

Event Report

**China-CEE Relations:
The Future of the 16+1 Platform**

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Launched first in 2012, the “16+1” Cooperation Framework includes 16 countries in Central, Eastern, and Southeastern Europe. This regional approach brings together a very diverse group of from the Baltics to the Balkans. Even from the beginning of the 16+1 process in 2011-12, Brussels has voiced concerns about the initiative as affecting the unity of the EU, undermining high-level standards, and exercising negative influence over EU Members and potential members’ strategic choices. These were fueled by the somewhat opaque organization and non-transparent nature of the unusual cooperation. Yet since 2013 the situation had calmed down a bit, partly due to the regular presence of European External Action Service (EEAS) officials at the official meetings of the platform and their involvement in drafting the documents.

However, contrary to what China appears to claim and Western Europe seems to take for granted, the economic presence of China in CEE is very limited and has not seen any significant growth in the past five years. This has been shown by various media, but so far this has had little impact on the general perception of the issue, which sees China as a major player in the region. Although these voices seem to suggest that the role of the Western Europe in CEE is declining and China’s is growing, the reality is that Chinese economic presence in the region is minimal from the perspective of both FDI and CEE exports, and little has changed in these regards since the founding of the 16+1 platform. What, then, is the future of the 16+1 platform?

Dr Richard Turcsanyi began proceedings by explaining how he approached the subject through a combination of foreign policy analysis (Neack, Breuning), grounded theory (Glaser, Strauss, Corbin) and analytic eclecticism for his theoretical framework and a collection of different resources including economic statistics, official statement, interviews and other secondary resources.

Dwelling briefly on Chinese foreign policy in general, he offered a brief and broad overview of Chinese foreign policy from the 1950s to the 2000s, explaining how throughout the first thirty years of this period, Chinese foreign policy was driven mainly by political insecurity. Foreign policy during the second period was driven by economic factors, with Deng Xiaoping leading the country under the motto "Peace and Development". With the change in China's constitution happening during the Chinese People's Political Consultative Congress (CPPCC) and the National People's Congress (NPC), Dr Turcsanyi argued that we are officially entering a new period for Chinese foreign policy, directed by politics rather than economy.

Before tending to the matter at hand, Dr Turcsanyi concluded his introduction by offering some insight on how different theories interpret Chinese foreign policy. Some authors emphasise assertiveness or aggressiveness in China's external policy, however Dr Turcsanyi puts forward that it is better understood as active (rather than assertive); focused on political goals and the establishment of new partners, allies and alliances. If China wants to increase its power, it needs to complement its military and economic dominance by reaching out to make new partners and allies in the international community.

Proceeding to CEE-China relations, Dr Turcsanyi reminded the audience of the terminology related to it, with 16+1 encompassing Central and Eastern European countries' relations with China while V4+1 refers exclusively to the four major Central European economies that are Czech Republic, Slovakia, Hungary and Poland.

The Visegrád-four countries hold a central role in the 16+1 framework as they are the main political and economic drivers of the relationship between CEE and China. A commonality between CEE countries is that their relations with East Asia came comparatively late to the rest of Europe, around the beginning of the 20th century. In the 1950s, under the Soviet banner, CEE countries entered a rather short golden age for political ties with China and other East Asian Communist countries. However, from the 1960s to the 1980s, their exchanges with China were relatively frozen, only to take a drastic turn after the watershed year of 1989. This year saw the transformation of many CEE countries – some more successfully than others – while China was then perceived as the symbolic entity which those countries revolted against. From 1990 to 2007, CEE and China barely came into contact, with the ex-Soviet countries preferring to develop their relations with Western Europe and the US, and China portraying their move as a betrayal to the communist ideology and as evidence of its superior development path as it was enjoying a higher growth. In 2008, Europe was hit badly by the global financial crisis, and CEE was no exception. Countries from CEE were looking for additional economic partners as demand was plummeting in Western Europe where said countries had established most of their export markets. China appeared as the opportune partner thanks to its resilience to the worldwide financial crisis, widening domestic demand and eagerness to increase its investments abroad.

If the year 2008 marked the launch of a new era for China-CEE countries, it was in 2011 that the 16+1 platform was established, with the first meeting held in Budapest that year. Subsequently, the first official 16+1 summit was held in Warsaw the following year, an event which welcomed the respective heads of states of the nations involved. Wen Jiabao, representing China, brought with him a set of 12 points and proposals which were positively greeted by the CEE countries. In 2015, the 16+1 initiative was formally aligned with China's Belt and Road, an initiative which in many respects is a similar endeavour, both displaying significant emphasis on connectivity and infrastructure building.

