

# China's Engagement with the Sixteen Countries of Central, East and Southeast Europe under the Belt and Road Initiative

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## Abstract

*This paper provides an overview of China's burgeoning relationship with Central, East and Southeast Europe (CESEE) in the context of the Belt and Road Initiative (BRI). China has rapidly expanded the extent of its interactions with CESEE since 2012, and this region has subsequently become one of the focal points of the BRI. The key feature of China's engagement with CESEE is the devising of an experimental and innovative approach, demonstrated in the establishment of an institutional mechanism for cooperation with a particular group of 16 CESEE countries (16+1). The case of China–CESEE relations offers an insight into how, in the era of the BRI, China is complementing its economic approach with institution-building and policy coordination. The article concludes that as the BRI progresses, these tendencies will remain central to China's relations with CESEE.*

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Key words: Belt and Road Initiative, foreign relations, 16+1

JEL codes: F0, F1, F5

## I. Introduction

In the process of restructuring and upgrading its economy, China has also been transforming its relationship with the rest of the world. Central to this process has been the unveiling of the Belt and Road Initiative (BRI), which combines several elements that define China's new global role: a strong practical and normative link between its domestic development and its global orientation (Huang, 2016; Johnson, 2016), a shift from “keeping a low profile” to “striving for achievement” in its foreign affairs (Yan, 2014), expanding cooperation with governments in a broad and diverse array of geographical spaces (Wang, 2016), and ultimately transforming from being a good global “game player” to a global “game maker” (Qiu, 2015a) and architect of new international

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institutions (Heilmann et al., 2014). The establishment of the BRI reflects that China has moved beyond what has often been referred to as a “business as usual” and “no strings attached” approach towards a form of cooperation promoting a common global vision, which involves aligning policy frameworks and agreeing on global governance issues.

One region that is of specific importance for China’s new diplomacy and the advancement of the BRI is Central, East and Southeast Europe (CESEE). Over the past decade, there has been an unprecedented advancement in China’s relationship with this region. However, the current literature on this topic offers little systematic analysis and assessment of the significance of this relationship, and contextualization of the recent developments. Therefore, the present paper aims to analyze the importance of China–CESEE relations, examining China’s engagement in this region as inherent to the broader process of China’s evolving global role. The present paper uses official documents and data on China–CESEE relations and the BRI, as well as participant observations collected at China–CESEE forums.

This paper is structured as follows. Section II discusses why China views CESEE as important for the advancement of the BRI by looking at the shift in China’s global vision and five specific characteristics of CESEE, including CESEE’s construction and functionalism as a region, CESEE’s geographical location, CESEE’s structural characteristics, CESEE’s integration in the European market and the particular political relevance for China. Section III analyzes how the BRI has been implemented so far in the CESEE, looking in particular at China’s diplomatic innovations and institution-building, the development of economic cooperation, and the example of the China–Europe land–sea express project as a highlight of the BRI for CESEE. Section IV concludes.

## II. Why Central, East and Southeast Europe Matters for the Belt and Road Initiative?

In the official discourse, Chinese foreign policy analysts have written at length on the importance of the new relationship between China and CESEE, and how it relates to the BRI. China–CESEE relations have been labeled one of the “highlights” of China’s new diplomacy (Liu, 2013), and the region of CESEE has been labeled as one of “strategic” importance for the BRI (Liu, 2016b), and a “key platform for the Belt and Road Initiative to take hold in Europe” (Yu, 2016). In 2016 Chinese President Xi Jinping visited three countries in this region on two separate trips. The first countries in Europe with whom China signed memorandums of understanding (MoU) to join the BRI were CESEE countries. The BRI has been promoted on a regional level, and by early 2017 a total of

seven countries in the region had already signed a BRI MoU (van der Putten et al., 2016).

The political will and efforts of the Chinese Government to advance its cooperation with the region of CESEE despite the small size of the region's economies is rooted in the shift of China's perception of different areas in the world, which is the prism through which the importance of CESEE for China is assessed in the present paper. China aims not only to benefit from BRI, but also to steer global economic development and contribute to the principles of economic governance, thus impacting the process of globalization by introducing concepts that diverge from hegemonic market neoliberalism. Through the BRI, China can promote "strategic international economic partnerships and multilateral credit to address investment, infrastructure, employment and economic development," ultimately playing a greater role in the world economy, while, seemingly contradictory, adhering to principles of free trade (Liu and Dunford, 2016, p. 3). In shaping the BRI, China greatly builds upon the lessons of its own experience, often combining contradicting ideas and policies, which So and Chu refer to as "state neoliberalism" (So and Chu, 2015), while also highlighting the symbolic capital of the ancient Silk Roads as a common heritage of Asian, African and European nations, in particular its historical role as a medium of diffusion of ideas and innovations (Ma, 2015).

What China desires to obtain from the cooperation under the BRI framework is to advance production capacity cooperation (Qiu, 2015b) and contribute to the overall economic development of partner countries along particular geographic spaces and economic corridors, thereby strengthening trade routes and supply chains, as well as securing a sustainable flow of its goods and services. China also aspires to secure political support for its global vision of a pluralist order in which all nations will be able to exercise their right of to pursue their own path of development and governance, and respect each others' sovereignty, ultimately achieving a paradigm shift beyond the "zero-sum" understanding of the global political economy, towards a globalization regime that is open and inclusive, and based on mutual benefits. According to this understanding of BRI, the present paper argues that CESEE matters for China's BRI for several key reasons.

