



# What Do Central and Eastern European Countries Want from China? Assessing 16+1 and Its Future

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This briefing paper summarizes the views and comments of participants during the first China Observers in Central and Eastern Europe<sup>1</sup> (CHOICE) International Working Seminar held on November 20-21, 2018, in Prague, Czech Republic. The event constituted of China experts and foreign policy practitioners<sup>2</sup> from Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovenia, and observers and contributors from Brussels and Paris. Their aim was to **discuss China's involvement - economic, political or otherwise - in each of their countries, and help foster the region-wide debate on China's presence and the real intent and activities of the 16+1 Initiative.**

The event was organized by the Association for International Affairs (AMO), Czech Republic, as a part of ChinfluenCE<sup>3</sup>, an international project mapping Chinese political and economic influence. The ChinfluenCE project and its extension in the form of a CHOICE platform are supported by the National Endowment for Democracy.

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<sup>1</sup> For the project website see [www.chinaobservers.eu](http://www.chinaobservers.eu).

<sup>2</sup> The event was held under the Chatham House Rule, thus the names and affiliations of participants can not be revealed. The views expressed at the seminar by discussants and compiled into this paper do not necessarily reflect the views of AMO and project partners.

<sup>3</sup> For the project website see [www.chinfluence.eu](http://www.chinfluence.eu).



## Introduction

In the second decade of the 21st century, Central and Eastern Europe (CEE) has experienced increased influence of foreign powers on its territory. Although China is a relative newcomer to the region in both political and economic terms, its growing economic weight and resulting clout makes it a serious regional contender whose influence on the CEE countries' politics and policies should not be underestimated. Changing geopolitical contours, rise of political parties promoting illiberal ideologies and shifting global economic balance all give China-established initiatives like 16+1 and Belt and Road (BRI) an extra advantage in penetrating the region both economically and politically. Yet, in comparison to Russia's presence, which has been studied in greater detail, China's actions and resulting influence in CEE countries go largely unnoticed in the mainstream research arena.

**The China Observers in Central and Eastern Europe (CHOICE)** platform aims to counter this trend by establishing a consortium for independent monitoring, evaluation and analysis of the actions and influence of China in Central and Eastern European members of the China-proposed and China-led 16+1 Initiative. Formed by local NGO practitioners, think tankers, university experts on China and foreign policy practitioners, **CHOICE consortium aims to provide a platform for discussions and information sharing regarding best practices and lessons learned from various China-related projects and activities conducted by its members.**

The goal of CHOICE is to critically assess and analytically dissect 16+1, Belt and Road and other China-led initiatives in Europe. It strives to construct an inclusive, multilateral regional strategy which the 16 CEE countries can use to procure the maximum amount of benefits from the 16+1 platform while simultaneously protecting their national interests, safeguarding their values and maintaining the basic principles of their foreign policies.

The International Working Seminar in Prague consisted of a CHOICE platform closed-door meeting in concordance with the Chatham House Rule. The meeting asked the sensitive question of what China wants in Central and Eastern Europe, before turning to a proactive search of what Central and Eastern European countries want from China



## Six Years After Inception: Evaluation of the 16+1 Platform

The international workshop began with each participant summarizing and assessing relations between their home country and China. This was followed by the hosting Czech representative elaborating on Czech-China relations. The first issue addressed was **the U-turn in Czech foreign policy towards China**, which was described as a joint effort pushed by several representatives of political parties (Czech Social Democratic Party - ČSSD, Communist Party of Bohemia and Moravia - KSČM and a few members of the Civic Democratic Party - ODS) and the Czech President Miloš Zeman. This warming of relations was motivated by the political and economic interests of several political elites, rather than a serious economic analysis of the country's needs. This was displayed in a map of elite connections among politicians, lobby groups, businessmen, etc. which was prepared by ChinfluenCE and revealed to the Czech and foreign public.

**If the Czech Republic continues its economic engagement with China at this pace, however, the short and mid-term economic impact will still be negligible in comparison to financial support and benefits coming from the European Union.** While certain industries benefit from the officially announced 'restart of the Czech-China relations', it is minimal on the macroeconomic scale. Though the Czech Republic increased exports of Czech goods to China, China simultaneously increased its exports to Czechia, resulting in a continuous trade imbalance. The Czech Republic is, and for the foreseeable future will be, dependent on the German market and will have a West-oriented economic outlook, despite promises of investment and loans coming from the East. Non-West alternatives, such as China and Russia, are raised due to economic interests of certain players and/or represent a card that the leadership can play against Brussels.