To condense the perspectives of 16+1, Dr Turcsanyi highlighted three stakeholders in his reasoning: CEE, the EU and China. He argued once more that for CEE, the main driver behind participation in this initiative is economic. There have been ad hoc political discussions with China, especially in Serbia and increasingly in Hungary – spurred by diplomatic successes with the Asian power and disappointment from Western EU policies. These two exceptions aside, the major driver behind the CEE-China joint initiative remains primarily economic. According to Dr Turcsanyi, the 16+1 platform was greeted with caution by the EU at first. Although suspicions were low around 2014-2015, they have been increasingly voiced since last year. As for China, Dr Turcsanyi distinguishes two possible options to explain the goal of China in supporting CEE countries through 16+1. The first one is achieving “economic goals by political means”, meaning that China feels like CEE has the potential to become a reliable economic partner in the future, whilst understanding that an improved political relationship is a prerequisite to developing deeper economic relations. The second option is “political goals by economic means”, which translates into the desire from China to invest and enhance trade with CEE to reach political goals. One of the goals Dr Turcsanyi mentioned was a so-called agenda of China, reflecting its ambition to “divide and rule” Europe and the EU through 16+1 to foster political support for Chinese interests in the region and EU institutions. Another political goal mentioned was the desire from China to improve its political relations and image in CEE, keeping those countries punctually in line with Chinese interests when needed. China-CEE has been officially presented as “pragmatic” cooperation, insisting it is not trying to undermine EU-China relations, but rather seeking to improve cooperation and deepen a still very young relationship.

Dr Turcsanyi then presented a few examples to illustrate some of the clear economic goals that China has introduced to CEE countries through the framework; “China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern Europe Countries”, announced at the first 16+1 Summit in 2012. In this framework, there is a set goal stipulating that China-CEE common trade should reach 100 billion USD by 2015, however, an amount that is yet to be reached. The 2012 framework mostly involves cooperation in culture and people-to-people exchanges.

Diplomatic relations between China and CEE have undeniably improved over the years, to the extent that China has emerged as the second most important trade partner for CEE countries, behind the EU. People-to-people relations have experienced the same growth, thanks to tourism which has been the most successful area of the cooperation so far, bringing along significant economic results. Nevertheless, other economic outcomes have yet to reach expectations. Trade, as mentioned, has not reached the objective announced, with CEE exports stagnating at levels seen before the 16+1 was established. Moreover, although Chinese investment in CEE have increased over the years, it come from such a low point that it remains marginal, accounting for less than 1 percent in

most of CEE countries. Reflecting on the progress made in relations since 2015, Dr Turcsanyi suggests that there is a lack of dialogue regarding issues such as trade and investment.

He then illustrated his argument on trade issues through a selection of charts demonstrating major discrepancies in trade exports and investments between China and CEE countries. He insisted that CEE countries cannot be considered major investment partners for China today, since the share of China's investment in the CEE region is close to 0 percent. This is put in to context when one compares the share of Chinese global investment directed to the EU (excluding CEE), Latin America, Africa and North America. Despite a growing trend and although Hungary is the main host of Chinese investments in the CEE region, it still cannot compare to investments in Western Europe. In recent years, this gap between Chinese investment in CEE and Western Europe has only grown wider. Citing data published by the Heritage Foundation which tracks Chinese foreign direct investments in CEE with available public sources, Dr Turcsanyi explained that non-EU CEE countries experience a more rapid growth in Chinese investments than EU CEE countries. Although this phenomenon might seem disproportionate compared to one's expectations and data provided by the Chinese government, the reality is that non-EU CEE countries benefit from more FDI than the Visegrád Four countries.

In conclusion, Dr Turcsanyi condensed China-CEE relations as "hot politics, cold economics". Political, diplomatic and people-to-people exchanges have been developing at a great rate during the past years. On the other hand, economically speaking, despite some achievements, the current situation still falls far short of expressed expectations. In addition to this, Dr Turcsanyi contested that this situation is unlikely to dramatically change in the near future. So far, the 16+1 platform suggests that Chinese foreign policy towards CEE countries is essentially focused on politics, a consideration that is also reflected through the discourse surrounding the platform. Even though the economic aspect of the cooperation has not delivered that much, the improved diplomatic relations are goals in themselves. China is often depicted as buying the CEE region by the international media, politicians and pundits alike, however this widespread rhetoric is contradicted to the reality of 16+1 and its poor economic performance. For Chinese foreign policy it is important to display successful visits where CEE premiers present their countries and China presents itself as able to foster their economic development.

Dr Turcsanyi put forward two additional factors to explain why CEE-China trade and investment levels have fallen below expectations. First, he mentioned China's lack of understanding of the CEE region. Countries in the region might be small but are hugely different, and China has failed to adapt its approach accordingly, approaching all countries homogeneously. China also seems to have difficulties in realising that some of the countries are EU members and therefore have to abide by EU regulations. This consideration can be simply reflected by credit line issues, as no infrastructure project has been realised within the EU members under 16+1. On the side of CEE, there is the same low understanding of their counterpart due both to historic reasons, and to relatively passive foreign policy and diplomacy. The second factor is a structural gap between Chinese offer and capabilities, and CEE interests and needs. Typically, Chinese investments target resources and infrastructure opportunities in developing countries, and advanced companies in developed countries. However, CEE countries remain in between these two paradigms of Chinese investments, they do not benefit from exploitable resources characteristic of developing countries and have different

infrastructure standards than the likes of Africa and Latin America. In addition to this, their companies frequently do not enjoy a competitive edge like those in other developed countries such as Germany. The competitive edge of CEE countries lies in their ability to host relatively high-skilled manufactories, this edge however is not all that attractive to China, as it has no desire to outsource its manufacturing.

In conclusion, Dr Turcsanyi claims that China is unlikely to be a major economic actor in the region, it is however more likely to remain a complementary partner.

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