First, in the framework of the BRI, China emphasizes the role of regions, regionalization, regional development and alleviating interregional economic inequalities (NDRC, 2015). To achieve this, China needs to engage not only in bilateral relations at the national level and cooperate with international organizations, but also needs to develop regional approaches towards cooperation. China has a relationship with 16 CESEE countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovenia and Slovakia), which are post-socialist states that have undergone comparable

processes of economic transformation, and are either members of the EU or in different stages of accession to the EU.<sup>1</sup> While maintaining bilateral cooperation with each country individually, China has made progress in tailoring a particular regional approach towards CESEE. As will be argued in depth in the following section of this paper, a defining characteristic of China's engagement with CESEE is the institutionalization of regional cooperation, which China has progressed by creating a special mechanism under the management of the Chinese Ministry of Foreign Affairs and other institutions, with China pursuing comprehensive economic cooperation including development cooperation. This type of cooperation follows other models of China's regional platforms, such as the Forum on China–Africa Cooperation and the China and the Community of Latin American and Caribbean States. However, China–CESEE regional cooperation is significant in the sense that it is a model of regional cooperation where China defines the regional makeup. This is different compared to other forms of cooperation where China has pre-existing institutionalized regional partnerships. The reasons behind the selection of the particular 16 CESEE countries (and exclusion of others, such as Ukraine) to join China's specialized platform for cooperation (which China refers to as “Central and Eastern European Countries” [CEEC]) has greatly puzzled many researchers and has been a subject of debate since 2012.

Second, China's engagement in CESEE resembles the “westernmost expansion” (Pinsent Masons, 2016) of the BRI in terms of regional cooperation. While the BRI does not officially have a definite geographical map (Godehardt, 2016), in its initial stages China has projected it as covering a certain geographical space and economic corridors, which encompass the Eurasian landmass and part of Africa. In the current geographical scope of the BRI, the CESEE region matters to China as it is a crossroad between different areas pertinent to both the Eurasian Land Bridge Economic Corridor and the maritime routes. On the map of Chinese policy-makers, “Central and East European countries lie in the hub region of Eurasia, which is the only route to enter the European market” (Liu, 2016b, p. 159).

In other words, the BRI's currently developed or planned geographic corridors pass through CESEE. The northern land bridge(s) (or the so-called China–Mongolia–Russia Economic Corridor and the New Eurasian Land Bridge Economic Corridor) pass through the Baltic states and Poland before they reach Western Europe. The southern land bridge (the China–Central Asia–West Asia Economic Corridor) that connects China with the Middle East and Turkey reaches the Balkans and from there extends to other parts of Europe. The maritime route from the Suez Canal to the COSCO-owned and

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<sup>1</sup>The group of 16 are considered by China as “Central and East European countries,” although in reality they also include Southeast European countries.

managed Piraeus Port in Athens then heads north to Albania, Macedonia and Bulgaria. The maritime routes through the Black Sea lead to Bulgaria and Romania: maritime routes are planned for the Adriatic and the Baltic coasts as well.

Third, CESEE is comprised of capitalist economies that are relatively more advanced and have more mature markets compared to those of other regions with whom China has an elaborate regional format of cooperation. One particular goal that China pursues in CESEE is to advance production capacity cooperation. China needs to upgrade its production capacities, to move from supplying low-cost, low-end commodities to “export integrated manufacturing supply chains, which span the full range of products, technology, capital and management, to services and standards” (Qiu, 2015b). Cooperation in infrastructure construction, (re)industrialization and technology are some of the avenues of advancement of production capacity cooperation. In addition, CESEE still has significant demand for large-scale transportation and energy infrastructure projects that China seeks to promote under the BRI. This creates opportunities for China to export and prevent overcapacity in its own infrastructure construction industry. Furthermore, CESEE needs capital inflows and manufacturing equipment to sustain and expand the existing industrial capacities, and restore heavy industry during the post-socialist transformation. At the same time, CESEE has advanced technology and highly-skilled labor, which are attractive to Chinese investors, and is a region where Chinese investors can find partners from more technologically advanced economies.

Fourth, the added value of CESEE for China is that 11 of the 16 countries in this region are EU member states, and the others are in different stages of accession. China and the EU are strategic partners, China being the second largest trade partner of the EU, and the EU being the largest trade partner of China. China also regards the EU as a potential partner in the development of the BRI. One of the great advances in China–EU relations in 2016 has been the Chinese support of the so-called “Juncker Plan” (a comprehensive investment plan for the EU), by committing financial support through the Silk Road Fund (Casarini, 2016; Zhao, 2016).

As 11 of the CESEE countries are fully and 5 partially integrated in the European Common Market, CESEE is a de-facto entry point of the BRI to the most advanced single market in the world. Engagement with CESEE on a practical level also provides Chinese Government agencies and state-owned enterprises (SOEs) the opportunity to learn and adjust to European regulations at a lower cost (it is cheaper to set up projects in CESEE than in Germany or France), while the variation in terms of EU membership within CESEE also allows China to develop a flexible approach in terms of regulations. Moreover, China sees the EU and EU member countries as indispensable partners in

advancing the idea of connectivity, and, in particular, as (co)financiers of infrastructure development projects. Parallel with its engagement in CESEE, Chinese policy-makers and scholars have called on the EU to make greater investments in infrastructure, in a way that will help to improve interregional discrepancies in Europe (Chen, 2016). In response, the EU has also developed a “Balkans Connectivity Agenda” for the countries that are not yet part of the EU, although China and the EU are yet to find a synergy between the “Balkans Connectivity Agenda” and the BRI (Vangeli, 2016a).

