

China and Central Europe: Success or Failure?



Edited by
TAMÁS MATURA

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SUCCESS OR FAILURE?

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EUROPE:
SUCCESS OR FAILURE?

Edited by Tamás Matura

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Tamás Matura

Editor's Welcome and Some Introductory Remarks

Eight years have passed since Hungary had the pleasure to welcome then Premier Wen Jiabao, and to organise the first China–Central and Eastern European Countries Economic and Trade Forum, the foundation of the cooperation between Beijing and its sixteen regional partner countries, or the 16 + 1 initiative as we know it today. Relations to China were high on the political agenda of all Central and Eastern European (CEE) countries in the past years, as everybody was hoping for higher levels of financial liquidity, new jobs and enhanced economic activity amid the crisis-ridden economic environment of the European Union.

This book was written in the framework of a larger research project of the National University of Public Service, Budapest. The project was supported by the research funds of the European Union, and its main aim was to analyse the foreign policy and international affairs of ten CEE countries. The following chapters will guide the reader into the details of the China policy of Austria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine, that is, it includes the most important countries of the 16 + 1 cooperation, but also goes beyond that framework and offers an insight into the approach of Austria, a wealthy western nation, and Ukraine, a developing Eastern European country. The authors are all one of the most renowned China and foreign policy experts of their respective nations with remarkable experiences and expertise in their field of research.

Each chapter offers a country level approach and covers topics like bilateral political relations, economic and investment ties and cooperation with China in the context of the 16 + 1 and the European Union. Every country has its own, unique understanding of China, and attaches a different

level of importance to its relations to Beijing, focuses on different sectors of bilateral relations and has different aims and goals. It also seems that EU and non-EU members of the CEE region have different achievements with and different approaches towards China. It is a major question, how the political and scientific discourses in the CEE countries see their relationship to China? Is it a success or a failure, based on the developments of the last eight years? How could the cooperation be further developed? What are the main obstacles, and what are the most promising opportunities? Does China play a geopolitical role in the region, or is it simply a business-minded actor?

We hope that the following essays of this book can answer these questions, and thus contribute to the international and domestic debate on the role of China in Europe and in the CEE region. The European Union and its member states have to formulate new and more up to date strategies to address the opportunities and challenges created by the rapid development of China. As President Xi Jinping mentioned in his speech at the 19th Congress of the Communist Party of China, the Middle Kingdom is about to return to the middle of the world stage, and every country around the globe must adapt to this new environment. Are we up to the task?

A brief introduction to the findings of the book

The cooperation between China and its sixteen Central and Eastern European partners has attracted a lot of attention and created suspicions ever since it was born in 2011. The so-called 16 + 1 initiative has raised many questions around the European Union, about the true nature of the project, the intentions of the Chinese side and its potential impact on the integrity of the Union. Two years later, in 2013 President Xi Jinping introduced a new, comprehensive initiative, the ‘One Belt, One Road’ project, or the Belt and Road Initiative (BRI) as we know it nowadays. This latter idea is even more complex than 16 + 1 itself. Dozens of conferences and hundreds of articles attempt to find out and to articulate the meaning and substance of the new Silk Road project on a global scale.

When Beijing introduced the outlines of the cooperation between the Middle Kingdom and its sixteen Central and Eastern European partners in 2011–2012, most observers believed that China had a well-prepared and detailed plan in the background. The exclusion of Belarus, Ukraine and Moldova from the 16 + 1 project signals that Beijing regards these countries

too important to Moscow to interfere.¹ Since this supposed plan has never been published or even talked about, Western EU member states (and some Eastern ones as well) developed concerns regarding the true intentions of China. Was it to divide and rule Europe?

We had to learn that the Chinese way of thinking and communication is different from the Western style; Beijing follows the East Asian tradition of inductive thinking, while the West tries to understand it through its deductive traditions. It means that countries with different traditions are suspicious of China's intention, because many believe there might be a secret plan behind the curtain. Through the 16 + 1 cooperation we have learned that the only viable way is to create and shape our cooperation together with China, and to think together with Chinese colleagues about the future and details of our common project.

Both 16 + 1 and the BRI are rather an opportunistic idea at a strategic level. Chinese IR scholars and decision-makers realised that the crisis induced financial vacuum and development opportunities in the CEE region and grabbed the chance. The leadership embraced the idea, announced the initiative, dedicated the proper amount of money, and watched what the whole thing started to evolve into. Their approach and strategy have been modified underway according to the newly gained experiences.

When it comes to BRI, the methodology was very alike. Chinese experts realised the strategic opportunity or necessity to integrate Eurasia and to tackle the challenges imposed by the restructuring domestic economy, geostrategy and the TPP and TTIP. The central leadership embraced the idea, announced the proposal of the Silk Road Economic Belt in September and the 21st Century Maritime Silk Road in October 2013, pledged billions of dollars, and analysed the reactions. Chinese scholars and officials travel around Europe and Asia to ask for ideas and recommendations from their local peers. Dozens of forums and think tanks have been created, equipped with a proper budget and the Chinese side expects everyone to create ideas and content together.

The understanding of time is also different in China and in the West. One of the main problems of the Chinese involvement in the CEE region is that having spent eight years with summits and major announcements many observers complain about the lack of tangible results. Others, especially on the Chinese side argue that we all have to be more patient, as such

¹ Kosovo was excluded since China does not recognise the independence of the country.

achievements take time. Indeed, governments on both sides have done a lot to make business circles aware of mutual opportunities, the legal and political framework has been well established, the gates are open. Now it is up to entrepreneurs, tourists, students and scholars to walk through the gate, and people-to-people and business-to-business relations tend to develop slowly and will bear fruits over several years. According to the Chinese way of thinking, friendship is to be established first, to facilitate good business relations later.

As it was mentioned before, the China–CEE cooperation has attracted a substantial amount of criticism and high levels of suspicions among Western members of the European Union. It is indeed true that the crisis of the EU and the subsequent financial vacuum in the CEE region offered potential business opportunities to China. Even though these opportunities are modest compared to the usual Chinese appetite, given its own domestic economic challenges, Beijing has to grab every possible chance to find business projects for the overcapacity of its companies and for its abundant financial assets.

The cooperation has to face some problems and major structural contradictions when it comes to the future and progress of the China–CEE cooperation. These structural issues may explain the relatively low number of successful businesses and projects. First of all, the difference in the size of the parties involved is obvious and cannot be changed. When China created the 16 + 1 cooperation, it invited all countries between the traditional ‘West’ and ‘East’ from the Baltic to the Balkans (Except Belarus, Ukraine, Kosovo and Moldova). China has established a framework to reduce transaction costs of cooperation with the countries of the so-called “New Europe” and with those to join the club in the upcoming decades. Since the CEE region represents altogether more than a hundred million people and a trillion-dollar economy it did make sense from the Chinese point of view to invite these countries to a table, and to forge major business plans across the region. Individual countries of the region cannot offer projects big enough to Chinese multinational companies, so Beijing expected the countries involved to cooperate and to put joint projects on the table. This expectation has never been met, however, as CEE countries rather compete than cooperate with each other.

Second, another fundamental issue is the divergent investment interests of the parties: while China is mostly looking for infrastructure investment opportunities (preferably through governmental public procurements),

most CEE countries are more eager to attract greenfield investments to create jobs and industrial production. However, China has barely set up any new production facilities in the region; companies of the East Asian giant typically enter the CEE markets through acquisitions, or pursued infrastructure construction opportunities. Furthermore, Central and Eastern European member states of the EU are entitled to apply for non-refundable financial support for infrastructure development. Consequently, Chinese loans are not attractive, while any attempts to pay off Chinese construction companies from European funds might likely provoke political turbulences across the Union, as Croatia experienced it when a Chinese company won a tender to build Pelješac Bridge financed by the EU up to 85% of its cost. That is, both Beijing and the CEE countries seek for a different achievement, which is a fundamental problem, and cannot be sorted out in the short or medium run.

Third, when it comes to merchandise trade issues, the role played by CEE countries and their respective governments is very modest. In the case of the Czech Republic, Hungary and Slovakia, approximately 90% of exports to China is produced by foreign owned multinational companies, that is, politicians in Budapest, Bratislava or Prague cannot really influence such trade relations, no matter how good their political connections are to Beijing. The more developed CEE countries are integral parts of global value chains; thus, the majority of their foreign trade is conducted by multinational and not domestically owned companies. Consequently, national governments have a very limited impact on the development of trade relations. One sector where they seem to be successful is the export of food and agricultural products to China. Hungary increased its agricultural export sevenfold between 2012 and 2017, which is a great achievement, though the sector represents only 3% in the total export of the country to China. In other fields of the economy, however, Central and Eastern European SMEs are usually too weak to start and facilitate their own business relations in China, or the product they have is not interesting to the Chinese side.

Political relations

The Visegrád Four countries (V4: the Czech Republic, Hungary, Poland and Slovakia) represent the core of the CEE region, and the V4 appeared to be high on the agenda of Beijing from the beginning of its recent rapprochement

with the CEE countries. The initial 16 + 1 business forum took place in Budapest in 2011 and Warsaw hosted the first summit of the heads of government a year later where Wen Jiabao presented the '12-measure initiative', which meant the formal beginning of the 16 + 1 cooperation. In the following years, Poland, the Czech Republic and Hungary became strategic partners of China, while Budapest has long been considered one of the most stable partners of China in the region, hosting the vast majority of the Chinese investments, the largest Chinese community and the regional headquarters of major Chinese companies. The importance of the V4 countries in the CEE region is obvious when it comes to trade and investment relations between the region and China. Still, it seems that the major target of Chinese activities in the new era of China–CEE relations is not the V4 countries, but the Western Balkans. China has been more successful in finding business opportunities and construction projects in the non-EU member states of the 16 countries of the region. Lower legal standards and the higher level of need for financial support in those countries might have played a role in its achievements.

According to the understanding of Dragana Mitrović of the University of Belgrade, China pursues a strategy in the CEE region to multiply and strengthen its presence in Europe, to build stronger influence in the EU and to get multiplied economic and geopolitical gains through construction, financial and investment activities, trade and by spreading Chinese culture. Indeed, many say around the EU that China tries to 'divide and rule' Europe through its relations to CEE countries. It is hard to prove such a statement, but whatever the reality may be, it is for sure that all countries in Europe try to forge good relations with Beijing. CEE countries merely follow global trends, but there are major differences in their political approaches. As Alice Rezkova of the Czech Republic argues, it can be tempting to barter political points for Chinese investments. However, this approach can be hazardous for the Czech Republic. From other sources it seems that the current Czech president personally attaches great importance to Sino–Czech relations, while other segments of the elite and the wider society do not share his enthusiasm about China. Czechs have a long record of accomplishment of a value-based foreign policy, where human rights and political freedom matters a lot, thus the country's friendship with China is a rather recent development. Meanwhile the Hungarian–Chinese relationship seems to be more deeply rooted, without any political tensions. Politically sensitive issues have disappeared from the agenda in the last eight years, the

government is more than eager to cooperate with Beijing, while opposition parties either support a pro-China policy or they simply do not care about it. Poland considers itself a major European country, thus it created a well-established system of cooperation with China. As Justyna Szczudlik writes, Poland–China relations are carried on three different levels: bilateral (both on central and local levels), the 16 + 1 cooperation, and finally on the EU level. The close relationship of Polish and Chinese local governments, on regional and city levels is probably one of the unique features of Sino–Polish relations. Dr. Szczudlik is convinced that has Poland achieved its political goals in its relations with China, Polish representatives take part in all 16 + 1 mechanisms, have contacts with Chinese officials and shape relations in various areas, while there are three 16 + 1 mechanisms headquartered in Poland. Romanian–Chinese ties are less vibrant, at least according to Andreea Brînză. As she writes, the last period of strong relations was during the government of Victor Ponta, but ever since he stepped down, relations became stagnant, though still seen as a traditional friendship. Romanian prime ministers skipped two 16 + 1 summits and the 2017 Belt and Road Forum, and none of the projects proposed at the 2013 Bucharest Summit have been materialised. Compared to initially enthusiastic countries like Hungary, the Czech Republic or Poland, Slovakia has been more cautious in its approach towards China. According to Richard Turcsányi, Bratislava has always tried to avoid taking anti-Chinese critical stances, but at the same time it is also considered one of the least active countries of the 16 + 1. As Dr. Turcsányi argues, Slovakia might have been the first to realise, that such a small country cannot really do business with China. Furthermore, this approach of Slovakia seems to pay-off, as other CEE countries have been targeted by criticism of EU institutions and major member states. Ukraine, a country with very turbulent recent history, has to follow a very careful China strategy. Our Ukrainian contributor, Sergiy Gerasymchuk sheds light on the fact that after the collapse of the Soviet Union, Kyiv was looking for new friends to increase its diplomatic space of manoeuvre vis-à-vis Russia. Leonid Kuchma perceived Beijing as an alternative pole of the international arena to hedge against the West and Russia at the same time. China also appreciated Kyiv's openness and declared Ukraine as its key partner in Eastern Europe. Meanwhile, the PRC was cautious enough not to include Ukraine into the 16 + 1 back in 2012, and the subsequent events in the Eastern part of the country proved that Beijing avoided a potential friction with Moscow.

Trade relations

Trade with China is a heated topic nowadays all around the world, and some CEE countries also face difficulties in this regard. The biggest player of the region, Poland could not achieve its main economic goal, to narrow the trade deficit. What is worse, the trade deficit has been expanding significantly in the last few years. This development has had an impact on political relations as well, as Polish officials started to talk about the trade deficit as a serious political problem in bilateral relations. That is understandable, given that Polish trade deficit with China is close to USD 25 billion (Figure 1).

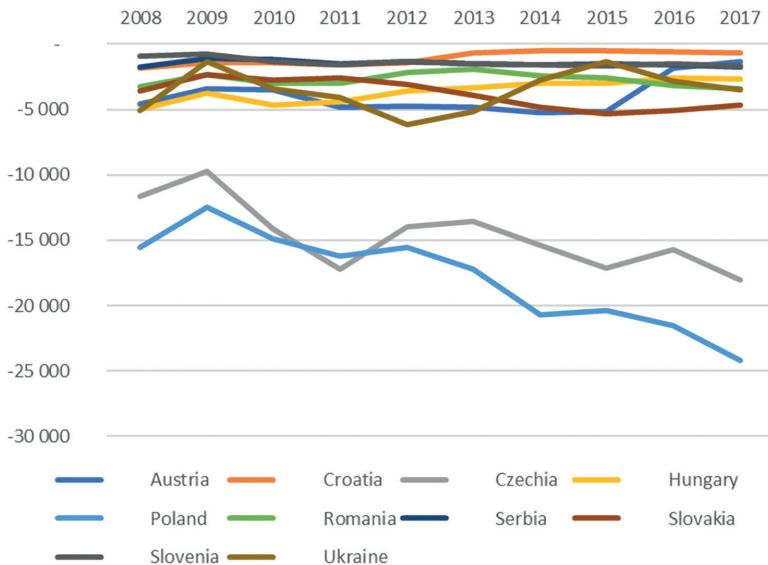


Figure 1

Trade deficit of CEE countries to China (USD million)

Source: UNCTAD Stat 2018.

All other CEE countries are in a similar situation, as far as their trade with China is running on a deficit, though there are huge differences in its size and structure. Relatively speaking Serbia is in a desperate situation as its

imports were thirty times higher than exports to China in 2017.² In case of Romania the pattern is similar, though less concerning, as the country imported goods for USD 4.3 billion and exported for USD 833 million last year according to Andreea Brînză. Hungary enjoys a relatively stable trade relation with China; exports reached USD 2.6 billion last year, while imports were standing at USD 5.3 billion. Despite the trade deficit, the Hungarian Government is not concerned of the situation, as most of the products imported to the country from China are parts and other components of final products, thus Chinese import means input to the Hungarian manufacturing sector. As it can be seen on Figure 1, the other country suffering of a huge trade imbalance with China is the Czech Republic next to Poland. The trade deficit with China represents 91% of the total trade deficit of the Czech Republic, and in case of Poland, the deficit with China is three times bigger than the total trade deficit of the country.³ Austrian trade with China has been slowing down, but still, its growth rate is higher than average, thus the relative importance of China as a trading partner for Austria is on the rise, and this is true for almost every single country of the region.

Investment relations

The Chinese investment pattern is changing constantly. While energy and raw materials have been the most attractive to invest in, mostly by Chinese state-owned enterprises, the tide has been turning in the recent years as more and more medium sized private companies discover opportunities abroad, thus the outflow of Chinese FDI grows rapidly. The Czech Republic, Hungary, Poland and Romania host the major part of Chinese investment in Central and Eastern Europe;⁴ however, countries in the Western Balkans recently have been more successful in attracting Chinese investment. According to most experts, Chinese FDI has been flowing into countries like Serbia, Montenegro and Macedonia since they are not members of the

² UNCTAD Stat 2018.

³ UNCTAD Stat 2018.

⁴ Please note that the available FDI data are unreliable, and tend to vary widely in different sources. According to the China Global Investment Tracker, the CEE16 countries host USD 18 billion, out of which 8 billion is located in the V4 countries. However, other sources mention significantly lower levels of Chinese investment into the CEE region.

European Union, thus strict EU level regulations of public procurement and other investment procedures do not apply. Meanwhile, Chinese enterprises have not found many opportunities in EU members of the CEE region, as the above-mentioned rules and regulations seem to be too strict and complicated compared to the business environment on the Balkans or back in China. However, the Belt and Road Initiative may reinvigorate Chinese investment and business activities in other countries of the CEE region as well, as these countries have a crucial geographical location and their will to attract Chinese infrastructure construction companies may increase in the upcoming years. Austria is one of the few countries, which actively invests into China, instead of merely focusing on Chinese investment into Austria. According to Waltraut Urban, investing in China will remain attractive for Austrian companies despite many challenges and the slowing down of economic growth in China. The restructuring Chinese economy and its new aim to pursue qualitative growth and high technology and higher value-added production, rapid urbanisation and the BRI also provide investment opportunities for Austrian companies with a focus on high-end machinery and environmentally friendly technologies. Meanwhile there are serious challenges for Austrian enterprises doing business in China, such as violation of property rights, forced technology transfer, unfair treatment, legal and factual restrictions in certain business segments. These issues have to be addressed on the EU level. Though Austria is highly interested in investing in China, Chinese companies have not invested much into Austria so far. Only 0.5% of the total FDI stock is of Chinese origin, Chinese investors focus on the machinery and transport equipment sector; nevertheless, as a result of domestic economic development in China, their investment spectrum may broaden in the near future.

Other CEE countries tend to focus on attracting Chinese investment, rather than investing in the East Asian country. The amount of Chinese capital in Croatia is very low, it was close to zero until 2017, but even today is less than EUR 200 million. Others, like Richard Turcsányi argue that the lack of Chinese investment is not of concern. Slovakia did not attract any significant Chinese investments, but it does not make it much different from other CEE countries, which host more Chinese FDI, but this is still negligible, thus, 'late-comer' Slovakia has not missed anything important. Poland has been somewhat more successful in attracting investment from China, but, as Justyna Szczudlik sustains, most of them are mergers or acquisitions (several of them perceived as high-quality takeovers), not greenfield investments

what Poland is looking for. Hungary faces a similar problem. Though the country hosts by far the highest amount of FDI from China in the CEE region, Budapest has been unable to attract any new, major investors in the past few years, and 75% of the stock of Chinese investment is due to one single, huge acquisition. Meanwhile, outside of the EU, Chinese capital has been looking for different kinds of targets. In Ukraine, Chinese state-owned companies have the chance to rent up to 3 million hectares of farmland in the eastern part of the country and largest volume of investment flowed into enterprises active in agriculture, forestry and fishing, industry, wholesale and retail trade. It has to be noted, however, that many projects labelled as ‘Chinese investment’ in CEE countries, are loans in reality and not FDI. In many cases, even CEE governments depict such transactions as Chinese investment to prove the importance of bilateral relations to their constituencies.

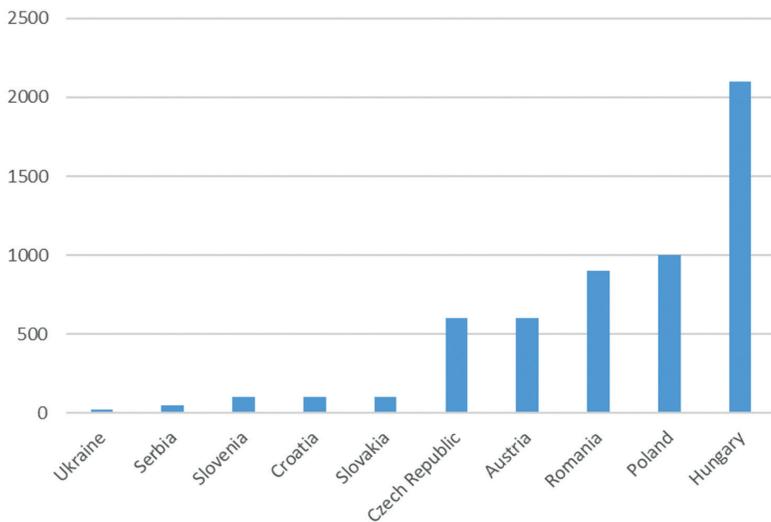


Figure 2
Stock of Chinese Investment as of 2017

Note: Serbian data is from 2015.

Source: HANEMANN–HUOTARI 2018; The Economist 2018; HKTDC 2018.

Despite expectations, however, the overall level of Chinese investment has remained relatively low in the region.

The Belt and Road Initiative

Though the development of 16 + 1 relations has been slowing down recently, the BRI may offer new impetus to the regional cooperation. As most CEE countries have a favourable geographical position when it comes to connectivity between the EU and Asia, they seem to play an inevitable role in the implementation of BRI programs between Europe and China. Since the EU set up its own plans on connectivity, furthermore created an EU–China connectivity platform, CEE countries may find even more opportunities to develop their infrastructure.

The looming project of connecting the port of Piraeus in Greece with Budapest through Macedonia and Serbia is one of the first examples of how BRI and 16 + 1 may eventually merge together. Meanwhile China is considering relocating some of its industrial or manufacturing capacities into foreign countries to rebalance its domestic economic structure and its foreign trade. Central and Eastern Europe is a region which might be able to attract such kind of Chinese investment, and transportation corridors of the BRI may offer a particularly good chance. Of course, it is of utmost importance to convince Brussels and Western member states of the European Union that the 16 + 1 cooperation could help them with reaping the benefits of BRI. Instead of seeing Chinese construction companies as competitors in the CEE region, European companies may find the way to join them in building new transportation systems in Central and Eastern Europe. Beijing is willing to provide financial support to major construction projects, while EU funds are about to be reallocated from the CEE to Southern Europe in the upcoming years. Budapest should not be the terminal station of the Belgrade–Budapest railway line, and the railroad could continue its path to the north, until it reaches the Baltic sea in Poland. The region desperately needs a north–south corridor, and China would be happy to finance it, while German, French, Austrian etc. companies could find their way to cooperate with their Chinese counterparts for the benefit of all, at least according to optimistic voices. Countries like Croatia see more potential in the BRI, as it opens opportunities for transport infrastructure projects. Meanwhile, the Czech Republic shows more restraint to the BRI. That is understandable given the unfortunate fact that the Czech Republic will be benefiting the least from the higher levels of connectivity between China and the EU. The mutual trade exchange may increase only by 2.82% in comparison to 8.22% in case of Poland or 9.18% in case of Slovakia according to the study of Alice Rezkova.

The image of China in the CEE countries

China's image has been going through significant changes all around Europe in the recent years. In Western Europe, governments and elites have developed deep concerns about the intentions of Beijing, and many argue that the EU should return to its strong, traditional, value-based stance towards China, as 'appeasement' and soft power did not work. European elites realised that there has not been and probably will never be any convergence between the European and the Chinese political and value system. Consequently, the perception of China has deteriorated in many European countries. Central and Eastern Europe is as diverse as always in this regard as well. According to a recent survey of the European Commission (Figure 3) Romanians, Croatians have a very positive attitude towards China (56% and 54% respectively), Hungarians, Poles, Slovaks and Austrians are slightly above the EU average, while Czechs nurture the most negative feelings about China in the CEE region (25% positive) and they are the most negative (69%) in the whole EU. That is, it cannot be said that CEE member states all have the same perception of China.

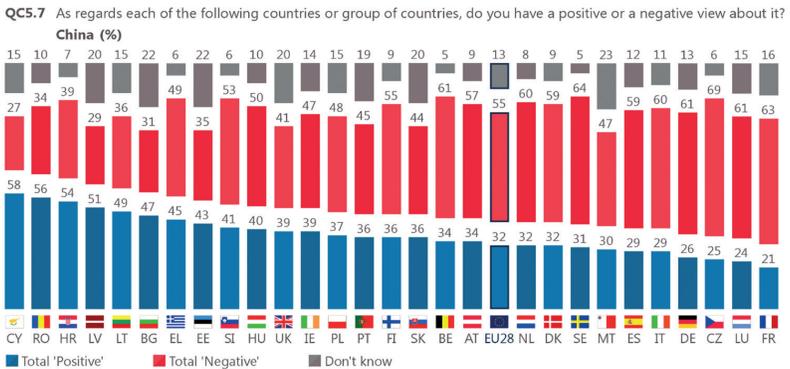


Figure 3
How Europeans see China

Source: European Commission 2017.

Another survey conducted by the China–CEE Institute in Budapest brought similar results. Countries like Slovenia, Serbia and Romania see a dramatic increase in the global importance of China. Meanwhile results in Poland, Hungary and the Czech Republic are less encouraging.⁵

The findings of these surveys are in line with the overall opinion of our contributors in this book. As Anastasya Raditya-Ležaić from Croatia states in her essay, the Croatian public rhetoric towards China is very positive, and the country seems to be open to Chinese investment and cooperation both on a bilateral level and within the frameworks of BRI and the 16 + 1. Meanwhile, as Alice Rezkova mentions, the Czech Republic sends very mixed messages to the Chinese side. The government pursues a pro-China policy, while the public sentiment has been traditionally critical towards the policies of Beijing. Czech tends to be sharply critical of the status of human rights in China and they support Taiwanese and Tibet exiles. The Polish Government has been reconsidering its pro-China policy recently, as the deteriorating image of China in the EU may have an impact on the political influence of Poland itself in the integration. Justyna Szczudlik argues that Warsaw became rhetorically more vocal about the trade deficit and more restrained towards Chinese investments in the country, and Poland's policy towards China will get closer to the approach of the EU and the U.S.

In conclusion, the diversity of the Central and Eastern European region has a significant impact on its relations with China. Some countries like Austria focus on economic relations leaving political cooperation aside. Others, like Hungary see a great potential in political relations with Beijing, while Poland reconsidered its position and became less enthusiastic of the cooperation with China. Business, trade and investment results also show a mixed picture, with some significant achievements on the Balkans, and lack of major tangible results in bigger countries of the region. Based on all of these, it seems that the biggest challenge in front of bilateral relations with China is the spread of disappointment in the region, what may lead to a general 'China fatigue' in the countries concerned. China is aware of this threat, which might have made Beijing reconsider its plans to organise 16 + 1 summits only in every second year. Indeed, such a move could have easily triggered a vicious circle in the region, as CEE political leaders would take such a move as a devaluation of the cooperation.

⁵ CHEN 2018.

Still it is not easy to answer the initial question of this endeavour. Is the cooperation with China a success or a failure? I believe the answer is certainly not failure. Both sides have learned a lot about each other in the recent years, many intangible connections have been created between politicians, business people, students, professors and intellectuals and even between ordinary people. These ties will bear fruits in the long run, we just need to be patient to see more successes in China–CEE relations.

