



ARTICLE

China's interests in Central and Eastern Europe: enter the dragon

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Abstract China first became an active and visible player in Central and Eastern Europe (CEE) in the 1950s, when it worked together with the region to stop a possible Soviet invasion of Poland in October 1956. This strong relationship was later dismantled due to the Sino-Soviet split and the volatile domestic situation in China (the Great Leap Forward and the Cultural Revolution). It is only since 2012 that China has become active in the region again, now as an emerging global power with a strategy and new investment initiatives in play: first the 16 + 1 framework and now the Belt and Road Initiative as well. Does China consider the CEE countries to be its new playground, or test area, within the EU? Or does it instead see the region as a gatekeeper that can help it get a foot in the door to the West? China has a vision, a pragmatic approach and political will, but the implementation of this vision has been weak. While several existing mechanisms offer new potential, they have so far only been partially exploited, due to the different business mentalities of both sides, as well as many other obstacles. China

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is opening up opportunities for CEE, but the latter must be better prepared for China's new activities.

Keywords EU | China | Central and Eastern Europe | One Belt One Road | Asian Infrastructure and Investment Bank | Foreign direct investment | Geopolitics

Introduction

For a long time China followed a formula and strategy of keeping a low profile, usually identified by the famous motto 'tao guang yang hui' (conceal your capabilities and avoid the limelight), as dictated by the reform visionary Deng Xiaoping and known as the 'Constitution of 28 Chinese Characters'. However, since late 2012, under the current leadership of the ever-stronger, charismatic President Xi Jinping, this strategy has been abrogated. What we now have instead is growing assertiveness and external engagement under the current (fifth) generation of the Chinese leadership (Lam 2015, 270; Shambaugh 2016, 169). Under this active and assertive political leadership and imaginative new strategy, the People's Republic of China (PRC) is more and more frequently returning to its rich traditions and the civilisation of the Middle Kingdom, which dates back to ancient times.¹

This change is visible in many ways, for example, in Xi Jinping's strongly promoted slogans of the 'Chinese Dream' and the 'Great Rejuvenation of the Chinese Nation', that is, in the internal strategy of the current leadership, which includes a new development model—*Zhongguo moshi* (Chinese model). This change reflects a kind of fault line. China intends to move from quantity to quality and to place emphasis on sustainable growth, a large domestic market, innovation and a green economy. This represents a move away from the previous philosophy of putting growth above everything, no matter what the social or environmental cost (Zheng 2016). This new model is frequently mixed with another important idea—that of a peaceful reunification with Taiwan. Recently, under another strategy, that of 'Two Centenary Goals' (Xi 2014, 325), this domestic blueprint has frequently been combined in Chinese discourse with the new Chinese geostrategic project known as *Yi dai, yilu*—the One Belt, One Road (OBOR) Initiative. Unfortunately, it seems little attention has been paid to either of these strategies in the West, despite the fact that the OBOR umbrella offers a proposal that is more or less in line with the once famous ideas of the 'fathers of geostrategy'. (The groundbreaking concepts *Heartland* and *Rimland* were formulated by John Mackinder and Nicholas Spykman, respectively.)

This new direction taken by the Chinese leadership constitutes both a great opportunity and a big challenge for the Western world, starting with the current hegemon, the US. President Donald Trump's administration needs to respond to the 'hundred-year marathon' (Pillsbury 2016): China would like to implement its OBOR vision before 1

¹ Details on this can be found in Yan (2011) and Zheng (2016).

October 2049, that is, the centenary of the proclamation of the PRC (Xi 2014, 60). Nor should Europe remain indifferent, as both the Silk Road Economic Belt on land and the Twenty-First Century Maritime Silk Road are strategies which target the West, and Europe above all (Xi 2014, 322; Liu 2016, Preface).