However, the EU’s potential for advancing investment in CESEE may be limited in the future primarily because of Brexit, and the general slowing down of the European economy. Moreover, as some of the CESEE countries in recent years have advanced their economies and reached the EU average level of development, they will receive significantly less of the EU’s structural and cohesion funds aimed at economic convergence. As the CESEE countries’ economic policies have been greatly dependent on abundant external financial support, they have a strong interest in forging closer ties with the economically pro-active China, which ultimately gives China more advantages in these relationships.

In its relationship with the EU, China has historically faced complications rooted in the political and ideological divergence of the two sides. China has also faced some criticism from the EU regarding its cooperation with CESEE (Long, 2016). Therefore, to build trust and involve the EU in China–CESEE cooperation, China has tried to include representatives of the EU, the European Bank of Reconstruction and Development, and other external stakeholders in discussions.

By creating a special platform for cooperation with CESEE, China has also addressed the great asymmetry that exists with the European continent’s interaction with China. In the era of China’s reform and opening up, the advanced economies from Western Europe have cooperated more intensely with China, and have benefited from China’s rise. However, the CESEE countries, especially since the early 1990s, have had much less engagement with China. Therefore, China’s new emphasis on the region of CESEE is an attempt to provide the CESEE countries with an equal chance for cooperation compared to the rest of Europe, and, thus, balance relations with Europe as a whole.

Finally, CESEE has a special relationship with China, as both were part of the global socialist community (Bailes, 1990; Tubilewicz, 1998). During the Cold War, because of the complicated triangular relationship between China, the Soviet Union and CESEE, China did not realize closer cooperation with the countries in this region. The two sides grew further apart in the 1990s, and during this time the CESEE countries adopted ideologized foreign policy that was often antagonistic towards China. Yahuda (1995) describes this as “the great divide” between China and CESEE. Wasserstrom

(2000) refers to it as the “breaking of the bridge.” However, today CESEE countries have become enthusiastic about the potential for cooperation with China, even competing over who will be China’s “gate” or “bridge” to Europe (Turcsanyi, 2015). In this sense, the countries in the CESEE region have developed a consensus on cooperation with China. This consensus is not only between governments, but also between ruling and opposition parties in this region, because Chinese officials have established dialogue on the BRI with political actors across the aisle (*Xinhua*, 2016a). Therefore, China can fulfil its long-standing ambition to develop high-level cooperation with the whole CESEE region.

With modest expertise on China and little experience as autonomous actors in world politics, initially CESEE (and other European) policy-makers and scholars were caught unaware by China’s sudden enthusiasm for regional cooperation, but have gradually adjusted to the behavior and thinking of China (Szczudlik-Tatar, 2013; Matura, 2016). The discrepancies and asymmetries between China and CESEE (Pyffel, 2015), the relative unfamiliarity with China and its foreign policy, and the novel makeup of the group of 16 have frequently been debated by CESEE scholars. However, in practice, the CESEE approach to the cooperation has followed the Chinese state-framed discourse, buoyed by the great promise of material gains that would stem from cooperation with China (Jaroch, 2016). In this sense, the new consensus on cooperation between China and CESEE has been primarily shaped by pragmatism and acceptance of the narrative of the “rise of China,” leaving aside all ideological issues that had characterized the CESEE discourse on China in the past.

The implication of this is that through engaging with CESEE, China is demonstrating confidence in projecting its own concepts and visions of development and international cooperation in a region that has been dominated by the Western market neoliberal hegemonic ideology and closely supervised by the West since the 1990s. CESEE has even been called a “laboratory” for market neoliberalism (Bockman and Eyal, 2002), and for the greater part of its post-1990 history, governments in this region perceived China unfavorably, through the prism of their own communism. For China, in addition to the implicit recognition of the achievements of its own reform experience, the closer relationship with CESEE in the BRI era is also an affirmation of the principles it tries to promote, which are sometimes explicitly recognized by CESEE policy-makers and experts as a good example to follow. In this sense, the advancement of the BRI in CESEE is also a reflection of China’s normative power (Womack, 2008; Kavalski, 2013), or China’s ability to define the principles and standards in international cooperation and development, while being recognized as legitimate in the eyes of other countries.

### III. Implementing the Belt and Road Initiative in Central, East and Southeast Europe

Having established the multi-faceted importance of CESEE for China, in this section we turn to the actions taken by China that have facilitated the construction of the BRI in CESEE, and the economic trends that accompany the process. In particular, there are two important pursuits into which China's BRI activities in CESEE can be divided. First is the diplomatic innovation and the establishment of new institutions in CESEE that focus particularly on advancing China–CESEE cooperation under the BRI framework. The second is development in terms of intensifying and diversifying economic cooperation.

#### 1. Innovative Regional Diplomacy

While the BRI is commonly associated with large-scale infrastructure projects and other forms of economic cooperation, the official document (NDRC, 2015) outlining the vision and action plan presents the BRI as a much more complex initiative. Out of the multiple stated goals of the BRI, the first listed in the official documents is policy coordination through the promotion of intergovernmental cooperation and the construction of a “multi-level intergovernmental macro policy exchange and communication mechanism” (NDRC, 2015). Therefore, the BRI provides a substantial upgrade of the previous relatively uncomplicated economic exchange between China and CESEE, and creates conditions that are necessary to develop a relationship that also concerns policy principles and normative issues.