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Waltraut Urban¹

Austria's Political and Economic Relationship with China 1989–2019

Abstract

Politically and economically, Austria focuses heavily on Europe, in particular on Germany and the Central and Eastern European (CEE) countries. Nevertheless, Austria was one of the first West European countries to establish diplomatic relations with the People's Republic of China (PRC) in May 1971. *Political relations* between Austria and China, 1989–2019, were generally good, but sometimes the relationship got seriously disturbed. *Economic relations* with China lagged behind in the beginning, due to Austria's focus on European markets and to the fresh opportunities in the nearby CEEs after the fall of the Iron Curtain but caught up later.

Keywords: China, Austria, economy, political relations

Political relations between Austria and China

Politically and economically, Austria focuses heavily on Europe. Within Europe exists a special relationship with Germany and with the Central

¹ Waltraut Urban graduated in Economics at the University of Vienna, she then became a Lecturer at the Institute of Economics of the Vienna University of Technology. With the beginning of the economic reforms and the rise of China in the 1980s, her focus of interest shifted there. She joined the Vienna Institute for International Economic Studies (wiiw) in 1995, where she specialised in the Chinese economy and industrial restructuring in the CEE region.

and East European (CEE) countries. Nevertheless, Austria established formal diplomatic relations with the People's Republic of China as early as May 1971, before the PRC was recognised by the United Nations (October 1971). Austria's initiative has to be seen in the light of her understanding as a bridge between 'East and West' during the Cold War and as part of its 'active neutrality', introduced by then Chancellor Bruno Kreisky.² Although the rapprochement was initiated by a social democratic (SPÖ) government, it was supported by the Austrian conservative party (ÖVP) as well, which was interested in intensifying business relations with China. With the beginning of the 'reform and opening-up policy' in China in 1978, the relations broadened and intensified, and in 1985, Rudolf Kirchschläger became the first Austrian President to visit China.

Chronicle of events

1989–1994: Tiananmen Square and the Dalai Lama stressing bilateral relations

The forcible suppression of students' protests on Tiananmen Square in Beijing, on 14 June 1989, triggered the first crisis in the hitherto excellent and friendly political relations between Austria and China. Immediately after the incident, official diplomatic relations with China were frozen, following the course of the EU.³ Nevertheless, human rights remained an issue and parts of the Austrian population and the press in particular continued to take a critical stance towards the Chinese Government. This is also reflected in their positive attitude towards the Dalai Lama.

When the 14th Dalai Lama, Tenzin Gyatso, visited Austria in September 1991, the stage for the next crisis in bilateral relations with China was set. He was received by President Waldheim, Federal Chancellor Vranitzky, Foreign Minister Mock and the Second President of the National Assembly, Lichal. The Dalai Lama had been awarded the Peace Nobel Prize for his

² Other neutral countries in Europe, such as Switzerland, Finland and Sweden had recognised the PR China and taken-up diplomatic relations with the PR China already in 1950, when Austria was still occupied by the four Allies, USA, the Soviet Union, France and Britain.

³ *Declaration of the Twelve* of June 6, 1989 and the European Council, Annex II, Declaration on China, Madrid 27 June 1989.

peaceful engagement for Tibet in 1989 and was widely known in Austria, because of his ‘mentor’ Heinrich Harrer’s book *Seven Years in Tibet*.⁴ The Chinese Government protested loudly. By granting such honours to the Dalai Lama, who considered himself the spiritual and political leader of all Tibetans, the Austrian Government was allegedly putting into question that Tibet was an inseparable part of China and was interfering with China’s domestic affairs, which could not be tolerated.⁵

Table 1

Meetings with the Dalai Lama – a recurrent strain on Austria–China relations

| | |
|------|---|
| 1991 | Meeting with President Kurt Waldheim, Federal Chancellor Franz Vranitzky, Foreign Minister Alois Mock and 2 nd President of the National Assembly, Walter Lichal |
| 1993 | The Dalai Lama attends the 2 nd UN World Conference on Human Rights in Vienna; meets with President Thomas Klestil |
| 1998 | Meeting with Foreign Minister Schüssel in Vienna |
| 2007 | The Dalai Lama attends a Waldzell Meeting at Melk Abbey, Lower Austria, and meets Federal Chancellor Alfred Gusenbauer |
| 2012 | The Dalai Lama visits Austria for 10 days, meets with Federal Chancellor Werner Faymann and Foreign Minister Spindelegger |

Note: The only high-level meeting, which did not cause protests from the Chinese side, took place in 1998 with Foreign Minister Schüssel when he tried to mediate between the Dalai Lama and the Chinese Government on behalf of the EU, in his function as (rotating) President of the EU Council.

Source: Compiled by the author.

Nevertheless, the Chinese resentment was rather short, probably due to the sound basis of Austria–China relations. Taking account of her rising importance, Foreign Minister Mock had established a separate section for China in the Austrian Ministry of Foreign Affairs and launched an ‘Asia Initiative’, which would help to counterbalance Austria’s Euro-centric foreign and trade policy. In 1993, a visit of the Dalai Lama stressed bilateral relations anew, but already in April, Federal Chancellor Franz

⁴ Heinrich Harrer (1912–2006) was an Austrian mountaineer and geographer. His book, *Seven Years in Tibet* (1953) covers the years 1944–1951, when he happened to become the teacher of the then young Dalai Lama, 1946–1951. His book was also filmed in 1997, with Brad Pitt starring Heinrich Harrer.

⁵ Interviews with Professor Gerd Kaminski and Dr. Josef Magerl, former head of the Asia section in the Austrian Ministry of Foreign Affairs.

Vranitzky was invited to China and in June 1994, Chinese Prime Minister Li Peng paid a return visit. (In order not to jeopardise bilateral relations, an extensive ban on demonstrations denouncing Li Peng's imposition of martial law in Beijing in 1989, was imposed.)

1995–2000: Austria assuming responsibility as a member of the EU

When Austria joined the EU on 1 January 1995, the EU's arms embargo imposed on China in 1989, was still in force. But altogether, Austria's relations with China seem to have benefitted from EU membership, in particular after the EU Commission published its first *Long Term Policy for China–EU Relations*.⁶ On the occasion of Austrian President Thomas Klestil's visit to China in September 1995, President Jiang Zemin 'affirmed that Sino–Austrian relations were developing smoothly'.⁷ In 1996, an 'Agreement on economic, industrial, technical and technological cooperation' was signed. When Wolfgang Schüssel visited China in March 1998, he was received as the Foreign Minister of Austria, but also as a member of the EU Troika, as Austria was going to take over the (rotating) EU Presidency in the second half of that year. Because Schüssel also took a leading role in the 'EU–China human rights dialogue', he became the first foreign minister of an EU country to visit Tibet.⁸ Later in the year, he tried to mediate between the Dalai Lama and the Chinese Government on behalf of the EU. From the Chinese side, the visit of Jiang Zemin in 1999, the first visit of a Chinese president to Austria, was considered an upgrade of the political level of bilateral relations.⁹

2000–2006: Undisturbed and intensified relations

In 2001, Austrian President Thomas Klestil paid a return visit to China and the 30th anniversary of establishing diplomatic relations between Austria and China was celebrated. The following years were characterised by

⁶ European Commission 1995.

⁷ China Daily 1995.

⁸ Die Welt 1998.

⁹ German.China.org.cn 2006.

a particularly intensive exchange of visits from both sides (see Appendix 1). Also, the first ‘Panda loan contract’ was signed between the ‘China Conservation and Research Center for the Giant Panda’ and Zoo Vienna. And in March 2003, the two ‘special envoys’, a pair of Giant Pandas, named Yang Yang and Long Hui, arrived in Austria. In 2006, a Confucius Institute was established at the University of Vienna.

2007–2012: From one stumbling block to the other

The situation changed abruptly to the worse, when Austria’s Federal Chancellor Alfred Gusenbauer decided to meet the Dalai Lama in September 2007. Again, Beijing protested heavily against Austria’s alleged ‘interference in China’s domestic affairs’ and bilateral relations were implicitly downgraded to the level of vice ministers.¹⁰ In October 2008, bilateral relation seemed to be back on track. But in November, the next diplomatic crisis emerged, when the Chinese Government enforced the death penalty on Wu Weihang for alleged spying, despite interventions from Austria as well as the EU. Mr. Wu had lived in Austria for several years and his daughters were Austrian citizens.¹¹ It took more than one year for bilateral relations to recover. Finally, in 2010, President Heinz Fischer was invited to China and a second Confucius Institute was opened at the Karl-Franzens-University in Graz. In 2011, President Hu Jintao paid a return visit to Austria, praising the ‘friendly relations’, and a number of cooperation agreements were signed.

However, in 2012, the shadow of the Dalai Lama fell on the bilateral relations again, when after a meeting with Austria’s Federal Chancellor Faymann and Foreign Minister Spindelegger,¹² the Chinese Foreign Ministry protested in written form.¹³ The atmosphere was already tense before, when the Dalai Lama blessed the new ‘Tibet Center Austria’

¹⁰ KAMINSKI 2011, 343.

¹¹ KAMINSKY 2011, 346f; Die Presse 2008.

¹² Actually, the Dalai Lama had already stepped back from his role as a political leader in May 2011 and retained his function as a spiritual leader only. Nevertheless, the Chinese Government considers this a farce.

¹³ Die Presse 2012.

(Tibetzentrum Österreich)¹⁴ in Carinthia, unique in Europe and considered a centre of Tibetan propaganda by the Chinese Government. In any case, a two-year ‘ice age’ in political relations between Austria and China followed, with no high-profile exchange of visits and even the extension of the ‘Panda loan contract’ with the Zoo Vienna was at stake.

2014–2017: New opportunities emerge

Finally, the ice was broken, and in October 2014, Vice-Chancellor and Minister of Economy Mitterlehner, Foreign Minister Kurz and Minister of Agriculture Andrä Rupprechter paid an official working visit to China. However, in the meantime, a number of important developments had taken place. In 2012, the 16 + 1 initiative was launched, to promote closer cooperation between 16 CEE countries and China.¹⁵ In 2013, a new government under President Xi Jinping took office in China and the New Silk Road respectively the ‘Belt and Road Initiative’ (BRI) became the centrepiece of China’s foreign as well as economic policy.¹⁶ In order to finance infrastructure construction and promote regional interconnectivity, China proposed to establish the Asian Infrastructure Investment Bank (AIIB).¹⁷

When Austrian President Fischer paid his second state visit to China in March 2015, he expressed Austria’s interest in these recent initiatives and delivered his country’s application to join the AIIB. Xi Jinping, on the other hand invited Austria to get involved in the 16 + 1 initiative as an observer. Another topic for discussion was the pending ‘EU–China Investment Agreement’. Economic and cultural cooperation played an important role, as well and a number of business contracts were signed. In 2016, Austrian

¹⁴ The Tibet Center Austria, according to its homepage “is a one-of-a-kind learning center specializing in traditional Tibetan fields of study (Rigne), including philosophy, traditional medicine, and contemplative Buddhist practice”. See www.tibetcenter.at/en/about-us/ (Accessed: 20 March 2018.)

¹⁵ The 16 + 1 initiative comprises 11 EU members (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia) and 5 non-EU members (Albania, Bosnia-Herzegovina, Macedonia, Montenegro and Serbia) plus China. In 2019, Greece joined and the group was renamed 17 + 1.

¹⁶ See Xi 2014. On background and chronology see KAMINSKI 2016b and URBAN 2016a.

¹⁷ AIIB s. a.

Minister of Agriculture Andrä Rupprechter visited China the third year in a row and in 2017, the Chinese Minister of Agriculture Han Chengfu paid a return visit to Austria, pointing to the increasing importance of bilateral relations in that field.

2018–2020: A new climax in bilateral relations, undisturbed by Covid-19

In April 2018, the new President of Austria, Alexander Van der Bellen visited China and met with President Xi Jinping as well as Prime Minister Li Keqiang. He was accompanied by the biggest official Austrian delegation ever, including Federal Chancellor Sebastian Kurz, Foreign Minister Karin Kneissl and several other ministers as well as a large business delegation, altogether 270 people. Bilateral relations were upgraded to the level of a ‘friendly strategic partnership’ and a number of business agreements, worth EUR 1.5 billion, were concluded. President Alexander Van der Bellen also took part in the ‘Bao-Forum for Asia’ in Hainan as one of the keynote speakers. In Chengdu, the last stop of the visit, the delegation attended a departure ceremony for the first freight train going directly from China to Vienna. And, taking account of the intensified bilateral economic relations, a new Austrian Consulate General was opened there. Only one year later, in April 2019, Chancellor Sebastian Kurz participated in the Second Belt and Road Forum in Beijing. Afterwards, he met again with President Xi Jinping and Prime Minister Li Keqiang and a number of MoUs in the field of cultural cooperation, financial cooperation, research and third market cooperation were signed.¹⁸ When China was hit severely by the Covid-19 epidemic in early 2020, the Austrian Government expressed its sympathy for the Chinese people to the government of China in written form and sent some urgently needed protective equipment there. On the other hand, when Covid-19 reached Austria in March 2020, the Chinese Government donated certain scarce protective gear to Austria. When some anti-Chinese comments related to Covid-19 were made in a public debate

¹⁸ Austrian Embassy in Beijing. Source: www.bmeia.gv.at/oeb-pekings/bilaterale-beziehung/en/oesterreich-china/besuche/ (Accessed: 20 June 2020.)

on a private TV channel, the Chinese Ambassador in Vienna protested officially. However, the good bilateral relations remained untouched.¹⁹

Quoting the present Austrian Ambassador in Beijing, Friedrich Stift, the current Austria–China relations are described as follows:

“The relations between Austria and China develop very well. They are characterized by a strong dynamic in all areas. China has become one of the most important cooperation partners of Austria outside Europe.”²⁰

However, human rights issues remain a potential source of concern.

Special topics

Scientific cooperation

Scientific cooperation played an important role from the very beginning and currently more than 50 cooperation agreements exist with Chinese universities.²¹ In 1984, a bilateral agreement on science and technology cooperation²² and a cooperation agreement between the Austrian Academy of Sciences and the Chinese Academy of Sciences were concluded. A highlight in scientific cooperation was the first ever quantum cryptographically secured video call between the President of the Chinese Academy of Sciences, Chunli Bai, and his Austrian counterpart, Anton Zeilinger, in September 2017.²³ Austrian and Chinese researchers also cooperate in several scientific EU programs open to China.²⁴ In 2012, Austria opened an Office for Science and Technology at the Austrian Embassy in Beijing.

¹⁹ Chinese Embassy in Vienna. Source: www.chinaembassy.at/det/xwdt/t1784225.htm (Accessed: 20 June 2020.)

²⁰ Homepage of the Austrian Embassy in Beijing. Source: www.bmeia.gv.at/oeb-peking/ueber-uns/der-botschafter/ (Accessed: 20 March 2018.)

²¹ Chinese Embassy in Vienna. Source: www.chinaembassy.at/det/chb/t1029791.htm (Accessed: 20 March 2018.)

²² www.bmbwf.gv.at/en/Topics/Research/Research-international/International-research-collaboration/Regional-priorities/Asia.html. It entered into force on 01.05.1985.

²³ See the homepage of the Austrian Academy of Sciences: www.oeaw.ac.at/en/austrian-academy-of-sciences/the-oeaw/article/erstes-abhoersicheres-quanten-videotelefonat-zwischen-wien-und-peking-geglueckt-1/ (Accessed: 20 March 2018.)

²⁴ On top of the cooperation between scientific institutions comes the ever-increasing cooperation in business R&D.

Military diplomacy

The Chinese attaché in Vienna was deployed in the 1970s, while the post of an Austrian attaché in Beijing was established in 1997, when first signs indicated that China would become a major power again. In that case, the two main functions of military diplomacy, to collect information on and building up cooperation and friendly relations with the military of the host country became important; all the more as the military in China plays a significant role in politics and is strongly interwoven with the civil sector. Bilateral cooperation takes place for instance in the field of peacekeeping, where Austria has a long-term expertise and China gets increasingly involved.²⁵ Information of the military attaché in Beijing can be a valuable input for the Austrian Government in discussions over the EU arms embargo on China.

Economic relations between Austria and China

Chronicle of events

1989–1999: Bilateral trade rising from a low base

In the year 1989, trade with China was still very small (see Table 2). In the following years, imports from China increased faster than overall Austrian imports and the product range broadened including a growing variety of labour-intensive consumer goods (clothes, leather products, toys, electronic equipment) and chemicals. Austrian exports lagged behind and consisted of investment goods mainly. The major reason behind was Austria's focus on European markets, enhanced by increasing European integration. Also, the reunification of Germany and the economic transition in the nearby Central and Eastern European countries offered fresh business opportunities.

²⁵ Interview with Professor Richard Trappl, see German.China.org.cn 2011, and the information of the present Austrian Military Attaché in Beijing, Brigadier General Christof Tatschl.

Table 2
Austria's trade in goods with China 1989–2019

| | Exports | | Imports | | Trade balance | Export | Import |
|------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|
| | Million EUR | growth in % | Million EUR | growth in % | Million EUR | shares in % | shares in % |
| 1989 | 161.3 | 8.1 | 209.0 | 43.8 | -47.7 | 0.52 | 0.56 |
| 1990 | 209.2 | 29.8 | 294.4 | 40.9 | -85.2 | 0.62 | 0.73 |
| 1991 | 242.1 | 15.7 | 391.8 | 33.1 | -149.8 | 0.70 | 0.91 |
| 1992 | 188.5 | -22.1 | 433.7 | 10.7 | -245.2 | 0.53 | 1.00 |
| 1993 | 266.5 | 41.4 | 565.4 | 30.4 | -298.9 | 0.79 | 1.38 |
| 1994 | 270.9 | 1.6 | 703.6 | 24.4 | -432.7 | 0.73 | 1.54 |
| 1995 | 328.0 | 21.1 | 598.3 | -15.0 | -270.3 | 0.78 | 1.23 |
| 1996 | 263.1 | -19.8 | 653.4 | 9.2 | -390.3 | 0.59 | 1.26 |
| 1997 | 303.7 | 15.4 | 783.4 | 19.9 | -479.7 | 0.58 | 1.36 |
| 1998 | 370.1 | 21.9 | 806.6 | 3.0 | -436.5 | 0.66 | 1.32 |
| 1999 | 390.8 | 5.6 | 916.8 | 13.7 | -526.0 | 0.65 | 1.40 |
| 2000 | 490.5 | 25.5 | 1,243.2 | 35.6 | -752.7 | 0.70 | 1.66 |
| 2001 | 844.5 | 72.2 | 1,359.5 | 9.4 | -515.0 | 1.14 | 1.73 |
| 2002 | 1170.2 | 38.6 | 1,404.9 | 3.3 | -234.7 | 1.51 | 1.82 |
| 2003 | 888.5 | -24.1 | 1,788.2 | 27.3 | -899.7 | 1.13 | 2.21 |
| 2004 | 1,119.1 | 26.0 | 2,295.8 | 28.4 | -1,176.7 | 1.25 | 2.52 |
| 2005 | 1,220.6 | 9.1 | 2,981.4 | 29.9 | -1,760.8 | 1.29 | 3.09 |
| 2006 | 1,232.1 | 0.9 | 3,776.9 | 26.7 | -2,544.8 | 1.19 | 3.62 |
| 2007 | 1,638.6 | 33.0 | 4,585.7 | 21.4 | -2,947.1 | 1.43 | 4.01 |
| 2008 | 1,875.2 | 14.4 | 4,975.2 | 8.5 | -3,100.0 | 1.60 | 4.16 |
| 2009 | 2,016.7 | 7.5 | 4,481.6 | -9.9 | -2,464.9 | 2.15 | 4.59 |
| 2010 | 2,807.5 | 39.2 | 5,427.6 | 21.1 | -2,620.1 | 2.57 | 4.78 |
| 2011 | 2,918.8 | 4.0 | 6,393.8 | 17.8 | -3,474.9 | 2.40 | 4.88 |
| 2012 | 3,030.7 | 3.8 | 6,750.7 | 5.6 | -3,720.0 | 2.45 | 5.11 |
| 2013 | 3,136.4 | 3.5 | 6,788.1 | 0.6 | -3,651.7 | 2.49 | 5.19 |
| 2014 | 3,379.9 | 7.8 | 7,322.7 | 7.9 | -3,942.8 | 2.64 | 5.64 |
| 2015 | 3,304.7 | -2.2 | 7,956.9 | 8.7 | -4,652.2 | 2.51 | 5.96 |
| 2016 | 3,312.9 | 0.2 | 7,972.0 | 0.2 | -4,659.1 | 2.52 | 5.88 |
| 2017 | 3,698.9 | 11.7 | 8,505.4 | 6.7 | 4,806.5 | 2.60 | 5.76 |
| 2018 | 4,055.5 | 9.6 | 9,110.2 | 7.1 | 5,054.7 | 2.70 | 5.84 |
| 2019 | 4,461.4 | 10.0 | 9,824.7 | 7.8 | 5,363.3 | 2.90 | 6.22 |

Source: Statistik Austria, Austrian Chamber of Commerce (WKO).

In 1995, Austria's first year as an EU member, 85% of its exports went to Europe (EU: 72%) and a similar share, namely 86% of all imports came from European countries (EU: 66%, see Figure 1).

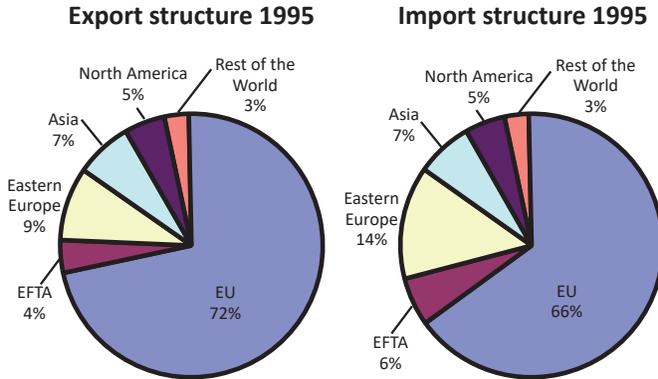


Figure 1

Regional structure of Austrian foreign trade, 1995 – shares in %

Source: Statistik Austria, Austrian Chamber of Commerce (WKO).

Within Europe, Germany was the dominant trading partner, taking a share of nearly 40% in Austrian foreign trade. The major trading partners outside Europe were the USA and Japan. China ranked third, despite its relatively small share in exports (0.8%) as well as in imports (1.2%). Austria entered the EU when economic relations with Asia and with China in particular became an important issue. In July 1995, the EU Commission published its first Communication on China,²⁶ pleading for closer cooperation, including trade and policy issues. When Austrian President Thomas Klestil visited China in September 1995, he was accompanied by a large business delegation and by the end of 1997 about 300 Austrian companies maintained trade relations with China, 100 of them rather intensively.²⁷

²⁶ European Commission 1995.

²⁷ Estimate of the delegate of the Austrian Chamber of Commerce in Peking.

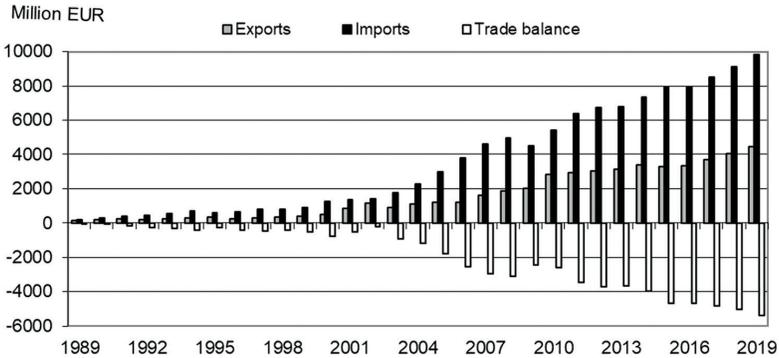


Figure 2

Austrian trade in goods with China, 1989–2019

Source: Statistik Austria, Austrian Chamber of Commerce (WKO).

2000–2010: Exploding trade deficit with China

In the first two years of the new millennium, 2001–2002, a massive recession, starting in the USA hit the global economy. But Austrian exports to China accelerated thanks to special factors.²⁸ Overtaking Japan, China became Austria's largest market in Asia and the second largest outside Europe (after the USA) and China's share in Austrian exports exceeded the 1% mark for the first time (Table 2). Within exports, 'machinery and transport equipment' played the dominant role, with a focus on non-electric machinery and on certain key areas such as metallurgy, energy technology, water technology, rail technology, means of conveyance and environmental technology. Among 'manufactured goods', steel, paper and wood products were important. In imports, the focus was on 'miscellaneous manufactured

²⁸ First, exports were heavily concentrated on investment goods and benefitted from China's investment-driven growth model; second, on occasion of the 30th anniversary of diplomatic relations between Austria and China, a number of big orders were signed (URBAN 2003).

articles' comprising mainly consumer goods (clothing, shoes, toys, sports articles, furniture etc.) and electric machinery (consumer electronics, office machinery, electric tools). Metal and metal products played a certain role as well. Thus, bilateral trade was complementary rather than intra-industrial (see Table 3).

Table 3

Product structure of Austrian trade in goods with China 2003, 2010, 2017 and 2019

| SITC groups* | Exports % of total | | | | Imports % of total | | | |
|---|-----------------------|-------|-------|-------|-----------------------|-------|-------|-------|
| | 2003 | 2010 | 2017 | 2019 | 2003 | 2010 | 2017 | 2019 |
| Food and live animals | 0.3 | 0.3 | 1.3 | 2.2 | 0.9 | 1.1 | 0.8 | 0.7 |
| Beverages and tobacco | 0.0 | 0.0 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Crude materials, inedible, exc. fuels | 1.9 | 3.6 | 7.6 | 7.2 | 2.0 | 1.6 | 0.8 | 0.7 |
| Mineral fuels, lubricants etc. | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Animal and veg. oils, fats and waxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Chemicals and related products | 7.0 | 11.4 | 11.6 | 12.0 | 3.5 | 7.2 | 5.0 | 4.8 |
| Manufactured goods | 13.8 | 10.0 | 16.1 | 15.1 | 10.7 | 10.7 | 11.8 | 11.3 |
| Machinery and transport equipment | 70.4 | 65.9 | 51.5 | 50.6 | 38.2 | 41.3 | 46.2 | 49.1 |
| Miscellaneous manufac- tured articles | 5.8 | 8.7 | 11.8 | 12.7 | 44.6 | 38.1 | 35.3 | 33.4 |
| Commodities not classified elsewhere | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Austrian exports/ imports to China | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Note: * 2003: SITC rev. 3, 2010, 2017 and 2019: SITC rev. 4.

Source: Statistik Austria, Austrian Chamber of Commerce (WKO).