The Czech case of elite political ties dictating economic policy preferences is not unique among CEE countries. **Bosnia, Serbia, Romania and Hungary** have all reported similar circumstances with **China using friends in high places**. China placed a high-profile ambassador in Bosnia who has been actively fostering relationships with local elites, giving her access to important information. In Serbia, 2017 presidential candidate Vuk Jeremić was reportedly supported financially for at least €1.3M from Chinese donors in his presidential campaign. Romanian Prime Minister Victor Ponta was another high-profile elite who, like Czech President Miloš Zeman, showed heavy favoritism towards China and his term in power coincided with a sharp increase in Chinese investment in Romania. Meanwhile, Hungary's Viktor Orbán has openly claimed that Hungary has 'friends in the East' that he can turn to if he continues to be criticized by the West. Other countries, such as **Croatia and post-Ponta Romania**, are more **concerned with striking a balance** between deepening relations with China while avoiding falling out of favor with the West.

**There is a significant amount of discontent expressed among many countries regarding the EU's handling of, and interaction with, the 16+1 platform and individual nations within it.** Several participants suggested there were double standards employed by Western European states (namely Germany), when assessing cooperation between China and Central and Eastern Europe. What might be acceptable for older member states, might not be considered tolerable behavior by new or accessing members, who are already frustrated by the absence of a date for their accession to the EU. Moreover, China has often provided necessary investment where the EU was unable or unwilling to, or where the EU was taking too long to conclude a negotiation. There are numerous cases where Chinese investment is simply offered at a lower price. This is particularly notable among Balkan nations, who - in the words of one of the participants - "would rather receive investment from the EU, yet when that investment does not eventuate, they are forced to take Chinese money so they can provide their citizens with much-needed development", particularly in transport infrastructure related projects.



Representatives of CEE countries expressed a desire to receive Chinese investment, however they often differed in their preferences of the type of investment, what it should look like, and where the investment should go. Furthermore, the history of the platform demonstrates that execution of Chinese investment in the way these countries would like is more often an idyllic fantasy than a reality. The first problem that many CEE countries encountered was the situation where **China** was quick to make grand promises of widespread investment, thus elevating hopes (perhaps CEE countries allowed themselves to become unrealistically optimistic), yet **failed to deliver on many of these promises**. This has led to much frustration among CEE countries. **Macedonia**, for example, **was lobbying to become a hub for investment in tourism, yet received nothing substantial**. **Bulgaria began preparing to become a transport hub** through which all of China's overland goods would flow to the European market, **but these plans fell through when China pulled out of the deal**. **Aside from one standout investment, the Baltic states reported negligible amounts of Chinese foreign direct investment**. **Lithuania** was promised a hundred million EUR for 60 years, however **they have seen little of it and are unsure about what will actually materialize**.

Furthermore, there was **a notable number of complaints regarding the process, speed and quality of projects that were followed through on**. In Macedonia, Chinese attempts to build two highways ended up in a scandal when wiretapped conversations allegedly showed the contract to Chinese company Sinohydro was signed by the former ruling party's officials, despite another company offering a lower bid. Problems with Chinese-built infrastructure are also occurring in Montenegro, as a Chinese highway maintenance project has reportedly begun to collapse. Moreover, there has been a lack of transparency in the deal-making and construction processes. Serbians complained that they were completely in the dark when China built the Pupin Bridge over the Danube in Belgrade. Chinese workers were brought in for the project and no media were allowed on site. Croatia is also experiencing uncertainty about quality and time surrounding a contract for the Pelješac bridge signed in April 2018 that was promised to be finished in 36 months.

It was noted that there might be **two possible explanations** for some of these problems: 1. **a lack of diversification with Chinese investment** and, 2. **China's preferences are not compatible with the drivers of CEE economies**. These explanations are supported by another claim that, in order for China to learn from mistakes and improve at these projects, it must venture out from the rigidities of its preferences. China could, for example, involve local companies more, an action which would increase project transparency, provide employment to locals and improve China's public approval.

Despite these pitfalls, there was **a general acknowledgement that some of the problems with infrastructure rollouts have occurred because of failings on both sides**. It was accepted that the structure of many of these states, such as issues with ruling elites, contributed to this problem by not addressing an inadequacy of absorption capabilities. Macedonia and Montenegro were prime examples.

Another major concern has been the **lack of greenfield or brownfield investment from China**. Countries are looking for these types of investments because they create tangible effects on their economies in areas such as employment and growth. Chinese investors are more interested in buying, obtaining management skills and developing brands, than starting new companies which would benefit local employment. China is well known for financing infrastructure on the condition that they employ Chinese workers rather than local ones – Macedonia serves, once again, as a prime example. Poland also desires greenfield investment but has received nothing substantial. There are also issues concerning the unmatchable prices that China has been offering to the CEE



countries, with reports claiming that the only reason China's prices are lower is due to use of dumping strategies. In Poland, a Chinese bid for a highway and a garbage factory was denied by the national appeal chamber because the price was deemed too low to be reasonable.

