

## POLICY PAPER

## Central and Eastern Europe's courtship with China: Trojan horse within the EU?\*

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Relations between China and the Central and Eastern European (CEE) countries have been increasingly attracting attention around Europe since the opening-up of the 16+1 platform, for supposedly affecting united stance of the EU. In fact, there are voices talking about the new dividing line in Europe and China's 'divide and conquer' strategy.<sup>1</sup> According to them, it is against the EU good practices to develop a separate institutionalised relation with a third state.

Central and Eastern European EU member states were not famous for being at the forefront of EU relations with third countries. Since the fall of the communist regimes their foreign policies have been almost predominantly oriented towards the West, while trying to escape the East. True, relations with the US have played an important role; yet, this, too, caused tensions in the past. Now these countries are interested in developing relations with China and it raises a number of eyebrows among their EU colleagues, who are not invited to participate.

The presented paper analyses the rationale for this relatively new relation from three perspectives – China as the initiator of the platform; the involved CEE countries as

apparently the main beneficiaries; and the EU as the 'mother' unit partly encompassing the CEE region. It is argued that statements about a dividing line are improper and these accusations are based largely on false presumptions or potential future problems. On the other hand, the approach of the Western European countries may in fact point to the EU's internal problems.

**China: the new divider of the EU?**

To be sure, China is now far from being a leading power in CEE and it does not have the capacities to serve as a 'dividing' force. Yet, one can observe an increased presence and hence also more potential leverage in the future. Trade between China and CEE was basically non-existent just a decade ago, nonetheless since the year 2000 it has been growing on average more than 30 percent a year in both directions.<sup>2</sup> The growth of Chinese investment into CEE is also extraordinary, even in comparison with Chinese investments in other parts of the world, which are also rising rapidly.<sup>3</sup>

This begs the question of whether China's goal is to acquire enough power to then serve as a dividing force within the EU. To present a

\* This text was originally published at European Institute for Asian Studies, Brussels, 2014.

<sup>1</sup> Worldcrunch (2012, November 11). Divide, Conquer, Aim East: China Has A Sharp New European Trade Strategy. Retrieved from [http://www.worldcrunch.com/world-affairs/divide-conquer-aim-east-china-has-a-sharp-new-european-trade-strategy/eastern-europe-beijing-foreign-commerce/c1s10100/#.Uqx7B\\_TuJhw](http://www.worldcrunch.com/world-affairs/divide-conquer-aim-east-china-has-a-sharp-new-european-trade-strategy/eastern-europe-beijing-foreign-commerce/c1s10100/#.Uqx7B_TuJhw)

<sup>2</sup> New York Times (2012, April 26). China Wants More Trade With Central and Eastern Europe. Retrieved from [http://www.nytimes.com/2012/04/27/business/global/china-wants-more-trade-with-central-and-eastern-europe.html?\\_r=2&http://www.nytimes.com/2012/04/27/business/global/china-wants-more-trade-with-central-and-eastern-europe.html?\\_r=1&](http://www.nytimes.com/2012/04/27/business/global/china-wants-more-trade-with-central-and-eastern-europe.html?_r=2&http://www.nytimes.com/2012/04/27/business/global/china-wants-more-trade-with-central-and-eastern-europe.html?_r=1&)

<sup>3</sup> See Golonka, M. (2012) *Partners or rivals? Chinese investments in Central and Eastern Europe*. Warsaw, Central & Eastern European Development Institute. pp. 21-22.

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credible answer we have to look into what the Chinese intentions are. As the most authoritative statement of China's intent one can regard the '12 points initiative' of former Prime Minister Wen Jiabao. Here, among others, it announces the establishment of a 10 billion USD special credit line to CEE countries for projects aimed especially at the development of infrastructure, high-tech industry and the green economy. Further measures of the initiative aim at promoting increase in cooperation, such as the establishment of a China-CEE Secretariat, support for research projects, scholarships, cultural exchanges, promotion of tourism, private investments and others.<sup>4</sup>

The Bucharest Guidelines for Cooperation between China and CEE countries, issued during the Meeting of Heads of Government of China and CEE countries in Romania in November 2013, convey a similar message. China offers the CEE countries increased investment and trade volumes, as well as increased cooperation in the fields of science, technology, people to people exchanges and infrastructure development. One of the highlights of the document is the designation of 2014 as the China-CEE Investment and Business Promotion Year.<sup>5</sup>

A number of publications have been dealing with the issue of Chinese investment patterns in EU<sup>6</sup> and they seem to agree on the basic

conclusion, which is also shared by various researchers<sup>7</sup> and diplomats<sup>8</sup> from China and CEE. From an economic point of view, China is interested in investing in CEE countries due to their favourable ratio between the labour cost and its quality; its geographical and political proximity to Western Europe; and relatively high growing economies. These factors together create favourable opportunities to build production facilities in this region and sell the final products in the rest of the EU, which is more attractive as a market. On the other hand, it has to be noted that many Chinese activities in the region aim at different sectors, such as infrastructure and energy. While clearly the economic profitability is a potential explanation for Chinese activities, there is ample space for discussion about further goals of China.