When the recession was over, China began to reap the full benefits of its WTO membership. China has been a member of the WTO since 11 December 2001. Austrian imports from China accelerated rapidly, but exports lagged behind and Austria's trade deficit with China skyrocketed (see Figure 2). The same phenomenon was observed in other EU countries

as well and thus the issue was taken up by the EU Commission in a Policy Paper entitled: *A maturing partnership: shared interests and challenges in EU–China relations* (2003). In the policy paper the Commission addressed some of the potential barriers to trade for EU firms in China, such as problems with customs clearance, industrial, sanitary and phytosanitary standards, legal protection of property rights etc. impeding EU exports. Austrian exporters shared these concerns. On top came the significant depreciation of the Chinese currency versus the Euro (see Figure 3).²⁹

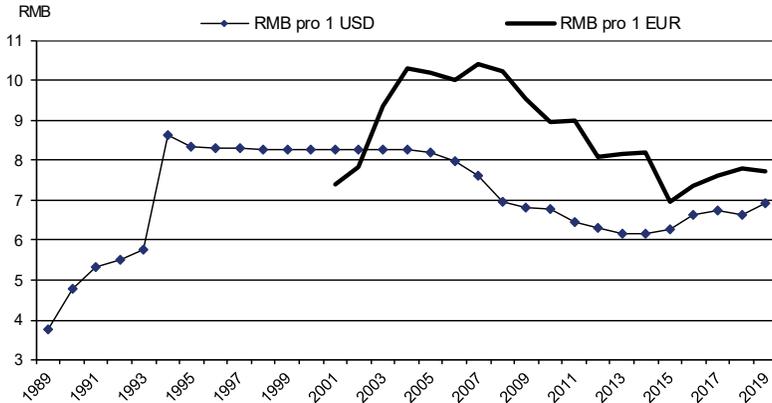


Figure 3

Exchange rates Yuan, USD, Euro, 1989–2019

Source: China Statistical Yearbooks, various issues; European Central Bank (ECB).

In 2008, the next global crisis emerged, with world output falling 0.6% and the world trade volume declining 11% in 2009.³⁰ Similarly to the crisis in 2001–2002, Austrian exports to China developed surprisingly well. They increased by 7.5% in 2009, when overall Austrian exports declined by 20%, and by 39% in 2010 (see Table 2).

²⁹ Between January 2003 and December 2004, the Chinese currency lost about 25% of its value in terms of Euro.

³⁰ IMF 2010.

2011–2017 and beyond: Adjusting to China's New Model of Economic Development

When the crisis was over, the Chinese Government began to implement a New Model of Economic Development, see Table 4.³¹

Table 4
China's New Model of Economic Development

| |
|--|
| Export-oriented growth → domestic market-oriented growth |
| Investment driven growth → consumption driven growth |
| Low VAD labour-intensive industries → high VAD technology-intensive industries |
| Accelerated expansion of the services sector |
| More emphasis on rural development |
| Enhanced environment protection and social security |
| QUALITATIVE GROWTH instead of QUANTITATIVE GROWTH |

Source: Compiled by the author.

This altered significantly Austria's foreign trade with China. Growth of Austrian exports to, and imports from China slowed down and the product structure changed. However, as Austria's overall trade expanded even less, because of the slow economic recovery in Europe, China's shares in exports and imports continued to rise, reaching 5.8% in imports and 2.6% in exports in 2017, and China became Austria's 5th most important trading partner (following Germany, Italy, Switzerland and the USA). In 2018 and 2019, the Austrian export growth to China stabilised at an annual growth rate of about 10%. Import growth stayed below, at about 7% per annum. Nevertheless, Austria's bilateral trade deficit with China widened further (see Table 2 and Figure 2). Moreover, the structure of Austrian exports and imports changed in line with China's New Model of Economic Development. In exports, the share of machinery and transport equipment declined, and the share of typical consumer goods (food, beverages and 'miscellaneous manufactured articles') increased. On the other hand, concerning imports

³¹ The New Model was already proclaimed by the old leadership under President Hu Jintao in 2003 but was postponed because of the crisis. See GHOSH et al. 2009, 57.

from China, machinery and transport equipment (including primarily telephones, data processing machines and electric machinery) expanded over-proportionately and ‘miscellaneous manufactured articles’ rose under-proportionately. In 2018 and 2019 this trend continued (see Table 3).³² Altogether, bilateral trade became more diversified.

In the first quarter of 2020 (latest data available), global trade suffered heavily from the Covid-19 pandemic. Overall Austrian exports declined by 5%; however, exports to China plummeted by 18%, probably due to the earlier ‘lock-down’ there. Moreover, imports from China fell at a similar rate as total Austrian imports, at about 6.5%.³³ Notably, Austrian Airlines and the Vienna Airport played a key role in establishing an ‘air bridge’ for medical supply to and from China.

2017: The EU abolishes the list of non-market economies

On 15 November 2017, the EU Parliament approved the legislation to abolish the EU list of non-market economies³⁴ in view of the new EU Trade Defence Rules (anti-dumping regulation) which came into force on 20 December 2017.³⁵

Thus, the debate between ‘North’ and ‘South’ European EU countries on granting market economy status to China or not, came to an end. Yet the situation will not change much for China, as the new rules provide the possibility to use prices of a ‘representative country’ instead of domestic prices to calculate dumping margins, when ‘significant distortions’ resulting from state intervention exist. A similar method was used for non-market economies before. Yet the new EU rules are not country specific, but case-oriented. However, the country report on China, published together with the

³² A more detailed analysis for 2015 showed a certain further restructuring within this product group, from labour-intensive standard products to more technology-intensive articles, such as ‘optical goods and instruments’, ‘medical instruments and apparatus’ and ‘measuring, analysing and controlling apparatus’ (URBAN 2016b).

³³ Austrian Chamber of Commerce (WKO)

³⁴ World Trade Online 2017.

³⁵ European Commission 2017.

new rules,³⁶ shows many examples for distortions due to state intervention, especially in fields where anti-dumping procedures are pending already, e.g. in the steel industry. The question is, whether these new EU rules are consistent with the WTO Anti-Dumping Agreement.

Prospects of bilateral trade in goods

In the longer term, the ongoing restructuring of the Chinese economy will offer good export opportunities for Austrian high-end machinery and equipment and clean technologies. Austrian food and lifestyle products could take advantage of the rising consumer market. Despite a slower pace of investment in China, urbanisation, continuing construction of transport and energy infrastructure etc. will provide ample opportunities for Austrian suppliers in this field. Also, China's 'Belt and Road Initiative' and the '17 + 1 Initiative' may offer opportunities for Austrian companies, probably as suppliers of Chinese enterprises in third countries. On the other hand, Chinese competition in the medium and high-tech segment of all industries will become fiercer on the domestic market as well as abroad. Altogether, bilateral trade will become less complementary and more intra-industrial.

Trade in services including tourism

We focus on trade in services as defined in the Balance of Payments (BoP), the only official data source. Data for Austria's services trade with China are published from 1995 onwards only and include Hong Kong.³⁷ Austrian trade in services is generally less extensive than trade in goods. In case of China, the difference is particularly large. In 2017, China's share in both Austrian service imports and service exports was 1.1%, significantly lower

³⁶ Commission Staff Working Document on significant distortions in the economy of the People's Republic of China for the purposes of trade defence investigations. SWD (2017) 483 final/2.

³⁷ Austrian National Bank (OENB): statistics>data>external sector>services>user-defined query.

than the corresponding shares in goods trade (5.8% and 2.6% – compare Tables 2 and 6).

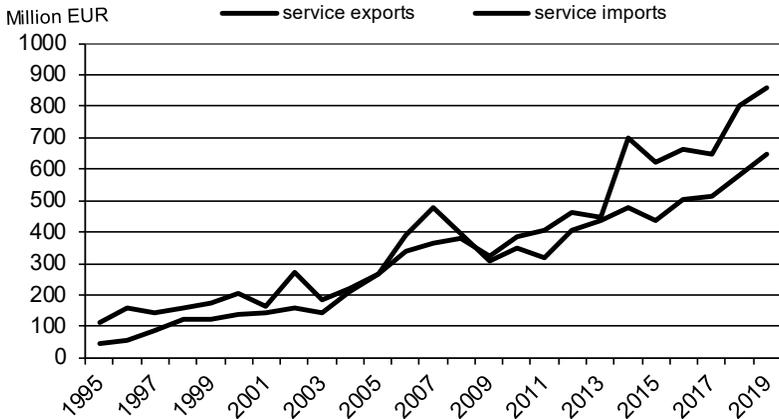


Figure 4

Austrian service exports and imports to China, 1995–2019

Note: China including Hong Kong.

Source: Austrian National Bank (OENB), Balance of Payments.

There is a clear upward trend with significant fluctuations of both services exports and imports from China between 1995 and 2017 (see Figure 4). But contrary to goods trade, the balance of trade in services turned positive in 2009 and remained so until 2019 (see Table 6). This is due to the Chinese economy reaching a more advanced stage and the greater emphasis put on services by the China's New Model of Economic Development. Three groups of services are of major importance throughout the whole period: 'transport', 'travel' and 'other business services'. Recently, rising from a very low base, 'telecommunication, computer and information services' have reached a certain significance (see Table 5).

Table 5

Export and import structure of Austrian trade in services with China 1998, 2010 and 2017

| | | Million EUR | | | | in % of total | | | |
|--|----------------|-------------|------|------|------|---------------|------|------|------|
| | | 1998 | 2003 | 2010 | 2017 | 1998 | 2003 | 2010 | 2017 |
| Services, total | Credit/Exports | 125 | 146 | 383 | 646 | 100 | 100 | 100 | 100 |
| | Debit/Imports | 160 | 185 | 347 | 516 | 100 | 100 | 100 | 100 |
| | Net | -35 | -39 | 36 | 130 | 100 | 100 | 100 | 100 |
| Manufacturing services on physical inputs owed by others | Credit/Exports | 2 | 1 | 0 | 1 | 2 | 1 | 0 | 0 |
| | Debit/Imports | 1 | 3 | 0 | 3 | 1 | 2 | 0 | 1 |
| | Net | 0 | -2 | 0 | -2 | 0 | 5 | 0 | -2 |
| Maintenance and repair services n.i.e. | Credit/Exports | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| | Debit/Imports | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| | Net | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| Transport | Credit/Exports | 67 | 83 | 84 | 131 | 54 | 57 | 22 | 20 |
| | Debit/Imports | 49 | 66 | 187 | 250 | 31 | 36 | 54 | 48 |
| | Net | 17 | 17 | -103 | -120 | -49 | -44 | -286 | -92 |
| Travel | Credit/Exports | 21 | 28 | 63 | 199 | 17 | 19 | 16 | 31 |
| | Debit/Imports | 48 | 60 | 74 | 76 | 30 | 32 | 21 | 15 |
| | Net | -27 | -32 | -11 | 123 | 77 | 82 | -31 | 95 |
| Construction | Credit/Exports | 3 | 0 | 11 | 0 | 2 | 0 | 3 | 0 |
| | Debit/Imports | 3 | 1 | 0 | 3 | 2 | 1 | 0 | 1 |
| | Net | 0 | 0 | 10 | -3 | 0 | 0 | 28 | -2 |
| Insurance and pension services | Credit/Exports | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| | Debit/Imports | 0 | 2 | 8 | 14 | 0 | 1 | 2 | 3 |
| | Net | 0 | -2 | -7 | -13 | 0 | 5 | -19 | -10 |
| Financial services | Credit/Exports | 3 | 1 | 3 | 11 | 2 | 1 | 1 | 2 |
| | Debit/Imports | 1 | 0 | 1 | 6 | 1 | 0 | 0 | 1 |
| | Net | 2 | 1 | 2 | 5 | -6 | -3 | 6 | 4 |
| Charges for the use of intellectual property | Credit/Exports | 0 | 0 | 10 | 17 | 0 | 0 | 3 | 3 |
| | Debit/Imports | 23 | 3 | 3 | 1 | 14 | 2 | 1 | 0 |
| | Net | -23 | -2 | 7 | 16 | 66 | 5 | 19 | 12 |
| Telecommunications, computer, and information services | Credit/Exports | 3 | 2 | 14 | 50 | 2 | 1 | 4 | 8 |
| | Debit/Imports | 2 | 1 | 7 | 22 | 1 | 1 | 2 | 4 |
| | Net | 1 | 1 | 8 | 28 | -3 | -3 | 22 | 22 |

| | | Million EUR | | | | in % of total | | | |
|--|----------------|-------------|------|------|------|---------------|------|------|------|
| | | 1998 | 2003 | 2010 | 2017 | 1998 | 2003 | 2010 | 2017 |
| Other business services | Credit/Exports | 26 | 28 | 196 | 229 | 21 | 19 | 51 | 35 |
| | Debit/Imports | 27 | 46 | 63 | 134 | 17 | 25 | 18 | 26 |
| | Net | -1 | -18 | 133 | 95 | 3 | 46 | 369 | 73 |
| Personal, cultural and recreational services | Credit/Exports | 0 | 0 | 1 | 4 | 0 | 0 | 0 | 1 |
| | Debit/Imports | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| | Net | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 2 |
| Government goods and services | Credit/Exports | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 |
| | Debit/Imports | 4 | 3 | 3 | 5 | 3 | 2 | 1 | 1 |
| | Net | -3 | -2 | -2 | -4 | 9 | 5 | -6 | -3 |

Note: China including Hong Kong.

Source: Austrian National Bank (OENB), Balance of Payment.

While the trade balance is now typically positive for Austria in the field of ‘travel’ and ‘other business services’, it is negative for ‘transport services’. Moreover, the latter has deteriorated significantly over time, in line with Austria’s rising deficit in goods trade and because of China becoming a heavy-weight in the global transport business. In 2017, about 50% of Austria’s services imports from China were transport services (Table 5). The positive travel balance, on the other hand was improving steadily, in particular over the last couple of years, with an increasing number of Chinese tourists coming to Austria (see Figure 5 below), while Austrian tourism to China seems to have peaked already. ‘Other business services’ comprise a wide range of different services which are typically provided by mature (post-industrial) countries. Both exports and imports in this group have risen over time, but Austrian exports in particular, and in 2017 they made up 35% of all services exports to China. No relevant trade between Austria and China is recorded in ‘financial services’ and ‘construction’.³⁸

³⁸ However, financial services provided by affiliates and representative offices of Austrian banks in China (and vice versa) are per definition not included as services in the BoP. (See UN trade statistics, definition of Services Trade and Modes of Supply <https://unstats.un.org/unsd/tradekb/Knowledgebase/50665/Modes-of-Supply>.) Compare also section *Financial relations*.

Table 6
*Austrian trade in services with China, 1995–2019**

| | Credit/ Exports | Debit/ Imports | Net/ Balance | Export shares in %** | Import shares in %** |
|------|----------------------------|---------------------------|-------------------------|-------------------------------------|-------------------------------------|
| | Million EUR | Million EUR | Million EUR | | |
| 1995 | 44 | 115 | -71 | 0.25 | 0.79 |
| 1996 | 54 | 157 | -102 | 0.29 | 0.99 |
| 1997 | 86 | 145 | -59 | 0.45 | 0.88 |
| 1998 | 125 | 160 | -35 | 0.60 | 0.95 |
| 1999 | 121 | 175 | -54 | 0.56 | 1.03 |
| 2000 | 138 | 205 | -67 | 0.56 | 1.09 |
| 2001 | 146 | 165 | -19 | 0.56 | 0.80 |
| 2002 | 157 | 272 | -115 | 0.57 | 1.28 |
| 2003 | 146 | 185 | -39 | 0.51 | 0.83 |
| 2004 | 208 | 222 | -14 | 0.69 | 0.94 |
| 2005 | 265 | 267 | -1 | 0.80 | 1.04 |
| 2006 | 341 | 390 | -49 | 0.94 | 1.39 |
| 2007 | 367 | 480 | -113 | 0.92 | 1.61 |
| 2008 | 382 | 398 | -16 | 0.89 | 1.29 |
| 2009 | 326 | 306 | 20 | 0.84 | 1.09 |
| 2010 | 383 | 347 | 36 | 0.97 | 1.18 |
| 2011 | 408 | 319 | 89 | 0.96 | 1.00 |
| 2012 | 464 | 405 | 59 | 1.03 | 1.18 |
| 2013 | 445 | 435 | 11 | 0.92 | 1.13 |
| 2014 | 698 | 476 | 223 | 1.35 | 1.14 |
| 2015 | 623 | 483 | 140 | 1.17 | 1.02 |
| 2016 | 666 | 523 | 143 | 1.20 | 1.14 |
| 2017 | 647 | 508 | 139 | 1.09 | 1.12 |
| 2018 | 800 | 581 | 219 | 1.26 | 1.18 |
| 2019 | 862 | 647 | 214 | 1.28 | 1.04 |

Note: *Including Hong Kong; **Shares in total Austrian service exports respective imports.

Source: Statistik Austria, Austrian National Bank (OENB).

In the future, we may expect further expansion of services trade between Austria and China, due to the growing maturity of the Chinese economy and the corresponding over-proportionate growth of its tertiary sector. A special chance for Austrian service providers is the Olympic Winter Games in China in 2022, as Austrian companies have great experience

in the preparation and running of winter sports events. However, in the longer run, Chinese suppliers of services will certainly gain competence and become more serious competitors in many fields.

Tourism

The number of Chinese tourists in Austria increased significantly from 83,000 persons (arrivals) in 2003 to 899,636 persons in 2017.³⁹ In 2019, already more than 1 million Chinese tourists visited Austria. The rush started in 2010, when rising income levels and more relaxed foreign exchange controls made overseas trips for Chinese tourists more feasible. Institutional factors, such as the ‘approved tourist destination status’ for Austria (and 21 other EU countries) in 2004⁴⁰ and harmonisation of visa procedures in the EU (Schengen, 2010), have played a certain role as well. But despite the impressive rise, the share of Chinese tourists in the overall number of tourists in Austria stayed small, reaching only about 2% of all tourist arrivals in 2019.⁴¹

It seems that there is still considerable scope for the expansion of Chinese tourism in Austria. Probably, a good performance of Austrian athletes at the Olympic Winter Games in Beijing 2022 would help to promote Austria as an attractive destination for winter sports.

However, in the first quarter of 2020, as a consequence of the Covid-19 pandemic and the related ‘lock-downs’ and travelling restrictions in many countries, tourism collapsed worldwide. From January–April 2020, the total number of tourists in Austria declined by 32% compared to the same period in the previous year. However, the corresponding number of

³⁹ Over the same period, the total number of outbound tourists from China multiplied from 10 million to 122 million, representing the fastest growing source market for tourism worldwide, but most Chinese tourists stay in Asia, according to information from the China National Tourism Association.

⁴⁰ The ‘approved tourist destination status’ is the result of a bilateral tourism agreement providing easier visa access for Chinese tourists travelling in a group which is organised by travel agents approved by both the Chinese Government and the authorities of the country of destination.

⁴¹ Because of their minor importance, the number of Austrian tourists in China is not listed in the Chinese tourist statistics and thus cannot be presented here. According to the homepage of the Chinese Embassy in Vienna, in 2012, 66,100 Austrian tourists visited China.

tourists from China even decreased by 70% (provisional figures).⁴² Probably tourism from China and from other foreign countries as well will stay low for the rest of the year.

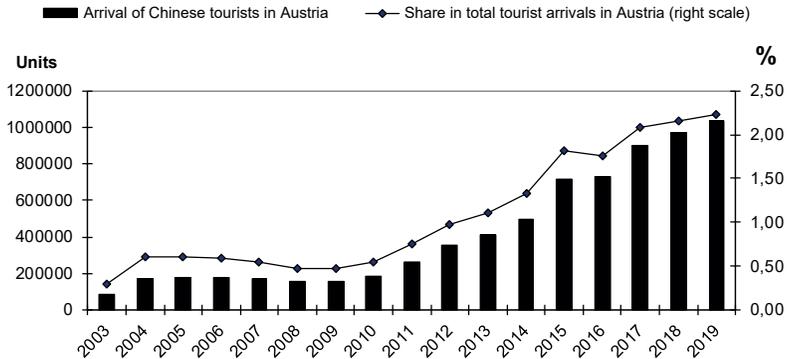


Figure 5

Chinese tourists in Austria, 2003–2019

Source: Statistik Austria, Austrian Chamber of Commerce (WKO).

Foreign Direct Investment (FDI) relations

Our primary data source for FDI is the Austrian National Bank (OENB), but Chinese statistics, press reports, company homepages and private databases (e.g. FDI markets) are used as well.

Austrian direct investment in China

Austrian direct investment in China started in the early 1980s, when the big, then state-owned Austrian technology conglomerates which had business relations with China (e.g. Voest Alpine AG), opened offices there. Other ‘early birds’ were affiliates of large foreign firms in Austria, and a few

⁴² Austrian National Tourist Office. Source: www.austriatourism.com/ (Accessed: 20 June 2020.)

globally active private Austrian companies. Nearly all companies were suppliers of investment goods. Because of the small scale of investment, no data for Austrian direct investment in China are published before 1995. In 1995, 11 Austrian enterprises were engaged in production in China with a total investment (stock) of EUR 18 million (see Table 7 and Figure 6). They comprised joint ventures of the above mentioned ‘pioneers’, but prominent newcomers as well, which also included smaller Austrian companies. In the following years, the list of Austrian investors in China got longer and the fields they operated in broadened, including chemicals, electrical engineering, electronics, but services as well, such as trade and logistics, construction and financial services. But the amounts invested stayed small in particular when compared to the enormous increase of FDI to China from the rest of the world (see Figure 7). Obviously, the focus of Austrian direct investment was still on Europe, in particular on Central and Eastern Europe.⁴³

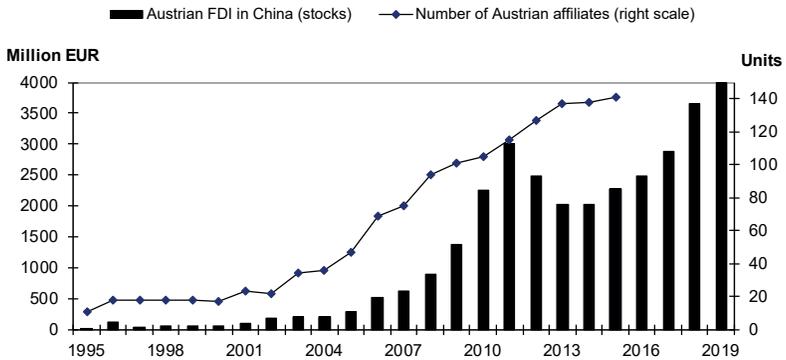


Figure 6

Austrian FDI stock in China and number of affiliates, 1989–2019

Note: Provisional data for 2019.

Source: Austrian National Bank (OENB).

⁴³ In 2004, 20% of Austrian outward direct investment went to the EU15 and 64% to Central and Eastern Europe (including 19 countries according to OENB definition) and only 0.5% went to China.

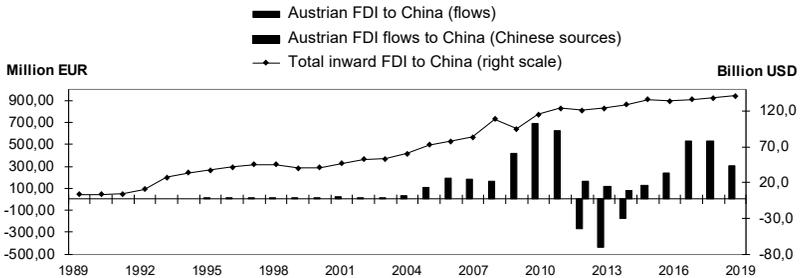


Figure 7

Austrian outward FDI to China and China's total inward FDI, 1989–2019

Note: Provisional data for 2019.

Source: Austrian National Bank (OENB); Chinese sources: China Statistical Yearbook, various issues; total inward FDI flows to China: Mofcom until 2006 and World Investment Reports (WIR) afterwards.

However, in 2005, the amounts of Austrian direct investment to China began to rise substantially, as the business environment had become more predictable after China's accession to the WTO. Further on, the devaluation of the Chinese currency against the Euro made exports from Europe more expensive and production within China more attractive (compare Figure 3) and some Austrian companies began to use China also as an export base for Asia and the USA. Finally, the huge, fast growing market for transport equipment unfolding in China⁴⁴ attracted many new companies in that field. However, the most prominent investors were AT&S (printed circuit boards and substrates) and Lenzing AG (wood based cellulose fibres).⁴⁵ Between 2005 and 2011, the number of Austrian affiliates in China increased from 47 to 115 and the amounts invested (stocks) rose from EUR 289 million to EUR 3,006 million (Table 7 and Figure 6). But in 2012–2014, the OENB registered a dramatic fall in investment flows which turned even negative (divestment). This can be attributed to some special factors, such as the transformation of direct investments into indirect investments, due to

⁴⁴ The auto boom in China started in 2002 and in 2007 China was the 2nd largest automotive market of the world (after the USA) with more than 90% of the vehicles produced in China, by Sino–foreign JVs mainly. China was also the largest market for transport infrastructure worldwide, according to the homepage of Voestalpine.

⁴⁵ The demand for textile fibres in China exploded after the Agreement on Textiles and Clothing (ATC), under which countries could restrict TC imports, phased out in 2004.

intra-group restructuring (2012)⁴⁶ and the very high profit transfers from China to Austria, exceeding (re)investments. However, the number of affiliates did not decline, and Chinese data sources indicate some new FDI from Austria in 2012, 2013 and 2014 (see Figures 6 and 7).

In 2015, Austrian FDI started to recover partly due to a huge investment of AT&S. In 2017 and 2018 FDI flows stabilised at an average of EUR 500 million per annum; the somewhat lower investment figure for 2019 is still provisional but might indicate a certain downward trend (see Table 7 and Figure 7). The stock of Austrian FDI in China reached EUR 3,982 million in 2019, which is 1.9% of the total FDI outward stock of Austria⁴⁷ and there were more than 140 affiliates of Austrian companies in China.

Table 7
*Austrian direct investment with China, 1995–2019**

| | Austrian FDI to/in China (outward) | | Chinese FDI to/in Austria (inward)** | | Net: outward–inward | |
|------|------------------------------------|-------------|--------------------------------------|-------------|---------------------|-------------|
| | Flows | Stocks | Flows | Stocks | Flows | Stocks |
| | Million EUR | Million EUR | Million EUR | Million EUR | Million EUR | Million EUR |
| 1995 | 7 | 18 | 0 | 0 | 7 | 18 |
| 1996 | 9 | 119 | –1 | 0 | 10 | 119 |
| 1997 | 3 | 39 | –1 | 0 | 4 | 39 |
| 1998 | 17 | 49 | 0 | 0 | 17 | 49 |
| 1999 | 4 | 61 | 0 | 0 | 4 | 61 |
| 2000 | 7 | 62 | 0 | 0 | 7 | 62 |
| 2001 | 20 | 105 | –2 | 0 | 22 | 105 |
| 2002 | 14 | 181 | –2 | –1 | 16 | 182 |
| 2003 | 16 | 199 | 0 | 0 | 16 | 199 |
| 2004 | 37 | 195 | –1 | 0 | 38 | 195 |
| 2005 | 110 | 289 | 0 | 0 | 110 | 289 |
| 2006 | 195 | 525 | –7 | –13 | 202 | 538 |
| 2007 | 182 | 617 | 10 | –3 | 172 | 620 |
| 2008 | 162 | 899 | –12 | –15 | 174 | 914 |
| 2009 | 419 | 1,369 | 275 | 117 | 144 | 1,252 |

⁴⁶ OENB 2014.

