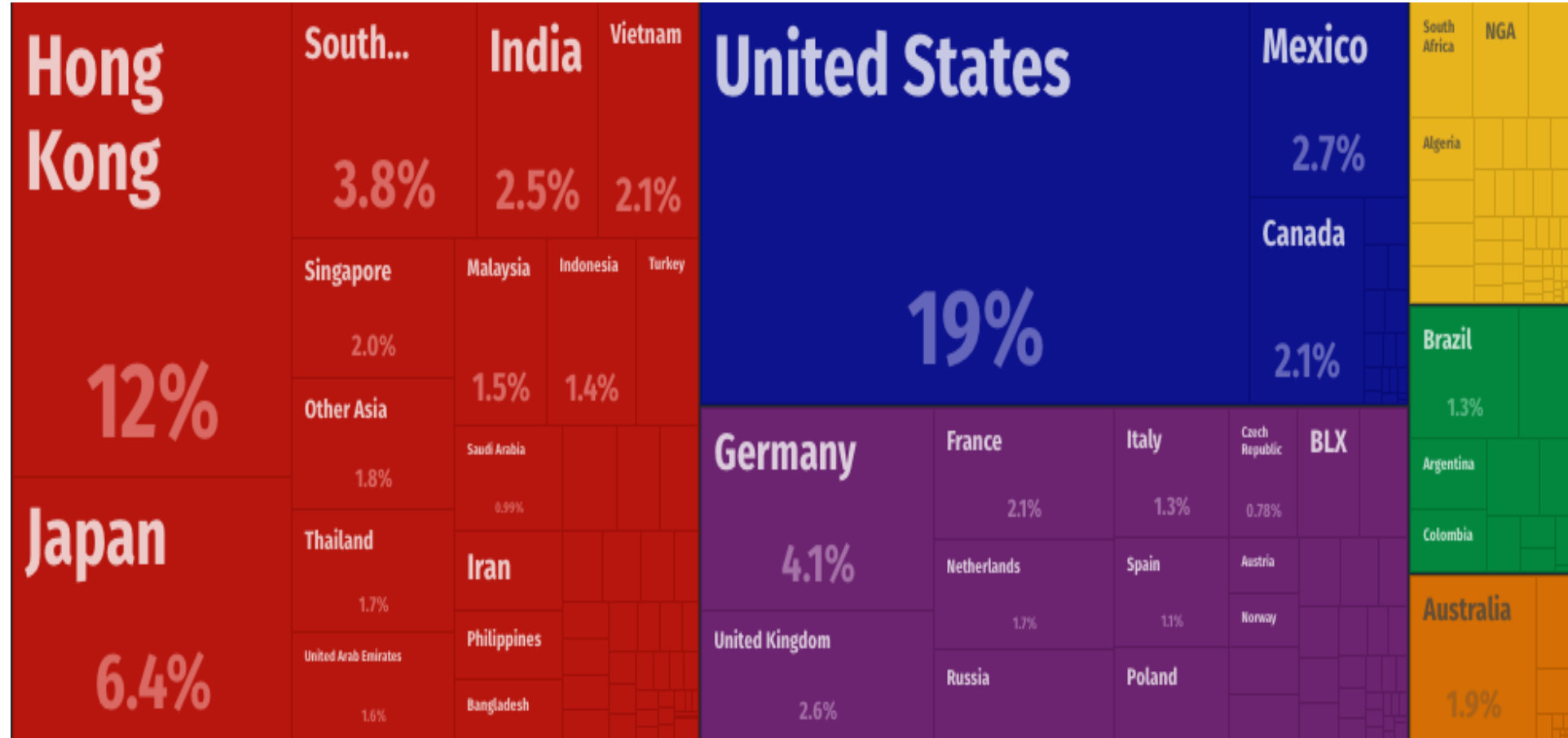


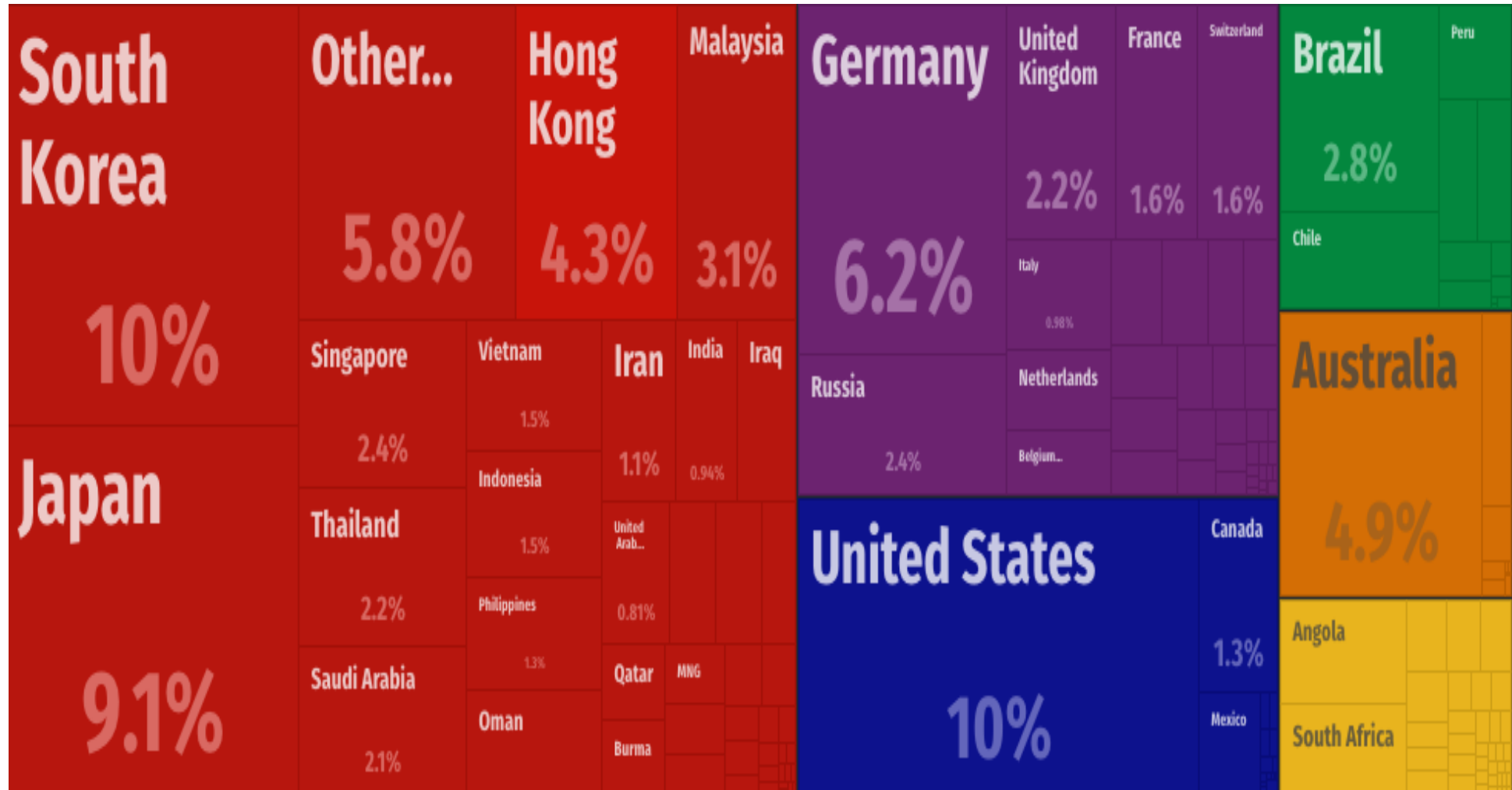
# China-CEE relations

Richard Q. Turcsanyi

# Chinese export partners



# Chinese import partners



# Central Europe and East Asia

- Relations depended on political system
  - 1918-1939: first diplomatic contacts with China and Japan
  - 1945-1989: good relations with communist countries, low level of relations with capitalist countries
  - 1990 – 2007: vice versa
  - 2008 - present: new era
- Brief sum up:
  - China: late start, today 16+1 platform
  - Japan: investments, trade, V4+1 platform
  - South Korea: investments, trade, political support
  - Taiwan: investments, trade, political support
  - North Korea: cold
  - Russia: important economic partner, problematic politics

# Chinese relations with CE

- 1990s-2000s: lack of interest on both sides
- After 2008 crisis: China started to invest in Europe, CEE felt lack of FDI  
→ development of relations
- 2011: First 16+1 meeting in Budapest
- 2012: First 16+1 heads of government summit in Warsaw, Wen Jiabao → 12 point proposal
- 2013: First mutually agreed guidelines (Bucharest)
- 2015: 16+1 formally aligned with Belt and Road

# Goals of 16+1: perspectives

- CEE
  - Economy! → Chinese FDI and CEE exports to China
- EU: Economy OK
- China
  - Economic goals by political means?
  - Political goals by economic means?
- → China-CEE “Pragmatic” cooperation

# 16+1 platform

- 2011: Budapest
- 2012: Varšava
- 2013: Bukurest
- 2014: Belehrad
- 2015: Suzhou
- 2016: Riga
- 2017: Budapest
- 2018: Sofia

# 16+1 vs. BRI

- 16+1
  - Older (2011/2012)
  - Mechanism for cooperation
  - Aligned formally with BRI in Suzhou 2015
  - Most of the CEE part of the developed world
- BRI
  - Initiative for long term goals
  - Connectivity
  - Most of the BRI part of the developing world
- For BRI to succeed, it must adapt to differences → specially tailored approach to CEE (the only developed part of the BRI)



# Goals of 16+1

- Establishment of the **secretariat** at the Chinese Ministry of Foreign Affairs cooperating the relations with the CEEC,
- Opening of a **10 billion USD special credit line** to CEE countries for projects aimed especially at the development of infrastructure, high-tech industry and green economy,
- Setting up a **joint investment fund** with the goal of raising 500 million USD in the first stage,
- Sending trade and investment promotion missions to CEEC and **reach 100 billion USD in common trade by 2015**,
- Establishing one **economic and technological zone** in each country in the next five years,
- Exploring **financial cooperation** such as currency swap, local currency settlement for cross-border trade, and establishment of bank branches in each other's countries,
- Establishing an **expert advisory committee** on the construction of transportation network to explore the building of regional highway or railway demonstration networks through joint venture, joint contracting and other means,
- Holding a **forum on cultural cooperation** and hold regular high-level and expert meetings on culture, cultural festivals and theme activities,
- Providing 5 thousand **scholarships to the CEEC students** and host an education policy dialogue with central and eastern European countries next year,
- Establish a **tourism promotion alliance**, explore the possibility of opening more direct flights between China and the CEEC, co-organize a tourism products promotion during the China International Tourism Mart in Shanghai 2012,
- Establish a **research fund** on relations between China and CEEC to which China will contribute 2 million RMB every year,
- Hosting the first **young political leaders forum** of China-CEEC in 2013,