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foreign policy after the last EU's enlargement. In M. Majer and R. Ondrejcsák and V. Tarasovič and T. Valášek (Eds.) *Panorama of global security environment 2010*. Bratislava: CENAA. pp. 349-363; Szilágyi, I. (2012). *Kína Syerepvállalása Szlovéniában és a Nyugat-Balkánon. A Varsói találkozó fényében* In J. Hamburger and T. Matura and I. Szilágyi (Eds.) *Kína és Közép-Európa*. Budapest: Hungarian Institute of International Affairs. pp. 46-77.

<sup>7</sup> Clegg, J. and Voss, H. (2012). Chinese Overseas Direct Investment in the European Union. Europe China Research and Advise Network. ECRAN. Retrieved from [http://www.chathamhouse.org/sites/default/files/public/Research/Asia/0912ecran\\_cleggvoss.pdf](http://www.chathamhouse.org/sites/default/files/public/Research/Asia/0912ecran_cleggvoss.pdf);

Roland Berger. (2013). Chinese Outbound Investment in the European Union. European Union Chamber of Commerce in China. Retrieved from [http://www.rolandberger.at/media/pdf/Roland\\_Berger\\_Studie\\_CEE\\_in\\_2020\\_20101201.pdf](http://www.rolandberger.at/media/pdf/Roland_Berger_Studie_CEE_in_2020_20101201.pdf);

Hanemann, T. and Rosen, D. H. (2012). China Invests in Europe. Patterns, Impacts and Policy Implications. Rhodium Group. Retrieved from [http://rhg.com/wp-content/uploads/2012/06/RHG\\_ChinaInvestsInEurope\\_June2012.pdf](http://rhg.com/wp-content/uploads/2012/06/RHG_ChinaInvestsInEurope_June2012.pdf); Zhangm H. and Yang, Z. and Van Den Bulcke, D. (2013). Euro-China Investment Report 2013-2014. Chinese owned enterprises in Europe: A study of corporate and entrepreneurial firms and the role of sister city relationships. Antwerp: Euro-China Centre at the Antwerp Management School.

<sup>8</sup> The author of this text has talked in the period August-December 2013 to diplomats from China, the Czech Republic, Estonia, Germany, Hungary, Latvia, Poland, Romania, Slovakia, and Slovenia.

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<sup>4</sup> See Deloitte (2012). *Enter the Dragon. A successful case study of Chinese investment in Poland*. Retrieved from [http://www.deloittelegalce.com/sites/default/files/publications/chinaen\\_lekka.pdf](http://www.deloittelegalce.com/sites/default/files/publications/chinaen_lekka.pdf)

<sup>5</sup> The Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries (2013, November 27). Government of Romania. Retrieved from <http://gov.ro/en/news/the-bucharest-guidelines-for-cooperation-between-china-and-central-and-eastern-european-countries>

<sup>6</sup> Matura, T. (2012). The Pattern of Chinese Investments in Central Europe. *International Journal of Business Insight and Transformation*, 5(3); Fürst, R. and Pleschová G. (2010). Czech and Slovak Relations with China: Contenders for China's Favour. *Europe-Asia Studies*, 62(8); Szczudlik-Tatar, J. (2010). Central and Eastern Europe in China's

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In general, we can assume that Chinese policy towards CEE would follow its general foreign policy guidelines, which, at the same time, should follow its general national interest. The three core national interests of the People's Republic of China, according to former State Secretary Dai Bingguo, are the preservation of the state system and leadership of the Chinese Communist Party (CCP), territorial integrity and national sovereignty, and the sustainable development of the economy and society.<sup>9</sup> Europe plays a critically important role as a major economic partner, supplier of technology and investments, and a political power holding two of the UN Security Council permanent seats. China has also for a long time called for the establishment of a multipolar world which is presumably better suited for China than a world with a single 'hegemon' – the US. According to this scenario, the role of the EU is crucial here for it is the most likely candidate to become another 'pole', and without which the multipolar world would be hardly achievable. However, China has seen Europe so far as unable to meet these expectations.