⁴⁷ With Hong Kong included, the Austrian FDI stock in China reached EUR 5,517 million (2.6% of total) in 2019.

| | | | | | | |
|------|------|-------|------|-------|------|-------|
| 2010 | 690 | 2,259 | 343 | 509 | 347 | 1,750 |
| 2011 | 624 | 3,006 | 71 | 582 | 553 | 2,424 |
| 2012 | -263 | 2,493 | -7 | 542 | -256 | 1,951 |
| 2013 | -440 | 2,020 | -1 | 551 | -439 | 1,469 |
| 2014 | -173 | 2,014 | -233 | 545 | 60 | 1,469 |
| 2015 | 127 | 2,279 | -37 | 445 | 164 | 1,834 |
| 2016 | 243 | 2,481 | 585 | 356 | -342 | 2,125 |
| 2017 | 526 | 2,873 | 198 | 753 | 328 | 2,120 |
| 2018 | 529 | 3,659 | 119 | 822 | 410 | 2,837 |
| 2019 | 304 | 3,982 | 22 | 1,032 | 282 | 2,950 |

Note: * In contrast to the balance of payments statistics, this table does not include cross border real estate transactions and Special Purpose Entities (SPEs); provisional data for 2019. ** Since 2007, geographical breakdown according to the headquarters of the ultimate beneficial owner (UBO).

Source: Austrian National Bank (OENB): Home>Data>External sector>Foreign direct investment.

Challenges, when doing business in China

The following challenges while doing business in China are given by Austrian entrepreneurs:⁴⁸ rising competition from Chinese suppliers, violation of property rights and fake products; forced technology transfer, unfair treatment compared to local enterprises with respect to public procurement, compliance with environmental laws and other regulations; discrimination with regard to sources of finance and R&D support, price dumping of Chinese enterprises. Legal and factual restrictions on direct investment in certain branches and business segments are cited as well.⁴⁹ Labour cost advantages are starting to fade.

⁴⁸ Based on interviews with managers reported in the media, conferences and personal conversations.

⁴⁹ The legal restrictions are specified in the 'Catalogue of industries for guiding foreign investment', which is updated biannually. The most recent one is from 2017: www.fdi.gov.cn/1800000121_39_4851_0_7.html (Accessed: 20 March 2018).

Future prospects for Austrian direct investment in China

China's New Model of Economic Development will provide special opportunities for Austrian investors in the fields of high-end machinery and environmentally friendly technologies, but competition from Chinese companies will become fiercer. A rising, consumption-oriented middle class and the over-proportionately growing services sector will offer fresh opportunities as well.⁵⁰

Chinese direct investment in Austria

The amount of Chinese direct investment in Austria is relatively small and it comes in waves rather than in a continuous flow (see Table 7 and Figure 8).

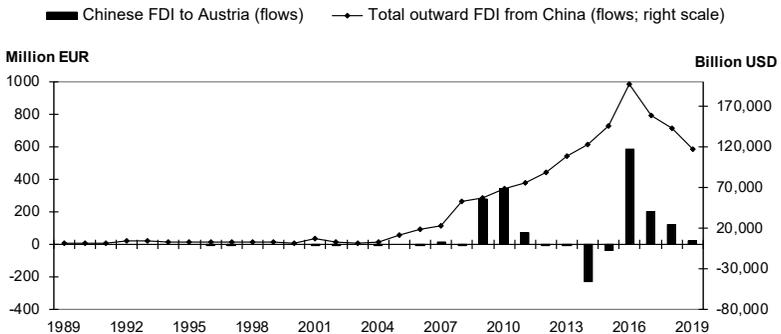


Figure 8

Austrian inward FDI from China and China's total outward FDI, 1989–2019

Note: Provisional data for 2019.

Source: Austrian National Bank (OENB); Chinese sources: China Statistical Yearbook, various issues (BoP) until 2006 and World Investment Reports (WIR) afterwards.

Mergers and acquisitions (M&A) play an important role, especially when it comes to bigger investments. In that case, 'technology for market'

⁵⁰ However, in the food sector, for the near future, investment in production facilities will remain small, as Chinese customers mistrust local production and prefer imports from Europe (Austria).

is a major objective: the Chinese company wishes to acquire Austrian technology, the Austrian firm wants to gain better access to the Chinese market and probably the global market, as well. When the motive for the Chinese investor is ‘market entry’, he typically targets the wider European market and often the Austrian affiliate is given the role of a head office or ‘bridgehead’ to the EU. The main fields of investment are machinery, electrical equipment and transport equipment. A list of major Chinese direct investments in Austria, 2006–2019, is given in Appendix 2.

Chinese direct investment in Austria started in the 1980s, with a significant number of Chinese migrants flocking to Austria, in particular to Vienna, opening restaurants, small shops and export-import agencies.⁵¹ However, the first proper Chinese FDI occurred in 2006, when Huawei (high-tech telecommunication equipment) opened an office in Vienna. In 2009, in the midst of the global financial and economic crisis, the first wave of major direct investments from China began⁵² when Xi’an Aircraft bought Fischer Advanced Composite Components (FACC), a high-tech company specialised in airplane equipment. A certain pause followed after 2011, with some minor Chinese investments (see Appendix 2). In 2016, the next wave started with Zhejiang Kaishan Compressor, the largest compressor producer in China taking over 95.5% of LMF Unternehmensbeteiligungs GmbH, the world’s leading air compressor manufacturer, acquiring technology as well as EU market entry.⁵³ Zhong Ding Group (ZD) followed and bought Austria Druckguss GmbH & Co. KG, with the intention to make it its headquarter in Europe.⁵⁴ In 2017, the inflow of Chinese FDI was still high, but declining in line with the overall outward FDI from China. One prominent example is the Wanfeng Group that took over the aircraft manufacturer Diamond Aircraft, a typical ‘technology for market’ deal.⁵⁵ In 2018, there were still a considerable number of Chinese direct investments in Austria, for instance, Fosun acquiring 50.8% of the luxury wearing apparel company Wolford and Great Wall Motors establishing a R&D center near the city

⁵¹ SCHÄFER 2016.

⁵² In 2009, the Chinese State Agency for Foreign Exchange (SAFE) relaxed controls on companies’ overseas investments: companies can use their existing foreign exchange reserves or purchase fresh foreign exchange to fund their overseas subsidiaries from 1 August 2009 (China Daily, 10 June 2009).

⁵³ Kaishan completed this purchase through its wholly owned subsidiary in Hong Kong.

⁵⁴ Ernst & Young, press release, 25 January 2017.

⁵⁵ STAUDACHER 2017.

of Graz. But in 2019, the number and amount of Chinese FDI dropped significantly to two major investments only (see Appendix 2).⁵⁶

The stock of Chinese FDI in Austria reached EUR 1,032 million in 2019 (see Table 7), which is 0.6% of the total FDI inward stock of Austria. However, if Hong Kong is included, as some Chinese investment is made via Hong Kong, the total Chinese FDI stock (including Hong Kong) comes up to EUR 2,974 million, which is 1.6% of the total FDI inward stock in Austria.⁵⁷

Future prospects

Further acquisitions of Austrian technology enterprises can be expected, although a certain cooling down of Chinese direct investment may occur, due to recent measures of the Chinese Government to curb outward FDI. Because of the relatively small amounts, Chinese direct investment in Austria did not rouse any political concern so far. In fact, the Austrian Business Agency (ABA), attached to the Austrian Ministry of Economy, is still keen to attract Chinese investors to Austria.

The impact of Covid-19 on bilateral foreign direct investment flows is difficult to estimate. Some politicians fear that the financial weakness of European enterprises due to the pandemic will lead to a sell-out of technology intensive enterprises to Chinese investors. European enterprises, on the other hand may reshuffle their production chains and invest less overseas.

Financial relations

Financial relations between Austria and China are largely a consequence of the intensive trade and investment relations between the two countries, but include purely financial transactions, e.g. portfolio investments.

⁵⁶ The very low figure for FDI inflows in 2019 depicted in Figure 8, reaching EUR 22 million only, is still provisional and might not include all investments from China.

⁵⁷ If Hong Kong is included, two large deals have to be mentioned: the acquisition of Steyr Motors by Phoenix Tree HSC in 2012 and the purchase of the telephone provider Orange Austria and Tele 2 by Hutchison in 2013 respectively 2017.

The major Austrian commercial bank engaged with China is Raiffeisen Bank International, which has a subsidiary in Beijing since 1995 and a representative office in Zhuhai and which has already signed a number of cooperation agreements with Chinese banks and industrial corporations. Bank Austria/Uni Credit has a branch in Shanghai and a representative office in Beijing. The third big Austrian Bank, Erste Group, operates from its branch in Hong Kong. From the Chinese side, the Bank of China opened an office in Vienna in 2016 (which is an affiliate of her branch and regional centre in Budapest) and in 2017, the Industrial and Commercial Bank of China (ICBC) announced to establish a branch in Vienna, which should become the headquarter for Central and Eastern Europe and the Nordic countries. The office was finally opened in May 2019. The bank is one of the important sources of finance for the 'Belt and Road Initiative' and the CEE Fund. Also in 2019, the Chinese HNA Group acquired the majority share of Wiener Fondsgesellschaft C-Quadrat (see Appendix 2).

Seen from the bilateral Balance of Payments, Austria is a *net capital exporter* to China in most years, despite her big current account deficit with China. This is mainly due to her net surplus in FDI with China (see Table 7). However, bilateral data, available for the period 2007–2017, show a net surplus in 'other investments' (including trade credits, loans, currencies and deposits) in many years as well, and in 2017, Austria's net investment position (stocks) versus China in this field was highly positive, amounting to more than EUR 1 billion. Austrian portfolio investment in Chinese assets is still small and transactions stayed typically below EUR 100 million per annum; the stock of these assets reached only EUR 446 million in 2017.⁵⁸

During his visit to China in 2019, Federal Chancellor Kurz discussed the possibility for Austria to issue bonds denominated in Yuan on the Chinese market (so-called Panda Bonds). Accordingly, a MoU was signed between the Austrian Treasury (OeBFA) and the Industrial and Commercial Bank of China (ICBC).⁵⁹

⁵⁸ Austrian National Bank (OENB), bilateral BoP, unpublished data. Unfortunately, in case of portfolio investments, no regional breakdown for Austrian liabilities exists, therefore no net position can be calculated.

⁵⁹ Die Presse 2019.

Conclusions and outlook – preparing for a closer relationship with China

Political relations between Austria and China develop very well. Both the political elite and the business community in Austria show a positive attitude towards China and during the state visit in April 2018 (see Appendix 1), Austria and China agreed to upgrade bilateral relations to a ‘friendly strategic partnership’. Moreover, the Austrian Government and the business community are very interested in China’s ‘Belt and Road Initiative’ and wish to take part actively in the future. In her role as an observer in China’s 17 + 1 initiative, Austria could probably assume a ‘bridge-function’ between the members of the initiative and other EU countries which take a sceptical stance on the initiative. However, the Austrian press and the wider public show a more critical attitude towards China than the political elite and the business community. Lack of democracy, increasing social control, rising political power and human rights violations are their major concerns.

Scientific cooperation, which has played an important role from the beginning, is set to become even more important in the future, with science and technology playing an ever-increasing role in China.

Bilateral trade has been slowing down, but growth is still faster than trade with most other countries and thus the relative importance of China as a trading partner for Austria is expected to rise further. However, to reach a more balanced development of exports and imports, Austria is pressing for a further opening-up of the Chinese market in bilateral negotiations, wherever possible. In the near future, the focus will be on the market for food and beverages, which is very promising, but still highly protected by non-tariff barriers to trade. Generally, the trade prospects are good, as the ongoing restructuring of the Chinese economy will offer ample export opportunities for Austrian high-end machinery and equipment and clean technologies. However, violation of intellectual property rights will require special attention in these business segments. Regarding imports, state subsidies for Chinese exporters and dumping will stay hot topics and it has to be seen yet, how effective the new EU Trade Defence Rules will be. Also, Austrian companies have to be aware that Chinese competition in the medium and high-tech segment of all industries will become fiercer.

Starting from a low level, the chances for further expansion of *trade in services* between Austria and China are good, due to the over-proportionate growth of the sector. But there are many barriers to trade for Austrian suppliers of services in China, even more than in goods trade, which have to be overcome. In the next few years, Austrian service providers will in particular try to take advantage of the Olympic Winter Games in Beijing in 2022, as they have great experience in the preparation and running of winter sports events and in tourism in general. Chinese tourism to Austria seems to have great potential as well and is promoted accordingly by Austrian tourism organisations, stressing Austria's culture and beautiful and healthy environment in particular.

Investing in China will remain attractive for Austrian companies, despite many challenges and the slowing down of economic growth in China ('new normal'). The Chinese Government's policy of qualitative instead of quantitative growth and of restructuring the industry towards high technology and higher value-added production will provide special investment opportunities for Austrian companies with a focus on high-end machinery and environmentally friendly technologies. The rising consumption-oriented middle class will offer investment opportunities in fields neglected so far by Austrian entrepreneurs. Rapid urbanisation and the Belt and Road Initiative will boost infrastructure investment and also offer chances for Austrian companies in China, probably in cooperation with Chinese companies. The many challenges for Austrian enterprises doing business in China, such as violation of property rights, forced technology transfer, unfair treatment, legal and factual restrictions in certain business segments, have to be tackled at EU level because of their general character, rather than being discussed bilaterally between Austria and China. For instance, pressure on China to complete her accession to the WTO Government Procurement Agreement (GPA), promised for years, would be very important. Also, very important in this context are the ongoing negotiations for an 'EU–China Investment Agreement'.

Chinese investment in Austria is quite small (0.6% of the total FDI inward stock of Austria) and did not rouse any political concern so far. In fact, the Austrian Business Agency (ABA), attached to the Austrian Ministry of Economy, seems keen to attract Chinese investors to Austria and the Joint Declaration between President Alexander Van der Bellen and President Xi Jinping of 8 April 2018 states explicitly that

“Austria was open for Chinese investments”.⁶⁰ Many investments take the form of M&As, whereby Chinese companies wish to acquire Austrian technology and Austrian companies want to gain better access to the Chinese market – a win-win situation, at least in the short run. In the near future, further acquisitions of Austrian technology enterprises can be expected. So far Chinese investors focus on the machinery and transport equipment sector but given the general development of Chinese foreign direct investment, their investment spectrum may broaden soon.

As regards *financial relations*, related to the Belt and Road Initiative, (joint) project financing in third countries may gain importance.

To conclude, Austria’s political and economic relationship is expected to develop smoothly over the next couple of years. Most of the existing challenges could be addressed, but not solved at the bilateral level, and will have to be dealt with at the EU level or even at the global level (WTO, UN).

However, all our speculations concerning future economic developments are only valid if the current Covid-19 pandemic will not cause serious long-term disturbances and structural changes in the global economy. Anyhow, in the short and probably even medium term we have to expect bilateral trade, FDI and tourism to slow down to a certain extent.

Appendix 1

List of state visits 1989–2017

| | |
|------|---|
| 1991 | Foreign Minister Qian Qichen in Austria (October). |
| 1993 | Federal Chancellor Franz Vranitzky in China (April). |
| 1994 | Premier Li Peng in Austria (June–July). |
| 1995 | President Thomas Klestil in China (September). |
| 1996 | Federal Chancellor Franz Vranitzky in China (October). |
| 1998 | Vice-Chancellor and Foreign Minister Wolfgang Schüssel in China – President Jiang Zemin in Austria (March). |
| 2001 | President Thomas Klestil in China (May). |

⁶⁰ Österreichische Präsidentschaftskanzlei > Gemeinsame Erklärung zur Errichtung einer freundschaftlichen strategischen Partnerschaft zwischen der Volksrepublik China und der Republik Österreich.

| | |
|------|--|
| 2002 | Foreign Minister Tang Jiaxuan in Austria (July) – Premier Zhu Rongji in Austria (September). |
| 2003 | Foreign Minister Benita Ferrero-Waldner in China (November). |
| 2005 | Federal Chancellor Wolfgang Schüssel in China (April). |
| 2006 | Foreign Minister Li Zhaoxing in Austria (February). |
| 2010 | President Heinz Fischer in China (January) – Federal Chancellor Faymann visits the EXPO in Shanghai (June) – Foreign Minister Yang Jiechi in Austria (July). |
| 2011 | Federal Chancellor Werner Faymann in China (May) – President Hu Jintao in Austria (October). |
| 2014 | Vice-Chancellor and Minister of Economy Reinhold Mitterlehner, Foreign Minister Sebastian Kurz and Minister of Agriculture Andrä Rupprechter in China (October). |
| 2015 | President Heinz Fischer in China (March). |
| 2018 | President Alexander Van der Bellen, Federal Chancellor Sebastian Kurz, Foreign Minister Karin Kneissl and three more Federal Ministers in China (April). |
| 2019 | Federal Chancellor Sebastian Kurz visits China (April). |

Appendix 2

Major Chinese direct investments in Austria, 2006–2017

| Year | Kind of investment | Industry | Activity | Capital invested |
|------|--|--|--------------------------------|------------------|
| 2006 | Huawei opens a representative office in Vienna | Telecommunication equipment and systems | Sales, marketing and support | EUR 3.5 million |
| 2007 | Shougang International Trade & Engineering | Metal products (steel products) | Sales, marketing and support | EUR 0.4 million |
| 2008 | Grace Semiconductors (liquidated in 2010) | Semi-conductors | Headquarter, production, sales | EUR 46 million |
| 2009 | Xi'an Aircraft (affiliate of AVIC) acquires 91.25% of Fischer Advanced Composite Components (FACC) | Transport equipment (airplane equipment) | Production | EUR 70 million |

| Year | Kind of investment | Industry | Activity | Capital invested |
|-------------|--|---|--|-------------------------|
| 2010 | Zhong Xing Telecommunication Equipment Company Ltd (ZTE) | Telecommunication equipment and systems | Sales, marketing Central and Eastern Europe | n.a. |
| 2011 | China Shipping Container Lines opens a branch (2016: merged with Coscon, branch renamed: 'Coscon Shipping Central Europe') | Transportation (water transportation) | Sales, marketing and support | EUR 6.6 million |
| 2011 | Wolong Holding buys ATB group | Machinery and electrical equipment (engines, batteries, transformers) | Production | EUR 100 million |
| 2013 | 2 Chinese families, Liu and Ni, take over the motorway services chain 'Rosenberger' | Hospitality industry | Catering | n.a. |
| 2014 | Plateno Hotels Group takes a share in Walter Jungers Hotel Group H12 | Hospitality industry | Establishment of hotels, also in third countries | n.a. |
| 2015 | Ginkgo Tree Investment buys 50% of the Rivergate office complex in Vienna | Real estate | Leasing | EUR 95 million |
| 2016 | Zhejiang Kaishan Compressor buys 95.5% of LMF Unternehmensbeteiligungs GmbH & Co. KG | Machinery (air compressors) | Manufacturing; headquarter for Europe | EUR 23.7 million |
| 2016 | Zhong Ding Group (ZD) buys Austria Druckguss GmbH & Co. KG (ADG) | Machinery | Production; headquarter for Europe | n.a. |
| 2016 | CETC (China Electronics Technology Group) sets up its European headquarter (in Graz) | Electronic equipment and software development | R&D (water management); headquarter for Europe | EUR 11 million |
| 2016 | CRRC (Zhuzhou Electric Locomotive) establishes an office in Vienna | Transport equipment | Purchase of materials, marketing and support; headquarter for Europe | n.a. |

| Year | Kind of investment | Industry | Activity | Capital invested |
|-------------|--|---|---|---|
| 2016 | The Bank of China (Hungary) opens a branch, the 'Bank of China (Hungary) Close Ltd. Vienna Branch' | Financial sector | Financial services | n.a. |
| 2017 | HNA Group acquires the majority share of Wiener Fondsgesellschaft C-Quadrat (approval pending) | Financial sector | Investments | n.a. |
| 2017 | Pia Automation Holding (affiliate of Ningbo Joyson Electronic takes over M&R Automation | Machinery, electronics (automation specialist) | Production | n.a. |
| 2017 | Haier Group buys a share of GREENoneTEC | Solar technology | Production | n.a. |
| 2017 | Wanfeng Group takes over Diamond Aircraft | Transport equipment (aircraft) | Production | n.a. |
| 2017 | The Industrial and Commercial Bank of China (ICBC) announces to establish a branch in Vienna (The office finally opened in May 2019) | Financial sector | Financial services; headquarter for Central and Eastern Europe and the Nordic countries | n.a. |
| 2018 | Great Wall Motors Company (GWM) establishes a R&D centre | Machinery and transport equipment (electric drive systems for hybrid and battery electric vehicles) | F&E | n.a. |
| 2018 | Fosun acquires 50.87% of Woford | Wearing apparel (underwear) | Production and sales | EUR 33 million (+EUR 22 million projected investment) |
| 2018 | HNA Group acquires the majority share of Wiener Fondsgesellschaft C-Quadrat | Financial sector | Investments | n.a. |

| Year | Kind of investment | Industry | Activity | Capital invested |
|------|---|--|------------|--|
| 2019 | Anta Sports acquires the Austrian Ski brand Atomic (together with the Finish mother company Amer) | Sports equipment (skis) | Production | n.a. (EUR 20 million investment projected) |
| 2019 | Shanghai Baolong Automotive Corporation takes over 70% of MMS Berndorf | Production systems for hybrid components made of metal and plastic | Production | n.a. |

Source: Markets.com (before 2012), FDI markets, Ernst and Young, press reports, company homepages etc.

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China–Croatia Relations: Preview and Outlook

Abstract

The bilateral relations between Croatia and China have been friendly ever since the diplomatic relations were established in 1992. However, not much is going on in terms of economic relations and trade despite many efforts to intensify economic cooperation. In 2017, the first notable Chinese investment was realised in Croatia in the tourism sector, and a Chinese consortium won a tender to implement a politically important transport infrastructure project in Croatia. This chapter gives a review of the milestones of both political and economic relations since the Croatian independence to the present days. It also looks at relations within policy-specific frameworks such as Belt and Road Initiative, CEEC and China cooperation and China–EU relations. The conclusion includes the sectors with the most potentials and interests as well as the outlook of political and economic relations.

Keywords: China, Croatia, bilateral relations, Chinese investment

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Political relations

The People's Republic of China (PRC) recognised the Republic of Croatia on 27 April 1992, and diplomatic relations were established on 13 May 1992 when the Assistant Minister of Foreign Affairs of the PRC and the Minister of Foreign Affairs of the Republic of Croatia signed the Joint communiqué on the establishment of diplomatic relations between the People's Republic of China and the Republic of Croatia. Later in the same month, China voted in favour of Resolution No. 753 of the United Nations (UN) Security Council, supporting the accession of the Republic of Croatia to the UN.

In China, Croatia is represented by two representative offices: an embassy in Beijing with five diplomatic staff and a consulate in Hong Kong with an honorary consul, while China is represented by an embassy in Zagreb with twelve diplomatic staff. A total of 65 bilateral agreements and bilateral acts have been signed between the Republic of Croatia and the PRC.

This part of the chapter searches for shared interests between Croatia and China based on the agreements and acts signed and the motives of state and official visits exchanged. It reviews political disagreements including the current issue of appeals raised by an Austrian company and an Italian–Turkish consortium against a Chinese consortium over a bid for Croatian Pelješac Bridge construction.

Common and converging interests

Since Croatia gained independence in 1992, many state and official visits have been organised between China and Croatia, showing good bilateral relations between the two countries. Official visits are usually done by high-level officials, ministers or prime ministers, while state visits are defined as the visit of presidents of the states. State visits usually represent the highest expression of friendly relations between two sovereign states.² The list of official and state visits can be seen in Appendix 1.

² KOTARSKI–KOS-STANIŠIĆ 2016.

During the state visit of the Croatian President in 1993 for example, three bilateral agreements were signed: Agreement on Promotion and Mutual Protection of Investments, Agreement on Cooperation in Culture and Education, and Agreement on Maritime Transport. The complete list of bilateral agreements and acts between Croatian and China can be seen in Appendix 2.

Based on the signed bilateral agreements and Memorandums of Understanding (MoU) for cooperation, and the type of state and official visits that have been done, the area of cooperation between Croatia and China that represent common interests of the two states can be categorised as follows:

1. Economic cooperation, including trade, investments and SMEs development
2. Diplomacy and foreign affairs, including education and training for diplomatic staff
3. Transport and transport infrastructure, including air transport and maritime transport
4. Cooperation on science, education, culture and technology
5. Cooperation on tourism
6. Security and defence, including internal affairs and police cooperation
7. Health and medicine, including traditional medicines
8. Agriculture and aquaculture

Since the MoU on cooperation in the framework of the Belt and Road Initiative (BRI) was signed in 2017, cooperation has converged within this framework, which covers many sectors, although heavily focused on transport and transport infrastructure. During 2018 and 2019, eight MoUs, cooperation plans and programmes were signed between Croatian and Chinese ministries, covering the area of culture, tourism, sport, science, economic cooperation and medicine. It is also worth mentioning that for the first time in history, a Chinese Prime Minister paid a state visit to Croatia in 2019 in the framework of the 16 + 1 summit held in Croatia. Following the state visit of the Chinese Prime Minister in Croatia, the Chinese Ambassador in Croatia Xu Erwen stated in September 2019 that the bilateral relations between China and Croatia had entered its best period in history. The bilateral cooperation within BRI is discussed in section *Belt and Road cooperation* of this study.

Disputes and problematic issues

Croatia and China have never experienced any political disputes in the history of their bilateral relations. However, it is worth mentioning that currently there was a China-related problem regarding the construction of the Pelješac Bridge in the southern part of Croatia.

Back in September 2017, Croatian Roads published a call for tenders to build the 2.4 km long Pelješac Bridge that would connect the Dalmatian peninsula of Pelješac to the mainland. This bridge is significant for Croatia from a political point of view since it would finally connect Dubrovnik-Neretva County with the rest of the country. This county is at the moment separated from the rest of Croatia by a short strip of the Bosnian coast that interrupts the continuity of Croatian and EU territory. The European Commission approved that the EU will contribute 85% of the cost of the construction through the Cohesion Funds.

Three consortiums submitted their offers for the bid: a Chinese consortium led by the China Road and Bridge Corporation – CRBC (bid €279 million to do the job), an Austrian company Strabag (bid €352 million) and a consortium comprising an Italian company Astaldi and a Turkish company IC Ictas (bid €342 million). In January 2018, Croatian Roads announced the result of the competition and decided that the Chinese consortium (addressed as CRBC throughout this study) won the bid and would build the bridge.³ The reason was that their bid was the most economically advantageous and the cheapest choice. Within the period of 15 days to file a legal complaint, Austrian Strabag filed a complaint, claiming that CRBC might have used dumping prices to win the bid.⁴ The appeal also alleged that as CRBC is a Chinese state owned company, it is likely that it “received state aid for entering the EU market through this project which is not in line with the community acquis”.⁵ Further in the complaint documentations, Strabag pointed out thirteen controversial pricing items. One example was the price of disposal of the excavated soil in the construction which CRBC offered at only €75,700, while Strabag offered at €1.9 million. Strabag claimed that the price CRBC offered was not realistic since it would not even cover the fuel for transporting the excavated soil to

³ PAJIĆ 2018.

⁴ ŽABEC–KORBLESER 2018.

⁵ ŽABEC–KORBLESER 2018.

the destined landfill.⁶ Later, the Italian–Turkish consortium filed a similar appeal.

Following the appeals, in a press conference Hu Zhaoming, Chinese Ambassador to Croatia stated that the appeals were groundless, and that the complaint was not aimed at CRBC but rather to question the jurisdiction of the Croatian Government and of the European institutions.⁷ The State Commission for Supervision of Public Procurement handled the appeals and decided on 26 March 2018 to reject both appeals. Following this decision, CRBC signed a contract to build the bridge in 23 April. The construction of the bridge is estimated to be completed in three years.

Two years later, in May 2020, the works at the construction site of the bridge are in full swing. In spite of the crisis and lockdown caused by the Covid-19 pandemic, the bridge is being constructed according to the planned dynamics. In March 2020, 614 workers were registered to be working at the construction site: 70 engineers, interpreters and drivers are Croatian nationals, and the rest are Chinese nationals.⁸ The main impact of the Covid-19 pandemic is a prolonged delivery time of imported materials to the construction site.