The BRI is implemented through a plethora of existing institutions, organizations and mechanisms, such as the Asia–Europe Meeting, the International Monetary Fund and various bodies of the United Nations. However, it particularly encourages the creation of new institutions, organizations and mechanisms with the purpose of implementing the BRI. To advance its relations with CESEE, China has created a special mechanism for regional cooperation and policy coordination with the 16 CESEE countries, conveniently referred to as “16+1.” The particular group of 16 countries first convened in 2011, at the first China–Central and Eastern Europe Trade and Investment Forum in Budapest. In April 2012, at the second Business Forum held in Warsaw, Poland, the former Premier of the State Council of the People's Republic of China, Wen Jiabao, unveiled an ambitious “twelve-point action plan” for the advancement of China–CESEE relations, centered on institutionalization of the cooperation, rapidly increasing the size of trade and investment between China and

this region in a coordinated manner, and streamlining the policies in a number of other fields, such as tourism, culture and education.<sup>2</sup> In September 2012, China formalized the partnership by establishing a special secretariat for cooperation with the group of 16 countries, as part of the Chinese Ministry of Foreign Affairs, headed by China’s vice minister of foreign affairs. In the following years, the 16+1 platform has advanced through annual summits of heads of governments (such “interchangeable business forums” were held in Bucharest in 2013, Belgrade in 2014, Suzhou in 2015 and in Riga 2016) and a number of accompanying “people to people” events and expert gatherings, where cooperation has been expanded and deepened in scope. External observers have been involved at annual summits, including from Belarus, Austria, Greece and institutions of the EU and the European Bank for Reconstruction and Development. In 2016, Ukrainian officials expressed interest in Ukraine joining the 16+1 and becoming a full member of the Silk Road project (*Xinhua*, 2016c), which would transform the “16+1” to the “17+1” or the “16+1+1”.

Even though China only formally established the 16+1 with CESEE in 2012, with the partnership of the countries in this region, a very complex and decentralized web of intergovernmental institutions has evolved. As of 2017, China has established a number of institutional mechanisms for enhancing its cooperation with CESEE countries, as shown in Table 1.

Fundamental to China–CESEE cooperation, and, in particular, to the 16+1 platform, is the implementation of the BRI. Established in 2012, soon after the announcement of the BRI in 2013, 16+1 quickly became one of the BRI’s pillars (Liu, 2014). The official promotion of the Silk Road and the references to the BRI within 16+1 started as early as the second summit held in Bucharest in 2013 (Liu, 2016b). The reinterpretation of the 16+1 from merely a platform for pragmatic cooperation to a mechanism of implementation of the BRI is consequential with the trend of Chinese diplomacy adding the BRI to its endeavors around the world, and claiming already existing policies as part of the BRI (Pantucci, 2016). The 16+1 platform is also a pilot project of China’s new diplomacy, bearing elements of an experiment for regional policy coordination that overall can provide a lot of insight for the further development of the BRI. In the Czech daily newspaper *Právo*, Xi (2016) emphasized the importance of CESEE countries for China’s global vision, and referred to “16+1” as a pioneering and flagship platform of multilateralism with Chinese characteristics.

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<sup>2</sup>The 2012 Warsaw Meeting is often addressed as the “first meeting of the leaders” of China and the 16 CESEE countries. The famous “twelve points” outlined at the Warsaw 2012 meeting can be found online (MFA, 2012).

Table 1. Institutions under the “16+1” Platform as of Early 2017

Name of institution	Headquarters/management	Status
16+1 Agency for Tourism Promotion	Hungary	Active
16+1 Union of Colleges and Universities	Managed jointly	Active
16+1 Contact Mechanism for Investment Promotion	Poland	Active
16+1 Commercial Union	Poland and China	Active
16+1 Mayors Association	Czech Republic	Active
16+1 Association for the Promotion of Agriculture	Bulgaria	Active
16+1 Technology Transfer Center	Slovakia	Active
16+1 Think Tanks Network	Chinese Academy of Social Sciences	Active
16+1 Logistics Cooperation Union	Latvia	Active
16+1 Transportation Infrastructure Cooperation Union	Serbia	In preparation
16+1 Forestry Cooperation Union	Slovenia	In preparation
16+1 Energy Cooperation Union	Romania	In preparation
16+1 Health Cooperation Union	To be agreed	In preparation
16+1 Art Cooperation Union	To be agreed	In preparation
16+1 Customs Cooperation Union	To be agreed	In preparation

Source: Liu (2016b) and own research.

With the advancement of the 16+1 platform, China has positioned itself as a player in the future development of the CESEE region. In addition to the complexity of the cooperation framework, the frequency of formal meetings and the intensity of policy coordination within the 16+1 is unprecedented for China and CESEE. Moreover, the 16+1 platform has become the largest and most complex international institutionalized platform focused exclusively on CESEE. At the same time, it is a platform that, unlike previous externally-initiated projects in this region, such as the enlargement of the EU or the North Atlantic Treaty Organization, does not rest on the principles of political and economic reform based on the Western set of norms and principles. Being based on the idea of policy coordination, then, the 16+1 provides grounds for advancement of novel ideas on cooperation and development. Policy coordination is a process of “mutual adjustment of the interests, goals and actions of collective actors in the international system” that can often lead to diffusion of ideas and policy innovations (Busch and Jörgens 2012, p. 221). As a phase in the interaction between two parties, diffusion of ideas and policy innovations is often considered as a consequence of economic cooperation; however, economic interdependence is a necessary but insufficient condition for such diffusion of ideas and policy innovations (Starke, 2013).