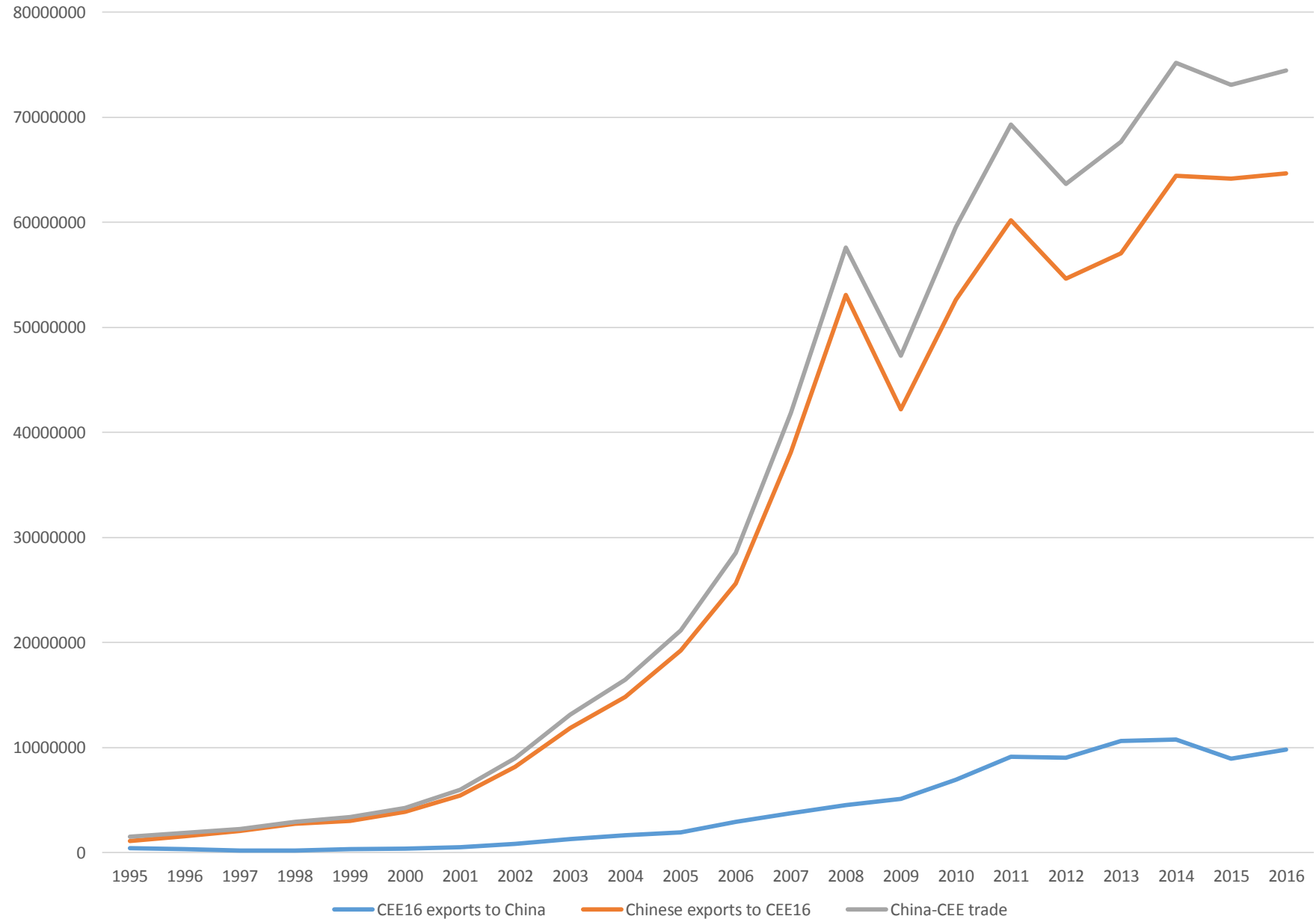
# 16+1 results: Hot Politics, Cold Economics

- Improved and stabilized **diplomatic relations**
- Improved **people-to-people** relations
- **Trade** has grown, but not CEE exports to China and not too much (less than in the case of Western Europe and less than in the comparable period before the 16+1 was established)
- **Chinese investments in the CEE** have largely not kicked-off (very few Greenfield FDI, few acquisitions, infrastructural projects successful only in non-EU members)

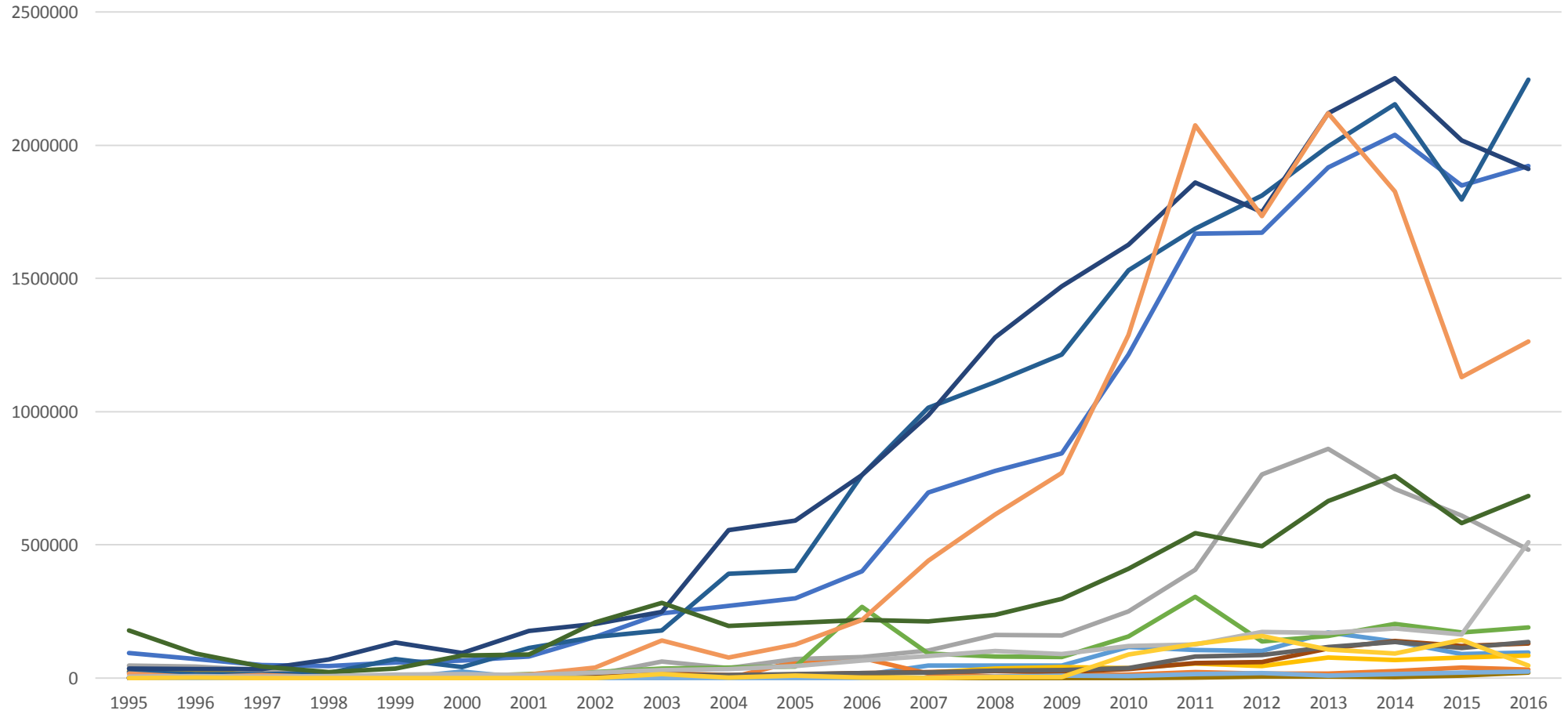
• **Implementation of the Measures of the Belgrade Guidelines for Cooperation between China and Central and Eastern European Countries**

- 1. In January 2015, the customs clearance facilitation cooperation mechanism for the China-Europe Land-Sea Express Line among the Chinese, Hungarian, Serbian, Macedonian and Greek Customs was officially established.
- 2. From February to October 2015, the Chinese Art Festival was held in Lithuania, Estonia and Latvia.
- 3. In March 2015, the launch ceremony of the Year of Promotion of China-CEEC Tourism Cooperation was held in Budapest, Hungary.
- 4. In March 2015, the 1st working group meeting under the Framework Agreement on Cooperation in Facilitating Customs Clearance Among the Chinese, Hungarian, Serbian and Macedonian Customs was held in Shanghai, China.
- 5. In April 2015, the Chinese Ministry of Foreign Affairs appointed the Special Representative for China-CEEC Cooperation.
- 6. In April 2015, the 1st meeting of the China-CEEC Business Council was held in Katowice, Poland.
- 7. In April 2015, the Riga High Level Conference on Transport and Logistics and the 3rd ASEM Transport Ministers' Meeting was held in Riga, Latvia.
- 8. In May 2015, the 1st Customs Control Techniques Workshop for the China-Europe Land-Sea Express Line among the Chinese, Hungarian, Serbian and Macedonian Customs was held in Shanghai, China.
- 9. In May 2015, the 33rd Meeting of the Central Bank Governors' Club of the Central Asia, Black Sea Region and Balkan Countries was held in Shanghai, China.
- 10. In May 2015, the 1st Meeting of China-CEEC Association of Provincial Governors was held in Hebei Province, China.
- 11. In May 2015, the Beijing-Budapest regular flight was launched.
- 12. In May 2015, heads of customs of China, Hungary, Serbia and Macedonia met in Xi'an, China, and signed the Cooperation Action Plan for 2015-2016.
- 13. In May 2015, China and Hungary signed an MoU on nuclear energy cooperation.
- 14. From May to June 2015, the Chinese Ministry of Culture organized Chinese performing arts organizations to purchase programs from Hungary, Serbia and Romania.
- 15. In June 2015, a delegation of CEEC journalists visited Zhejiang Province, Henan Province and Beijing, China.
- 16. In June 2015, the 1st China-CEEC Investment and Trade Expo was held in Ningbo, China.
- 17. In June 2015, the launch ceremony of the China-CEEC Association on Promoting Agricultural Cooperation and the 1st Meeting of Ministers of Agriculture was held in Sofia, Bulgaria.
- 18. In June 2015, the 1st China-CEEC Health Ministers' Forum was held in Prague, the Czech Republic.
- 19. In June 2015, the 1st TCM center in the Czech Republic was established.
- 20. In June 2015, the cartoon series Panda and the Little Mole co-produced by China and the Czech Republic was premiered in the Czech Republic.
- 21. In July 2015, the 5th China-CEEC National Coordinators' Meeting was held in Beijing, China.
- 22. In July 2015, a delegation of senior CEEC officials visited Sichuan Province, Yunnan Province and Beijing, China.
- 23. From July to August 2015, the 1st China-CEEC Summer Dance Camp was organized in Shaanxi Province, China.
- 24. In August 2015, Bank of China Prague Branch was opened.
- 25. From August to September 2015, the 2nd China-CEEC High-Level Conference on Tourism Cooperation was held in Bled, Slovenia.
- 26. In September 2015, the 10th China-CEEC Agrotrade and Economic Cooperation Forum was held in Budapest, Hungary.
- 27. In September 2015, the 3rd China-CEEC Education Policy Dialogue and the 2nd working consultation of the China-CEEC Higher Education Institutes Consortium were held in Warsaw, Poland.
- 28. In September 2015, the Beijing-Prague direct flight was launched.
- 29. In September 2015, the 2nd China-CEEC Seminar on Innovation, Technology Cooperation and International Technology Transfer was held in Bratislava, Slovakia.
- 30. In October 2015, an exhibition area dedicated to CEECs was created at the 11th China International Small and Medium Enterprises Fair in Guangzhou, China.
- 31. In October 2015, the Workshop on Customs Clearance Procedures of Transit Goods and Risk Management among the Chinese, Hungarian, Serbian and Macedonian Customs was held in Skopje, Macedonia.
- 32. In October 2015, a delegation of artistic directors of CEEC jazz festivals visited China.
- 33. In October 2015, the Seminar on Radio and Television Program Production for Central and Eastern European Countries was held in Shanghai and Hunan Province, China.