Public opinion and domestic rhetoric towards China, before and during Covid-19

The issue of appeals against CRBC in the Pelješac Bridge tender was widely covered by the Croatian media in the first third of 2018. However, public opinion and domestic rhetoric towards China are quite positive. A research conducted by GfK Croatia involving 1,000 respondents as a sample of the population, released in March 2018, shows that 86% of Croats are in favour of Chinese investments in Croatia. This research showed that Croats no longer perceive China as a big communist country, but rather as a modern global power with growing economic and political influence in the world.⁹ Only 3% of the population sees the political relations of China and Croatia as unfriendly.

⁶ ŽABEC–KORBLER 2018.

⁷ CSEBA 2018.

⁸ PRKUT 2020.

⁹ PAVIĆ 2018.

Related to economic cooperation and investments, respondents think that cooperation should be done in the sectors of infrastructure, tourism and e-trade. Respondents were also asked why, in their opinion, the level of investment is so low, when in fact the public support is big. Most of the respondents blame the slow and complicated Croatian bureaucracy and the Croatian Government. The complete answers of the respondents are shown in Figure 1. On the issue of education and culture, the research found that every second Croat would like his/her child/children to learn the Mandarin Chinese language, and every third Croat would go to study in China.¹⁰ It should be noted that although this research was conducted by a global and independent research company GfK, the research itself was funded and ordered by the Chinese Embassy in Croatia. Despite the fact that the research was conducted by a *bonafide* company, the timing of the research collided with the dispute and appeals against the Chinese consortium with regard to the Pelješac Bridge construction. The timing of the research could be meant to raise public support for CRBC.

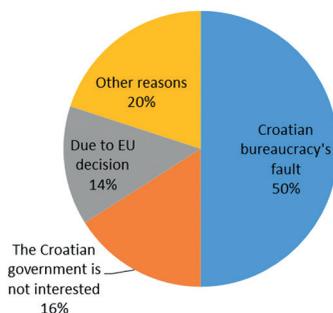


Figure 1

Public opinion on why Chinese investment in Croatia is low

Source: GfK in PAVIĆ 2018.

Even during the Covid-19 pandemic, public rhetoric in Croatia towards China stayed positive. CRBC, the same company that is constructing Pelješac Bridge donated 20,000 face masks and HRK 800,000.00 (around EUR 106,000.00) to Croatia, handed to the Directorate of Civil Protection of the Ministry of the Interior of Croatia. Later the Government of Croatia

¹⁰ PAVIĆ 2018.

also procured around 400 tons of medicinal and protection equipment from China, including face masks, gloves, protection kit and sterilisers. However, the Government did not openly reveal to the public how much of the package are Chinese donation to Croatia and how much of it was actually purchased.¹¹ No public procurement was involved.

Changes after the accession of Croatia to the EU

Croatian accession to the EU in 2013 brought significant changes related to the common policies of the EU that Croatia has to respect. It is said that many negotiations for the sake of investment, especially in the transport infrastructure sector, had failed because Croatia hesitated to accept Chinese offers due to the fact that the deal might not be in line with EU guidelines or could undermine EU policies and *acquis*.¹² Referring to the research conducted by GfK presented in Figure 1, 14% of Croats believed that the EU is the reason why the Chinese investment in Croatia is so low despite the high interests of the two countries to cooperate.

There has not been any official statement made by the EU following the Pelješac Bridge issue, but it has been portrayed as a sensitive issue in the media. Chinese investment had entered Europe before, however, it was the first time for a Chinese contractor to contribute to a project co-financed by the EU. Political analysts have argued in the media that the EU might apply drastic measures of supervision during the construction, but it is only to be seen once the construction process starts.

Fox and Godement¹³ categorised EU member states into two categories related to the EU–China relations: the supportive ones and the critical ones. Using their criteria and subcategories, Kotarski and Kos-Stanišić categorised the member states into four: assertive industrialists, for the countries who are critical towards China; ideological free-traders, for the countries who are ready to pressure China on political issues but reluctant to endorse imposition on trade; accommodating mercantilists, for the countries that refrain from criticising China on political issues because they want to secure China's benevolence in improving their market access; and European followers,

¹¹ FRLAN GAŠPAROVIĆ 2020.

¹² STANZEL et al. 2016.

¹³ FOX–GODEMENT 2009.

for the countries that do not consider their relationship with China a very important pillar. In their research, Kotarski and Kos-Stanišić concluded that Croatia belongs to the latest group.¹⁴ Now with the intensifying cooperation between China and Croatia in the last two years, Croatian interest might change, and it might no longer be just a European follower.

Economic relations

Since diplomatic relations between China and Croatia was established, bilateral economic cooperation has been cultivated. To enhance economic and trade relations between Croatia and China, there is a mechanism called the Sino–Croatian Joint Committee for Economy and Trade that holds regular working meetings. The Chinese Embassy in Zagreb plays an active role in this mechanism, but also in maintaining economic relations between the two countries in general.

In 2016, the Embassy held a summit between Chinese and Croatian businessmen aimed at boosting economic relations. 100 businessmen, representatives of over 50 companies from the coastal region of Zhejiang in China came to Zagreb, Croatia, to meet over 50 companies from Croatia, and to discuss possibilities of investment and trade in the spectrum of sectors like construction, communications, chemicals, energy, car-making, electronics and food. In this summit, the companies from China showed interest in investing in the ports of Rijeka in the north and in Ploče in the south for unloading containers with Chinese goods for Europe.¹⁵ Interests for investments in the Croatian seaports and railway never faded out. During the state visit of Prime Minister Li to Croatia in 2019, these were once again the main topics discussed.¹⁶

In April 2019, the 9th Business Forum of CEEC and China was held in Dubrovnik, Croatia, attended by a record high number of participants: thousands of business owners coming from 17 countries, 130 big companies and over 260 small and medium enterprises. Seven agreements and/or Memorandums of Understanding between Croatian and Chinese companies were signed during this forum (see Table 1).

¹⁴ KOTARSKI–KOS-STANIŠIĆ 2016.

¹⁵ MILEKIĆ 2016.

¹⁶ ZEBIĆ 2019.

Table 1
Agreements signed during the 9th Business Forum of CEEC and China 2019

| Croatian signatory | Chinese signatory | Field of cooperation |
|--|--|--|
| Ministry of Health | Pharmaceutical company Sinopharm | Cooperation in science, health tourism, medicines, financial supports and arrival of Chinese patients to Croatia |
| Faculty of Civil Engineering, University of Zagreb | China Road and Bridge Corporation | Mobility of students and exchange of knowledge |
| HŽ Infrastructure | China Railway Eryuan Engineering Group Corporation & China Road and Bridge Corporation | Transport project, railway Rijeka–Zagreb and the Mediterranean corridor |
| Metamorfoza d. o.o. | Shanghai Everglow Management Partners | Opening of the Museum of Illusion in Shanghai (tourism and cultural cooperation) |
| Stadion Kantrida | Top International Engineering Corporation (TIEC) | Construction of a new football stadium in Rijeka including its hotel and business centre |
| Eco Consult | Top International Engineering Corporation (TIEC) | Projects related to renewable energy sources and emission reduction (in industrial processes) |

Source: Croatian Ministry of Economy 2019.

Export–import relations

Croatia's main trading partners are Italy, Slovenia, Germany, Austria and Bosnia and Herzegovina. China is not yet among the most important trading partners for Croatia. However, there is an increasing trend of export volume in recent years. In 2016, Croatian export to China for all products was worth USD 83 million, while import from China reached USD 645 million. In 2018, the value of Croatian export to China has almost doubled, to USD 158 million, while import from China only raised around 50% to a total of USD 952 million. The value has been rising, but the amount of trade exchange with Croatia is very small, the whole share of total trade exchange of China. Croatia imports eight times more goods from China than exports in 2016. This figure enhanced a little bit in 2018 when Croatian import was

only six times higher than its export to China (see Figure 1 and Figure 2). Almost half of the Croatian export to China is capital goods, including timber, leather, aluminium and stone, while most of the Croatian import from China is consumer goods including textile products, household appliances, computers and electronic goods.¹⁷

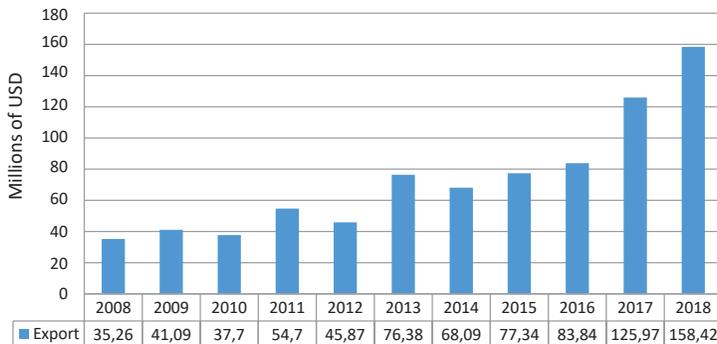


Figure 2

Croatian export to China in USD million

Source: World Bank 2020.

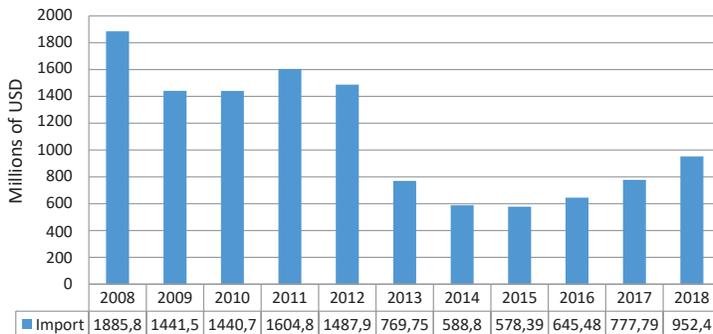


Figure 3

Croatian import from China in USD million

Source: World Bank 2020.

¹⁷ World Bank 2018.

In 2017, the Croatian Chamber of Economy (HGK) had opened an office in Shanghai to assist Croatian companies in China and Croatian exporters. The main reason of the decision to open an office was the rise of Croatian export to China, which was 93% higher in 2014 compared to 2008.¹⁸ The raise of the export was mainly a result of a very high increase in export of woods, raw materials and minerals.¹⁹ The Chamber (HGK) also offered common offices in their premises in Shanghai for their members (Croatian firms) to use, especially because the interest for Chinese market is raising within Croatian entrepreneurs.

Trends of Foreign Direct Investments

FDI inflow from China to Croatia was insignificant up until 2016. In 2014 for example, the share of FDI from China was less than 0.05% of the overall FDI inflow to Croatia that year. UNCTAD recorded Chinese FDI of USD 1 Million in 2008 and 2010,²⁰ but newer data is not available. Using the assets/liability principle, the Croatian Central Bank presented the fluctuation of FDI inflow to Croatia from China²¹ (see Figure 4).

The big leap of the FDI inflow in 2017 is directly related to the first investment from China that was realised in that year. Chinese real estate company Zhongya invested in the tourism business in Krapinske Toplice, constructing both residential and touristic resorts worth EUR 30 million.²² The business deal was a fruitful cooperation between the Mayor of Krapinske Toplica Ernest Svažić and a private association called Chinese Southeast European Business Association (CSEBA). CSEBA connects investors from China with business opportunities in Southeast Europe. Planning to develop health tourism and four-star wellness resort, a meeting was held between teams of medical experts from both China and Krapinske Toplice to develop further cooperation.²³

In 2018, the same company Zhongya bought “Hotel Zagorje”, a complex of buildings in Kumrovec, the same region in Krapina-Zagorje County in the

¹⁸ KORETIĆ 2017.

¹⁹ World Bank 2018.

²⁰ UNCTAD 2014.

²¹ Croatian Central Bank 2018.

²² DRAŠKIĆ 2017.

²³ BRODAR 2017.

north of Croatia. The transaction was agreed at the value of 2 million Euros, but the company did not manage to pay the amount despite extension of terms given twice by the Croatian side.

CSEBA claimed to have prepared a big production of a Chinese action movie that will be made in several locations across Croatia. By exposing Croatian cities and locations through an action movie,²⁴ a substantial promotion of Croatian tourism in the Chinese market will be done, which might be followed by a high rise of Chinese tourists' visit to Croatia.

Tourism is an important sector in the Croatian economy, and a good start for further cooperation. In 2017, direct contribution of tourism to GDP was USD 6 billion or 10.9% of the total GDP, and it created 138,000 jobs, which is 10.1% of the total employment in the country.²⁵

Apart from tourism, at the end of 2018 a big investment project was launched when a Chinese construction company Norinco International Cooperation bought 76% of the Croatia-based Energija Projekt that developed the 156 MW wind farm project Enar Senj. The transaction was worth 32 million Euros. Until the end of 2020, Norinco plans to install 39 wind turbines.

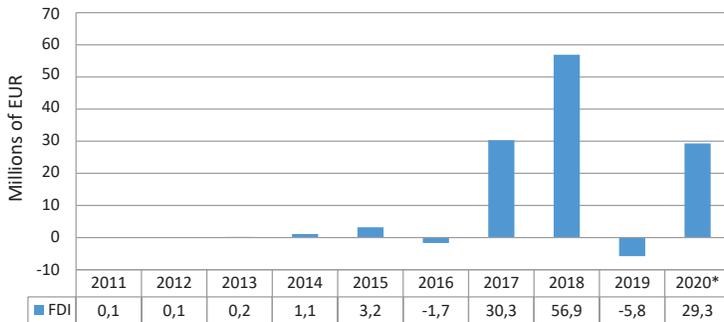


Figure 4

FDI inflow from China to Croatia

Note: * 2020 data only for the first quarter of the year. The methodology used by the Central Bank to count FDI includes equity investments, retained earnings and debt relations between owners and non-residents. Direct equity investments are investments by which a foreign owner acquires at least 10% of the shares in the company's share capital, whether the investor is a resident abroad or a non-resident in Croatia.

Source: Croatian Central Bank 2020.

²⁴ GUDIĆ 2018.

²⁵ World Travel and Tourism Council 2018.

In an interview in 2016, the Chinese Ambassador in Croatia highlighted the need for the Croatian Government to promote its rich tourism resources to the Chinese market, since those are not well known to Chinese tourists and are hidden gems for them.²⁶ The number of Chinese tourists visiting Croatia has been rapidly increasing, with 88,000 Chinese tourists visiting Croatia in 2015. Although this number is relatively small compared to the total overseas visits of Chinese citizens that amounted to 120 million in 2015, there is large potential in the sector.

The Croatian geographical position, knowledge and local conditions in South East Europe make the country a partner worth serious consideration by China. As a member state of the EU, goods and services traded with Croatia are not only aimed at the Croatian market but could reach the entire EU with a population of 500 million people. Croatia, as an EU member, also has access to EUR 1 billion of EU structural funds annually aimed at promoting entrepreneurship. Foreign investors, including Chinese investors, who set up businesses in Croatia, have equal access as domestic companies to compete for these funds.

Chinese company ownership in Croatia

Up to 2016, there was no significant number of Chinese companies present in the Croatian market or the other way around. In a previous research conducted,²⁷ only six Croatian companies are registered in China, and five Chinese companies registered in Croatia in 2016 (see Table 3). Most of the Chinese companies registered in Croatia are specialised in the sector of information and technology, although lately companies from other sectors have been registered as well. While on the other side, the Croatian companies registered in China are wider in variation including sectors of food and beverage, tourism, electronics, automobile and IT.

²⁶ Embassy of the People's Republic of China in Croatia 2016.

²⁷ KOTARSKI–KOS–STANIŠIĆ 2016.

Table 2

Registered Croatian companies in China and Chinese companies in Croatia in 2017

| Registered Croatian companies in China | Registered Chinese companies in Croatia |
|--|--|
| Telegra (Intelligent transport system) | Huawei Technologies Co. Ltd. |
| Badel | ZTE |
| Podravka d.d. | LENOVO Technology b.v. |
| TBEA Končar (Shenyang) Instrument Transformers Co., Ltd. (joint venture) | Asia d. o.o. |
| Jiali Tema Electric Manufacturing Group Co., Ltd. (joint venture) | Zhongya nekretnine d. o.o. |
| Uniline | |
| Zhongke Luo Rui Technology Co. (joint venture) | |

Source: Compiled by the author based on KOTARSKI–KOS–STANIŠIĆ 2016; DRAŠKIĆ 2017; Autoklub 2018.

As mentioned in the previous section of this study, in 2017 real estate Company Zhongya had bought Toplice Hotel and is developing luxurious health tourism in the northern part of Croatia. The project is worth €30 million. The company is registered in Croatia under the name Zhongya nekretnine d. o.o. and belongs to the tourism sector. In 2018, by the time this study is written, Croatian car manufacturer that specialised in developing electric sports cars, Rimac Automobili, started a joint venture with Chinese company Camel Groups. The joint venture is registered in China under the name Zhongke Luo Rui Technology Co., and the estimated value of the investment is €128 million. The share of Croatian Rimac Automobili in this company is 40%, and the main focus of the company is to design and manufacture high-performance drive and battery systems and technology for smaller series of cars for European premium makers.²⁸

²⁸ Autoklub 2018.

Policy field-specific relations

Belt and Road cooperation

MoU between the Government of the Republic of Croatia and the Government of the People's Republic of China on cooperation in the framework of the Belt and Road Initiative was signed and later approved by the Croatian Government in June 2017. The MoU paves the ground for five areas of cooperation between Croatia and China:²⁹

1. Transport, logistics and infrastructure focusing on cargo transportation, sea ports, railways and logistic centres, and additionally establishing direct flights between the two countries
2. Trade and investments including cooperation between companies, with a focus on wood products, machines, pharmaceutical products, cosmetics, foods and clothing
3. Financial cooperation for supporting trade and investments
4. Science and technology to stimulate companies from both countries to cooperate in the sector of high and new technology and innovations; and
5. Cultural and people exchange in the sectors of education, arts and culture

For the BRI, Croatia offers one of the shortest connections from Asia to Western Europe given the fact that three Pan-European Corridors (V, VII and X) pass through Croatia, as well as three Trans-European Transport Network corridors (Mediterranean, Baltic–Adriatic, and Rhine–Danube). However, although port infrastructure is available, the cargo and turnover are limited. The needs are therefore mutual, because China could provide cargo and turnover. Shipment from the Far East to Europe could be 8 days shorter in transit times if the Port of Rijeka is used instead of the Port of Hamburg or Rotterdam.³⁰

Even before the BRI MoU was signed, China had shown great interest in transportation infrastructure projects in Croatia. In February 2016, in a meeting between the Chinese Ambassador to Croatia and the Croatian Minister of Maritime Affairs, Transport and Infrastructure, the Chinese

²⁹ Government of the Republic of Croatia 2017.

³⁰ Croatian Ministry of Maritime Affairs, Transport and Infrastructure 2017.

side expressed its intention to participate at the construction project of railway connection between Rijeka to the border of Hungary via Zagreb as well as the upgrade of the Port of Rijeka.³¹

Later in November 2016, an MoU was signed between the two countries on the Port and Harbour Industrial Park, Cooperation between the Chinese National Commission for Development and Reforms and the Croatian Ministry of Economy, Entrepreneurship and Crafts. There were three areas in which cooperation was encouraged:³² 1. investment, construction, modernisation and management of sea ports; 2. development, construction and management of industrial parks including investments in projects; and 3. construction of railways, highways, logistic centres, and storage in sea ports and industrial parks.

The role and importance of CEEC and China cooperation

Trade partnerships and cooperation between companies should not only involve big enterprises and Multinational Corporations. It should also involve the Small and Medium Enterprises (SMEs). The CEEC and China cooperation has recognised the potential of this kind of partnership. The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries (CEEC), which was the output of the 6th Summit of China and CEEC, also encourages SMEs in China and CEECs to enhance cooperation and exchanges. It was decided in the summit that Croatia will be the country to host the centre of the SMEs..

Within the framework of the CEEC and China cooperation, the potential of tourism is recognised, and growth of the sector is stimulated by regular exchanges of experience, sharing best practices, joint research, promotional activities, networking between agencies, and development of regional tourism products. Among the 17 CEE countries, Croatia's potential in the tourism sector is highly recognised, which was proven by the fact that the 4th China–CEEC High-Level Conference on Tourism Cooperation was held in 2018 in Dubrovnik, Croatia. Later in 2019, the 8th Summit of the CEEC and China was also held in Dubrovnik, Croatia, which facilitated the visit of a Chinese Prime Minister to Croatia for the first time in history.

³¹ Croatian Ministry of Maritime Affairs, Transport and Infrastructure 2016.

³² Government of the Republic of Croatia 2016.

Cooperation in the context of EU–China relations

Transport infrastructure is also in the focus of interest in the cooperation between China and Croatia, especially in the context of the EU. In the framework of the Trans-European Transport Network (TEN-T), the main port of Croatia, the Port of Rijeka, is inside three corridors: Mediterranean, Baltic–Adriatic and Rhine–Danube. The Mediterranean corridor (marked green in Figure 5) will link ports in the southwestern Mediterranean region to the Ukrainian border with Hungary, following the coastlines of Spain, France, crossing the Alps towards east. The Baltic–Adriatic corridor (marked dark blue in Figure 5) will cross or tangent five other corridors: the North Sea Baltic corridor, the Mediterranean corridor, the Scandinavian–Mediterranean corridor, the Rhine–Danube corridor and the Orient/East-Med corridor. The Rhine–Danube corridor (light blue in Figure 5), with the Main and Danube waterway as its backbone, connects the central regions around Strasbourg and Frankfurt via southern Germany to Vienna, Bratislava, Budapest and finally the Black Sea (see Figure 5).



Figure 5

TEN-T corridors crossing through Croatia and connected to the Port of Rijeka

Source: European Commission, DG Mobility and Transport 2018.

Shipment from the Far East to Europe could be 8 days shorter in transit times if using the Port of Rijeka, compared to the Port of Hamburg and Rotterdam.³³

Infrastructure upgrades and development of the Port of Rijeka are being made continuously. A grant agreement for the reconstruction of railway station Rijeka–Brajdicca and the Adriatic Gate container terminal intermodal yard “Brajdicca” was signed in November 2015; construction works have started in 2018. The total value of the project is EUR 35.5 million, with 85% of the total value co-financed by the EU Connecting Europe Facility. The reconstruction of the cargo section of Rijeka railway station was also planned for the third quarter of 2017, worth EUR 31.58 million.

During the first Chairs’ meeting of the EU–China Connectivity Platform in Beijing in June 2016, a list of pilot projects was established for the cooperation focus. Among 7 pilot projects in Europe,³⁴ one is in the Mediterranean corridor: the Rijeka–Zagreb–Budapest railway. This shows the high interest of establishing the Port of Rijeka as one of the main entrance of goods from the Far East into Europe.

In this very meeting, to attract Chinese investments, except for the favourable geographical location, the Croatian delegation highlighted another strength of Croatia: the pro-business environment. In 2017, the World Bank within its Doing Business³⁵ reports ranked Croatia 43rd in the world out of 190 countries, scoring a total of 72.99 out of 100. The evaluation is based on 10 different aspects: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.³⁶ Although Croatia scored better than the countries in the category of “Europe and Central Asia” (71.05), it performed much worse than most of CEE countries. Only Albania, Bosnia and Herzegovina, Montenegro and Serbia scored lower than Croatia.

³³ Croatian Ministry of Maritime Affairs, Transport and Infrastructure 2017.

³⁴ Others are: projects in the Orient/East-Med corridor in the Western Balkans, projects in the North Sea–Baltic corridor, the V0 rail cargo line bypassing Budapest in Hungary, corridor 5C highway project in Bosnia and Herzegovina, railroad upgrade project from Koper to Divača in Slovenia and the Budapest–Belgrade railway.

³⁵ World Bank 2017.

³⁶ World Bank 2018.

Market economy status: national pros and cons

There is no ongoing debate in the national area about granting China the market economy status. The issue has not been widely covered by the Croatian media nor discussed by academic scientists and experts in the public sphere. When it comes to the political attitude on granting China's market economy status, all Croatian members of the European Parliament (MEP) voted in line with their party groups' dominant position.³⁷ In 2016, the majority of MEPs voted against the motion of the European Parliament that explicitly requires that the EU should withhold from granting China the market economy status. The right-wing EPP and ALDE groups were against the motion, and so were the Croatian HDZ/EPP members. Socialists in the MEPs abstained from taking a firm position, and so did the Croatian SDP members.

Conclusion and outlook: more or less China?

Political relations between China and Croatia have been conducted actively. State visits and signed agreements show many areas of interests of cooperation. However, big focus has been put on the issue of transport and transport infrastructure. This interest is renewed with the BRI, which opens up opportunities for more transport infrastructure projects and negotiations. Although there has not been any real conflict in the bilateral relations, a recent bump happened when the Chinese company CRBC won a tender to build Pelješac Bridge in Croatia which is to be 85% financed by the EU. Other contenders in the bidding process accused CRBC of using dumping prices and filed an appeal. With the rejection of the appeals by the Croatian State Commission for Supervision of Public Procurement, a contract is to be signed soon and CRBC will be expecting to start the project. It is a historical moment since it would be the first time when a Chinese company is contracted for an EU funded investment project. This has put Croatia under pressure from the EU, but the popularity of China and Chinese investment in Croatia has not been decreasing.

³⁷ KOTARSKI–KOS-STANIŠIĆ 2016.

Economic relations between China and Croatia are far under its potential. China is not among the main trading partners of Croatia. However, there has been a constant increasing trend in Croatian export to China in the last decade, which consists mainly of capital goods, including timber, leather, aluminium and stone. Chinese export to Croatia has also been increasing since 2014 although not significantly; it consists of mostly consumer goods including textile products, household appliances, computers and electronic goods. Chinese FDI in Croatia was almost non-existent until 2017 when Zhongya invested €30 million in Croatia for touristic resorts. Later in 2018, Rimac Automobili started a joint venture with the Chinese company Camel Groups with an estimated value of €128 million. The two cases might be examples for other potential investors. The 8th CEEC and China Summit and the 9th Business Forum held in 2019 in Croatia were a breakthrough and facilitated many agreements between Croatian and Chinese partners. With the office of the HGK in Shanghai to assist businessmen, and the Chinese Embassy holding business meetings in Zagreb, more investments are to be expected.

With the CRBC building a politically important bridge, and in recent years, two big investments flowing in to Croatia, it seems that more Chinese projects will follow. This expectation is supported by the fact that the Croatian public rhetoric towards China is very positive even during (and potentially after) the Covid-19 crisis. Despite the EU being hesitant, Croatia seems to be open to Chinese investment and cooperation both bilaterally as well as within the framework of the BRI and CEEC and China cooperation. Besides transport infrastructure, tourism is the next sector to be pursued by the two countries to strengthen their cooperation.