Finally, with the advancement of China and CESEE bilateral relations, the CESEE countries are stimulated to develop their own capacities to act as independent actors in international affairs. Some of these countries have used their relationship with

China as a gateway to expanding their diplomacy with other emerging powers in Asia and beyond, which is a welcome development for China as it is part of the process of developing global connectivity.<sup>3</sup>

Comparing its economic cooperation with other parts of Europe and the world, China's economic cooperation with CESEE countries is relatively small. However, as China has developed a new approach and embarked on implementing the BRI, the economic cooperation with CESEE has expanded, now encompassing a variety of activities in part stimulated by the policy measures adopted by China. China recognizes the untapped market potential and promise for economic development in CESEE, and sees the CESEE economies as complementary to its own economic development. China has also emerged as an important source of capital flows in the post-crisis context of slow regional revitalization in CESEE. This has also been a period when traditional economic partners of CESEE, in the first place Western Europe, have undergone economic crises, prompting CESEE countries to rethink their economic strategies.

One of the key economic indicators for the China–CESEE relationship is bilateral trade. Using data from the United Nations Conference on Trade and Development (UNCTAD), we find that China–CESEE bilateral trade increased significantly during 1995–2015 (Table 2). However, this trade relationship has been affected by the global financial crisis of 2008, which is visible from the data on the post-crisis years (2009–2015). The growth in the total volume of trade has slowed down, and the total China–CESEE trade has plateaued at approximately US\$75bn, as in 2015 (Table 2). The petering out of trade growth is another reason why China is motivated to invigorate CESEE economies: to boost their consumption potential and create demand for Chinese-produced high-end goods. One way to stimulate trade is through comprehensive state-led economic cooperation using the 16+1 mechanism.

Although still much smaller compared to China's trade with the core 15 EU member states,<sup>4</sup> the 16 CESEE countries are at the same level compared to some other important partners of China, such as Russia (Table 3), with China enjoying far greater trade surplus with the CESEE than with Russia. That is why China is attaching growing importance to the advancement of CESEE countries as economic partners. Meanwhile, there has been a decline in Sino–Russian trade.

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<sup>3</sup>Notable strides in this respect were made by Poland where the notion of “Go China” was soon linked to new concepts such as “Go Asia” and “Go Global.” In Hungary, the good relations with China were used as a pretext for a foreign policy of “Eastern Opening” and subsequently of pursuit of relations with emerging and developing economies.

<sup>4</sup>This includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the UK.

Table 2. China–Central, East and Southeast Europe (CESEE) Trade, 1995–2015

Year	China's imports from CESEE (US\$bn)	China's exports to CESEE (US\$bn)	Total China–CESEE trade (US\$bn)	Annual growth of total trade volume between China and CESEE (%)	Trade balance (China, nominal, US\$bn)	China's exports to imports ratio with CESEE (%)	Annual increase of China's surplus with CESEE (%)
1995	0.44	1.13	1.57	NA	0.69	2.57	NA
1996	0.31	1.62	1.94	23.73	1.31	5.16	90.15
1997	0.21	2.11	2.32	19.65	1.89	9.95	44.81
1998	0.20	2.80	3.00	29.31	2.60	14.11	37.24
1999	0.34	3.10	3.44	14.87	2.76	9.06	6.06
2000	0.37	3.96	4.33	25.84	3.59	10.71	30.26
2001	0.52	5.56	6.08	40.44	5.04	10.66	40.31
2002	0.83	8.34	9.16	50.61	7.51	10.07	48.96
2003	1.27	12.06	13.32	45.40	10.79	9.52	43.71
2004	1.64	15.32	16.95	27.24	13.68	9.35	26.76
2005	1.93	19.68	21.60	27.42	17.75	10.22	29.78
2006	2.96	26.38	29.34	35.80	23.41	8.91	31.89
2007	3.77	39.46	43.23	47.37	35.69	10.46	52.43
2008	4.53	49.81	54.34	25.69	45.27	10.99	26.86
2009	5.08	39.78	44.86	–17.44	34.69	7.82	–23.37
2010	6.94	52.48	59.42	32.45	45.55	7.57	31.29
2011	9.14	59.99	69.14	16.36	50.85	6.56	11.63
2012	9.03	54.48	63.51	–8.14	45.44	6.03	–10.63
2013	10.65	56.88	67.53	6.33	46.24	5.34	1.74
2014	10.78	64.23	75.01	11.07	53.45	5.96	15.61
2015	10.78	63.60	74.38	–0.84	52.82	5.90	–1.17

Source: Compiled by the author using data from the United Nations Conference on Trade and Development for the period 1995–2015, available from: [http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en).

Notes: For the period 1995–2007, we use the data of the Federal Republic of Yugoslavia and the State Union of Serbia and Montenegro. Montenegro split from Serbia in 2007; for the period 2008–2015 we use the data of the two newly formed states Montenegro and Serbia. NA, not available.

Table 3. Comparison of China's Trade with Central, East and Southeast Europe (CESEE) 16, EU15 and Russia in 2015 (US\$bn)

	EU15	Russia	CESEE16
China's exports	390.20	34.82	63.6
China's imports	181.55	28.33	10.8
Total trade	571.75	63.15	74.38

Source: Compiled by the author using data from the United Nations Conference on Trade and Development, available from: [http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en).

Note: EU15, see footnote 4.

One of the goals of China–CESEE cooperation is to further increase the total volume of bilateral trade, and make it more balanced with regards to reduction of the the trade deficit of CESEE. So far, with the increase of China–CESEE total trade, the trade deficit of CESEE has also increased (Table 3). In total, in 2015 Chinese exports to CESEE countries outweighed CESEE countries’ exports to China by almost 6:1. Although policy-makers and experts from CESEE countries may be discontent with this development, China has acknowledged this unfavorable scenario for CESEE, and argues that trade is ultimately driven by market forces, implying that CESEE countries need to take measures to improve their competitiveness. China is tacitly encouraging CESEE countries to pursue economic reforms; however, unlike other global actors, China does not impose any normative blueprint on others. Instead, it supports the right of every state to choose its own path of national development.