China-CEE16 trade

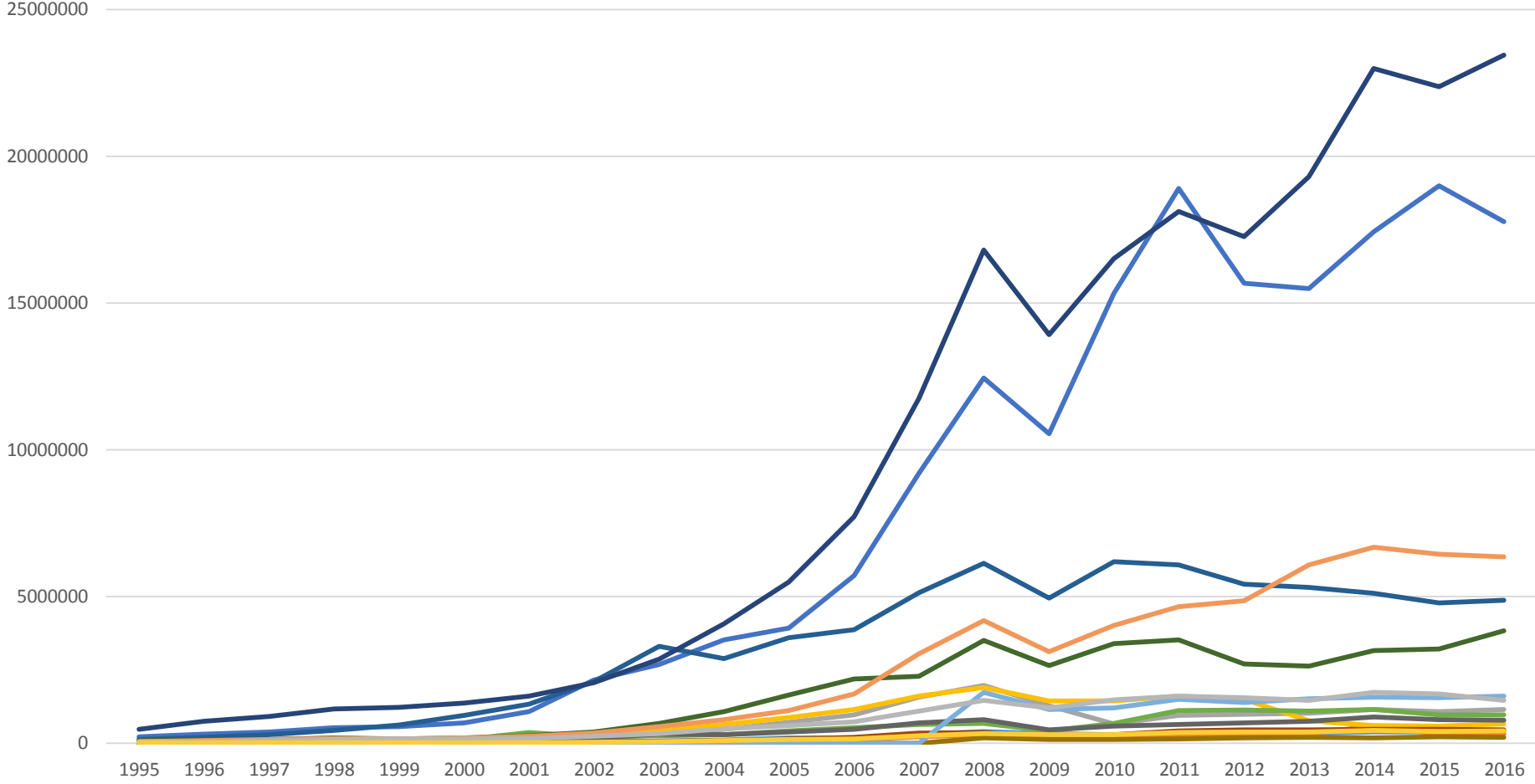


CEE16 exports to China



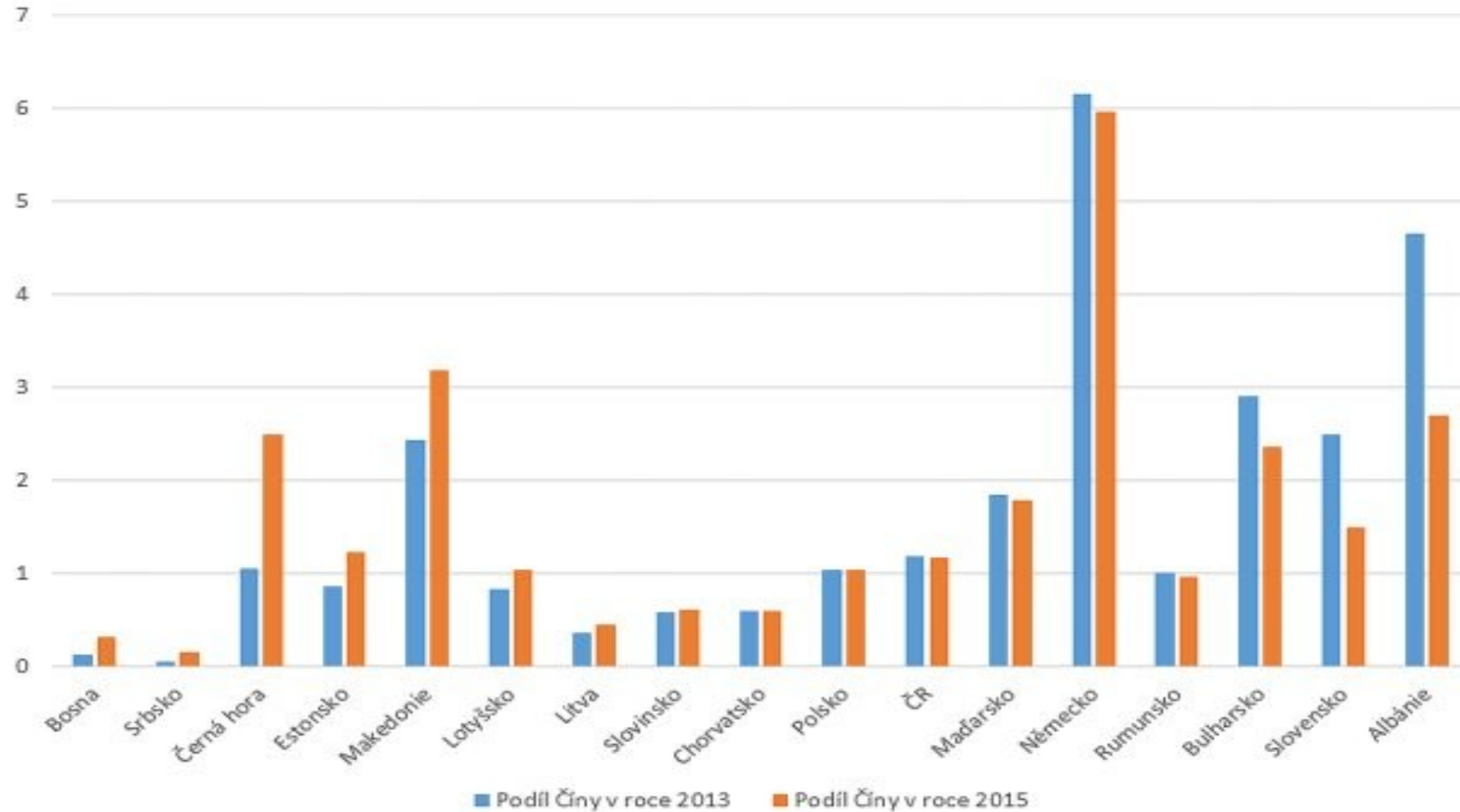
- |  |   |   |  |
|--|---|---|--|
| <span style="color: #4F81BD;">—</span> Albania   | <span style="color: #E67E22;">—</span> Bosnia and Herzegovina | <span style="color: #A6A6A6;">—</span> Bulgaria | <span style="color: #F1C40F;">—</span> Croatia           |
| <span style="color: #0070C0;">—</span> Czechia   | <span style="color: #2ECC71;">—</span> Estonia                | <span style="color: #0070C0;">—</span> Hungary  | <span style="color: #8B4513;">—</span> Latvia            |
| <span style="color: #34495E;">—</span> Lithuania | <span style="color: #8B4513;">—</span> Montenegro             | <span style="color: #0070C0;">—</span> Poland   | <span style="color: #2ECC71;">—</span> Romania           |
| <span style="color: #4F81BD;">—</span> Serbia    | <span style="color: #E67E22;">—</span> Slovakia               | <span style="color: #A6A6A6;">—</span> Slovenia | <span style="color: #F1C40F;">—</span> TFYR of Macedonia |

Chinese exports to CEE16

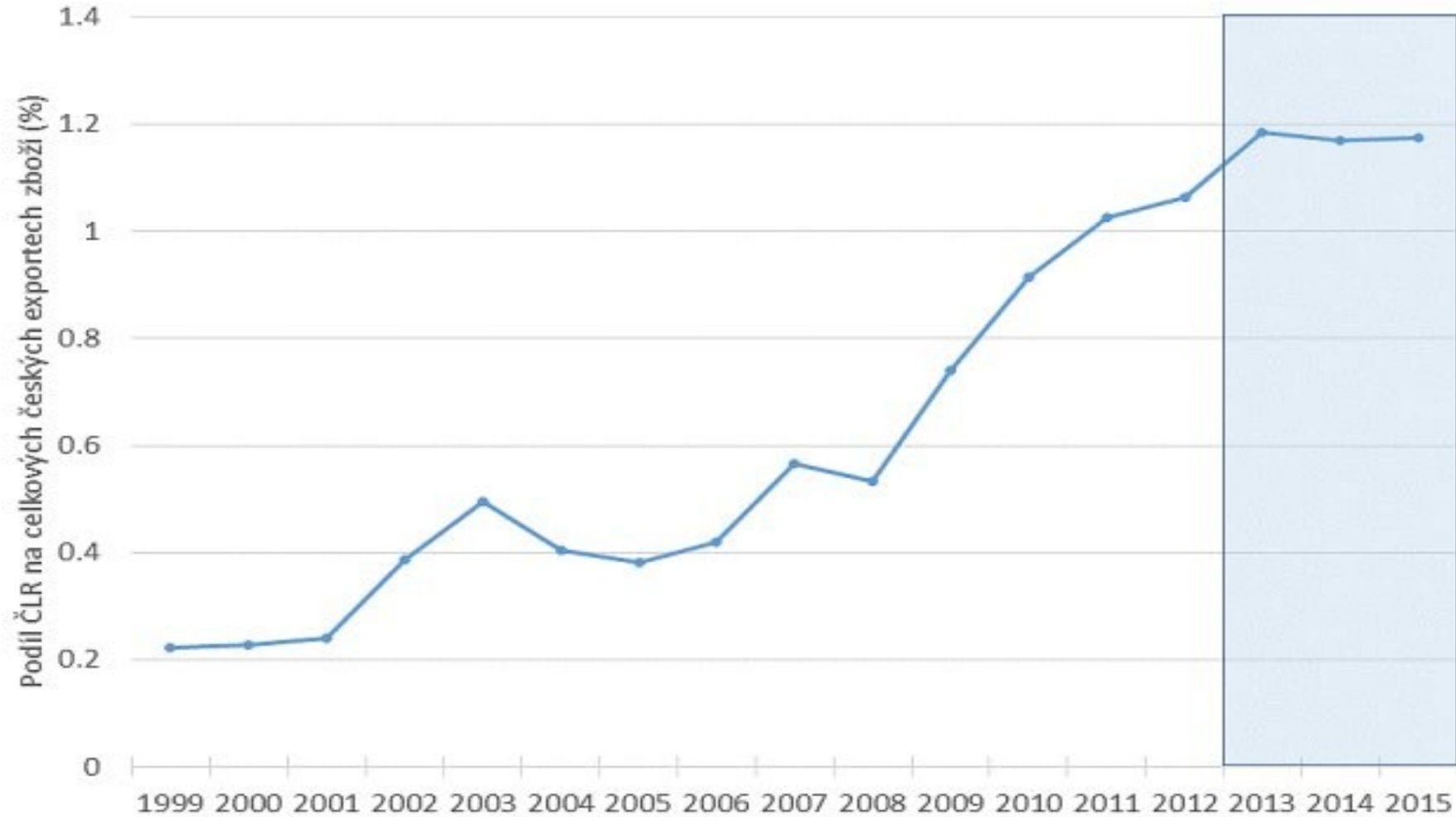


- |  |   |   |  |
|--|---|---|--|
| <span style="color: #4682B4;">—</span> Albania   | <span style="color: #FF8C00;">—</span> Bosnia and Herzegovina | <span style="color: #A9A9A9;">—</span> Bulgaria | <span style="color: #FFD700;">—</span> Croatia           |
| <span style="color: #00008B;">—</span> Czechia   | <span style="color: #32CD32;">—</span> Estonia                | <span style="color: #00008B;">—</span> Hungary  | <span style="color: #8B0000;">—</span> Latvia            |
| <span style="color: #2F4F4F;">—</span> Lithuania | <span style="color: #8B4513;">—</span> Montenegro             | <span style="color: #00008B;">—</span> Poland   | <span style="color: #2E8B57;">—</span> Romania           |
| <span style="color: #6495ED;">—</span> Serbia    | <span style="color: #FF4500;">—</span> Slovakia               | <span style="color: #A9A9A9;">—</span> Slovenia | <span style="color: #FFD700;">—</span> TFYR of Macedonia |