Appendix 1

Official and state visits

| Date | Visit |
|---------------|--|
| June 1993 | Croatian President Franjo Tuđman paid a state visit to PRC |
| February 2001 | Chinese State Councillor Wu Yi paid an official visit to Croatia |
| March 2001 | Croatian Minister of Foreign Affairs paid an official visit to China |

| Date | Visit |
|----------------|---|
| April 2002 | Chinese Minister of Defence Chi Haotian paid an official visit to Croatia |
| May 2002 | Croatian President Stjepan Mešić paid a state visit to China |
| November 2002 | Chinese Vice-President of State Council Li Lanqing paid an official visit to Croatia |
| September 2003 | Croatian Minister of Defence Željko Antunović paid an official visit to China |
| June 2004 | Chinese Deputy Prime Minister Zeng Peiyan paid an official visit to Croatia |
| May 2005 | Croatian Prime Minister Ivo Sanader paid an official visit to China |
| September 2006 | Chinese State Councillor Tang Jiaxuan paid an official visit to Croatia |
| May 2007 | Croatian Minister of Foreign Affairs Kolinda Grabar paid an official visit to China |
| June 2009 | Chinese President Hu Jintao paid a state visit to Croatia |
| August 2009 | Public speaker of the Croatian Parliament Luka Bebić paid an official visit to China |
| March 2010 | Croatian Minister of Foreign Affairs Gordan Jandroković paid an official visit to China |
| November 2013 | Croatian Minister of Foreign Affairs Vesna Pusić paid an official visit to China |
| May 2014 | Chinese Deputy Prime Minister Liu Yandong paid an official visit to Croatia |
| October 2015 | Croatian President Kolinda Grabar Kitarović paid a state visit to China |
| September 2017 | Croatian Minister of Administration Lovro Kušević paid an official visit to China |
| November 2018 | Croatian Prime Minister Andrej Plenković paid a state visit to China |
| January 2019 | Croatian Minister of Sea, Maritime Affairs and Infrastructure Oleg Butković paid an official visit to China |
| April 2019 | Chinese Prime Minister Li Keqiang paid a state visit to Croatia |
| May 2019 | Chinese Minister of Public Security Zhao Kezhija paid an official visit to Croatia |
| June 2019 | Croatian Minister of Agriculture Tomislav Tolušić paid an official visit to China |
| June 2019 | Chinese Minister of Agriculture and Rural Affairs Han Changfu paid an official visit to Croatia |
| November 2019 | Croatian Minister of Economy paid an official visit to China |

Source: Compiled by the author.

Appendix 2

Bilateral agreements and acts³⁸

| Date | Agreement and Acts |
|-------------------|--|
| 13 May 1992 | Joint communiqué on the establishment of diplomatic relations |
| 27 October 1992 | Bilateral Agreement on Trade and Economic Cooperation* |
| 7 June 1993 | Bilateral Agreement on Maritime Transport |
| | Bilateral Agreement on Cultural and Educational Cooperation |
| | Bilateral Agreement on Promotion and Mutual Protection of Investments |
| 11 April 1994 | Bilateral Agreement on Scientific and Technological Cooperation |
| 16 September 1994 | Program for Educational and Cultural Cooperation for 1995, 1996 and 1997 |
| 9 January 1995 | Bilateral Agreement on Avoiding Double Taxation and Prevention of Tax Evasion |
| | Bilateral Agreement on Mutual Abolition of Visas for Holders of Diplomatic and Official Passports |
| 10 September 1995 | Agreement on Cooperation on Aquaculture between the Croatian Ministry of Science and Technology and the Chinese State Commission for Science of the PRC |
| 26 February 1997 | Agreement on Cooperation between the Croatian Ministry of Internal Affairs and the Chinese Ministry of Public Security** |
| 6 October 1997 | Bilateral Agreement on the Establishment of the Intergovernmental Sino–Croatian Committee for Scientific and Technological Cooperation |
| 27 February 1998 | Program for Cultural and Educational Cooperation for 1998, 1999 and 2000 |
| 29 May 2000 | Bilateral Agreement on Cooperation in the Field of Tourism |
| 7 November 2000 | Program for Cultural and Educational Cooperation for 2001, 2002 and 2003 |
| 7 June 2002 | Agreement on Air Transport between the Government of Croatia and the Government of the Special Administrative Region of Hong Kong |
| 21 June 2004 | Memorandum of Understanding on Cooperation in the Field of Traditional Medicines between the Croatian Ministry of Health and Social Care and the Chinese State Administration of Traditional Chinese Medicines |
| 14 October 2004 | Program for Cultural and Educational Cooperation for 2004, 2005 and 2006 |

³⁸ Croatian Ministry of Foreign Affairs 2018.

| Date | Agreement and Acts |
|------------------|---|
| 18 October 2004 | Memorandum of Understanding on Cultural Cooperation between the Government of Croatia and the Government of the Special Region of Hong Kong |
| 26 May 2005 | Memorandum of Understanding on Cooperation of SMEs between the Croatian Ministry of Economy, Works and Entrepreneurship and the Chinese National Commission for Development and Reforms |
| 1 September 2006 | Agreement on Cooperation on Agriculture between the Croatian Ministry of Agriculture, Forestry and Water Management and the Chinese Ministry of Agriculture |
| 25 October 2006 | Memorandum of Understanding on Cooperation between the Croatian State Attorney's Office and the Chinese Supreme Prosecution Office |
| 14 May 2008 | Memorandum of Understanding on Economic Cooperation between the Croatian Ministry of Economy and Entrepreneurship and the Chinese Ministry of Trade Program for Cultural Cooperation for 2008–2010 |
| 20 June 2009 | Bilateral Agreement on Economic Cooperation |
| | Bilateral Agreement on Air Transport |
| | Plan for Cooperation in Health and Medicines 2009–2012 between the Croatian Ministry of Health and Social Care and the Chinese Ministry of Health |
| 10 May 2010 | Memorandum of Understanding between the Diplomatic Academy of the Croatian Ministry of Foreign Affairs and European Integration and the Chinese University for Foreign Affairs of the Ministry of Foreign Affairs |
| 2 November 2010 | Program for Cultural Cooperation for 2011–2013 |
| 18 May 2012 | Memorandum of Understanding on Cooperation on Mutual Investment between the Croatian Ministry of Economy and the Chinese Ministry of Trade |
| 2 November 2012 | Memorandum of Understanding for the Establishment of Sino–Croatian Economic Technological Zone between the Croatian Ministry of Entrepreneurship and Crafts and the Chinese Ministry of Trade |
| 3 December 2013 | Agreement on Police Cooperation between the Croatian Ministry of Internal Affairs and the Chinese Ministry of Public Security |
| 15 March 2013 | Program for Educational Cooperation 2013–2016 |
| 21 January 2015 | Action Plan for Cooperation in the field of Agriculture 2015–2016 between the Croatian Ministry of Agriculture and the Chinese Ministry of Agriculture |
| 11 April 2016 | Program for Cultural Cooperation 2016–2020 |

| Date | Agreement and Acts |
|-------------------|---|
| 5 November 2016 | Memorandum of Understanding on Cooperation in the Field of Ports and Port Industrial Parks between the Croatian Ministry of Economy and Entrepreneurship and the Chinese National Commission for Development and Reform |
| 31 March 2017 | Action Plan for Cooperation in the field of Agriculture 2017–2018 between the Croatian Ministry of Agriculture and the Chinese Ministry of Agriculture |
| 14 May 2017 | Memorandum of Understanding on Cooperation in the Framework of the Belt and Road Cooperation between the Government of Croatia and the Government of the PRC |
| 12 September 2017 | Memorandum of Understanding on Cooperation during Touristic Season between the Croatian Ministry of Internal Affairs and the Chinese Ministry of Public Security |
| 7 July 2018 | Program of Cooperation in the Field of Education between the Croatian Ministry of Science and Education and the Chinese Ministry of Education for the Period of 2018–2022 |
| 7 July 2018 | Cooperation Plan between the Croatian Ministry of Health and the Chinese National Commission for Health in the Field of Health and Medicine for the Period of 2018–2020 |
| 19 September 2018 | Memorandum of Understanding between the Croatian Ministry of Tourism and the Chinese Ministry of Culture and Tourism on Cooperation in the Field of Tourism |
| 10 April 2019 | Protocol between the Croatian Ministry of Agriculture and the Chinese Central Tax Administration on Veterinarian and Public Health Demands for Dairy Products for Export to China |
| 10 April 2019 | Memorandum of Understanding between the Croatian Ministry of Economy, Entrepreneurship and Crafts and the Chinese Ministry of Trade on the Establishment of Joint Working Groups for Cooperation on the Field of Investments in the Framework of Joint Commission on Economic Cooperation |
| 10 April 2019 | Memorandum of Understanding between the Croatian Central State Office for Sport and the Chinese General Administration for Sport on the Cooperation in the Field of Sport |
| 10 April 2019 | Memorandum of Understanding between the Croatian Ministry of Science and Education and the Chinese Ministry of Science and Technology on Joint Financing of Research and Developmental Projects |
| 10 April 2019 | Memorandum of Understanding between the Croatian Ministry of Tourism and the Chinese Ministry of Culture and Tourism on Cooperation in the Field of Special Forms of Tourism |

Notes:* terminated on 1 July 2013 when Croatia became full member of the European Union.; ** terminated on 31 December 2013 and replaced by another Agreement on Police Cooperation.

Source: Compiled by the author based on the website of the Croatian Ministry of Foreign Affairs (2018).

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Czech–Chinese Relations: Friends or Foes?

Abstract

This research paper aims to describe the evolving Czech–Chinese relationship in its complexity over the past 30 years. It chronologically analyses political and economic events that were crucial for the relationship and gathers statistical data to provide further evidence. The academic focus on China and CEE is very intense right now. Not only CEE countries are searching for best practices and strategies on how to approach the new player in their region, but also China itself actively promotes academic researchers and think tanks to publish on its new foreign policy concepts towards CEE to assure its relevance and importance. This paper contributes to the current research discourse by a comprehensive analysis of Czech–Chinese relations and policy recommendations for future development.

Keywords: Czech–Chinese relations, CEE, economy, foreign policy, Belt and Road Initiative

Introduction

There is a limited number of countries that do not struggle for a constructive relationship with China. Even though President Trump seems to be getting closer to that unpopular and small group of dropouts, almost every nation is amazed by the Chinese economic miracle and strives for a win–win

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relationship with Beijing. This fascination did not start with the enormous leaps the Chinese economy took; it has much older roots. Already in the 18th century, the whole Europe was swollen by the Chinese fashion of various Chinese vases and decorations around aristocratic palaces in Europe.

It is interesting that the idealised picture of China with its exotic culture and society is persisting up until today. Nowadays, the dream cooperation usually includes some form of Chinese investments and limited export and investment opportunities on the Chinese market. In the end, the relationship ends up as less advantageous than previously thought and bitter feelings remain.

Even though it is obvious that the Chinese market does not represent the low-hanging fruit, it still represents a shiny object for many companies that believe in a dream of a market with one billion customers. Furthermore, the extraordinary economic growth in China is a wonder that causes headaches to many western politicians who either would like to have a similar miraculous potion for their sick economies or would like to conquer the Chinese market and at least somehow balance the continually rising Chinese imports.

The Czech Republic, as it is currently trying to rebuild its relationship with China, marvels at the economic phenomenon and struggles to be part of it. Over the past thirty years, the Czech Republic has undergone a tremendous transformation of its own economy, society and politics. Naturally, the Czech–Chinese relations did not stay intact in the realm of these changes and experienced many ups and downs during this period.

It is not overstated to say that the Czech Republic absolved in these thirty years the most substantial change in its position towards China from all European countries. Coming from a standpoint of a strong defender of principles and an assertive industrialist to a pleasing apologist and an accommodating follower, the Czech metamorphosis has surprised many in the international community.

At the very beginning, the relationship with China was not at the centre stage of the political attention. However, as a small open economy driven by exports, the Czech Republic had to pay attention to the growing imbalance in trade with China and untapped opportunities on the Chinese market. China can be a tricky partner, both economically and politically. Czech politicians were soon to find out that a high number of visits to China cannot secure an exclusive access to the Chinese market. Even though on paper, China establishes friendly relations with almost every

country in the world, in reality, mutually beneficial relations are difficult to set up.

Slow progress in the relationship has always been blamed on the special treatment that the Dalai Lama and other anti-mainland and anti-socialist folks got in the Czech Republic. Czech businessmen pushed for a more forthcoming approach towards China, but the most internationally visible political elite held a different opinion. Foreign policy in the Czech Republic is often created by strong personalities and not exactly by strategies and roadmaps agreed by ministries and the government. Therefore, the policy towards China has always been whisked away to one or the other direction depending on the actual political set up.

Changes in foreign policy every four or five years might sound natural for many European democracies, it is highly non-transparent and incomprehensible for the Chinese administration that follows its strictly given five-year plans and its strategies are crafted into stone. The foreign policy based on strong political personalities rather than strategies prepared by ministers disadvantages the Czech Republic at a moment, when the Chinese side suddenly comes up with the 16 + 1 initiative and the Belt and Road strategy that caught the Czech Republic utterly unprepared.

The moment was surprising not only for the Czech Republic, as it was one of the first times that China in all its greatness reached out towards the previously almost ignored countries. And most of the CEE countries jumped at the opportunity to finally level up their relationship with China. So did Czech politicians who had always have a growing appetite for cooperation with China and perks that these projects could bring. Naturally, China has discovered the CEE potential already after the EU enlargement in 2004, but not all CEE countries managed to transform the Chinese interest into tangible outcomes.

The Czech Republic went from very routine and administrative relationship with China towards a specific tie that was striking for many other Czech international partners. In the past few years, the Czech Republic has received its first wave of signed memorandums announcing large Chinese investments that will very probably never materialise or not in the announced volume and scope. Various Chinese business and political delegations were rubbing shoulders in Czech institutions, business alliances and companies. So did Czech politicians and businessmen in China. The development would not be so surprising, if it was not accompanied by loud announcements of Czech political elites about the need to learn stability

from China or the need to lower the export dependency on European markets.²

The relationship became intense so rapidly that it evolved into a domestic political issue,³ similarly to politically more important partners like the European Union, traditional allies like the United States or eternally present Russia. Never has China been a theme of any election until now. The Czech president has never had an advisor on China coming directly from a Chinese company with a controversial background until now.⁴ There has never been a discussion on whether investments should be screened in terms of security.⁵ Until now. It is obvious that the Czech Republic has learned many lessons in the past years, which creates an excellent opportunity to build a complex strategy towards China based on real experiences, knowledge of the Chinese environment and political courage.

It is a deep-rooted belief that any bold action towards Tibet, Taiwan or Chinese internal issues damages the economic part of the relationship. Furthermore, the political elites are convinced that the Czech Republic needs to enhance its relationship with China and create the most favourable conditions in comparison to other CEE countries, as these countries have more privileges in China and enjoy more investments and benefits coming from the win–win mutual cooperation. Needless to say that every other CEE country wishes to become a bridge for China to Europe. This “competition” among CEE countries for Chinese attention is beneficial only for China and creates frictions domestically. How far should the government go in order to get Chinese investments, better access to the Chinese market etc.? Finally, it is believed that the relationship towards China needs to be specifically handled in terms of political attention in order to win better deals on the Chinese market and attract more Chinese investments. China is so large, the Czech Republic is so small, as Czech politicians like to quote.⁶ That is why, special think tanks with governmental support were established or departments within ministries that should handle the agenda created by a sudden number of visits from the Chinese academia and government.

² Echo 2014.

³ KOPECKÝ–REZKOVÁ 2016.

⁴ HÁLA 2015.

⁵ BRĚŠTAN 2018.

⁶ REZKOVÁ 2018.

This research paper aims to describe the evolving Czech–Chinese relationship in its complexity over the past 30 years. It chronologically analyses political and economic events that were crucial for the relationship and gathers statistical data to provide further evidence. As there are certain long-term beliefs accompanying the relationship in the Czech Republic – described above – the research paper presents arguments that put these biases into perspective.

The academic focus on China and CEE, Belt and Road and 16 + 1 is very intense right now. Not only CEE countries are searching for best practices and strategies on how to approach the new player in their region, but also China itself actively promotes academic researchers and think tanks to publish on these new foreign policy concepts to assure its relevance and importance. This paper contributes to the current research discourse by a comprehensive analysis of Czech–Chinese relations and policy recommendations for future development.

One step forward, two steps back in Czech–Chinese relations

Changes in the CEE region naturally caused concerns in Beijing and significantly influenced mutual relations for years to come. Since the political and economic reforms implemented in the CEE presented a textbook for similar attempts in China, Chinese decision-makers feared their possible impact on Chinese domestic politics. Furthermore, Beijing fell into isolation after the events at the Tiananmen Square in 1989 and the fall of Communism in the CEE region lifted the unconditional support of the region's regimes.⁷

Therefore, at that time Czechoslovakia and China drifted apart after the Velvet Revolution. This trend was not unexpected or surprising as other countries in Central Europe took a similar path in their relationship with China. However, the Czech Republic had a particular position among CEE countries due to the activities of its president Václav Havel. Immediately after taking his office, Václav Havel expressed a wish to invite the Pope and the Dalai Lama to Prague.⁸ His first visit in February 1990 was presented

⁷ TUBILEWICZ 1997.

⁸ ČT24 2016a.

as spiritual; however, both the Dalai Lama and Václav Havel issued a joint statement calling all politicians to follow their conscience and responsibility toward the truth and justice. The statement also expresses a general wish for freedom from oppression and spiritual and material poverty. Thus, Václav Havel created a framework for the Dalai Lama's unofficial visits in the future, a precedent that was followed by many other high-level politicians around the world.⁹

Even though Václav Havel continued in private meetings with the Dalai Lama, it seemed that it did not significantly disturb the official relations with Beijing that followed the usual administrative routine of various mutual visits that could be even compared to its peak years in the 1980s. China needed to get out of international isolation after the events of Tiananmen in 1989, and Chinese politicians were ready to turn a blind eye with respect to the Czech Republic. In 1991, among many other meetings, there was a foreign ministers' meeting¹⁰ and prime ministers meeting,¹¹ on which the Investment Protection and Trade Promotion agreement was signed, which laid out a foundation for trade relations.¹² After 1991, the impulses from the Chinese side silenced. The relative absence of high-level official state visits lasted up to the Czech entrance to the European Union. There is a discussion in the Czech Republic whether this trend was caused by frequent Dalai Lama visits or simply there was a limited agenda to tackle, as both countries were busy with the transformation of their economies. Even though at that time Czech businesses concentrated more on the European market, the Czech side did not give up on the goal to conquer the Chinese market and sent three prime minister delegations¹³ and one presidential to China in order to encourage trade cooperation.¹⁴

These delegations continued in a trade dialogue, articulated needs of Czech businesses that were naturally in contrast with the political steps

⁹ FÜRST 2010.

¹⁰ Chinese Foreign Minister Qian Qichen met with the Deputy Foreign Minister of Czechoslovakia Martin Palous in Prague in February 1991. Minister Qian also met with Václav Havel.

¹¹ Czechoslovak Prime Minister Marian Calfa met with General Secretary Jiang Zemin in Beijing in December 1991 (Respekt 1991).

¹² Agreement 1991.

¹³ Václav Klaus in 1994, Miloš Zeman in 1999, Jiří Paroubek in 2005, Václav Klaus as the President in 2004.

¹⁴ FÜRST 2010.

of President Havel. This political style was typical for the Czech Republic up to 2014. Some political elites were openly critical towards Beijing, and at the same time, numerous high-level delegations were assuring Beijing about the Czech interest in mutual cooperation. Furthermore, the Czech Republic was always a bit clumsy in its diplomatic efforts to support Taiwan or Tibet. When Taiwanese Vice President and Prime Minister Lien Chan visited Central Europe on their way to the United States, only the Czech Republic managed to have a Chinese minister of education on an official visit at the same time. No wonder, Beijing felt irritated and immediately interrupted the visit and heavily complained.¹⁵ Czech behaviour towards China reminded more like a bull in a china shop than sophisticated, delicate diplomatic steps.

However, with the entrance to the European Union and change in the Czech political leadership, the Czech Republic and other countries in the region slowly got back their allure. As Figure 1 confirms, it is typical for Czech–Chinese relations to unfold in activity waves. It seems that long periods of non-activity and disinterest are replaced by periods of frenetic activity, particularly on the Czech side. This trend can be naturally given by historical events that influenced the development of Czech–Chinese relations. The peaks of these activities can be observed in the 1950s, 1980s and then again at the beginning of the new millennium after the Czech entrance in the EU and then again with the 16 + 1 framework and grand Chinese return to the CEE region.

The unparalleled activity growth after the Czech entrance into the EU is obvious from Figure 1. However, the significant spike can be observed mainly in the case of Czech visits to China after the Czech accession to the EU. The Chinese activity remains at a very similar level throughout the whole analysed period. It was the Czech side that struggled to attract more business opportunities and investments. Even Czech newspapers reported that almost every capable politician travelled to China, which resulted in the record-breaking 15 official visits in 2007.¹⁶ Naturally, Chinese decision-makers had to be puzzled by the Czech incoherent behaviour. Frequent political visits to China after 2005 signalled to China that Czechs are interested in special economic ties. However, at the same time, sharp criticism of Chinese human rights violations combined with bold relations with Taiwanese and Tibetan exiled politicians could not be more confusing for the Chinese side.

¹⁵ TUBILEWICZ 2007, 188.

¹⁶ Ministry of Foreign Affairs, Czech Republic 2007.

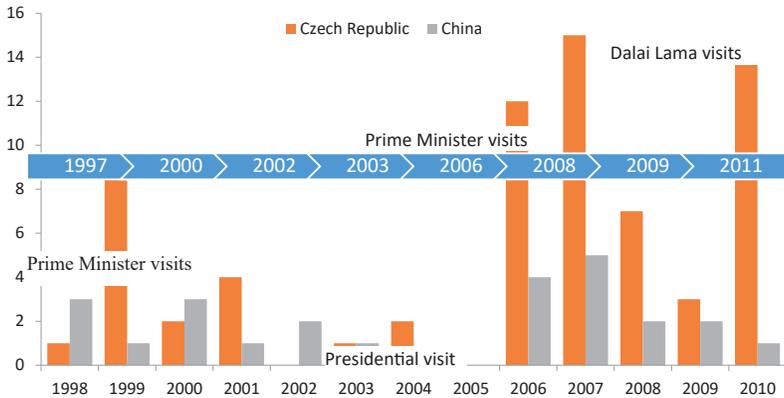


Figure 1

*Official visits from the Czech Republic to China/from China to the Czech Republic/
Dalai Lama visits the Czech Republic (1998–2010)*

Source: Czech Foreign Policy Bulletin, Ministry of Foreign Affairs of the Czech Republic.

Public opinion towards China after the accession to the EU was rather negative. When Václav Havel left the presidential office, the Green Party that was from 2006 part of the governmental coalition became the leading critic of the Chinese human rights record. At the event of the Tibetan day (10.03.2007), the Chairman of the Green party initiated a tradition of Tibetan flag display on official buildings, for example ministries or town halls. The initiative quickly spread around more than 300 Czech cities.¹⁷ Although the practice is now not so widespread like ten years ago, it is still quite popular, even though the Chinese Embassy penned letters to discourage Czech mayors from following this unpleasant ritual.¹⁸

Furthermore, in September 2008 three Green party members unfolded the Tibetan flag during a visit of Chinese delegation in the Chamber of Deputies of the Czech Parliament.¹⁹ Needless to say, that the furious Chinese delegation immediately left, and the Chinese Embassy complained that such steps are understood as official support of Tibet independence.

¹⁷ ČTK 2007.

¹⁸ TYLOVÁ 2006.

¹⁹ iDNES.cz 2008b.

These events were broadly commented and discussed by the general public and media, and naturally, lead to a more negative perception of China. Therefore, most of the public supported the boycott of the Olympic Games in Beijing in 2008. Eventually, most of the Czech politicians who are unusually responsive towards public opinion polls did not officially accept the invitation to visit the Olympic Games. For example, the Czech Prime Minister visited the Games privately and let himself photographed with a Tibetan flag pin at the airport before departure.²⁰ The same year Václav Havel awarded Liu Xiaobo the Homo Homini award for human rights defenders during the One World Festival.²¹

All these activities followed after the busiest years ever in terms of bilateral activities and official visits between the Czech Republic and China. The strategy of “let’s do business and forget politics” was at its full swing in these years. And the Chinese took their word for it, as the Chinese imports to the Czech Republic dramatically increased after 2005. Czech businesses that started their thorny path in China at that time had to face a closed, non-transparent protectionist market. The Czech Ministry of Trade also prepared its first Strategy of Support of Economic and Trade Interests in China.²² It is a question whether Czech politicians could secure better conditions for Czech businesses at that time if there were no political irritations on the Czech side, and whether it would mean more Czech exports to China.

In 2007, based on the power audit of EU–China relations, the Czech Republic came out as the most prominent critic of China in the EU. It belonged to the small group of Assertive Industrialists together with Germany and Poland. The Audit even says that: “These are the only EU Member States willing to stand up to China vigorously on both political and economic issues. The Assertive Industrialists do not agree that market forces should shape the nature of the EU–China relationship. They stand ready to pressure China with sector-specific demands, to support protective “anti-dumping” measures against unfairly subsidised Chinese goods, or to threaten other trade actions.”²³ From today’s perspective, it is very confusing to read that: “The Czech Republic and Poland have only a few

²⁰ iDNES.cz 2008a.

²¹ STRAKOVÁ 2009.

²² VALIŠ 2005.

²³ FOX–GODEMENT 2009.

firms and sectors able to compete in the Chinese market, and their imports from China are rising rapidly. This means they are less tempted than others to ask the Chinese for favours for their national companies and are less exposed to Chinese pressure. Politically, Czech and Polish attitudes towards China are shaped by the powerful legacy of communist rule and their popular anti-communist movements. The Czech Republic is often identified by China as the EU member state most hostile towards it – yet it rarely suffers Chinese “punishment”.²⁴

However, the events in 2007 and 2008 were apparently unchewable for the Chinese side. Following the Dalai Lama’s visit in 2009, China and the Czech Republic had a very limited political dialogue until 2013–2014, when the situation dramatically changed, and the Czech Republic left altogether its diplomatic mix of political criticism of China with intensive business support. The change in attitude was probably dramatic even to the Chinese who almost got used to the Czech ambivalent behaviour.

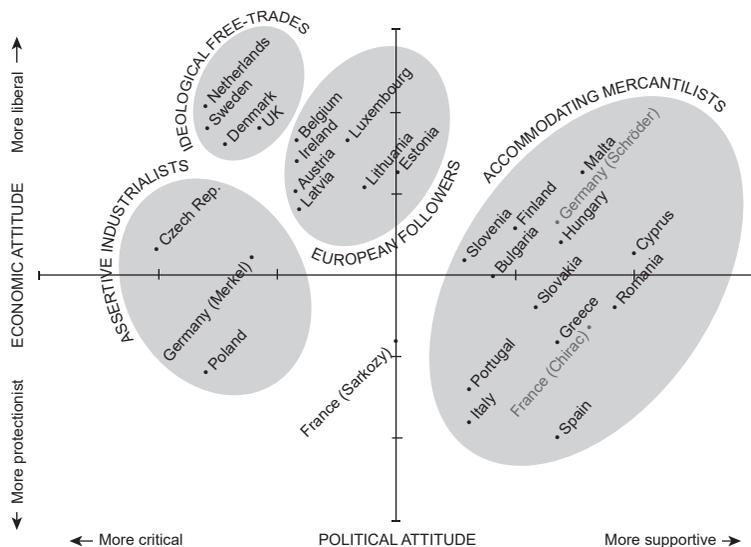


Figure 2

EU Member State attitudes towards China

Source: FOX–GODEMENT 2009.

²⁴ FOX–GODEMENT 2009.

Czech and Chinese relations finally started to blossom from the Chinese point of view. Surprisingly, the implementer of the crucial political changes towards China was the newly elected President Miloš Zeman who was not an unknown figure to Chinese political elites. In 1996, he used to call Czech politicians who were overly pleasing to China, as “ready to undergo plastic surgery to slant their eyes” and was openly critical towards China during his official visit in 1999.²⁵ Interestingly, he also signed a contract to build a power station in Shantou, which became a lasting torment in Czech–Chinese relations for many years to come and the problems with its construction only constantly reflected the complicated relationship.

