



Prospects for China-CEE Relations in the 16+1 Format

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On 5 November 2016, the fifth summit of China and Central and Eastern Europe was held in Riga. The main topic of the meeting was the buzzword “connectivity,” which indicates building various connections or links, especially infrastructural ones. The main results of the summit were an attempt to define maritime dimension of cooperation, with special focus on the three seas initiative (the Adriatic, Baltic and Black) announced in 2015, and a decision to set up in Poland a secretariat for maritime issues. For China, the 16+1 will remain a tool for strengthening its international status and promoting the Silk Road initiative, while the others will use it to enhance their bilateral relations with China.

Apart from the prime ministers of China and Central and Eastern European (CEE) countries that are members of the “16+1” dialogue format, the fifth China-CEE summit was attended by an EU representative as a permanent observer, representatives of Austria, Switzerland, Greece, the European Bank for Reconstruction and Development and, at Latvia’s initiative, the prime minister of Belarus. The summit was preceded by bilateral meetings between the prime ministers. Simultaneously, the 16+1 business forum and the inauguration of a pilot cargo railway connection from the Chinese city of Yiwu to Riga were held in the Latvian capital.

Summit Decisions. Due to the very loose institutionalisation of the 16+1, its main decision-making instrument is a summit of heads of governments. The sixteen countries compete with each other in their relations with China, so the CEE as a group has no single, cohesive China policy. The fact that EU and non-EU members are included also presents a significant barrier.

The main summit decisions are written in the Riga Guidelines. This document records 16+1 activities in the previous year and presents goals for the next. For the first time a summit declaration, called the Riga Declaration, has been adopted. The Riga Guidelines are a clear attempt to find synergy between the 16+1 grouping and EU-China relations. This is why it was stressed that all transport infrastructure and logistics activities, the main topic of the summit, are in line with the EU-China Connectivity Platform, launched by the European Commission in September 2015. The Platform’s goal is to find commonalities between the Belt and Road initiative and EU proposals. The latter include the Investment Plan for Europe and new work plans within the Trans-European Transport Network (TEN-T) policy, adopted in mid-2015.

In Riga, the topic of connectivity prevailed over that of trade. The main focus was on maritime issues. The Riga Declaration broadly presents the “Three Seas” (Adriatic, Baltic and Black) initiative announced at the Suzhou summit in 2015. It assumes the development of ports, including those in the hinterland, as well as logistic hubs, economic zones and transport corridors. The stress on maritime issues arises from the host country’s interests, as maritime trade is crucial for Latvia. But it could also be that the thus far modest results of land transport under the 16+1 and the Silk Road initiative led to a search for new areas of cooperation. Cargo trains to Europe, subsidised by China and often transporting only Chinese goods, will not be profitable in the long term. The significance of maritime cooperation has been confirmed by the decision to set up a secretariat for maritime issues in Poland, in 2017. This will be the third 16+1 mechanism in Poland, after the Business Council and an association of investment agencies. It will be run by the Ministry of Maritime Economy and Inland Navigation.

China also wishes to propose new financial instruments. Existing Chinese support such as loans, often similar to those offered for investments in African countries, is not attractive for the EU members, which have access to EU funds. An investment fund worth €10 billion (that aims to raise €50 billion in total) was set up during the summit. The fund will

be run by the financial holding established by the Chinese bank ICBC. There are also plans to set up a 16+1 inter-bank association.

Among other decisions was the establishment of new mechanisms of cooperation. These could be seen as an attempt for the “specialisation” of individual states in selected areas, as well as a means of showing appreciation to those countries that have so far not hosted such institutions. New mechanisms will be set up in Romania (energy projects), Slovakia (technology cooperation), Slovenia (forestry cooperation) and Macedonia (cultural cooperation).

More significance has been attached to people to people relations and the promotion of mutual understanding. Lack of knowledge is perceived as an important barrier to closer cooperation between CEE and China. This is why 2017 will be a year of media cooperation (2016 was a year of people to people relations and cultural cooperation). The next host of the 16+1 summit will be Hungary.