# China's shares in EU countries exports (Semerak)

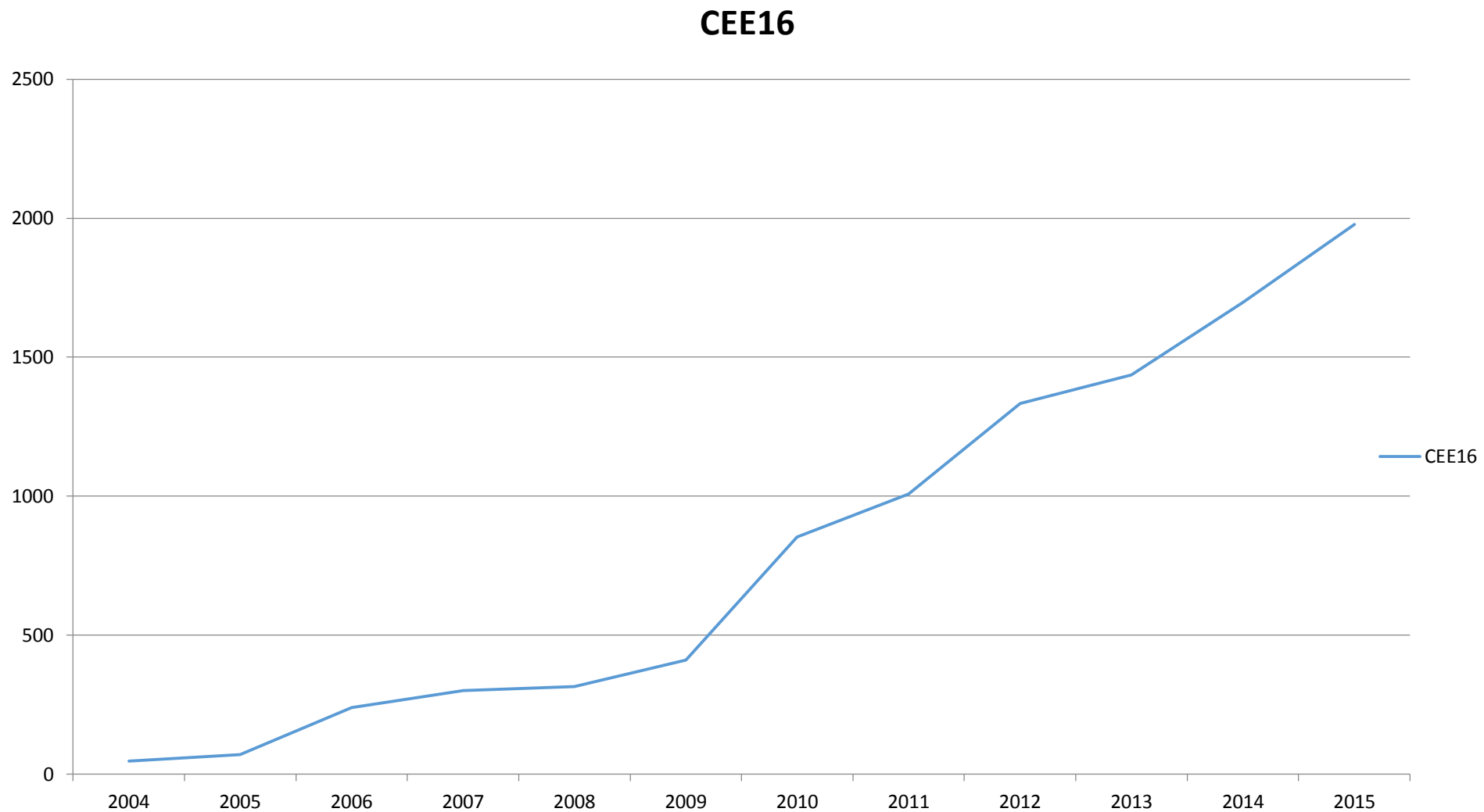


# Share of China in Czech exports (%) (Semerak)

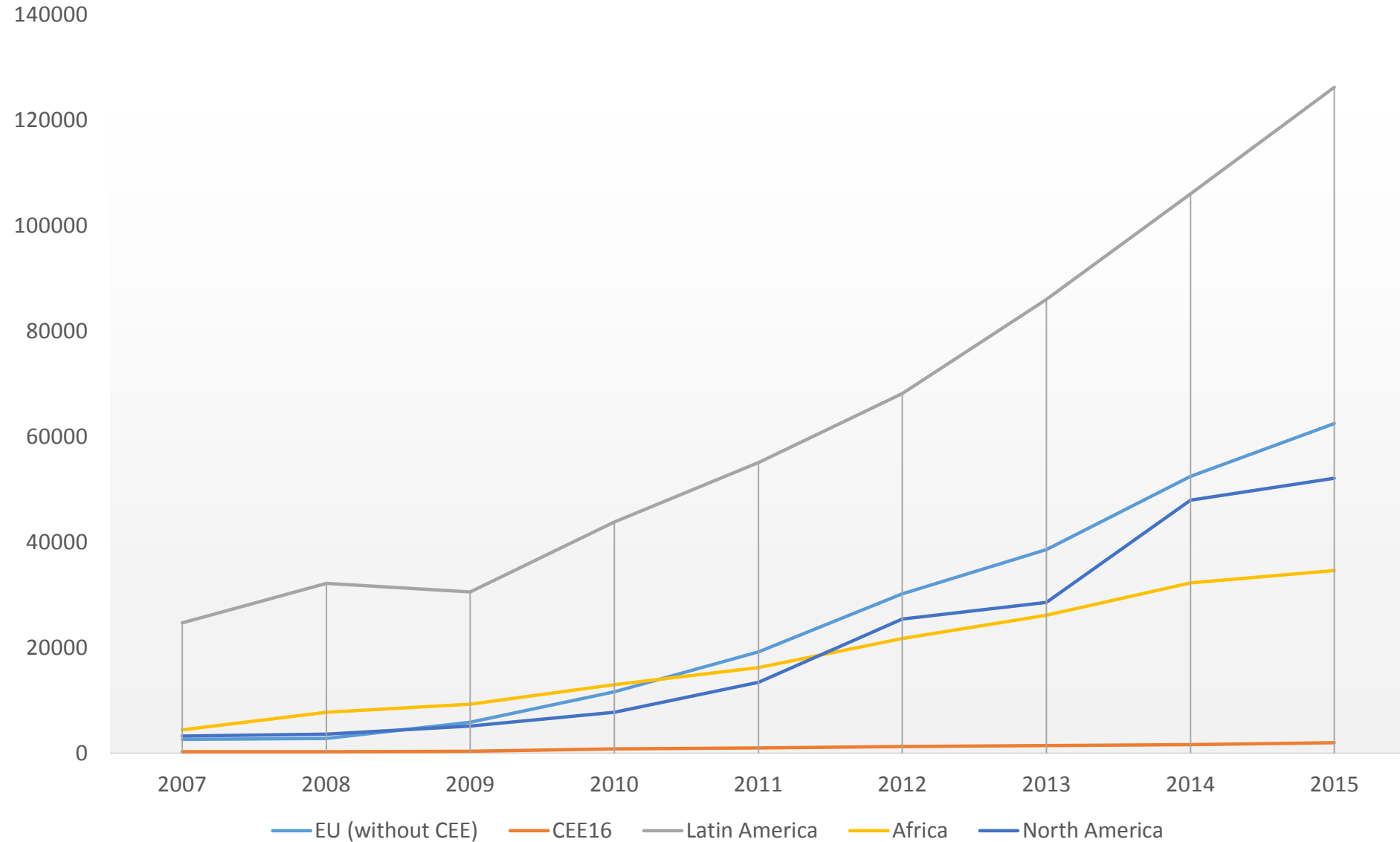




# Chinese total FDI stock in CEE16 (MOFCOM)



# Chinese OFDI: comparison (MOFCOM)

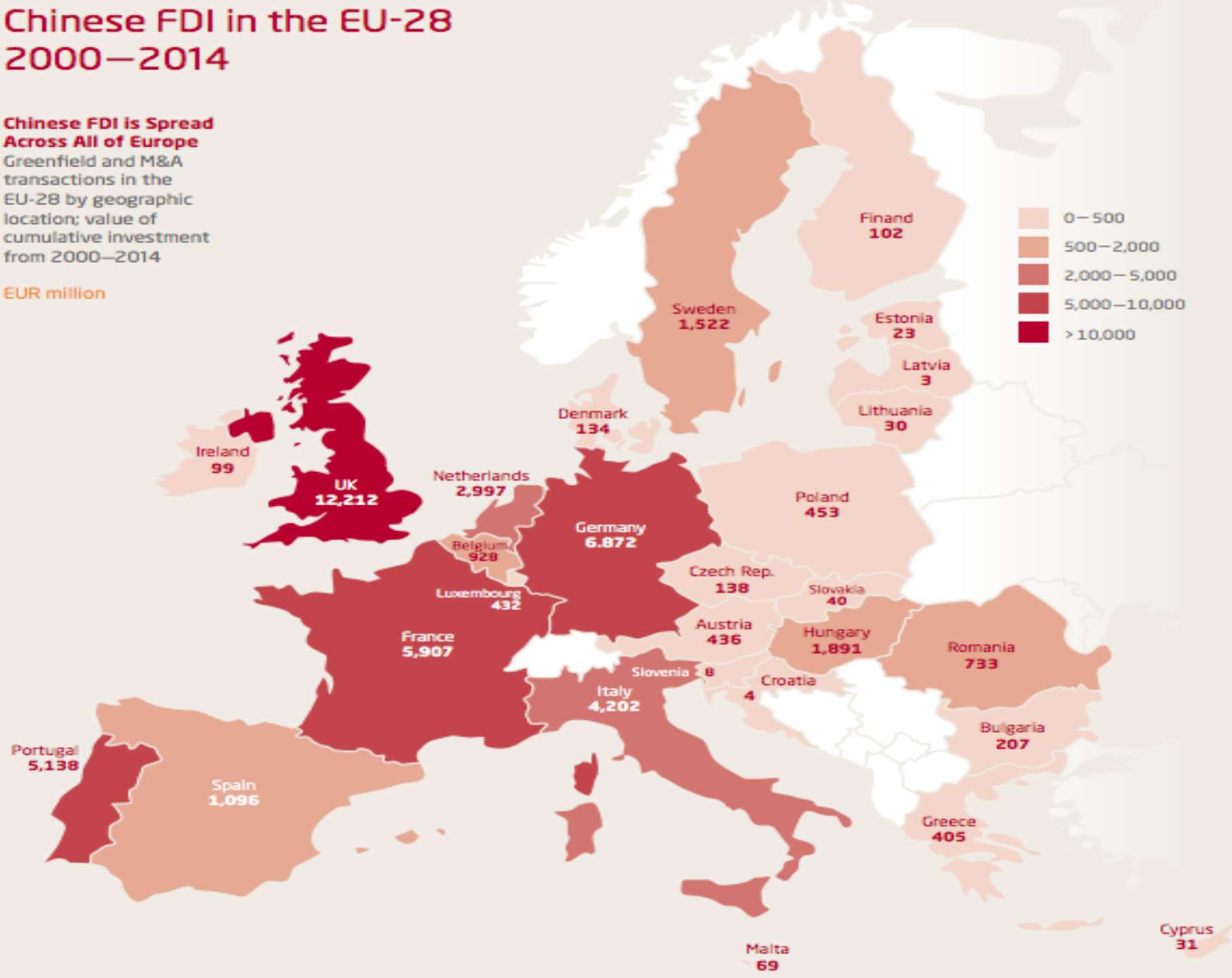


# Chinese FDI in the EU-28 2000–2014

## Chinese FDI is Spread Across All of Europe

Greenfield and M&A  
transactions in the  
EU-28 by geographic  
location; value of  
cumulative investment  
from 2000–2014