Two decades later, Miloš Zeman changed his tune. The Czech President has become one of the most vocal supporters of Chinese investments in the Czech Republic, and he devoted a lot of time and attention to the development of the Czech–Chinese relations. Not only did he travel to China for two presidential visits, but he also employed Ye Jiangming from CEFC as his advisor for Czech–Chinese relations.²⁶ Both presidential visits to China were controversial, as for the first, he took advantage of a private airplane of a private company that needed presidential support and lobbying in order to obtain a licence to issue payment cards on the Chinese market.²⁷ The second visit became well known around the whole of Europe, as the Czech President was the only high-level European politician visiting Chinese celebrations of the End of the Second World War.²⁸ Moreover, his memorable appearance in the Chinese CCTV became a source of an endless stream of jokes in the Czech society, as he said that he came to learn from China how to stabilise the society and presented the cuddly toy of the Czech Little Mole as the main bridge between the two nations.²⁹

Zeman’s special attention was returned by the Chinese president Xi when he visited the Czech Republic on a special trip in the spring of 2016.³⁰ His visit officially marked a certain disillusion from the development of the Czech–Chinese relations. There were many new potential projects and investments announced during his visits.³¹ However, most of them stayed

²⁵ Lidovky.cz 2016.

²⁶ ALLEN-EBRAHIMIAN–TAMKIN 2018.

²⁷ ČT24 2014.

²⁸ SLÁVIK 2015.

²⁹ Echo 2014.

³⁰ Presidential Office, Czech Republic 2016.

³¹ MENZELOVÁ 2018.

just on paper and never materialised until the day of writing this article. Furthermore, the Czech public learned how far the Czech Government is ready to go in securing President Xi's comfortable visit. Chinese nationals were gathered from around the whole Central Europe in order to prepare a welcoming crowd for the Chinese President. Czech police made sure that these outbursts of joy were not interrupted by any disturbances like Czechs with Tibetan or Taiwanese flags.³² The visit left a bitter taste, even though a lot of Chinese money in investments was promised. When the Dalai Lama returned to the Czech Republic the same year, the Czech President, the Prime Minister, the President of the Chamber of Deputies and the President of the Senate penned a letter to the Chinese Government denouncing the trip as an initiative by "private politicians".³³

Furthermore, the EU–China power audit from the ECFR from the year 2017 highlights the Chinese influence in the country and among top political elites. "The Czech Republic is perhaps the most visibly penetrated EU state. The 2015 annual report of the Czech Security Information Service (BIS) stated that the Chinese intelligence service is the most active in the country and actively "works on extending and maintaining Chinese influence in Czech politics and economy". The 2016 BIS report stated that the number of Chinese "spies" had stagnated, while the number of operatives on a mission had increased. The 2017 report noted a rise in the intensity and aggression of influence operations, as well as increased spying."³⁴

Also, the debate on the rightness of the Czech policy towards China is a hot topic, and the discussion includes a large public demonstration during official Chinese visits, which is an exception within the CEE region. The comparative analysis of the Czech media discourse (ChinfluenCE, Association for International Affairs) has demonstrated that China is presented in the media more negatively (41%) than in Slovakia (26%) or Hungary (9%). The Czech press exhibited a constant negative attitude during this time regardless of the warming-up of political relations. Based on the ChinfluenCE analysis, the Czech media concentrate on the international standing of China, human rights issues, censorship, the authoritative nature of the Chinese Government and Tibet. In sharp contrast

³² SPURNÝ 2016.

³³ ČT24 2016b.

³⁴ GODEMENT–VASSELIER 2017.

with the themes presented in the Slovakian media that devote more time to the Chinese economy or the Hungarian media that concentrate more on bilateral relations.³⁵

Win–win trade relations are nowhere in sight

Trade cooperation is considered to be the main element of the Czech–Chinese relations. Currently, China is the fourth largest trade partner of the Czech Republic and the second largest importer. Among all trade partners, the highest trade deficit is with China. Its importance for the Czech economy is disproportionally driven by Chinese imports. In terms of Czech exports, China is on the 18th position among all Czech export destinations. Even though the volume of Chinese investments considerably increased over the past few years, China still can be considered in terms of the invested capital an investor of small importance with its 32nd position in the investor ranking. China is also far behind other investors from East Asia like Japan (13th position), South Korea (12th position) or Taiwan (26th position).³⁶

It is obvious from the Czech–Chinese trade exchange presented in Figure 3 that Czech exports to China remain in comparison with Chinese imports very sluggish. Despite various attempts of Czech politicians to negotiate better conditions on the Chinese market or get access to some governmental projects, exports lack dynamics. In 2016, there is a visible small spike in Czech exports; the need to deliver at least some results of the warm-up in Czech–Chinese relations is the most fervent wish of Czech politicians. So far, Czech exports were indifferent to the temperature of Czech–Chinese relations. Nevertheless, it is important to consider that a part of the Czech exports goes to China via the German market, as Germany is the Czech Republic's most important trade partner. Thus, German re-exports of Czech goods could play an essential role in the size of the Czech–Chinese imbalance.

³⁵ KARÁSKOVÁ 2018.

³⁶ CNB s. a.

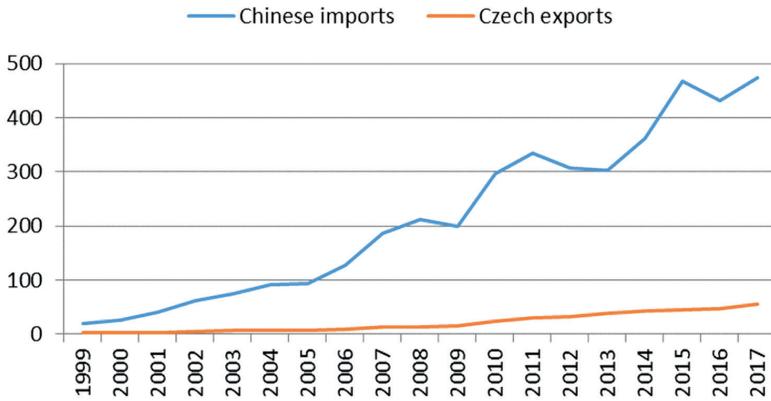


Figure 3

Czech–Chinese trade relations (1999–2017, billion CZK)

Source: Czech Statistical Office.

Otherwise, the Chinese market remains a non-transparent and challenging territory for most of the Czech companies. Even the national champions that deliver their products around the whole world cannot crack the puzzle called China. There are only a few case studies of Czech companies that succeeded in China. For example, PPF that managed to win a banking license for the whole Chinese market (political backing was needed) and then Škoda Auto that has been building its presence in China for many years and its mother company Volkswagen was probably also instrumental in sharing its experiences from the Chinese market. Naturally, there are other examples of successful Czech–Chinese cooperation. However, most of it was established regardless of positive or negative high-level political bilateral relations.

On the contrary, Chinese imports to the Czech Republic are thriving. It is evident from Tables 1–4 that the import structure has significantly changed over the past decade. At the beginning, there were imports typical for China of that time – shoes, textiles, toys, bikes and cheap electronics. Many of these products, however, negatively influenced some traditional Czech industries that were not able to stand the Chinese competition and ended out of business. “The power of the Chinese manufacturing machine was astounding: as recently as 2005, the Czech Republic was helping China

with shoe-making technology; two years later, China flooded the Czech Republic with 11 pairs of shoes per Czech citizen (at least some of which were presumably re-exported)³⁷

It is obvious from Table 1 that in 2000, textile spinning machines belonged to the top 10 Czech exports to China. The faith of the Czech textile industry in the light of increasing Chinese imports is apparent. Furthermore, it is obvious from Tables 1–4 that Czech exports lack consistency and do not have strong flagship products that would be exported to China (except cars and cars' parts). Most of the Czech exports consist of machinery for various industries. However, a certain process of upgrading is noticeable in 2015, coming from machines for textile production to turbines, boring and milling machines to car parts, computer parts and mobile phone parts. It is obvious that the Czech Republic is moving to the right direction in its exports to China, towards more value-added products that better resemble the Czech economy structure. The fact that in 2015, the number one export item is in the toys and tricycles category also proves that Czech exports to China can be in many cases random and based on accidental business deals that do not have to necessarily end-up in long-term cooperation.³⁸

China aims to transform its economy into an innovation-driven economy, as it is also stated in the *Made in China 2025* plan initiated in May 2015. The plan aims to make China a tech superpower by calling for a dramatic increase in domestically made products in various sectors from robotics to biopharmaceuticals. Consequently, Chinese companies will increase their effort to acquire unique know-how globally. There are many Czech companies that own world-class technological know-how that could be of interest to Chinese companies. However, one of the latest Chinese efforts to invest in an innovative battery production ended up with a scandal that included an attempt to steal the production know-how during the pre-selling process.³⁹ Therefore, many Czech innovative companies remain distant towards possibilities on the Chinese market, as they are afraid of losing their main comparative advantage in some

³⁷ FOX–GODEMENT 2009.

³⁸ However, this time it can be speculated that the increase in toys exports can be attributed to the “export” of the Little Mole cartoon to China. Therefore, it can be hopefully expected that it is not only a once in a few years trend.

³⁹ BRĚŠŤAN 2017.

uneven trade dispute. Even though the Czech Government tries to assist any possible deal, there are not many new Czech entrants on the Chinese market.

Table 1
Top ten Chinese imported products/Czech exported products in 2000

| Top 10 Chinese imports to the Czech Republic | Top 10 Czech exports to China |
|---|--|
| Input or output units for computers | Cars |
| Computers parts | 6-Hexanelactam (epsilon-caprolactam) |
| Footwear | Trucks |
| Fish fillets | Car brakes |
| Storage units for computers | Transmission shafts |
| Bicycles and other cycles | Machines for preparing textile fibres |
| Travelling-bags | Storage units for computers |
| Radio-broadcast receivers | Textile spinning machines |
| Microwave ovens | Pigments used for colouring |
| Tantalum, tantalum waste and scrap | Parts of refrigerating or freezing equipment |

Source: Czech Statistical Office.

Table 2
Top ten Chinese imported products/Czech exported products in 2005

| Top 10 Chinese imports to the Czech Republic | Top 10 Czech exports to China |
|---|---|
| Computers parts | Boring-milling machines for metals |
| TVs, Radios | Transmission shafts |
| Input or output units for computers | Parts of electrical “pre-set” capacitors |
| Monolithic integrated circuits | Machines for preparing textile fibres |
| Laptops | Artificial guts “sausage casings” of hardened protein |
| Computers | Generating sets |
| Storage units for computers | Parts of steam and other vapour turbines |
| TV/Radio parts | Copper waste and scrap |
| Video recorders | Storage units for computers |
| Footwear | Tools for pressing, stamping or punching |

Source: Czech Statistical Office.

Table 3
Top ten Chinese imported products/Czech exported products in 2010

| Top 10 Chinese imports to the Czech Republic | Top 10 Czech exports to China |
|---|--------------------------------------|
| Laptops | Copper waste and scrap |
| Computers parts | Fuel pumps for car engines |
| Photosensitive semiconductor devices | Radio navigational aid apparatus |
| TV, radio parts | Locks used for motor vehicles |
| Storage units for computers | Computer parts |
| Mobile phones | Car brakes |
| Video recorders, radio, parts | Generating sets |
| Phones | Boring-milling machines for metals |
| Static converters | Grinding machines |
| Processing units for computers | Car engine parts |

Source: Czech Statistical Office.

Table 4
Top ten Chinese imported products/Czech exported products in 2015

| Top 10 Chinese imports to the Czech Republic | Top 10 Czech exports to China |
|---|--|
| Mobile phones | Tricycles, scooters, pedal cars, dolls, toys |
| Laptops | Fuel pumps for car engines |
| Computer parts | Chemical wood pulp |
| Phones | Electron microscopes |
| Phone parts | Grinding machines |
| TV/Radio parts | Mobile phones parts |
| Computer monitors | Car parts |
| Storage units for computers | Mobile phones parts |
| Processing units for computers | Trucks, tractors parts |
| Tricycles, scooters, pedal cars, dolls, toys | Car brakes |

Source: Czech Statistical Office.

In terms of Chinese investments in the Czech Republic, China slowly recovers from an almost non-existent investor into a top 3 Asian player straight after Japanese and South Korean investors, as Figure 4 indicates. However, statistics from the Czech Investment and Business Development

Agency⁴⁰ indicate that China has caught up with other East Asian countries in the past years. Japan and South Korea remain key foreign investors in the Czech Republic and Taiwan is also a much stronger investment partner than China.

China repeats a similar investment pattern in the Czech Republic that can be recognised in other European and non-European countries. In every country, Chinese companies target a particular set of industries: energy sector, infrastructure and logistics, finance, real estate and a sector in which the target country has the highest comparative advantage. For example, Chinese investments can be found in Israeli high-tech companies, fisheries in Morocco or agriculture in Ukraine.

The sector with the strongest economic advantage is still awaited in the Czech Republic. Chinese companies prefer similar investment formats all over the world, so they usually buy already well-established companies or help restructure promising but struggling companies. It is often expected in the Czech Republic that Chinese companies will create some greenfield investments in areas with high unemployment rates, as many Japanese and South Koreans did in the past. However, Chinese companies usually prefer fast track to know-how and technology, so they invest in the form of joint venture or acquisition. Figure 6 confirms that even though Chinese companies created the highest number of jobs among East Asian investors in 2016, in the long term, South Korean and Taiwanese companies lead the way.

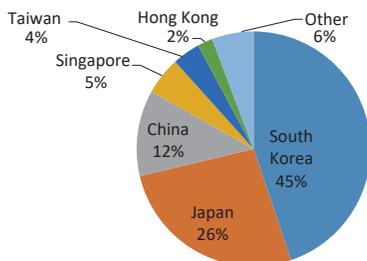


Figure 4

Top Asian investors in the Czech Republic, 2016

Source: Czech National Bank.

⁴⁰ The Investment and Business Development Agency CzechInvest is a state contributory organisation subordinate to the Ministry of Industry and Trade of the Czech Republic. The agency arranges for the Czech Republic both domestic and foreign investments in the areas of manufacturing, business support services and technology centres.

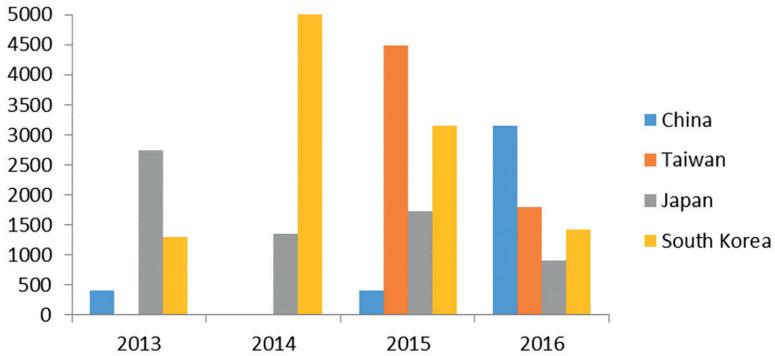


Figure 5

Comparison of Chinese, Taiwanese, Japanese and South Korean FDIs based on CzechInvest Data (2014–2016, million CZK)

Source: CzechInvest, Investment and Business Development Agency.

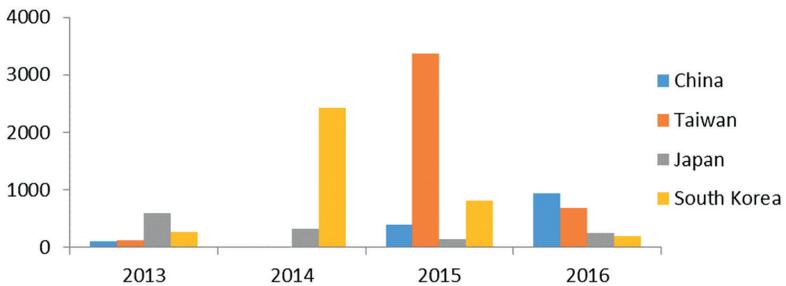


Figure 6

Jobs created by Chinese, Taiwanese, Japanese and South Korean FDIs based on CzechInvest Data (2014–2016)

Source: CzechInvest, Investment and Business Development Agency.

Chinese investments also create a lot of domestic tensions as Chinese investors are nurtured by politicians at the highest levels. In many ways, Chinese investments became of strong interest among Czech political elites and this immense interest causes internal friction among various power groups. The best example is the CEFC China Energy that was

internationally an unknown Chinese conglomerate that chose the Czech Republic for its global expansion in 2015. CEFC became the most prominent Chinese investor, holding stakes in hotels in Prague, a soccer team, breweries, a financial group⁴¹ and the airline company that controls national carrier Czech Airlines. The currently detained company chairman Ye Jianming⁴² was named special advisor to the Czech President Milos Zeman.⁴³

As the Czech Republic is a newbie to large Chinese investments, more time will be needed in order to better access opportunities presented by Chinese companies and officials. The CEFC case indicates that having all eggs in one basket does not pay off. Furthermore, it can sometimes be challenging to differentiate real business ventures from scams attempted to create more political space. If the political goodwill towards the Chinese is already generously showed, it should be exchanged for the more open Chinese market in sectors, in which Czech companies can offer world-class products and services.

The future is always bright in Chinese eyes

In the future, China will become a more active player in the international community, and it is in the Czech interest to establish a constructive dialogue with China. Trade should be the core element of the relationship, as there is a limited number of political issues that the Czech Republic and China could have on their agenda. In the long-term, China works on building an alliance of European partners that could support its broader strategic goals in the future. Central and Eastern European countries naturally become the target of Chinese political efforts. It can be tempting to barter political points for Chinese investments. However, this approach can be hazardous for the Czech Republic, and the final benefits will very probably not pay off. Preferably, Czech and Chinese relations should support

⁴¹ J&T is one of the most significant investment groups in CEE and invests mainly into financial services, energy sector, real estate, healthcare, media and sports.

⁴² Ye Jianming, the Fujian entrepreneur who took fewer than five years to rise from obscurity to become head of China's fourth-largest oil conglomerate, has been recently detained for questioning in China.

⁴³ ALLEN-EBRAHIMIAN-TAMKIN 2018.

mutually beneficial economic relations that can be backed by warm political relations. However, these should not be a precondition.

The Czech Republic struggles to become more visible within the Belt and Road Initiative, even though the political representation would wish to win a more leading seat in the initiative. However, based on a study from Brussels' think tank Bruegel, the Czech Republic is a country that will be benefiting the least from a potentially higher connectivity between China and the EU. The mutual trade exchange would increase only 2.82% in comparison to 8.22% in case of Poland or 9.18% in case of Slovakia.⁴⁴ Therefore, it is questionable, how much should the Czech Republic strive for a higher profile within the Belt and Road Initiative, whatever that practically means.

Even though the Czech Republic cannot offer infrastructure projects large enough to interest Chinese companies, there could be some benefits and lessons learned for both sides from joint infrastructure projects in third countries, for example, in Central Asia. Chinese companies need positive reference projects in certain industries, and Czech companies can offer the needed know-how and partnership, while Chinese companies do not lack the required cash.

Otherwise, the Czech efforts should promote digital connectivity within the Belt and Road Initiative, as export of services is a field, where Czech companies can succeed. The presence of the Czech company Home Credit (PPF) in China confirms that this is possible. Furthermore, the Czech start-up community in East Asian countries is growing, and the first swallows have already appeared in the gaming industry. However, these areas belong to the most protective industries (both culturally and politically) in China, and it can be very difficult to succeed. There are myriads of stories of various U.S. tech companies that were outsmarted by Chinese rivals.

It was already indicated that Czech companies could offer very competitive and innovative know-how. However, problems with intellectual rights protection discourage many potential candidates from further attempts. The Czech Government tries to offer some "safe" environment in case of joint projects administered by the Czech Technological Agency. The twinning between Czech and Chinese research institutions can be beneficial for both sides if sufficient attention is paid towards know-how protection.

⁴⁴ HERRERO-XU 2016.

To sum up, China is a complicated territory even for very experienced politicians and businessmen. Therefore, more attention should be given towards capacity building in terms of Chinese language studies, negotiation techniques and general knowledge of Chinese economy and business practices. The more qualified Czech participants to manage Czech–Chinese relations, the better outcomes to expect in the future.

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*Tamás Matura*¹

Sino–Hungarian Relations in the 21st Century

Abstract

Seven years have passed since Hungary had the pleasure to welcome then Premier Wen Jiabao, and to organise the first China–Central and Eastern European Countries Economic and Trade Forum, the foundation of the cooperation between Beijing and its partners in our region, or the 16 + 1 initiative as we know it today. Indeed, relations to China have been high on the political agenda of Hungary in the past few years, as it promised financial liquidity and creation of jobs amid the crisis-ridden economic environment of the European Union. Despite expectations, however, the level of Chinese investment is still relatively low in the country, while Budapest is targeted by the criticism of the EU and some Western European countries. The following paper offers an overview of the recent political and economic developments in Sino–Hungarian relations.

Keywords: China, Hungary, politics, trade and investment

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Introduction

Hungary was among the first post-socialist Central and Eastern European countries to rediscover China as a potentially important international partner, following its successful Euro-Atlantic integration. All the four Hungarian prime ministers have visited Beijing since 2003 and Budapest hosted the first meeting of the Central and Eastern European countries and China in 2011. Budapest enjoys a relatively high attention in Beijing, especially compared to the size of the country. The significant Chinese community, the increasing amount of Chinese investment and bilateral cultural ties, and some early positive political gestures of the Hungarian Government have served as a foundation of the strong political relationship. Hungary has received the largest amount of foreign direct investment (FDI) from China in the Central and Eastern European region for the time being and the country may play an important role in the Belt and Road Initiative through the Budapest–Belgrade railway line. Hungary is one of the most important trade partners of China in Central and Eastern Europe, though international trade is dominated by multinational companies to a high extent. The following paper provides an insight into the major achievements of Sino–Hungarian cooperation and into the impact of the 16 + 1 and Belt and Road (OBOR) projects on bilateral ties.

Methodology

The paper offers an introduction to the development of bilateral political relations, its European context and to the importance of the 16 + 1 and BRI related issues, followed by a brief analysis of investment and trade relations. In both cases, I rely on the most relevant and up to date publicly available data. In the final part of the paper, I analyse the impact of strong bilateral economic relations on politics, and the alleged influence of Beijing over Budapest regarding its EU level China policy. According to certain concerns, China might play CEE member states, like Hungary against the unity of the EU with offering economic benefits in exchange of political favours. In order to evaluate such an accusation, the context and extent of Chinese activity in the CEE region are to be understood, just as the image of China in the Hungarian media discourse, presented in the last chapter.

Bilateral political relations since 1989

The People's Republic of Hungary officially recognised the People's Republic of China on the 4th of October 1949, soon after its proclamation of establishment. During the following decade the relationship developed rapidly, many high-level visits followed the improvement of economic, political and cultural ties. Due to the country's own communist past, the People's Republic of Hungary (and later the Republic of Hungary) obviously supported the Chinese position on Tibet, the One China Policy and the UN Security Council membership from the very beginning of the CPC's rule. However, relations seriously deteriorated during the Sino–Soviet split and China's Cultural Revolution in the 1950s and 1960s. Following the reorientation of the Communist Party of China and the implementation of Deng Xiaoping's Reform and Opening-up Policy in 1978–1979 the two countries gradually re-established bilateral ties. As the Chinese leadership was particularly interested in the Hungarian experiences of the economic reform process of 1968, a series of delegations visited Hungary to analyse the results of the short-lived reforms. Party to party relations were normalised, and high-level delegations were reinitiated in the 1980s. Following the political transformation in Hungary in 1989, bilateral relations suffered another round of depreciation, since Budapest was preoccupied with its Euro-Atlantic integration, while, at the same time, relations to communist countries became less attractive. The era of low-profile contacts lasted for more than a decade, until 2003 when Hungary initiated its rapprochement.²

The new chapter of Sino–Hungarian ties

Following its successful accession to the EU and NATO, Hungary realised the potential of the new emerging powers like China in 2003. Hungarian Prime Minister, Péter Medgyessy visited Beijing in that year, and created a new special envoy position within the Prime Minister's Office for the development of Hungarian–Chinese relations and for the coordination of the China-related work of governmental institutions and the public

² SZUNOMÁR et al. 2014.

administration. As a return to the Prime Minister's visit, President Hu Jintao arrived to Budapest in 2004. Despite its anti-China sentiments during its first term between 1998 and 2002, the second and third (2010–2014 and 2014–2018) Orbán Governments also paid a special attention to China, partly due to the economic and political crisis in the European Union. As Hungary was eager to find new opportunities in its recovery from recession, the so-called Opening to the East Policy was introduced in 2011 as a reaction to the 2008 global economic and financial crisis. It is important to note however, that this policy has never been formulated in a written format of a strategy, still, based on governmental statements, its goal was to boost Hungarian exports to regions out of Europe and to increase the inflow of FDI into the country.

Mr. Orbán decided to establish official party to party relations with the Communist Party of China before the elections in 2009, and then he visited China as a Prime Minister at the end of 2010. His decision to foster strong relations with Beijing surprised most experts, since his previous government was much less friendly towards China; he even met the Dalai Lama in his office in 2000. The visit of Mr. Orbán was returned by Premier Wen Jiabao's visit to Budapest in May 2011, which also meant the first step to create the annual China–CEE summit in the following year in Warsaw.

The Opening to the East Policy

It is not easy to offer a thorough scientific analysis of the Opening to the East, since such a strategy has never been formulated in a form beyond slogans, thus it is impossible to compare initial goals to eventual achievements. Due to the lack of fundamental documents, researchers have to rely on other types of governmental communication, like interviews and public speeches. PM Viktor Orbán stated as early as 2010 that: “We are sailing under a Western flag, though an Eastern wind is blowing in the world economy.”³ Consequently, the government implemented measures to boost trade and investment relations with non-European Economic Area

³ The original Hungarian sentence reads as follows: “Nyugati zászló alatt hajózunk, de keleti szél fúj a világgazdaságban” (MAGYARI 2010).

countries. Péter Szijjártó, then State Secretary of the Ministry of Foreign Affairs and Trade announced in 2014: “In order to fulfil the interests of the country, a new type of foreign policy is needed, which is completely determined by foreign trade interests.”⁴

Eventually, sectorial strategies of the government mention some more articulated goals. The Hungarian Growth Plan of the Ministry of National Economy states: “Through the eastern export development Hungarian enterprises may enjoy higher profits, thanks to the growing import needs of dynamically developing economies (China, India, Russia, South Korea). In the case of Asia, the Hungarian export is expected to grow twice as fast in the region as the average, and to reach a share of 10 percent from its current 6 percent by 2015.”⁵

The above-mentioned governmental communications suggest that the government pursued an economy driven Opening to the East policy, following global trends. Sino–Hungarian relations enjoy a privileged position on all major parties’ agenda despite the otherwise rather polarised domestic political arena, none of the parties question the importance of China, and even liberal parties are remarkably silent about human rights or other politically sensitive issues. The second and the third Orbán Administrations have not only continued the efforts of their predecessors but even increased it to forge good political relations with Beijing. All Hungarian governments have been pursuing trade and investment cooperation with China since 2003, and good political relations are understood as an important tool and foundation of economic relations. Increasing and restructuring of bilateral trade together with the decrease of deficit has been a primary goal for a decade. Following the European economic turmoil, Chinese investment has become more important than ever before. Due to clashes between the second Orbán Cabinet and the EU (2010–2014) politics emerged as a remarkable factor, as the potential Chinese support might have provided political capital to the Hungarian Government during its clashes with Brussels, or at least, Mr. Orbán hoped so.