Trade imbalances are not only a problem in regards to aggregate China–CESEE trade, but also in relation to the internal structure of the trade, reflecting the differences in terms of size and development level within the CESEE. As shown in Table 4, most of China’s trade with CESEE countries occurs with the four Visegrad states (Poland, Czech Republic, Hungary and Slovakia), who combined held more than 81 percent of the total China–CESEE trade volume in 2015.

Table 4. Shares of China’s Trade with Central, East and Southeast Europe (CESEE) 16 Countries, 2015 (%)

Country	Share of China’s trade with CESEE16
Albania	0.72
Bosnia and Herzegovina	0.20
Bulgaria	2.39
Croatia	0.87
Czech Republic	27.51
Estonia	1.57
Hungary	9.89
Latvia	0.81
Lithuania	1.27
Macedonia	0.65
Montenegro	0.29
Poland	33.11
Serbia	2.09
Slovakia	10.82
Slovenia	2.49
Romania	5.33

Source: Compiled by the author using data from the United Nations Conference on Trade and Development, available from: [http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en).

China predominantly exports machines and electronics, including high-end technological products to all of the 16 CESEE countries (Table 5); this is in accord with its desire to further upgrade its production from low-cost, labor-intensive to more advanced production and exports. The composition of China's imports from CESEE varies among individual countries. China imports goods with added value from the more developed CESEE countries, while from several of the less developed CESEE countries China predominantly imports raw materials, such as ores and minerals. In this sense, China's relationships with the less developed CESEE countries offer the possibility for China to promote the upgrading of industrial capacities for processing of raw materials.

Table 5. Main Goods Traded between China and Central, East and Southeast Europe Countries in 2014

	Main Chinese exports (as % of total export to the particular country)	Main Chinese imports (as % of total import from the particular country)
Albania	Machines and electronics (27%), textiles (17%), metals and metal products (13%)	Chromium ore (79%) and copper ore (11%)
Bosnia and Herzegovina	Machines and electronics (46%), metals and metal products (13%)	Textiles (31%), wood products (29%) and footwear and headwear (13%)
Bulgaria	Machines and electronics (36%)	Refined copper and other metals (50%), precious metal ore (11%) and copper ore (10%)
Croatia	Machines and electronics (34%) and textiles (13%)	Machines and electronics (46%) and sawn wood (17%)
Czech Republic	Machines and electronics (74%)	Machines and electronics (55%)
Estonia	Machines and electronics (56%), textiles (13%)	Machines and electronics (30%), rough wood and wood products (14%) and instruments (14%)
Hungary	Machines and electronics (83%)	Machines and electronics (52%) and cars and transportation (21%)
Latvia	Machines and electronics (48%)	Rough wood and wood products (47%), metals (14%) and machines and electronics (12%)
Lithuania	Machines and electronics (32%), textiles (12%) and metal products (10%)	Rough wood and wood products (26%), other furniture (18%) and chemical products (13%)
Macedonia	Machines and electronics (49%) and textiles (15%)	Ferroalloys (83%)
Montenegro	Machines and electronics (42%) and textiles (14%)	Precious metal ore (63%), zinc ore (17%) and lead ore (15%)
Poland	Machines and electronics (53%) and textiles (11%)	Copper and other metals (35%) and machines and electronics (26%)
Romania	Machines and electronics (51%) and textiles (12%)	Machines and electronics (32%), wood products (15%) and minerals (13%)
Serbia	Machines and electronics (45%)	Iron ore (39%) and lead ore (10%)
Slovakia	Machines and electronics (66%)	Cars and transportation (76%) and machines and electronics (17%)
Slovenia	Machines and electronics (44%), chemical products (12%) and textiles (11%)	Machines and electronics (46%) and plastics and rubber (17%)

Source: Compiled by the author based on data of the Observatory of Economic Complexity, available from: <http://atlas.media.mit.edu/en/>.

A key pillar of the China–CESEE economic cooperation is outward foreign direct investment towards CESEE. The growth in Chinese investments in this region (see Tables 6 and 7) and the promise of new investments are the central themes for the new China–CESEE relationship (e.g. Golonka, 2012; Jakobowski, 2015; Chen and Yang, 2016).

Table 6. Chinese Investments (Stock) in Central, East and Southeast Europe (CESEE) Countries, 2009–2014 (US\$ million)

Destination	2009	2010	2011	2012	2013	2014
Albania	4.35	4.43	4.43	4.43	7.03	7.03
Bosnia and Herzegovina	5.92	5.98	6.01	6.07	6.13	6.13
Bulgaria	2.31	18.60	72.56	126.74	149.85	170.27
Croatia	8.10	8.13	8.18	8.63	8.31	11.87
Czech Republic	49.34	52.33	66.83	202.45	204.68	242.69
Estonia	7.50	7.50	7.50	3.50	3.50	3.50
Hungary	97.41	465.70	475.35	507.41	532.35	556.35
Latvia	0.54	0.54	0.54	0.54	0.54	0.54
Lithuania	3.93	3.93	3.93	6.97	12.48	12.48
Macedonia	0.20	0.20	0.20	0.26	2.09	2.11
Montenegro	0.32	0.32	0.32	0.32	0.32	0.32
Poland	120.30	140.31	201.26	208.11	257.04	329.35
Romania	93.34	124.95	125.83	161.09	145.13	191.37
Serbia	2.68	4.84	5.05	6.47	18.54	29.71
Slovenia	5.00	5.00	5.00	5.00	5.00	5.00
Slovakia	9.36	9.82	25.78	86.01	82.77	127.79
CESEE Total	410.60	852.58	1008.77	1334.00	1435.76	1696.51

Source: Liu (2016b) based on the data of MOFCOM.