EUR million

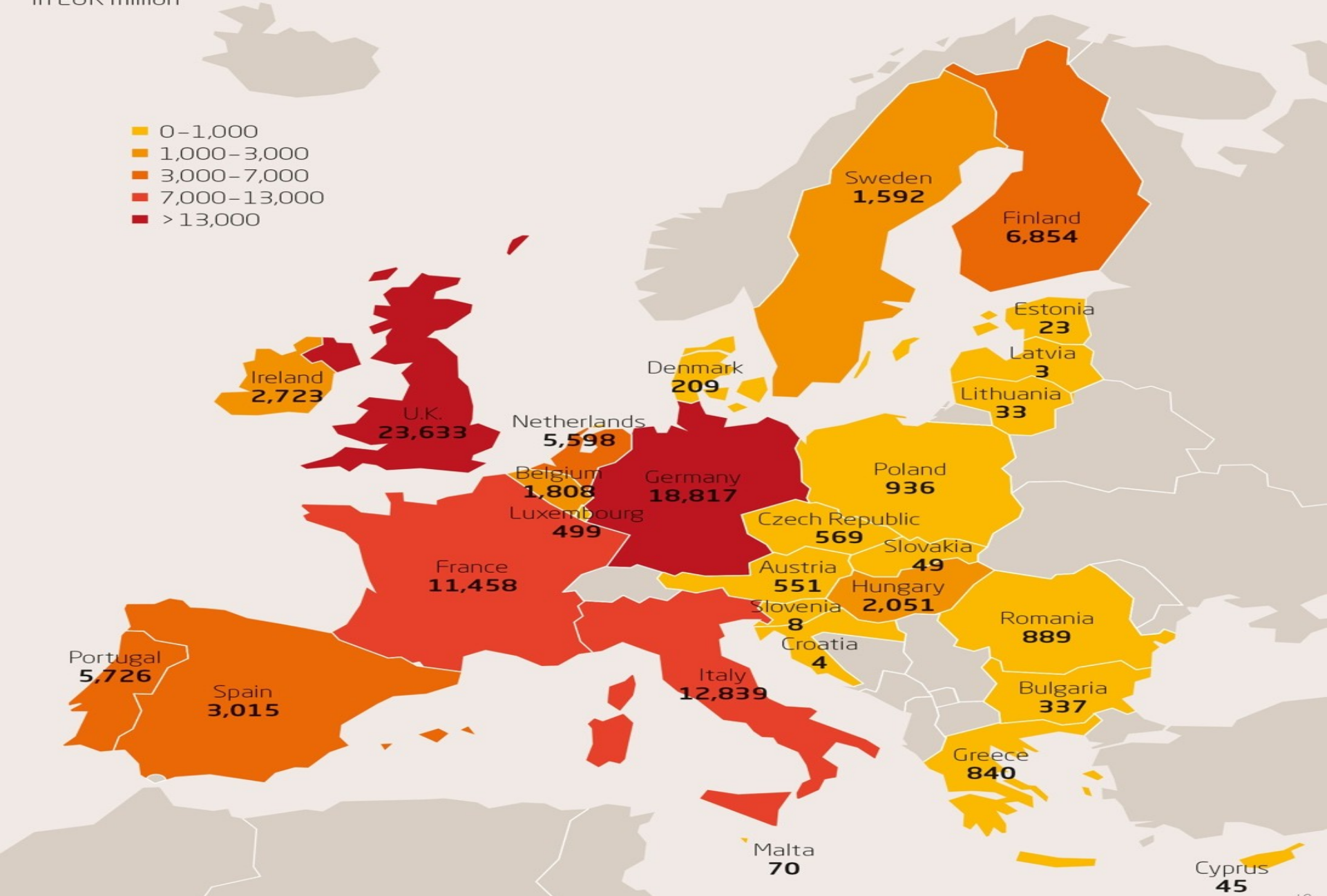


# Chinese FDI in the EU-28 2000-2016

in EUR million

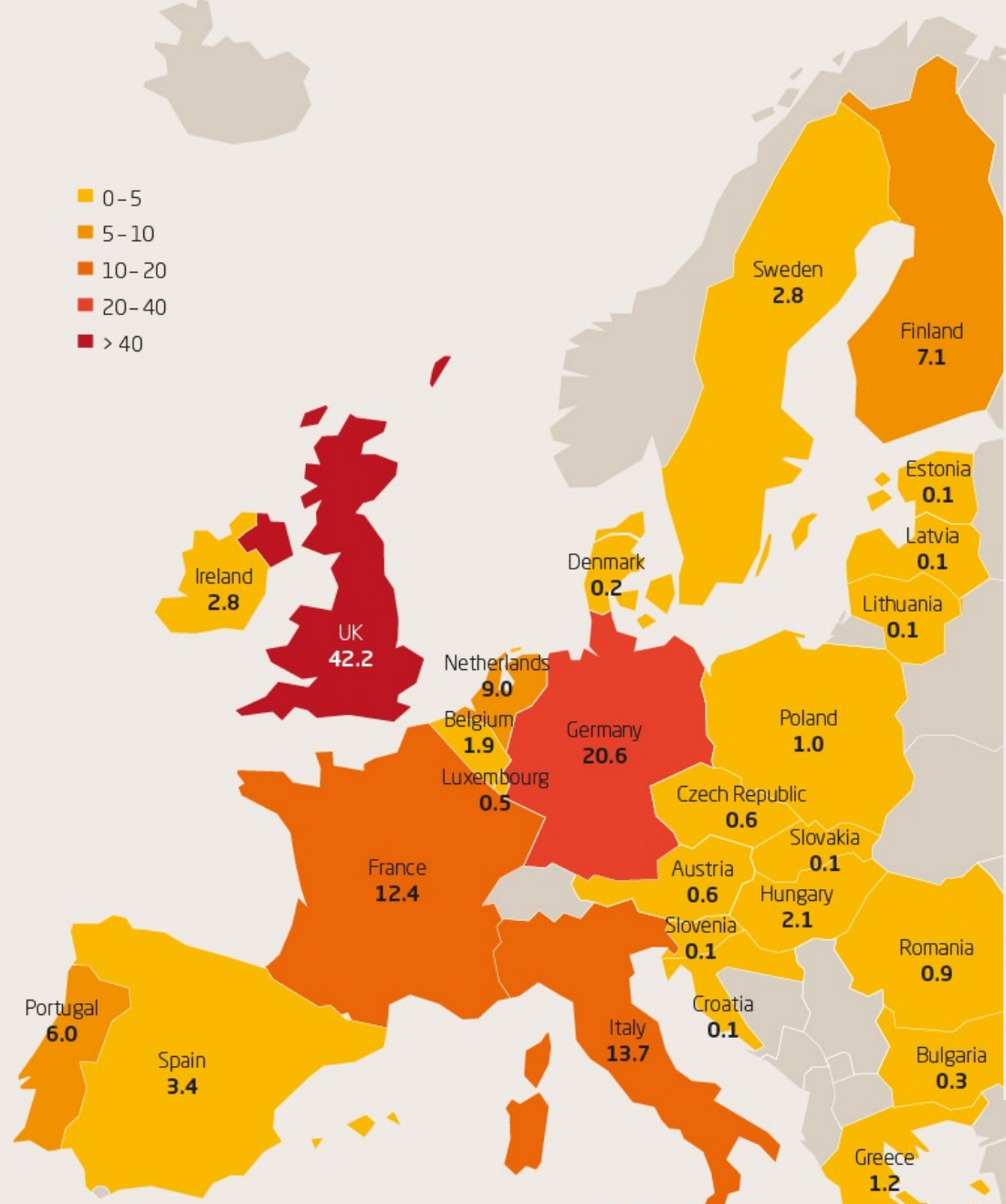


- 0-1,000
- 1,000-3,000
- 3,000-7,000
- 7,000-13,000
- > 13,000



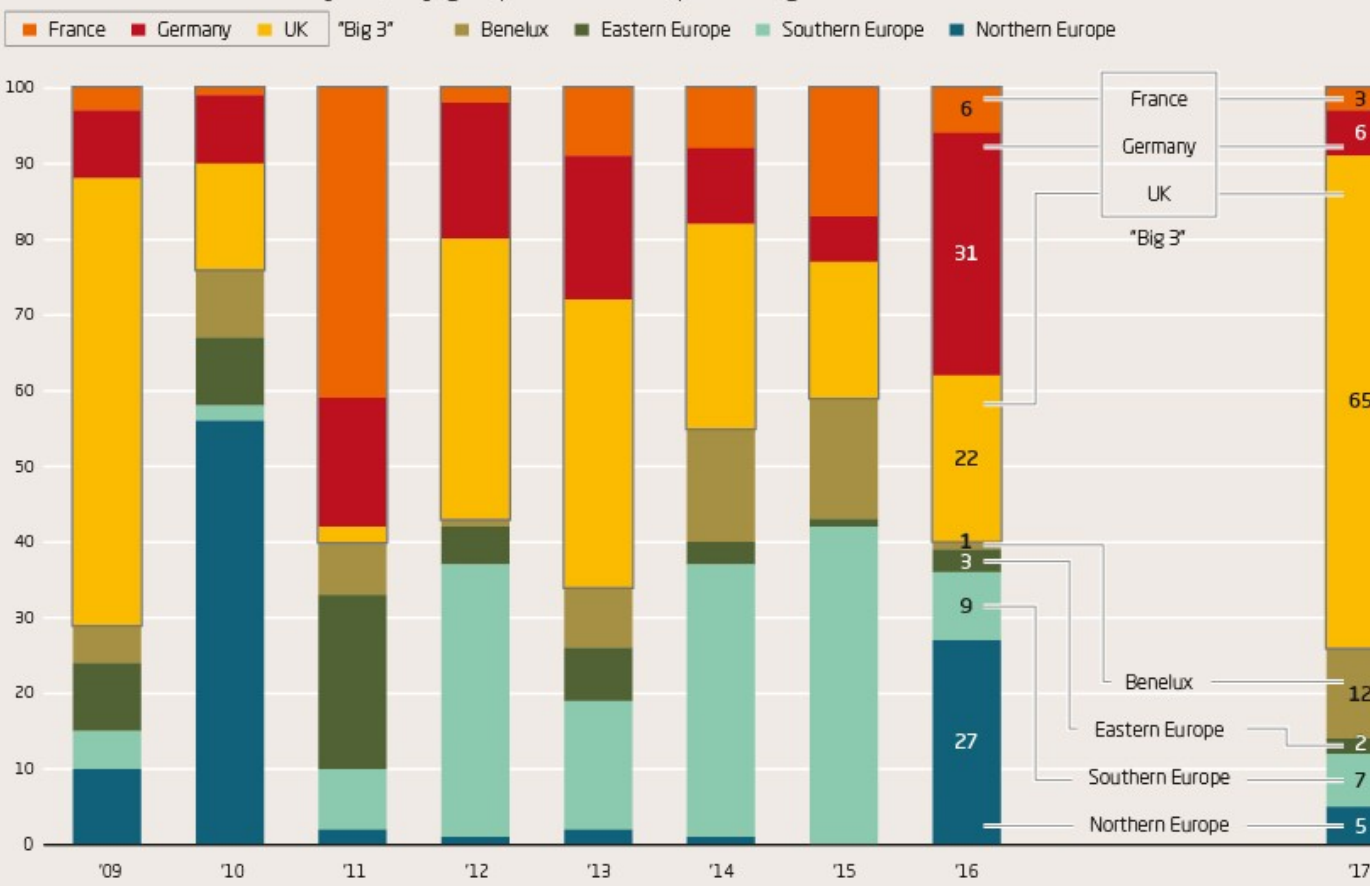
### Chinese FDI is distributed widely across Europe