It is obvious that China's interest in many countries in the CEE region increased rapidly after they joined the EU. Similarly, other countries involved in the 16+1 platform which are not members of the EU are expected to join sooner or later. That China does not want to act like an alternative to the EU is demonstrated by its relations with Hungary in 2011/2012, when Prime Minister Viktor Orbán wanted to rely on China heavily, yet China did not support him wholeheartedly and instead entered into the

strategic partnership with a more EU-friendly Poland. China clearly wants to build a stable relation with the countries which form an important decision making power within the EU and not with the 'EU rebels'.

There are also voices about a larger China strategy in forming its special relation with the CEE countries. According to one opinion, China wants to secure the critical geopolitical space between Germany and Russia, which in case of renewed Russian strength and inability of the EU (and NATO) to respond may become the trigger of Russian rise. China wants to prevent this from happening and thus is choosing to build stronger ties with CEE countries and develop its relations with the region.<sup>10</sup>

There are a number of reasons why China has become interested in developing relations with this region. Whether it is the short term goal of economic self-enrichment or long term (geo)political goals, it appears that a weak and divided EU is not what China would deliberately want. This, however, does not preclude that at times it would be unwilling to use its influence to push for its interests.

### Central and Eastern Europe: Catching up with the West

The 16 CEE countries which are involved in the Chinese initiative present a rather heterogeneous group – there are 11 EU countries (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) and five EU candidate countries (Albania, Bosnia and Herzegovina, FYROM (Macedonia), Montenegro, and Serbia). The differences between the countries are significant in many

<sup>9</sup> USC US-China Institute (2010, December 6). Dai Bingguo, "Adhere to the Path of Peaceful Development." Retrieved from [http://china.usc.edu/\(X\(1\)A\(8EknHcvzwEkaAAAMDFkMWY2MzYtYTY2NC00MDZkLTg3OTMtOGewMmNIODZmYzAw7YLZ\\_ihJCLAmu1HRW1jx3KXvp5I1\)S\(zzy31hp553usm4v45qj5xtj55\)\)/ShowArticle.aspx?articleID=2325&AspxAutoDetectCookieSupport=1](http://china.usc.edu/(X(1)A(8EknHcvzwEkaAAAMDFkMWY2MzYtYTY2NC00MDZkLTg3OTMtOGewMmNIODZmYzAw7YLZ_ihJCLAmu1HRW1jx3KXvp5I1)S(zzy31hp553usm4v45qj5xtj55))/ShowArticle.aspx?articleID=2325&AspxAutoDetectCookieSupport=1)

<sup>10</sup> Interview with MEP Adrian Severin, 27 November 2013, European Parliament, Brussels.

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aspects – level of development, size, historical experience, culture and religion.

Perhaps the only shared characteristic among them would be that all had some kind of socialist form of government before 1989, although these forms differed quite significantly. Similarly, all of them embarked on the transformation of their economic, social, and political systems, although again with different strategies and degrees of success. Still, for most of them Western Europe has become a major political and economic partner, also providing for the bulk of the critical capital and technologies.

Apart from Western Europe, the US played critical role in the process of the former socialist countries' 'return to Europe'. Ironically, in 2003 a similar confrontation between the CEE and Western European countries occurred, when some of the candidate countries published the Vilnius letter<sup>11</sup> in support of the US war in Iraq. Western Europe's reaction to it is demonstrated by the comment of former French President Jacques Chirac, who said that these countries had "lost a good opportunity to keep quiet."<sup>12</sup> Poland and the Czech Republic stood by the US also with its planned antimissile system, which was eventually cancelled by Barack Obama. Eventually, however, there is a growing perception that the support of the US did not pay off.

As a result of the transformation process, countries in CEE rely massively on trade and capital from Western Europe and the US.<sup>13</sup> This puts them in a potentially harmful position in

case demand in the West falls and banks tie down the liquidity. When the 2008 economic crisis hit the region, this is exactly what happened and it resulted in investments halving and demand collapsing. At the time when the CEE countries are trying to limit the consequences of the economic crisis, every new investor and trading partner is welcomed, and this is exactly what China has offered. In their perception of being politically marginalised within the EU, with the feeling of not having enough assistance for their quest of development and with an unclear commitment from the US, it appears even more natural that China's offer of a 'special relation' has been welcomed.