According to the available data, China’s investment in CESEE countries has increased more than fourfold, from US\$410m in 2009 to almost US\$1.7bn in 2014 (Table 6). Hungary has received the largest share of Chinese investment among all CESEE countries. However, as for China–CESEE trade, Chinese investment in CESEE countries is unevenly spread in this region. Most of the Chinese investments are located in the four Visegrad states (Poland, Hungary, Czech Republic and Slovakia), and Bulgaria and Romania. Although the investment in this region has grown significantly, it has not caught up with the expectations of either China or countries in this region. In the early stages of the development of the institutional regional cooperation, China has not overcome difficulties stemming from administrative issues (Jakobowski, 2015; Chen and Yang, 2016). Therefore, Chinese policy-makers and experts have also encouraged reforms in CESEE that can facilitate cooperation through investment.

Table 7. Chinese Investment Share and Increase in 16 Central, East and Southeast Europe (CESEE) Countries, 2014

	Share of Chinese investments in 2014 (%)	Increase 2009–2014 (in US\$10 000)	Percentage of increase (%)
Albania	0.41	268	61.61
Bosnia and Herzegovina	0.36	21	3.55
Bulgaria	10.04	16 796	7271.00
Croatia	0.70	377	46.54
Czech Republic	14.31	19335	391.87
Estonia	0.21	–400	–53.33
Hungary	32.79	45 894	471.14
Latvia	0.03	0	0.00
Lithuania	0.74	855	217.56
Macedonia	0.12	191	955.00
Montenegro	0.02	0	0.00
Poland	19.41	20 905	173.77
Romania	11.28	9803	105.02
Serbia	1.75	2703	1008.58
Slovakia	7.53	11 843	1265.28
Slovenia	0.29	0	0.00
CESEE Total	100.00	12 8591	313.18

Source: Liu (2016b) based on the data of MOFCOM.

However, in CESEE there is often a discrepancy in terms of how the term “investment” is used. In the official and the public discourse on economic cooperation, the term “investment” is used as an umbrella concept that includes various policy and financial tools, such as government-sponsored investment, loans and other official funding and private investment, which are often steered through political decisions and, as such, are contested as valid investments by some analysts (Dragoljo, 2016). Although this point merits separate research, here we analyze the Chinese Government-initiated undertakings using the umbrella term “projects” rather than the contested term “investments” in the CESEE; therefore, we try to categorize them in separate groups based on qualitative comparison.

First, a significant portion of Chinese projects carried out by Chinese SOEs and private companies, such as China Pacific, are in construction of transportation infrastructure. These projects are most often funded through Chinese loans provided to the host countries with favorable conditions. So far, the largest number of projects of this sort are highways primarily in and among the Western Balkan countries (including Albania, Bosnia, Macedonia, Montenegro and Serbia), as these countries demonstrate dire need for such projects, especially those enabling cross-border connectivity. For

China, the Balkan countries, which are non-EU members of CESEE, have more favorable institutional settings and less demanding regulatory frameworks compared to the EU member states in CESEE. Ongoing and planned railway projects, such as the China–Europe Land–Sea Express and numerous highways, are based in these Balkan countries. Related to these projects are agreements and contracts for purchasing high-speed Chinese trains from CRRC Zhuzhou, with two landmark deals being achieved in Macedonia in 2014 (the trains became operational in 2015) and in the Czech Republic in 2016 (*Xinhua*, 2016b). In addition to land transport, China has also found potential projects involving maritime transport and sea port cooperation in the Black, Baltic and Adriatic Seas, and river transport in Danube and Vardar.

Second, there have been several construction projects in energy infrastructure, in diverse energy subsectors, in various CESEE countries. The most important project in this area is the China General Nuclear Power Corporation’s investment (US\$7.8bn) in the Romanian Cernavoda nuclear power plant to be financed through a new Sino–Romanian joint venture, a deal still in the preparation stage (*World Nuclear News*, 2015). In addition, China has shown interest in jointly cooperating with Slovakia and the Czech Republic to develop nuclear technology, and in exploring the potential for upgrading existing or constructing new nuclear capacities of CESEE (Vangeli, 2016b). Nuclear energy and nuclear technology are strategic sectors for China. Chinese Premier Li Keqiang has argued that China, after establishing itself as a global leader in high-speed railways, should follow the same path in the field of nuclear energy and technology cooperation (Zhao, 2015).

Third, there have been greenfield investments by Chinese SOEs and private companies in CESEE countries. Most significant has been the establishment of Huawei’s European Supply Center in Hungary. Huawei also has a sizable presence in Serbia.

Finally, there have been a number of mergers and acquisitions, of which the most remarkable has been the investment by CEFC China Energy (*Zhongguo Huaxin Nengyuan Youxian Gongsì*) in the Czech Republic. Shares were acquired in several of the leading Czech national businesses, including “the majority of equity of a brewery company and the equity of an airline company of Czech Republic” (CEFC China, 2015).<sup>5</sup> Another important acquisition was the US\$51.6m purchase of the Serbian steel mill in Smederevo by the HeSteel Group in 2016, which has been lauded as an example of industrial capacity cooperation by Xi Jinping (*Xinhua*, 2016d).

