higher education institutes in Lithuania, local leader cooperation in the Czech Republic, and a chamber of commerce in Poland. What is more, the establishment of a liaison mechanism for investment promotion agencies was announced in November, in Warsaw. From the CEE side, the mechanism will be based at the Polish Information and Investment Agency. It is expected that the mechanisms and associations will be officially inaugurated in Belgrade.

However, there are still problems with some Chinese economic proposals, as they are not attractive for all 16 countries. China’s offer is hampered by the heterogeneous character of CEE. The Balkan countries, for example, are keen on China’s infrastructure projects, and the credit line is being used mainly in this region, while the EU Member States are waiting for greenfield, brownfield and capital investments. There is also reluctance to institutionalise the 16+1 format. For CEE, it is 16 bilateral dialogues, while new mechanisms are instruments facilitating contacts, rather than institutions, as they do not have internal structure and budget.

But despite these conundrums, China is keen on cooperation with CEE, as this region is perceived as a part of the Silk Road. CEE includes the closest European countries to China’s western provinces, which need development as they are poorer than the eastern part of the PRC. The Silk Road could also be perceived as a Chinese “pivot” to Asia and Europe. In that sense, China needs cooperation with CEE, and the infrastructural and transport projects that were introduced before the Silk Road announcement (such as the Chongqing–Xinjiang–Duisburg or Chengdu–Łódź direct cargo railways) have already been included in this concept. What is more, with the Silk Road on the agenda in Belgrade, new infrastructure and transport project agreements are expected to be announced.

**Seeking Mutual Benefits.** So far, the 16+1 format (such as annual visits by the Chinese prime minister) have put CEE on the agenda, and Chinese interest in the region has upgraded the position of 16 countries in Europe. China, which had so far perceived cooperation with Europe through the prism of the “old” EU, is using various mechanisms to gain knowledge about CEE, its internal diversification, investment environment, etc. In that sense, 16+1 is a long-term project. CEE needs stronger relations with China, and 16+1 is one of the instruments by which this could be achieved. By deepening relations with China, the CEE is globalising its foreign policy and seeking new markets and capital resources to maintain economic growth beyond the time large-scale EU funding comes to an end and the European market, which still is the focus for CEE, is saturated.

Chinese investments, including infrastructure, may benefit the development of Eastern European economies, while Silk Road projects such as transport, logistics and distribution channels may facilitate exports to China and narrow the trade deficit. What is more, CEE diversity might, to some extent, be an asset, as different countries are seeking different kinds of Chinese investments. Poland, as a host of the contact investment mechanism, should initiate various activities under this framework (such as compiling publications on the investment climate, and holding seminars and fairs), to let Chinese businesses know the investment conditions and legal framework, and to explain different expectations. The mechanism could be a useful forum for mutual learning. As in investment case diversity is an asset, in trade the similarity in export offer in CEE might be a positive point too. It is worth considering launching a joint export initiative (for example, one or several CEE countries could operate as central dispatch points for goods to China), taking into account China’s huge demand and the effect of economies of scale. Poland should gather momentum to set up an association of chambers of commerce as a good forum in which discuss this issue. It is also worth considering Poland’s leading role in that process, as the biggest market among the “16” and as host of two “economic” 16+1 mechanisms.