In this way, some of the countries of Central and Eastern Europe (CEE)—which, as members of the Communist political bloc, were close to the PRC in the 1950s—are currently being seen, for the first time ever, as important partners for China. This article aims to analyse the current state of affairs in the relationship between CEE and the PRC, and draws conclusions that are important for the EU, and particularly CEE.

The 16 + 1 framework

Prior to the implementation of the well-known OBOR Initiative, the Chinese government had put in place another framework of cooperation, known as 16 + 1. The idea was first announced in 2011 in Budapest and was put forward by then Prime Minister Wen Jiabao when he visited Warsaw in April 2012. Thereafter the 16 member states of the CEE region² were in constant cooperation with China. Under the then promoted concept of 'Going Global', Wen Jiabao proposed the 'Twelve Measures Strategy' for mutual engagement. Not only was an annual summit set up and a special secretariat for the 16 + 1 created, but a mixed architecture of financial cooperation, infrastructural construction, cultural and educational exchanges, and economic and investment measures were also proposed to strengthen ties between China and the CEE region (Huang and Liu 2016b, 122, 123; Simurina 2014, 1). Furthermore, regular communication and institutionalisation through the secretariat were crucial.

Despite this grandiose project, few of the above-mentioned 'steps' were implemented. However, both sides introduced what was probably the most important measure under the new strategy, that is, an annual summit meeting at the level of prime ministers (after Warsaw, summits took place in Bucharest, Belgrade, Suzhou and Riga). The above-mentioned secretariat was also established, in Beijing, with Liu Haixing acting as general secretary.

However, the 'flagship' piece of this cooperation, the 350 km high-speed Chinese rail route connecting Belgrade and Budapest, announced at the third summit in Belgrade in November 2014 (Cooperation between China and Central and Eastern European Countries 2014), has not yet been implemented. This is due to obstacles (a 'lack of transparency'), mainly on the Hungarian side, created by the European Commission. The most recent update on this matter was given on 21 February 2017 (*Railway Pro* 2017).

² The three Baltic states: Lithuania, Latvia and Estonia; the four Visegrád countries: Poland, the Czech Republic, Hungary and Slovakia; plus Albania, Bulgaria, Romania and all the post-Yugoslavian states: Croatia, Serbia, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro and Slovenia.

Therefore, the whole project is still far from being finally resolved, even though the current Hungarian cabinet of Prime Minister Viktor Orbán is eager to cooperate with China under his unique 'Openness towards the East' (*keletinyitás*) strategy (Hvg.hu 2015).

There seem to be so many obstacles—cultural, mental, technical and bureaucratic—to the relationship with China that Hungarian Foreign Minister Péter Szijjártó has even confessed that, 'the Openness towards the East strategy has not been implemented' (NSZ *Népszava* 2016). According to him, cooperation with China is hindered by three major factors: the low price of oil, the unpredictability of and poor security situation in some of the Central Asian republics, and 'blackmail' by the EU, which is 'punishing those who disagree with the European way of thinking' (NSZ *Népszava* 2016). His opinion is more or less shared by one of the leading Chinese experts on the subject, Liu Zuokui: 'China and Europe face an array of difficulties and challenges. The regulation limit, the technological barrier and the lack of mutual trust between China and Europe have made it difficult for China to build the "Belt and Road" in Europe' (Liu 2016, Preface).

OBOR

The announcement of the OBOR Initiative and strategy was obviously another major positive step forward for China–CEE cooperation. According to China, this cooperation is of enormous value,³ especially with the involvement of the centrally located Poland (between Russia and Germany).

The OBOR Initiative is a geostrategic proposal that is being implemented from the top down by China's State Council, the Ministries of Commerce and Foreign Affairs, and the National Development and Reform Commission, but also via local governments, state-owned enterprises and some of the few private businesses in China (e.g. Sany Group). After the announcement of the initiative, China created many Silk Road research centres and working groups to give some intellectual substance to the idea. These are strongly supported not only by the government, but also by companies and banks, which are collaborating to prepare feasibility studies for the implementation of OBOR projects.