16+1 Achievements to Date. The format has made CEE important in terms of Chinese foreign policy. Since the summits in Belgrade and Riga, the role of Balkans and Baltic states in Chinese policy towards Europe has increased. Miscellaneous meetings under the 16+1 format contributed to the intensification of political dialogue on the lower level (for example, that of ministers and local authorities) and people to people exchanges. Moreover, the status of Central Europe within the region and in the EU has been raised. CEE countries showed that they are able to establish their own formula for cooperation with China, and to pursue an active policy towards non-European great powers. Another result is the rise of interest of potential investors in countries which hosted 16+1 summits. For example, Serbia and Romania recorded increased interest from potential investors, not only from China but also from Korea and Japan.

As far as economic cooperation is concerned, discrepancies between EU and non-EU members are noticeable, especially in terms of investments and infrastructural projects. They are located mainly in the non-EU countries, which indicates the weakness of Chinese financial instruments that are not adapted to the needs of all countries. The Chinese credit line is being used, for example, in Bosnia and Herzegovina for the construction of a thermal power plant in Stanari, in Macedonia for building highways, and in Serbia for a Belgrade bypass. Credit from China-based Exim Bank is being used to build a new thermal power plant unit in Kostolac. Similar credit was also utilised to build a bridge over the Danube in Belgrade, which was officially opened in 2014.

In terms of failures to date, there has been little progress with the high-speed Belgrade-to-Budapest railway, a 16+1 flagship project. Many agreements have been signed but not implemented, and there are concerns that the \$1.7 billion line of credit extended by China may seriously increase Hungary’s national debt. What is more, the European Commission has initiated preliminary infringement proceedings against Hungary. This is because the project assumes implementation by a consortium from Hungary and China (15% and 85%, respectively) based on an intergovernmental agreement, but not through issuing tender procedures. In Riga the decision was made that the consortium will announce a tender and sign agreements with contractors. This means that the consortium itself will not be a project contractor, although the financial aspects have not changed and 85% of the project is expected to be financed with Chinese credit.

Still, the level of Chinese investments is modest, while the trade deficit on the CEE side is increasing. What is more, China has not yet located manufacturing bases in Central Europe, an idea that it announced at previous summits.

Prospects. China and European countries will not abandon the 16+1 format. For both sides, it is a useful political instrument. One may expect an extension of the format, for example with other countries acting as observers. This assumption may be vindicated by the fact that China has recently been promoting the 16+1 as “open.” With more countries on board in the framework of 16+1, China may highlight its rising international status and attract more allies for its own interests. At one 16+1 meeting, in Ningbo, in June, Hungary openly declared support for granting China market economy status. It also supported China’s position on the South China Sea issue, just before a ruling by the Court of Arbitration, and afterwards, with Croatia, was reluctant to adopt the EU statement about this issue. The decision to hold the next 16+1 summit in Hungary might be perceived as appreciation for Viktor Orbán’s pro-Chinese policy. It is worth mentioning that the Czech Republic was also interested in hosting the next summit, but its relations with China soured after the visit of the Dalai Lama, who met with the minister of culture in Prague in October. For China, the 16+1 remains a mechanism for gaining knowledge about the region, such as investment conditions and plans, important for the implementation of the Silk Road initiative.

The 16 countries will also use the format to indicate their own interests and strengthen bilateral relations with China. A good example is Latvia, which is greatly interested in transport in the north-eastern part of Europe. Latvia sees opportunities for cooperation with China, following the deterioration of its relations with Russia after the imposition of sanctions that limited Russian trade in ports of the Baltic States.

The 16+1 format should serve for Poland as a complementary element for strengthening bilateral relations and the pursuit of Polish interests. Poland, as a hosting country of three 16+1 mechanisms, should initiate seminars and publications about the investment climate and create a platform for the exchange of information. The focus should be primarily on Polish interests, such as lobbying for Chinese greenfield investments and increasing Polish exports to China. The secretariat for maritime issues should be used to enhance cooperation within the maritime Silk Road, and to increase the role of Polish ports in trade and investments with China.