Chinese FDI transactions in the EU by country, 2000-2017, EUR billion



### Chinese FDI remains concentrated in Europe's largest economies

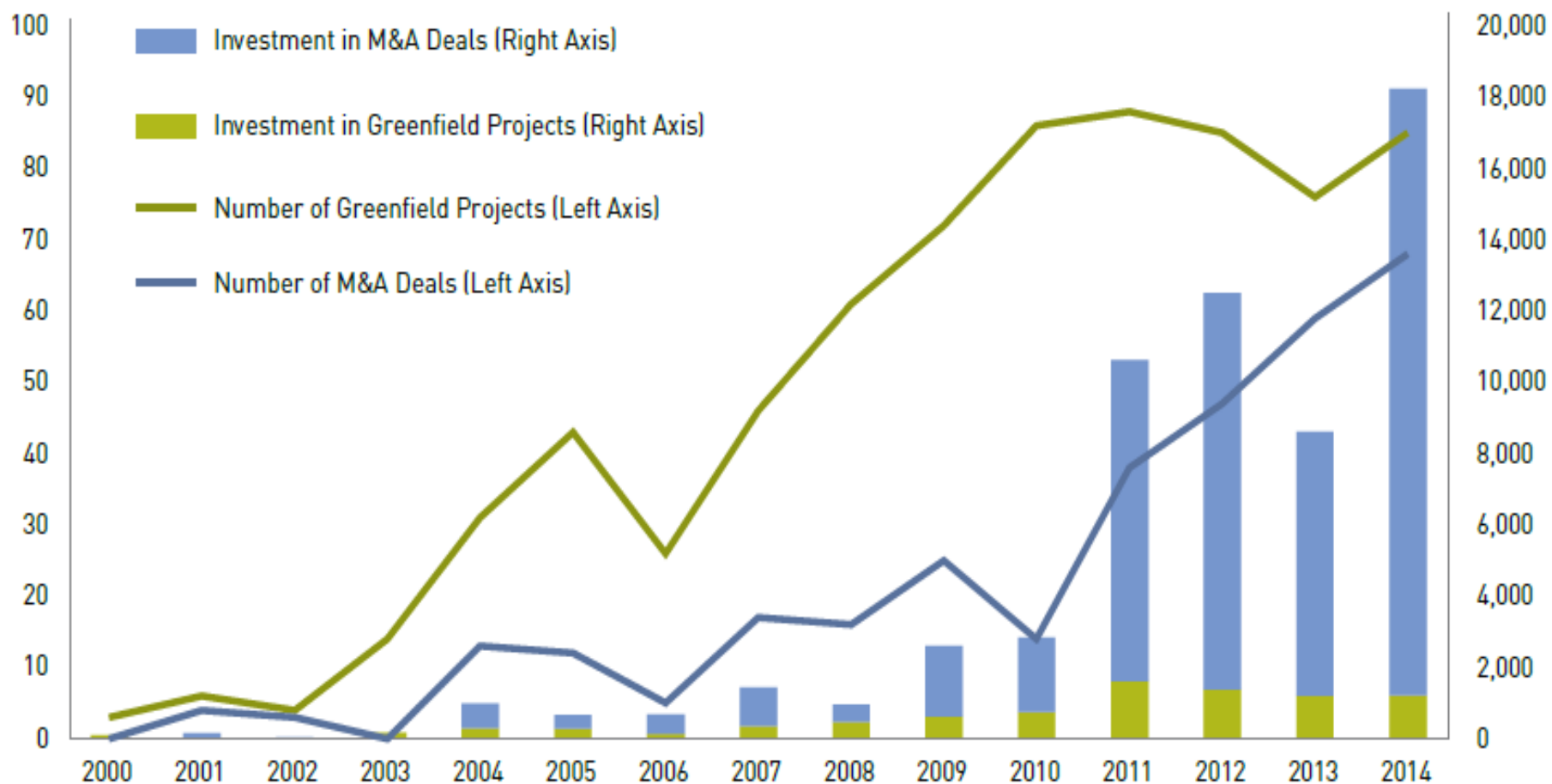
Chinese FDI in the EU-28 by country group 2009-2017, percentage



Source: Rhodium Group. The "Big 3" includes France, Germany, and the UK. "Benelux" includes Belgium, Netherlands, and Luxembourg. "Eastern Europe" includes Austria, Czech Republic, Hungary, Poland, Romania, and Slovakia. "Southern Europe" includes Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, and Spain. "Northern Europe" includes Estonia, Denmark, Finland, Ireland, Latvia, Lithuania, and Sweden.

FIGURE 3: CHINESE FDI TRANSACTIONS IN THE EU-28 BY ENTRY MODE, 2000-2014

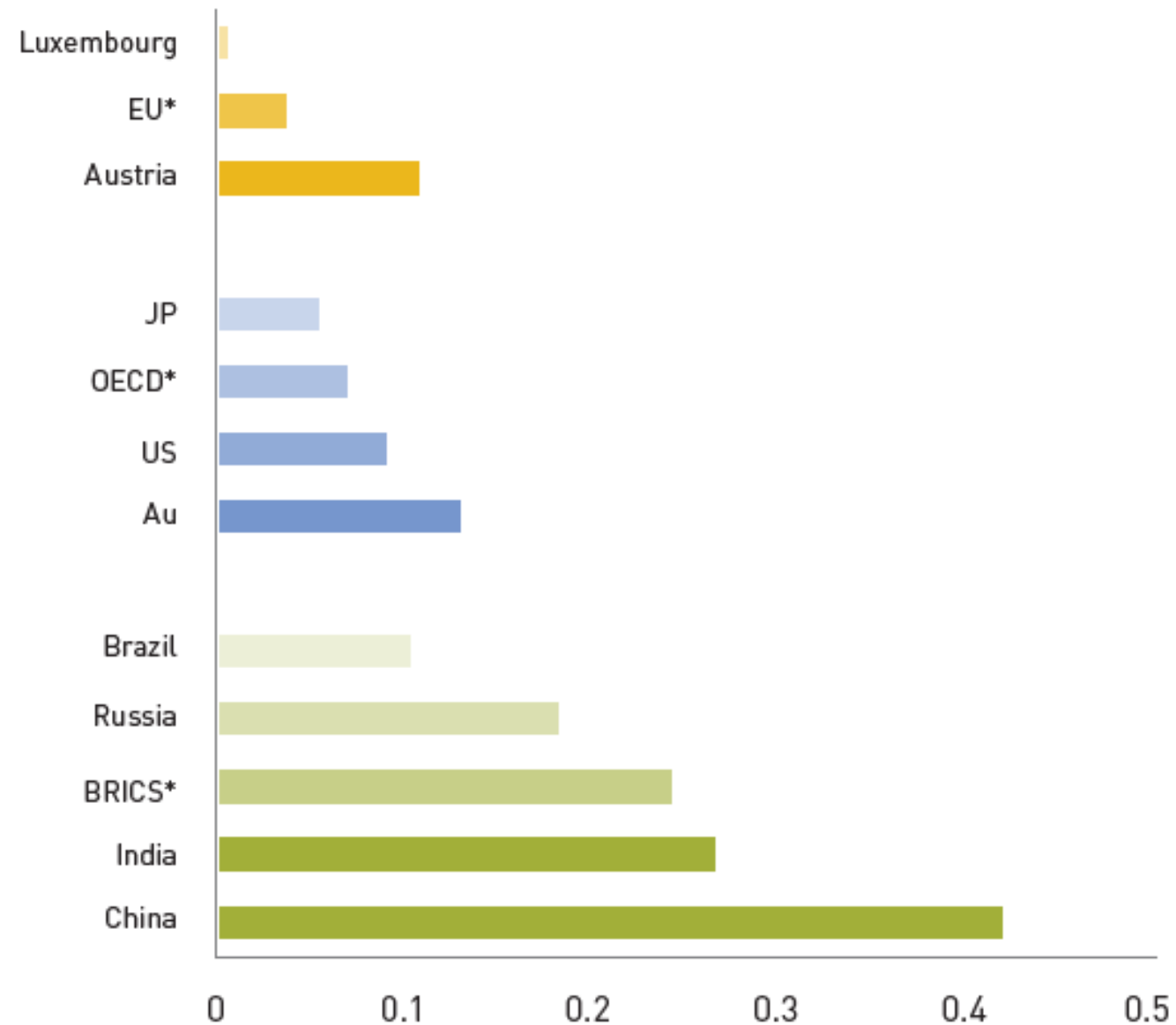
Number of transactions and investment value in USD mn



Source: Rhodium Group. A detailed explanation of sources and methodology can be found in the Data Appendix.

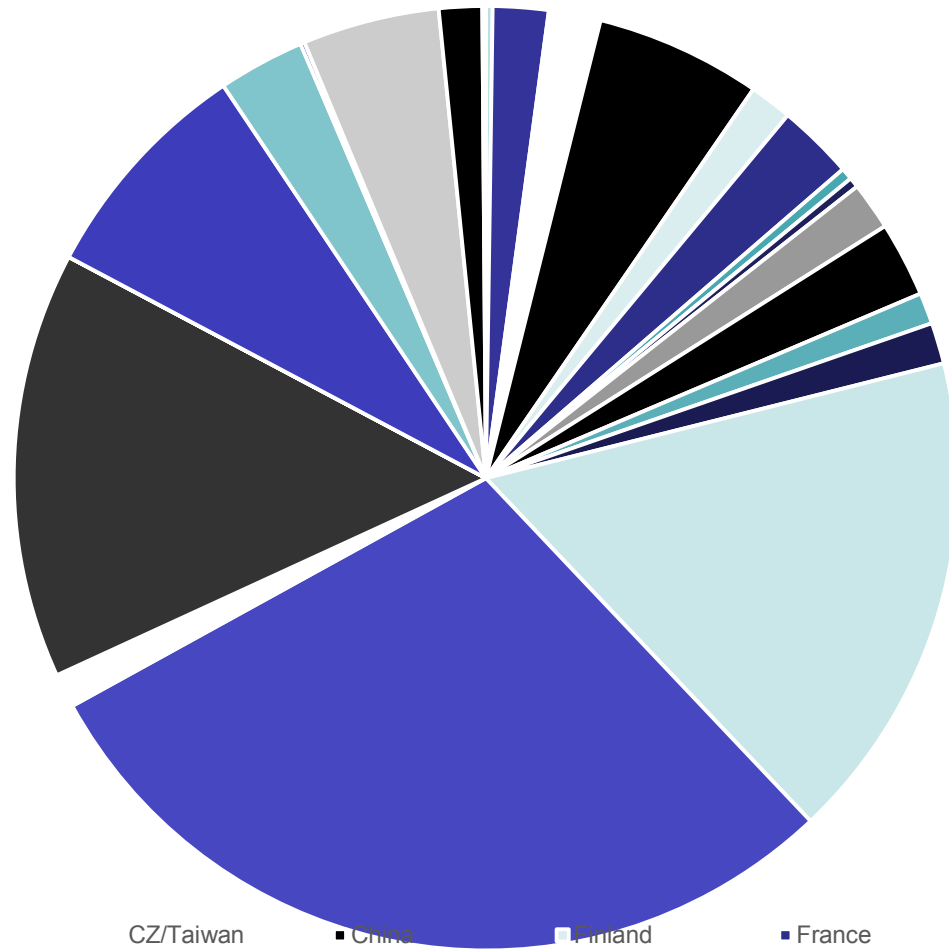
**FIGURE 13: FDI RESTRICTIVENESS, EU VS. REST OF WORLD, 2013**

*Index, 0=Open, 1=Closed*



Source: Organisation for Economic Co-operation and Development (OECD), Rhodium Group. \*Simple average of available countries for each group.