Despite the common problems with Chinese investment and infrastructure projects, **there are some actors in CEE who are satisfied with their Chinese investment and consider it a success.** It was noted that China offers extremely low prices that are unmatched by any other global actor. As the participant from Serbia mentioned, China is regarded relatively highly by the Serbian government and business sector. They have developed a good impression from projects like the Pupin Bridge which is finished and operating without issue. Hungary's perception of China is also good; it has no issue cooperating with China and employs a policy that was described as pragmatic-economic. In Estonia, the Chinese ride-sharing company Didi invested € 85 million into the local taxi booking start-up Taxify, positively impacting this industry. Finally, being a recent player and situated far from Europe, **China does not carry the ethnic affiliations that some other investors may.** This might be true in Bosnia, where China is the only investment source that is not tied to an ethnic base and is thus generally perceived as "a friendly superpower".



## Discussing Future of 16+1: Seven Possible Scenarios

In the second part of the meeting, the organizers presented the panel with seven hypothetical future scenarios of the 16+1 platform and participants were asked to choose which they believed was most likely and/or most desirable. It then turned into an insightful discussion about whether there is any hope for the platform to benefit CEE and, if so, what conditions would need to change for these benefits to be realized.

The scenarios put forward were:

1. **Gradual dissolution** – the platform will dissolve slowly as neither side is interested in cooperation or continuation.
2. **Merger** – the platform will be incorporated into BRI, where the countries will be on par with each other and CEE countries will lose their competitive advantage.
3. **Empty shell** – the platform will be kept alive, but bilateral relations will be preferred (essentially similar to the current arrangement).
4. **United we stand** – the 16+1 evolves into a fully-fledged platform with the full commitment, cooperation and participation of all 16 countries.
5. **A platform of platforms** – the 16 countries form smaller coalitions with other like-minded countries within the platform, increasing the speed of cooperation.
6. **Europeanization** – the platform expands to include more EU countries and becomes the primary negotiating platform between Europe and China.
7. **Counterbalance to the EU** – the platform is used to increase pressure on the EU to give CEE countries more autonomy in dealing with China.

The 'Empty Shell' scenario was resoundingly chosen as the most likely. There is a belief that **China will continue to develop bilateral relations with CEE countries while using the 16+1 platform as a convenient way to save time by conducting all these negotiations in one place at one time, every year.** Serbian leaders place very little value in the platform as they see their relationship with China in bilateral terms. Hungarian leaders also believe that the platform is essentially a group of bilateral arrangements.

**Others argue that the platform has been an empty shell (dead letter institution) since the very beginning.** They believe that from the start neither China nor Europe knew what the platform really was, and **this resulted in the six-year absence of virtually any tangible benefits.** Some note that the platform is designed so that it will never fail, however the extent to which it is alive is another question. In the Baltics, Estonian officials suspect that the value China holds of the platform is decreasing, as they have observed a drastic decline in Chinese officials' communicative preparation with Estonia before recent platform summits compared to that of earlier years.

Another criticism of the platform's effectiveness focuses on the **lack of policy and planning between the EU and 16+1.** It is believed that this lack of cohesion with the EU leaves CEE in a position with little leverage over China and therefore, the formation of a partnership with the EU is vital for the future of the platform. **EU involvement could also provide the helping hand CEE needs to pressure China to play by the rules when dealing with smaller nations on issues such as transparency and legal regulations.** Interestingly, this might actually be what China wants, as there was a **suggestion that China is using the platform to form closer links to European countries like Germany.** However, closer EU engagement would have to arrive without the perceived double standards addressed earlier, otherwise it is unlikely many countries would be interested. **Several parties also noted that they could see the platform merge into the BRI**



as it would be easier for China to sustain one format rather than two. This possibility was even preferred by a minority of members.

One of the benefits of 16+1, according to most members, was the opportunity it gave smaller countries to have a 'seat at the table' to negotiate with China. However, the experience from the past six years shows that merely having this seat does not guarantee success. Part of the problem is the varying and diverse interests between member states. This roadblock was universally acknowledged and led to a general agreement that **active cohesiveness by all 16 countries was necessary for the development of the platform**. For example, the platform might make some progress if every nation demanded that for any infrastructure project to be accepted, EU standards needed to be adhered to. However, it was mentioned that if governments were left to their own devices, they would lead each other to a race to the bottom regarding regulations.









A strategy designed to maximize negotiation and coordination suggested that every CEE country should attempt to put some significant meaning into the platform. Finally, it was agreed that more effort should be allocated towards considering what China's true intentions behind its involvement in the platform were.





## Association for International Affairs (AMO)

AMO is a non-governmental not-for-profit organization founded in 1997 in Prague to promote research and education in the field of international relations. This leading Czech foreign policy think-tank owes no allegiance to any political party or to any ideology. It aims to encourage pro-active approach to foreign policy issues; provide impartial analysis of international affairs; and facilitate an open space for informed discussion.

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