However, it has to be made clear that the countries in the region have no will to go against or obstruct the EU. Quite on the contrary, ever since the fall of communism their goal has been to catch up with the rest of the EU economically and become an integral part of the Western security community to prevent any possible rise of Russia, which is still perceived in the region as the major geopolitical threat. Furthermore, all the countries stress that the 16+1 platform has to follow the EU rules and will be conducted under the EU-China framework. They also approach this platform as a useful channel for their *bilateral* relations with China. It has to be emphasised that the 16 countries do not form a bloc and they in fact perceive each other as rivals – to some extent – in attracting Chinese investments and trade demand. As for the institutionalisation and the infamous 'Secretariat', this is just a body within the Chinese Foreign Ministry and hence does not serve as a cooperating the CEE countries' policies.

<sup>11</sup> Sofia News Agency (2003, February 5). Statement of the Vilnius Group Countries. Retrieved from [http://www.novinite.com/view\\_news.php?id=19022](http://www.novinite.com/view_news.php?id=19022)

<sup>12</sup> The Guardian (2003, February 19). Eastern Europe dismayed at Chirac snub. Retrieved from <http://www.theguardian.com/world/2003/feb/19/iraq.france>

<sup>13</sup> Golonka, M. (2012) *Partners or rivals? Chinese investments in Central and Eastern Europe*. pp. 17-19.

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### European Union: the eventual loser?

It may be understandable at first that the rest of the EU may look with suspicion at these developments. While Brussels officials may have gotten used to the fact that the UK, France or Germany address critical issues of foreign affairs bilaterally, it has not been a custom to see its poorest and newest member countries doing so. As a matter of fact, the above-mentioned Chirac's statement from 2003 may again demonstrate what Western Europe thinks its EU colleagues in Eastern Europe should contribute to the shaping and making of EU foreign policy. Furthermore, when before and during the EU-China annual summit Chinese diplomats refer to the 16+1 summit as the forum on which some issues would be dealt with, this understandably creates resentments on the EU side. So does the fact that it is perhaps the first platform involving some of the EU members together with candidate countries on the one hand and a third state on the other. Moreover, China is apparently being approached with more caution than another country would have been, due to its mere size, rising power, cultural distance and, not least, different political system.

Nevertheless, a significant reason why the tensions in Western Europe arise comes likely from poor information. As already noted, critical accusations of institutionalisation and the 'Secretariat' issue are in fact not the reality. Furthermore, general ignorance in the West about CEE can be sometimes regarded as offending. To mention a single example, in a recent chapter examining Chinese investments in the EU, Jonas Parello-Plesner<sup>14</sup> refers to 'Eastern and Southeast Europe' in the context

of the 16+1 platform, which is inaccurate. Furthermore, countries in the group do not regard themselves as a bloc and they are of the opinion that there are major differences among them. If Western Europe treats them like a bloc it shows again how little the Western Europe is familiar with the realities in this part of Europe. Alongside this, the involved countries perceive the 16+1 platform as the place for their *bilateral* dialogues with China.

This being said, messages which China and the CEE countries send are at times problematic and if China and the CEE indeed do not want to undermine the EU, they should make every effort to correct that. On the other hand, Western European countries also try to develop the bilateral relations with China and this, too, may go against the EU stance. It is enough to evoke the recent trip of British Prime Minister David Cameron to Beijing in which he called for a China-EU FTA, disregarding the fact that the official position of the EU has been to start the negotiation on the investment agreement first and leave the possible FTA for the future.<sup>15</sup>

Under the current EU framework for conducting relations with third countries, there is nothing wrong if a country develops bilateral relations, provided they are following the agreed position of the EU. For obvious reasons, small countries in the CEE are in no position to sustain alone such structured relations as some of the bigger EU countries do, thus they expect the 16+1 platform would provide for this. If the rest of the EU is not happy about this development, it may be questioned who is, in fact, drawing the division lines in Europe.

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<sup>14</sup> Parello-Plesner, J. (2013). EU-China Investment Relations. In N. Casarini (Eds.) Brussels – Beijing: Changing the Game? European Union Institute for Security Studies. Retrieved from [http://www.iss.europa.eu/uploads/media/Report\\_\\_14.pdf](http://www.iss.europa.eu/uploads/media/Report__14.pdf)

<sup>15</sup> Financial Times (2013, December 2). Brussels snubs David Cameron's call for EU-China trade pact. Retrieved from <http://www.ft.com/intl/cms/s/0/f7a14f92-5b5d-11e3-848e-00144feabdc0.html#axzz2nT2FkVBA>