OBOR is supplementary to and being implemented simultaneously with the 16 + 1 framework. This was confirmed by the unprecedented visits of Xi Jinping himself to Belarus in April 2015, Prague in March 2016, and Belgrade and Warsaw in June 2016. These visits were accompanied by an intensive 'charm offensive' by the Chinese media and think tanks, which highlighted the benefits of OBOR for the EU.

³ According to Prime Minister Li Keqiang, the proposed investment in OBOR could total as much as \$1.4 trillion (Sanwal 2016).

Despite this, the EU has been slow to respond to the initiative, and OBOR has been largely ignored by the European policy community. Furthermore, the EU's response was perceived by China as tepid to non-existent due to the lack of a proper understanding of the Chinese vision and the lack of a unified and common strategy with regard to China, as if Brussels has simply 'turned away' (Pavličević 2015). Thus China has evaluated the EU's response to OBOR as 'lukewarm' (Casarini 2015).

Difficult implementation in CEE

On 16 January 2016, China formally opened the Asian Infrastructure Investment Bank, together with a special OBOR fund to support the implementation of the announced strategy. The PRC openly expressed its hope that cooperation will facilitate the transfer of advanced technology from the EU to China.

Under both 16 + 1 and the OBOR umbrella China has mainly focused on economic cooperation with the Visegrád countries; there has been less focus on the Western Balkans due to the security concerns there (Huang and Liu 2016a, 3–8). China's investment projects span the region and include a nuclear energy plant, transportation infrastructure, sea ports and innovation centres (Chen and Yang 2016).

In effect, China is already the second trade partner, after Germany, to all the Visegrád countries. Until 2015 some 80% of all Chinese foreign direct investment (FDI) in the CEE region went to Hungary (Huang and Liu 2016a, 167). This situation changed in 2015 when China increased its FDI in Poland. However, it is difficult to estimate how much Chinese investment there has been in Poland as only limited data was available in the Polish media at the end of 2016. According to this data, Chinese companies are prepared to invest exorbitant amounts in alternative energy sources, mining companies, electrical power lines and power stations, among other projects. It is worth mentioning that prior to these types of investment China had already invested in two major initiatives in Poland. One was a successful investment in a steel works and industrial heavy machinery company in Stalowa Wola; the other is the Rolling Bearing Factory in Kraśnik, which has been in Chinese hands since 2015—currently it is too early to say whether or not this has been a success. In yet another example of Chinese investment, the China Overseas Engineering Group (COVEC) undertook the construction of a highway connecting Warsaw with Łódź. The project was a failure, however, and was sharply criticised by the Polish media (Cienski 2011).

Observing Chinese activities in Poland, one can detect a certain pattern, which is probably universal in CEE. In parallel to 'classic' infrastructure investments (new roads, highways, high-speed trains and electricity), the Chinese are most eager to get hold of innovative industries and are fighting for ownership of new trademarks. Instead of greenfield initiatives,⁴ fusions and mergers are a priority. This pattern can be detected

⁴ A greenfield investment is a form of FDI where a parent company builds its operations in a foreign country from the ground up.

across the CEE region. For instance, in Romania there is only one major greenfield investment—a brick factory in Constanca (valued at \$12–\$15 million) (Huang and Liu 2016b, 125).

However, the debate in which the 16 + 1 and OBOR are framed in terms of the threat they pose to European unity should be treated as exaggerated (Pavličević 2016). If both trade and investments are taken into consideration, the picture is clear. Currently some 90% of all bilateral EU–China trade still takes place within the bigger EU markets (Huang and Liu 2016b, 166). Western Europe, or more properly the biggest European states—Germany, the UK, France and Italy—are major Chinese trade and investment partners.⁵

Among the CEE countries, only Poland is seen by China as an important partner. This assessment has been confirmed by one of the most important Chinese think tanks, the Institute of European Studies at the Chinese Academy of Social Sciences, in its recent series of studies on the subject (Chen and Yang 2016; Huang and Liu 2016a, b). In these studies Poland is openly described as the most important partner in the region (Chen and Yang 2016, 132), and also a prospective partner from the economic and innovation points of view (Chen and Yang 2016, 92, 96). Thus, in Chinese eyes it is the potential of a country and not necessarily the political will, as shown by Hungary under Mr Orbán, that matters.