For China, sustaining and increasing the pace and volume of investment in CESEE

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<sup>5</sup>It is important to say that the data on greenfield investments as well as mergers and acquisitions still does not account for Chinese flows through offshore channels (e.g. Hong Kong), which are in general not easy to obtain, but are estimated to account for a significant portion of the total Chinese outward investment.

countries remains a priority. At the Riga summit in December 2016, China announced a new US\$11.1bn special investment fund under the BRI for the 16 CESEE countries, and will aim to further raise funds of more than US\$50bn for financing China–CESEE joint ventures (Chen and Wang, 2016). China has framed much of these investments, and of the planned investments for the future, in particular those that are carried out by Chinese SOEs funded by the Chinese Government, as part of the BRI. At the same time, Chinese experts often argue that the BRI cooperation with CESEE countries is not necessarily directed towards immediate profits, but rather follows a particular ideological paradigm, and that is why China has prioritized infrastructure projects (Liu, 2016a).

## 2. The Case of the China–Europe Land–Sea Express

In tailoring its approach to CESEE countries under the BRI, China has borrowed from the lessons of its own development experience. As argued by Chen (2016, p. 40), the leading principle of China’s domestic development under the BRI is the leading principle of China’s approach to CESEE, and, in particular, that: “if one wants to develop, one should build the roads first.” Therefore, China considers the construction of transport infrastructure in CESEE countries as a strategic objective, upon which rests the future development of the region, and the future China–CESEE cooperation. China emphasizes the non-financial added value of infrastructure construction, such as the increased flow of people, ideas and goods, and its potential to inspire entrepreneurial activities along newly or better-connected areas.

One of the most notable actions China has taken in this region under the BRI framework is the proposal for a high-speed railway line from Budapest to Belgrade, which would then extend through Macedonia and Greece to the Port of Piraeus, a project known as the China–Europe Land–Sea Express line (CELSE) (Pavličević, 2014; Vangeli, 2016a). Setting an ambitious goal to bring together the Central European section of the Silk Road Economic Belt and the Aegean section of the Maritime Silk Road and, thus, invigorate the flows of goods and passengers in one of the most important historical crossroads in Europe, the CELSE is seemingly a project that fully grasps the core element of the BRI.

The first agreement on the CELSE was signed at the Belgrade Summit of the 16+1 in December 2014. Since then, the four countries have established policy coordination groups under the *Framework Agreement on Cooperation in Facilitating Customs Clearance Among the Chinese, Hungarian, Serbian and Macedonian Customs* (MFA, 2015). Further developments include trilateral ministerial meetings of China, Hungary and Serbia, and the establishment of a joint Sino–Hungarian venture in charge of completing the Hungarian section of the CELSE. The construction of the Belgrade–

Budapest section of the CELSE is set to begin by the end of 2017.

By initiating the CELSE, China has brought new economic visions for the countries involved, and their neighboring areas. In combination with the increased productivity of the Piraeus Port that is now owned and managed by COSCO, the CELSE can play an important role in making Europe–Asia trade faster and cheaper, thus making the Balkan region closer with the global economy (van der Putten, 2014). This is a subregion that in modern history has not been particularly developed compared to the rest of Europe, as different parts of it were peripheral areas of the big European empires until the middle of the 19th and the beginning of the 20th century. This region has lacked connectivity and infrastructure, both of which have remained an unfulfilled objective. In the aftermath of the global crisis it was evident that the governments in this region would not be able to pursue any large-scale projects themselves, in particular no projects like the CELSE. Overall, through initiating the CELSE China addresses one of the core motives of the BRI; that is, to contribute to the global recovery of the 2007–2008 crisis, and to mitigate the development disparities and inequalities between different regions.

The CELSE also has added political value. In its construction, China has involved two EU member states (Hungary and Greece) and two non-EU states (Serbia and Macedonia), thereby countering the tendency to leave non-EU countries outside major transport networks. Through CELSE, China also challenges the cognitive barriers that have prevented policy-makers, experts and the public in the countries involved in the BRI to advance regional cooperation and connectivity. The complex historical legacy of the intra-regional relations between Greece, Macedonia, Serbia and Hungary along the route, external shocks, such as the European solidarity crisis in the wake of the influx of refugees, and the lack of proper economic stimulus from outside have made these countries inward-looking, and created a preference for barriers over openness towards each other.

#### IV. Concluding Remarks

China's relationship with CESEE countries has developed as an integral part of the comprehensive rehaul of China's views on the future of its role in the global economy. In China's vision, and particularly in the context of the landmark New Silk Roads project, the relatively small and economically moderately attractive region of CESEE has a prominent role. China has given new importance to the CESEE region, which has often been perceived as a European periphery region. In China's new global vision, CESEE is a landbridge, and a partner in developing production capacity cooperation. To help align the regional development agenda with its own, China has initiated an innovative regional diplomatic cooperation platform, and has created a complex web of regional institutions.

It has also increased its economic activity in the CESEE countries, in a way that has fostered the potential to invigorate regional development.

The China–CESEE cooperation offers precious insight into how China is developing as a global actor. China is becoming ever more proactive in cooperation with different countries and regions, extending its diplomacy to new areas, and, moreover, complementing its economic approach with institution-building and policy coordination. China in the BRI era does not shy away from offering to impart its own experience and development lessons to other countries, setting the foundations for a potential global political economic paradigm shift. The central role that China plays under the BRI framework not only focuses on policy coordination, but also on improving outcomes through policy reforms. Finally, large-scale transnational connectivity projects, such as the CELSE, show China’s ambition not only to stimulate development, but also to stimulate inclusive regional cooperation, and, therefore, realize what it refers to as the “Silk Road spirit” in the CESEE.

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