Název grafu



- Belgium
- CR
- CZ/Taiwan
- China
- Finland
- France
- India
- Italy
- Japan
- Korea
- Luxemburg
- Mexico
- Germany
- Netherlands
- Poland
- Austria
- Russia
- USA
- Spain
- Sweden
- Switzerland
- Taiwan
- UK



# Chinese FDI in CEE (AEI/Heritage Foundation)

Bosnia	2510
Bulgaria	330
Croatia	130
Czech Republic	1320
Hungary	6100
Latvia	110
Macedonia	400
Montenegro	1120
Poland	1920
Romania	2350
Serbia	3700

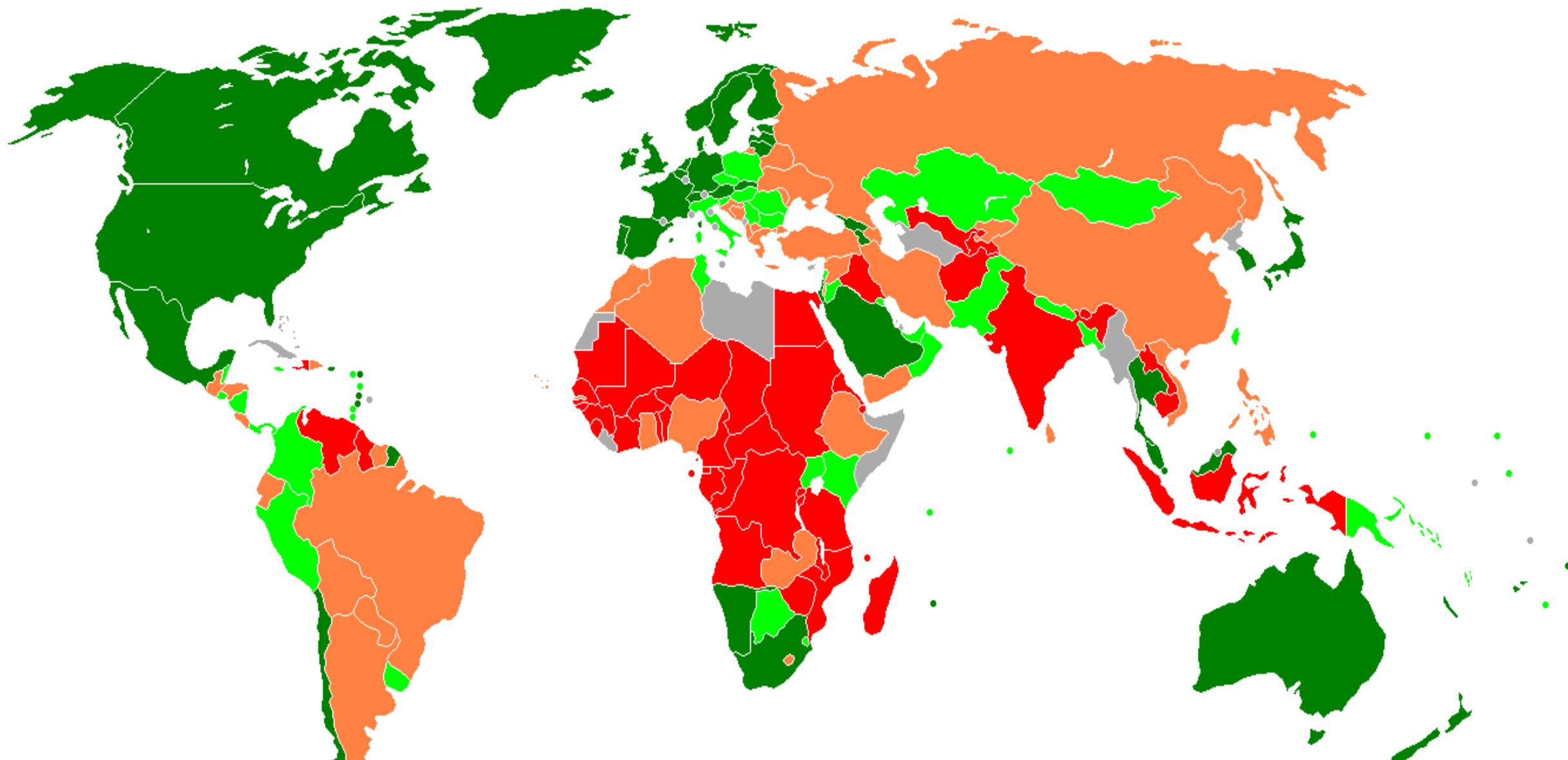
# Examples of Chinese FDI in V4

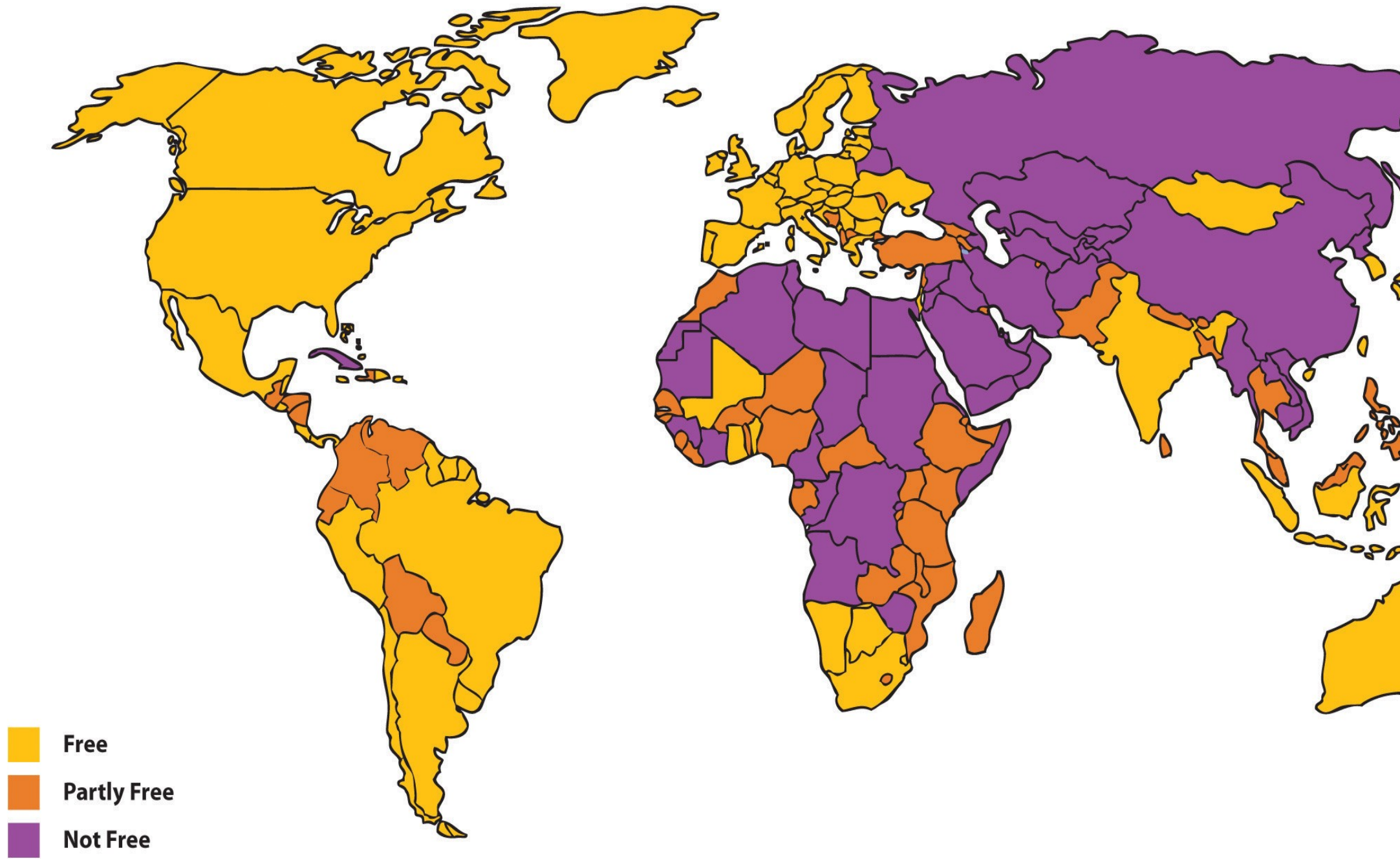
- CZ: J&T, Lobkowicz, Slávia, Travel Service
- SR: U.S.Steel?
- HU: BorsodChem, železnica Bud-Beo?
- PL: prekladisko,

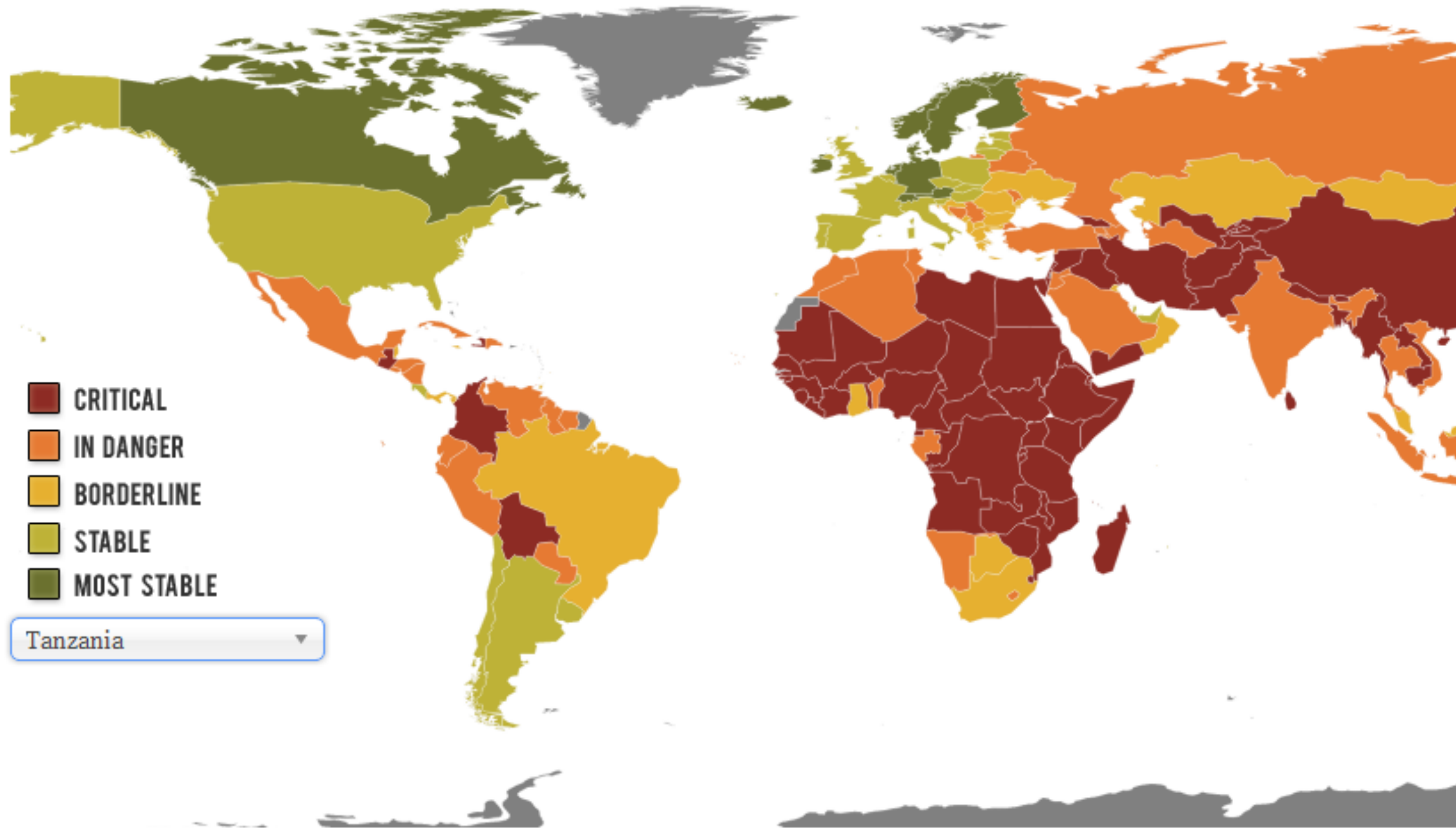
# Hot politics and cold economics: possible explanations

- CEE is not an interesting and stable investment environment
- CEE does not have competitive products for Chinese market
- China's economy is slowing down and it does not have enough opportunities
- Chinese market is protected against exports from CEE
- China has been always interested in politics first of all – not interested in having CEE imports and FDI in CEE
- There is a structural gap between Chinese offer/capabilities and CEE interest/needs