However, the political decision-making process counts, and can disrupt emerging projects, for instance the decision made by Polish Defence Minister Antoni Macierewicz not to allow the Chinese to buy a property belonging to the Polish Army for the development of a new investment zone and communication hub in the town of Łódź. Thus this territorial Silk Road initiative was, at least partially, blown up locally, as the Chinese investors have (temporarily, at least) left the city, which had previously been declared a 'communication hub' for OBOR (*Polska Newsweek* 2017).

In response, the Chinese side has once again shown a very pragmatic approach. When obstacles were detected on the Polish governmental side and the agreements from Xi Jinping's Warsaw visit were not properly implemented, the Chinese turned to the Polish local authorities, which were mainly held by the opposition to the current government, and signed new agreements with them. Thus, a communication (mainly rail) hub is being created, not in Łódź as was initially intended, but in the nearby city of Kutno.

Conclusion

It has been obvious from the very beginning that Chinese policy regarding CEE is of a strategic and long-term nature (National Development and Reform Commission et al.

⁵ The best source in this respect is the data provided by Baker McKenzie (2016a and 2016b).

2015). This intent was openly declared by Wang Yiwei (2015, 15), one of the leading experts on OBOR: 'Those who have Europe, have the world'. China now wants to be an active participant in globalisation and is directing its new Silk Roads towards Europe. Since the initial Going Global format in the early years of this century, Chinese involvement has gradually and progressively been supplemented, first by the 16 + 1 framework in 2012, and since 2013–14 by OBOR and the Asian Infrastructure Investment Bank.⁶

However, so far the response of the CEE countries to the Chinese strategy and initiatives has been lukewarm. Liu Zuokui is honest when he writes that the implementation of both 16 + 1 and OBOR 'faces an array of difficulties and challenges' (Liu 2016, Preface). Both sides have encountered a series of obstacles: a discrepancy between official declarations and reality, different business cultures and mentalities, and constraints on China from EU rules and regulations. From the EU perspective there have additionally been issues with mutual market access, intellectual property rights and human rights.

The Chinese intent is clear: OBOR aims to relieve China of some of its overcapacity in manufacturing and capital. According to the Chinese, OBOR offers a mutually beneficial (win–win) situation. China is eager to provide much-needed infrastructural investments and FDI in the CEE countries. However, we in the EU, and in the CEE region in particular, do not really know what to do with OBOR: we are undecided and politically split on it. We do not know how to react: is China's offer an opportunity, a challenge or a threat? Some kind of deeper consideration of our attitude is necessary. Therefore, for now, the implementation of the proposed projects and ideas is weak, due partly to unpreparedness on the European side, but also to the differing business mentalities and a lack of trust.

China is pressing and is already visible both in the EU and in particular in CEE. The real problem is that the countries of the CEE region have never come together to form a single political community. What they need to do is to find common ground for a joint approach to China. This approach must include one important area currently overlooked by CEE governments and firms, that is, the cultural aspect of relations with China.

China will continue to fervently promote 16 + 1 and OBOR. However, the CEE countries are hesitant about committing to these strategies. Public opinion is strongly divided, as are many experts and politicians. If we in CEE and the EU want to make proper use of the new initiatives in the win–win manner that the Chinese are so strongly promoting, what is needed is some kind of unification effort, if not a common strategy. Unfortunately, this is not currently visible on the horizon, as no one seems to be ready to work it out, either in the EU or in CEE.

⁶ Poland was the only CEE country to be a founding member of the bank. Hungary joined recently and Romania is now applying for membership.

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