# Ease of doing business







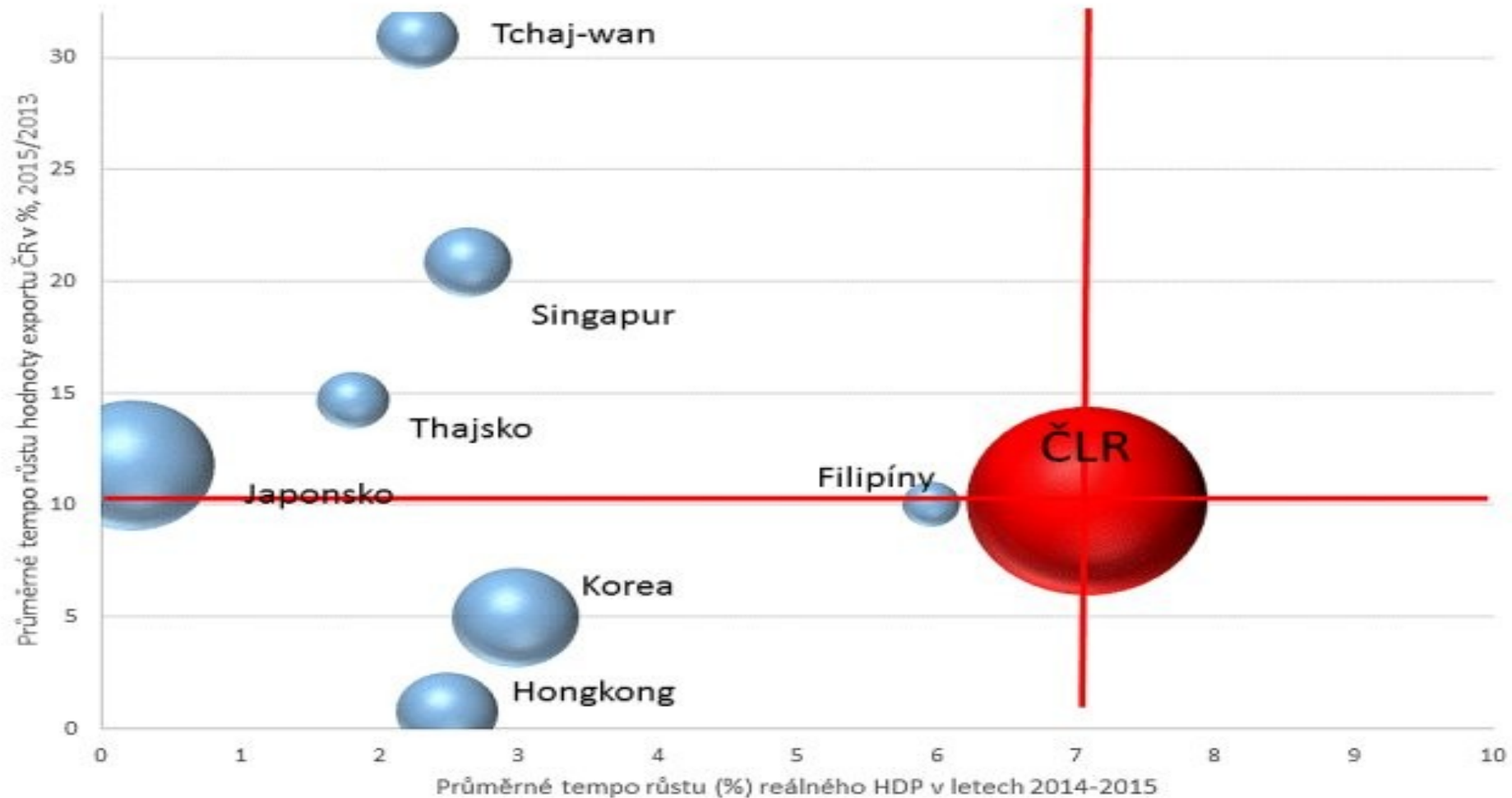
- CRITICAL
- IN DANGER
- BORDERLINE
- STABLE
- MOST STABLE

Tanzania

# Attractiveness of CEE investment environment (Liu Zuokui)

<i>Rank</i>	<i>Country</i>	<i>Score</i>	<i>Political environment</i>	<i>Economical environment</i>	<i>Social environment</i>	<i>Bilateral relations</i>	<i>Rating</i>
1	Poland	88	24	18	18	28	Very good
2	Hungary	79	20	16	16	27	Good
3	Czech	78	24	18	18	18	
4	Slovakia	77	24	16	16	21	
5	Romania	76	18	16	16	26	
6	Serbia	76	18	14	16	28	
7	Estonia	70	20	16	16	18	Not Bad
8	Latvia	70	20	16	16	18	
9	Lithuania	70	20	16	16	18	
10	Croatia	68	20	14	16	18	
11	Bulgaria	67	18	14	15	20	
12	Slovenia	66	20	12	16	18	
13	Montenegro	65	18	14	15	18	
14	Macedonia	65	18	14	15	18	
15	Albania	64	17	14	15	18	Not
16	BiH	62	15	14	15	18	Good

# Czech exports to East Asian economies (Semerak)





# Chinese foreign policy goals

- Chinese foreign policy under Xi Jinping is oriented predominantly towards political goals (vs. economic)
- Chinese external national interests are closely linked with the Chinese domestic politics (international success = domestic stability)
- China is interested in soft power with “Chinese characteristics” (what Chinese people think others think of them)

# Explanations: conclusion

- Trade (= CEE exports to China)
  - Regulation, administrative measures, protection → potential problems in future
  - Questionable capability (and motivation) of the CEE companies
- FDI
  - Structural gap (what is supplied is not demanded – infrastructure/natural resources and acquisitions, what is demanded is not supplied – hi-tech greenfield)
  - Complex environment vs. lack of experience and knowledge

# China-CEE hot politics, cold economics: explanations

- In line with the theory of Chinese foreign policy:
  - Focus on politics
  - Winning of international allies
  - Rhetoric vs. substance
  - Host diplomacy
  - Economy as a means
  - Soft power with Chinese characteristic
  - Pro-active approach
- Additional factors:
  - Structural gap between Chinese offer/capabilities and CEE interest/needs
  - Lack of mutual understanding
- **→ China's CEE 16+1 diplomacy: Politics by (the promise of) economic means**

# Politics by economic means: additional evidence

- No prospects for major change (trade and investments) – “structural gap”
- 16+1 diplomatically more active than the platforms in Latin America and Africa
- Recent anecdote: Liu Yunshan leading Chinese delegation in Prague for 2017 China Investment Forum

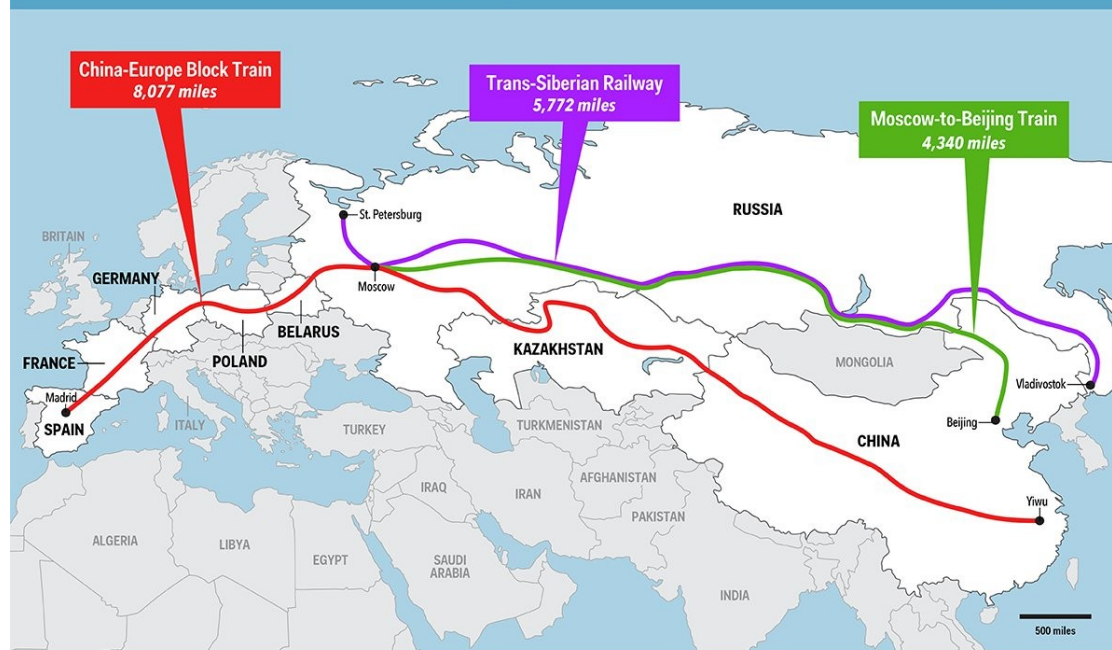
# Theoretical take-aways for the study of Chinese foreign policy

- China's CEE 16+1 diplomacy suggests, in line, with the literature that:
  - Chinese foreign policy under Xi Jinping is becoming more active and is oriented predominantly towards political goals (vs. economic)
  - Chinese external national interests are closely linked with the Chinese domestic politics (international success = legitimacy at home = domestic stability)
  - China is interested in soft power with “Chinese characteristics” (what Chinese people think others think of them)
  - May show how to understand Belt and Road Initiative as well



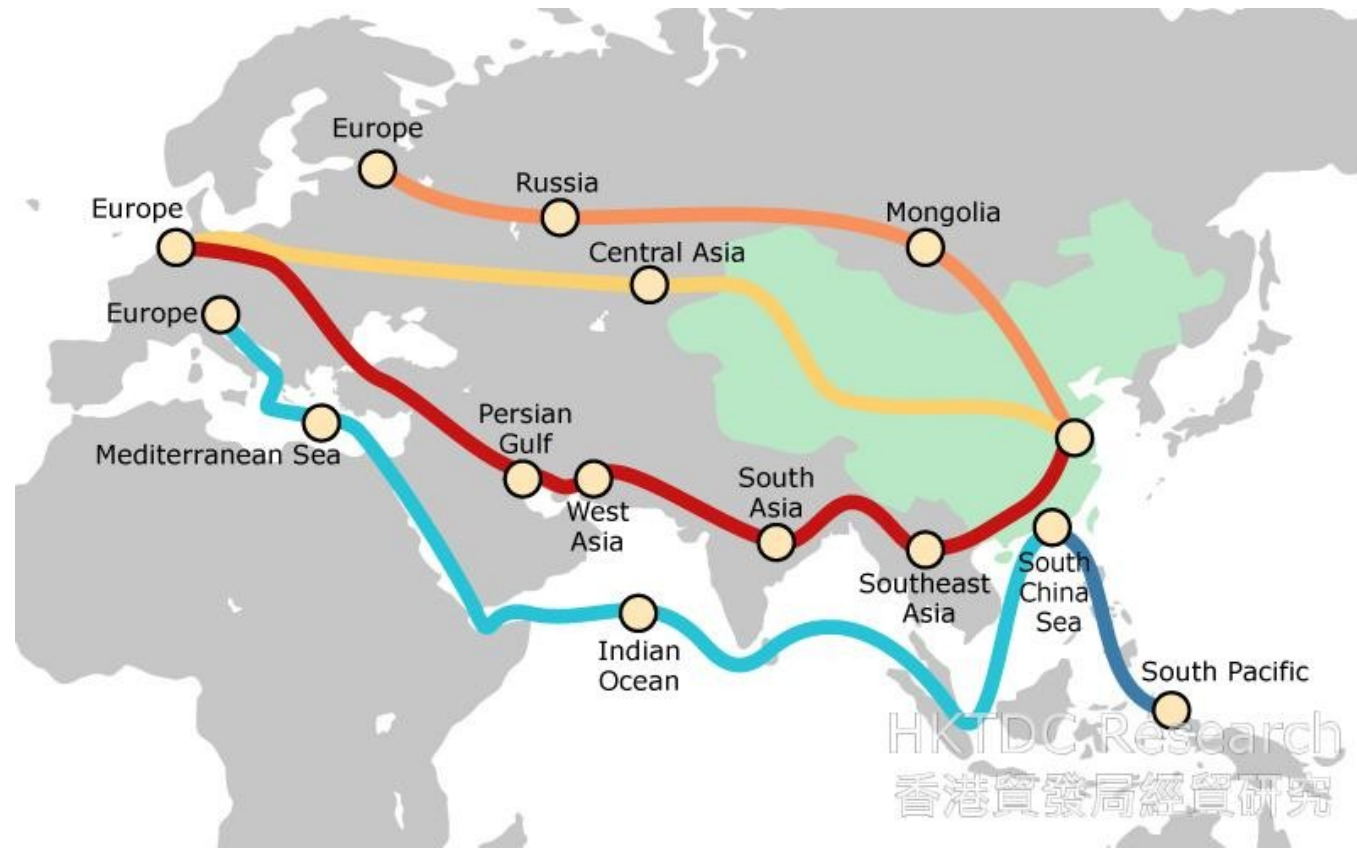
# THE LONGEST RAILWAY IN THE WORLD

The China-Europe Block Train is the longest rail route in the world, surpassing the Trans-Siberian Railway and the Moscow-to-Beijing direct route. The world's longest railway also crosses through the greatest number of countries, going through China, Kazakhstan, Russia, Belarus, Poland, Germany, and France before ending in Spain.



Source: The Washington Post and Trans-Siberian Experience

BUSINESS INSIDER





# ONE ROAD, ONE BELT



## Routes of the China-proposed Belt and Road Initiative