⁴ Hungarian National Assembly 2014.

⁵ Ministry of National Economy 2011.

The 16 + 1 forum and Hungary

After the first China–CEE conference in Budapest in 2011, the institutionalisation of the initiative in Warsaw in 2012 was a clear sign of success. The setup of the Secretariat for China–CEE cooperation meant the next milestone of the development of cooperation in September 2012. The Hungarian Government pays close attention to the 16 + 1 cooperation; it concentrates mostly on the economic spheres of the initiative so as to use the ‘China card’ as a bargaining chip in the EU. However, following the first few years of the 16 + 1 project, enthusiasm is over in Hungary. The government announced several major Chinese infrastructure investments in the country, but none of these have materialised so far. The last hope is the Budapest–Belgrade railway line, which seems to be very important to the Chinese side, since it would be a crucial part of the BRI project and the north–south transport corridor stretching from Piraeus through Central Europe to Western Europe. Agreements were signed at the 3rd China–CEE summit in Belgrade, in December 2014. According to the original plan, the line should have been fully operational by 2017, but due to the delays, 2025 seems to be more plausible. The European Commission initiated an infringement proceeding concerning the Sino–Hungarian agreement, due to some legal concerns, which was eventually concluded without derailing the whole project.⁶

Hungary and the BRI

Hungary plays an important regional role in the building of the Belt and Road project, although ‘OBOR’ or ‘BRI’ itself is a rarely used term in the country. The underlying reason is that Budapest and Beijing cooperate mostly bilaterally or under the framework of the 16 + 1 network of the Central and Eastern European countries and China. BRI would mean a third layer or label, therefore political actors barely mention it at all, while media sources tend to totally forget about it. Still, there are at least two major projects in the country which qualify as BRI related programs.

⁶ SPIKE 2016.

The most obvious one is the reconstruction of the railway line between the Hungarian and the Serbian capitals, Budapest and Belgrade on which China, Hungary and Serbia first agreed back in 2013. A consortium of China Railway Group (CRG), China Railway Corporation (CRC) and the Hungarian State Railways (HSR) has been awarded an EUR 1.5 billion contract to refurbish the 160 km long Hungarian section, while an additional 180 km will be built in Serbia to reach Belgrade.⁷ The new tracks will be able to accommodate trains travelling up to 160 kilometres per hour. When it comes to the financial background, the Chinese side will provide a long-term loan covering 85% of the total budget through China Exim Bank. Unfortunately, the most important details of the contract are not public, but most observers speculate that the interest rate might be around 2.5%, which is not that favourable from a Hungarian point of view, especially since the project serves mostly Chinese interests. The Budapest–Belgrade line would be an important section of the BRI, connecting the port of Piraeus in Greece (managed by China’s COSCO shipping company) to Central and Western Europe via Macedonia, Serbia and Hungary. With the help of this upgraded transport corridor, containers from China may find a shorter and faster route towards the heart of Europe, without the need to sail around the entire Europe to the major ports in Western countries. At the same time, the Chinese Government offers the opportunity for its own construction companies to build a reference work within the boundaries of the EU, which helps them to mitigate their overcapacity issues, and creates investment opportunities for Chinese excess capital single-handedly. Meanwhile, the Hungarian side expects some transfer fees as a direct benefit of the projects, however, calculations made by experts argue that the project would pay for itself over 2,400 years, based on current fees and potential maximum transport volume.⁸ Therefore, the project seems to be more important to China than to Hungary, thus one might have expected the Hungarian side to utilise its convenient bargaining position during negotiations. Still, the final agreement seems to benefit the Chinese side. The Chinese construction companies CRG and CRC will be paid for their work, Chinese containers

⁷ Xinhua 2015.

⁸ Portfolio 2015.

will be transported on the new line, and the China Exim Bank will make a decent profit on the loan itself. Meanwhile Hungary will gain some importance in the Central European logistical infrastructure, some Hungarian companies will have the chance to work on the project as subcontractors, and Budapest may receive a higher political esteem in Beijing. Of course, Hungary would gain much more if it had a strategy to attract foreign (Chinese) investors to industrial zones along the railway line in order to build factories, logistical centres, SSCs, eventually, to create jobs. It is also true, however, that so many Hungarians have left the country in the recent years, that labour shortage is a major problem to the country nowadays. Still, such a strategy does not exist, or at least nobody has heard about it.

The second project is a mixture of 16 + 1 and OBOR in the field of tourism. Hungary, as a member of the 16 + 1 cooperation has had the privilege to host the *China–Central and Eastern European Countries’ Tourism Coordination Centre (TCC)* in Budapest since May 2014 based on the Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries.⁹ On 4 March 2016, China National Tourism Administration opened its first office in the CEE region in Budapest, and imminently started an advertisement campaign under the title ‘Beautiful China, Silk Road’.¹⁰ Despite the relevance of the above-mentioned projects, China has not implemented any remarkable strategies to advertise or promote the BRI project in Hungary. The Chinese embassy in Budapest generally keeps a low profile, and even though the ambassadors do mention BRI in speeches or interviews, the general public know very little or nothing about Belt and Road. At the same time, institutions in Beijing have reached out to Hungarian researchers and experts and incorporated them into various BRI networks.

From the point of view of journalists, bilateral, 16 + 1 and EU–China relations provide sufficient topics to the media to be covered, while most policymakers regard BRI as a distant opportunity, potential threats and risks are not discussed in the Hungarian public discourse. Since it is hard to differentiate between BRI and non-BRI related Chinese activities in Hungary, these projects are simply labelled as ‘Chinese’.

⁹ Bucharest Guidelines 2013.

¹⁰ China National Tourism Administration 2016.

Besides the efforts to build the Budapest–Belgrade railway line, Hungary became the first European country to sign a memorandum of understanding (MoU) on joining the BRI with China in June 2015. At the same time, the country missed the opportunity to join the Asian Infrastructure Investment Bank (AIIB) as founding member. However, since the country does not have an official China Strategy, therefore a BRI Strategy is missing as well. To sum it up, Hungary has the chance to be one of the first beneficiaries of a BRI-labelled project, but the government could do more to utilise all potential aspects. Of course, the size of the country and its companies limit its capacity to cooperate with Chinese partners of a much bigger scale, but the formulation of a national China strategy may support efforts to articulate Hungarian interests vis-à-vis China and the BRI project itself.

Meanwhile Chinese companies consider relocating some of their industrial or manufacturing capacities to foreign countries because of rising domestic wages, while the central government aims at economic restructuring and rebalancing its foreign trade relations. Central and Eastern Europe including Hungary is a region which might be able to attract such kind of Chinese investment, and new transportation corridors developed in the framework of BRI may offer a good chance for that. There are threats, however, as EU institutions and certain Western members of the Union have reservations about both the BRI and the 16 + 1 cooperation. As a reaction to Western concerns, Beijing started to advertise “third country cooperation” to offer opportunities to Western companies as well. It is still a major question however, whether the West keeps seeing Chinese construction companies as competitors in CEE countries or finds the way to join them in building new transportation systems in the region. Beijing is willing to provide financial support to construction projects, while EU funds are about to be redistributed from CEE to Southern European countries in the upcoming years.

Economic relations

The following section provides a brief overview of investment and trade relations between China and Hungary, and analyses the political impact of the 16 + 1 cooperation on the China policy of Hungary.

Investment relations

Hungary was one of the forerunners in Central Europe in renewing its relations with China in the early 2000s. The Orbán Government has elevated political relations with Beijing to new heights, and the Opening to the East Policy of Hungary has aimed at forging better trade and investment relations with China since 2010. Despite all the efforts, however, expectations regarding the potential tsunami of Chinese investment have not been met, and the country has not received any new, major Chinese investors in the last seven years.¹¹ Still, the government regards China as an important partner, but political calculations may play a more significant role than economic interests. On the one hand, based on international data sources, Hungary hosts by far the highest amount of Chinese direct investments among the EU member states in the Central and Eastern European (CEE) region. On the other hand, the country has achieved only very modest successes in attracting new investors from China in the last several years. For some observers this might come as a surprise, as the Hungarian Government has made concerted efforts, reoriented its entire foreign policy and offered significant political gestures to Beijing. And yet, it seems that China has found more appealing business opportunities in Poland, the Czech Republic, or in the Balkan countries in the recent years.¹²

The lack of major Chinese direct investment inflows is in sharp contrast with the fact that Budapest enjoys a relatively high political attention in Beijing; the two governments elevated bilateral relations to the level of a comprehensive strategic partnership in May 2017. The large Chinese community, the region's only Chinese–Hungarian bilingual elementary school, the CEE headquarters of the Bank of China, among other factors point to Hungary as a primary destination of Chinese

¹¹ However, as Ágnes Szunomár writes in her publication, some smaller investments have arrived to the country recently: the Miskolc-based starter motor and generator-producer business of Bosch was acquired by a Chinese company, while the CEE Equity Fund, established together by the Hungarian and the Chinese Exim Bank, purchased a private university (Budapest Metropolitan University) and the telecommunications service provider, Invitel (SZUNOMÁR 2018).

¹² MATURA 2017a.

investment, at least in theory. Even though many announcements have been made and many cornerstones have been laid, there are very few tangible achievements, and even those are investments in the range of a few million dollars.

Still, when it comes to the stock of Chinese direct investment, Hungary enjoys a pivotal position in the CEE region, as by the end of 2015, cumulated Chinese investment in Hungary reached USD 3.5 billion, according to announcements by the government. Of course, there is a very high level of uncertainty among the available statistical data. While the Hungarian Government says that the stock of Chinese capital is about USD 4 billion in the country, the Rhodium Group has recorded cumulative transactions of EUR 2 billion since the year 2000. Whatever the actual number is, the inflow of Chinese FDI is highly concentrated – around 75% of the total amount is linked to a single transaction: the acquisition of the chemical company BorsodChem by the Chinese Wanhua Group.

Besides Wanhua, major investors are Huawei, ZTE, Lenovo, Orient Solar, Sevenstar Electronics Co., BYD Electronics, Xanga, Canyi and Comlink. Unfortunately, major industrial greenfield investments are still lagging in Hungary so far, although the country would really need new jobs to be created.

A remarkable set of agreements were signed during the visit of Premier Wen Jiabao in Budapest back in 2011 and of then Vice-Premier Li Keqiang in 2012, when he visited Hungary to witness the signing ceremony of seven bilateral agreements (e.g. a Chinese-built train connection between downtown Budapest and the airport; an agreement on a EUR 1 billion credit line between the China Development Bank and the Hungarian Ministry of National Economy; an agreement on SME cooperation, etc.). Yet, most of these were merely confirmed agreements of the previous year. None of the planned infrastructure development and joint venture investments have been realised since. In the framework of the China–CEE cooperation, new Chinese financial sources were opened for Hungary in 2013, and the Hungarian Exim Bank and its Chinese counterpart concluded an agreement on a EUR 100 million credit line for export financing. A USD 500 million “Chinese Central Eastern European Investment Fund” was also established, with a USD 30 million contribution from the Hungarian side.

Table 1
Major Chinese investment and infrastructure projects – Successes and failures in Hungary

| Company | Sector (Target company) | Mode of investment | Year of first mention or investment | Total value (estimate, EUR million) | Result |
|---------------------------------|--|---------------------------|--|--|--|
| Changshu Standard Parts Factory | Screw factory (Ongai Csavargyártó Ltd.) | Acquisition | 1997 | n.a. | Success |
| Hisense | Electronics (joint venture with Flextronics) | Joint venture | 2004 | 3 | Success but closed in 2010 |
| Huawei | ITC | Greenfield | 2005 | 300 | Success |
| ZTE | ITC | Greenfield | 2005 | 15 | Success |
| Lenovo–Flextronics | ITC | Greenfield | 2009 | n.a. | Success |
| Sevenstar | Solar panels (EnergSolar Ltd.) | Acquisition | 2009 | n.a. | Success |
| Wanhua Group | Chemicals (BorsodChem) | Acquisition | 2010 | 1,600 | Success |
| Comlink | ITC | Greenfield | 2012 | n.a. | Success |
| BYD | Electric buses | Greenfield | 2016 | 20 | Success |
| China–CEE Fund | Telecommunication (Invitel) | Acquisition | 2017 | 200 | Success |
| BBCA | Citric acid factory | Greenfield | 2012 | 80–200 | Still in progress |
| China Railway Group | Railway reconstruction (Belgrade–Budapest) | Infrastructure investment | 2015 | 1,500 | Still in progress |
| Tianshan Industrial Group | Aviation industry | Joint venture | 2016 | 30 | Still in progress |
| Yanfeng Automotive Interiors | Automotive | Greenfield | 2016 | 25 | Success, Hungarian activity due to global merger |
| RZBC | Citric acid factory | Greenfield | 2014 | 100? | Likely failed |

| Company | Sector (Target company) | Mode of investment | Year of first mention or investment | Total value (estimate, EUR million) | Result |
|--|---|---------------------------|-------------------------------------|-------------------------------------|--------|
| HNA Group | Airlines (Malév Hungarian Airlines) | Acquisition | 2004 | n.a. | Failed |
| Livan Biodegradable Product | Biotechnology | Greenfield | 2007 | 18 | Failed |
| Shanghai Construction Group | Cargo Airport | Greenfield | 2009 | n.a. | Failed |
| Orient Solar | Solar panels | Greenfield | 2011 | n.a. | Failed |
| Canyi | Lighting technology | Greenfield | 2011 | 30 | Failed |
| China Railway Construction Corporation | Railway construction (airport to downtown) | Infrastructure investment | 2012 | 150 | Failed |
| V0 | Railway construction (ring around Budapest) | Infrastructure investment | 2013 | n.a. | Failed |

Source: Compiled by the author based on media releases.

Given the low number of successful projects, any clear strategic-level motivation on the Chinese side remains indiscernible. As Table 1 above suggests, Chinese businesspeople arrived in Hungary almost a decade before Budapest introduced its Opening to the East policy. When it comes to the corporate level, the excellent geographic location, access to EU markets, and the favourable political and investment environment are the most frequently mentioned reasons for Chinese investment in Hungary. It is indeed true that the 16 + 1 cooperation and the role of Hungary in it has drawn further attention to the country in China, but the increased inflow of Chinese political and business delegations has not boiled down to tangible results so far.

Unlike in some Western European countries or the U.S., increased Chinese activity has not triggered any alarm in Hungarian political circles or among the wider public. To the contrary, there seems to be a cross-party agreement on the importance of relations with China, and none of the major political players opposes the opening towards Beijing. This is partly due to the relatively positive image that many Hungarians hold of the Chinese

people, thus making it hard for any party to gain domestic political support through China-bashing. Hence, Prime Minister Orbán has mentioned China several times as a good example of a successful ‘labour based society’, and as an alternative to Western economies ‘based on speculation’. Meanwhile, the lack of major Chinese investment in recent years obviously decreased public attention on the matter, and therefore security or political concerns have never been raised.¹³

At the level of strategy, Hungary holds great hope in the potential for Chinese investment, despite the relatively low level of concrete results. Even though the Opening to the East policy has never been slated into a proper and sophisticated strategy, based on government communications, it is clear that the main objective of government efforts is to attract money and investment from China to Hungary. Others regard it as a mere political brand invented by the MFA to gain political support. Budapest was so eager to cosy up to Beijing in the recent years that the government offered important political favours to China, even against the will of the European Union. This caught the attention of many international observers when the Hungarian MFA repeated Chinese statements on the South China Sea issue in 2016, or when the Prime Minister signed the joint communique on the *Belt and Road Initiative* in May 2017, despite the objection of the EU and its major member states. Furthermore, a recent article by the *Handelsblatt* on a report prepared by EU ambassadors that sharply criticises China’s BRI (Belt and Road Initiative) project stated that only Hungary’s ambassador refused to sign the report.¹⁴ No wonder, more and more experts raise the question: will the significant amount of Hungarian international political capital invested in China ever pay-off for the economy, or does the government regard China primarily as a political ally rather than an economic one? Political opponents of the ruling party argue that government efforts to get closer to Beijing (and Moscow) are part of a game against Brussels, and economic interests play only a minor role in this story. No matter what the intentions of the Hungarian side are, the example has been set, and countries across Central and Eastern Europe, including the Czech Republic, Poland and Slovakia, are all looking to forge closer ties with Beijing.

¹³ MATURA 2017a.

¹⁴ HEIDE et al. 2018.

Trade relations

When it comes to Sino–Hungarian trade, the Opening to the East Policy has brought some fruits, although it has to be noted that decreasing European consumption might have played a significant role in the growth of the relative importance of trade with China. However, as the EU is recovering, Hungarian foreign trade returns to its traditional partners on the continent. China is one of the main targets of the Opening to East Policy, and according to the data of the Hungarian Central Statistical Office, import from the PRC has risen by 19%, while export has gone through a remarkable 47% increase (in USD terms) between 2012 and 2017, despite the significant 17% fall of exports in 2015. Still, exports to China represented only 2.35% of all Hungarian export in 2017.¹⁵ Though the Hungarian Government would be pleased to see the trade deficit diminish, in reality most of the Chinese goods imported to Hungary are parts and accessories of other, high value-added products assembled in Hungary and re-exported to Western Europe. Thus, a significant decrease of Hungarian imports from China usually means the setback of the domestic economy. The close connection between Hungarian–Chinese trade and the general performance of the domestic economy becomes even clearer when the role of multinational companies is considered. MNCs represented 93.6% of the total Hungarian exports to China according to a non-public dataset of the Hungarian Central Statistical Office, while the share of domestically owned enterprises was a modest 6.4% in 2013. Most Hungarian small and medium sized enterprises need more support from the government to achieve a better performance in China. Companies working in the fields of agriculture and food industry have been the forerunners, as more and more Hungarian processed food finds its market in China thanks to newly granted permissions of Beijing.¹⁶

However, the imbalance and structure of imports and exports will remain a challenging factor in the near future. Even though a significant amount of Hungarian imports from China means an important input for the domestic industry, it is of utmost importance to provide better opportunities to Hungarian owned companies. Obviously, it is impossible to achieve balanced merchandise trade relations, but Hungary might be able to boost

¹⁵ The author's own calculations based on the data of the Hungarian Central Statistical Office.

¹⁶ MATURA 2017b.

its performance in certain sectors, particularly in the fields of tourism. Since Hungary was appointed to become the centre of China–CEE tourism relations at the Bucharest Summit, Budapest has a unique opportunity to attract significantly more Chinese tourists to the country.

To sum it up, China is the most important non-EU trade partner of Hungary, and bilateral trade relations have experienced a steady growth in the recent year. However, compared to other EU members, Sino–Hungarian trade is lagging behind both in terms of relative growth and relative importance. Major member states like Germany, France and the United Kingdom have developed stronger trade ties to China in a more dynamic way.

The image of China in Hungary

Thanks to the project *ChinfluenCE*, we had the chance to analyse almost 4,000 Hungarian media outputs, published between 2010 and June 2017 of selected 15 media sources which were most widely read, listened to or followed and had a nationwide coverage. The Hungarian media coverage on China has been very pragmatic, or valueless in the past seven years. Most of the articles analysed focused on the general economic situation of China, its role in world politics and economics and the development of Hungarian–Chinese relations. At the same time, topics like human rights, Tibet, the Dalai Lama or the protection of intellectual property rights have been barely mentioned. As a part of *ChinfluenCE*, a word cloud of the most frequently covered topics has been made to visualise the different approaches of the Czech, Hungarian and Slovak media. In case of Hungary, topics like the ‘Chinese economy’, ‘China and the World’ and ‘Hungarian economic relations with China’ were by far the most important ones (over 1,500, 1,100 and 700 articles respectively). Meanwhile issues like ‘censorship’, ‘Tibet’, or ‘Uighurs’ had an almost zero impact (less than 200, 100 and 50 articles respectively).¹⁷

One of the first findings is that the number of articles on China has been generally stable in the analysed period; however, two significant phases may be recognised based on the number of publications. The first phase lasted from 2010 with a constant increase of attention and peaked

¹⁷ For further details see KARÁSKOVÁ et al. 2018.

in 2013 (the year of the NPC's meeting), while during the next phase (since 2013) there has been a gradual decline in the number of articles on China. The rise and fall of publications may be explained first by exaggerated hopes regarding the expected inflow of Chinese investment to Hungary, and later by the confrontation with reality, that almost nothing of the hopes had been realised.

When it comes to the most influential sources on China, it is to be mentioned that more than half of the articles were published by the small group of online news services, including *hvg.hu* which published almost one third of all the articles alone, while *index.hu* and *origo.hu* released a further 14 and 11% of the news respectively. Nevertheless, digging deeper in the data, the picture gets a bit more complicated, as the real source of at least 52% of all news was the official Hungarian news agency (MTI) and not individual media companies, thus the share of articles produced by other media outlets themselves was less than half of the total. No surprise that this fact has had an impact on the generally neutral image of China in the Hungarian media, as 87% of the news based on the MTI as a source were neutral. Including all sources, it seems that 4.8% of the news was positive, 9.4% negative and 85.8% neutral between 2010 and 2017. When excluding all news based on the MTI, the picture gets slightly different: 3.7% of the articles produced by media sources themselves was positive, while 12% was negative.

As it has been mentioned before, when individual media sources are considered, domestic political division lines and their impact on the image of China itself become obvious. Media sources believed to be close to the government (Hungarian national television and radio channels, TV2, *origo.hu*) publish significantly more positive and good news about China, while media sources on the opposition side (*Magyar Nemzet* daily, *index.hu*, *HVG*, *hvg.hu*, *RTL Klub*) published many more negative or bad news than positive ones. Still, neutral news dominated their activities. The share of negative news (thus the polarity of the discourse on China) had been constantly increasing between 2010 and 2017. Negative news made up 6% and positive news 5% of all articles in 2010, while, the share of negative news rose to 15% against 5% of good news in 2017. The year of 2013 seems to be the turning point, not only in terms of absolute numbers of articles, but in terms of sentiment as well, since there were 4% positive and 3% negative news in 2012, and as high as 12% of all news on China were negative and 5% positive in 2013. In short, the Hungarian media

discourse on China is mostly one dimensional, focuses overwhelmingly on economic data and the development of bilateral relations. At the same time, it is strongly politicised, as the assessment of Hungarian–Chinese relations in the media is strongly influenced by the political attitude of the given media source towards the government. Consequently, a productive and useful discourse on China and on bilateral relations has never evolved in Hungary. It is also noteworthy that the Hungarian media discourse is mostly materialist, focuses merely on economics and potential financial opportunities and risks, while topics like political values, human rights, minorities or democracy are almost completely missing from the agenda.¹⁸

Conclusions

Beijing is considered an important partner to Hungary, China is the most important trade partner of Hungary outside the European Union, imported goods provide an important source of input for the domestic economy, while the rise of exports offers opportunities both to multinational companies with a production site in Hungary and for domestic small and medium sized enterprises. There might be a huge untapped potential in the service sector, first of all in the field of tourism. Investment relations are strong, though new major Chinese investors have not arrived in the recent years. Beijing is mostly interested in infrastructure and public procurement projects, while the Hungarian side is eager to attract investments, which create new jobs and manufacturing.

It would be important to improve the extent and quality of the discourse on China in Hungary, the general awareness of the public and politicians should be increased. Though one part of the media and a handful of journalists have been doing their best to write in-depth articles on China and Chinese–Hungarian relations, the overwhelming majority of articles is still based on simplistic news. A more nuanced approach would be desirable, i.e. to separate assessments of Hungarian China policies from the assessment of China itself, thus bashing the government would not necessarily mean bashing Beijing at the same time.

For the upcoming years, Hungary should formulate a sound China strategy, to reap the benefits of the particularly advantageous situation

¹⁸ KARÁSKOVÁ et al. 2018.

of the country, as it is located at the crossroads of EU–China, 16 + 1 and BRI relations. A more proactive and strategic approach of the Hungarian Government may contribute to the further success of bilateral relations.

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Poland–China Relations: From Enthusiasm to Caution? A Polish Perspective

Abstract

Since 2008, Poland has been reinvigorating relations with China. The reasons behind were two-fold. The global economic crisis, which affected the EU, was an impulse for Poland to look for economic partners beyond Europe. While China's global ascendance means that not having intensive relations with the PRC may marginalise Poland in the EU and globally. In recent years, one may observe an intensification of bilateral ties. Currently, political relations are well institutionalised, and in 2016, they were named a “comprehensive strategic partnership”. However, despite this political hype, especially between 2011–2017, economic cooperation is not a success – trade deficit on the Polish side is expanding and the Chinese investment offer is not attractive. What is more, China's global assertive approach, such as take-overs of high-tech companies and loan-based investments that may increase public debt and give an access to strategic assets made Poland rethink its policy towards China. Since 2017, Poland voices its discontent about trade deficit, scarce 16 + 1 results, China–Russia cooperation, etc. It is argued that strategic partnership has not met Poland's expectations yet.

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Keywords: China, Poland, comprehensive strategic partnership, Poland–China relations, Silk Road, Belt and Road Initiative, 16 + 1

Introduction

In 1989, when Poland’s political and economic transformation was launched, Sino–Polish ties were proper but not intensive. Poland’s foreign policy priorities were one of the reasons, in which the PRC played a marginal role. At that time, Poland focused on ties with new neighbours that appeared after the Soviet Union’s collapse, the unification of Germany and dissolution of Czechoslovakia. What is more, at that time Poland defined its two diplomatic priorities: memberships in NATO and the EU. Under these circumstances, there were not enough political and economic capabilities to focus on such remote regions as Asia, including China. Additionally, the symbolic coincidence of events that happened in both Poland and China on 4 June 1989 – in Poland the first semi-free elections, but in Beijing the crackdown of students’ demonstrations in the Tiananmen Square – did not bring the two countries closer to each other.²

The situation changed a little bit after Poland’s accession to the EU in 2004. In June 2004, the PRC’s Chairman, Hu Jintao, visited Poland and bilateral ties were upgraded to the “friendly cooperation partnership” level.³ Nevertheless, the first years after Poland’s accession to the EU could not be assessed as a success in terms of China–Poland relations. At that time, Poland was not very active in promoting enhancement of bilateral cooperation, political contacts were not frequent, and Poland did not actively use the EU forums when it came to the issues related to cooperation with China. At the same time, the PRC was still concentrated politically and economically on the “old” EU member states. The situation changed noticeably in 2008, when the global financial crisis broke out. Since then, the Polish policy towards China is more active, including intensive political dialogue, the process of bilateral ties institutionalisation and various efforts to improve economic cooperation. This very process is visible for the last ten years.

² SZCZUDLIK-TATAR 2013, 25–26.

³ Ministry of Foreign Affairs of the PRC 2004.

The aim of this paper is to present the Poland–China ties, its developments and the state of play from Poland’s perspective. In that sense, it is more an analysis of Poland’s policy towards China than that of Sino–Polish relations. It embraces the 2008–2018 period: from the redefinition of Poland’s policy towards China until mid-2018. The paper is divided into two main parts. The first refers to the 2008–2016 period, which might be summarised as Poland’s enthusiasm about relations with China. While the second, which started in early 2017, could be defined as a more cautious approach towards China. In that sense, these two divisions – 2008–2016 and 2017–until now – do not go in line with the government change in Poland. A new government was established after the presidential and parliamentary elections in 2015 (after eight years in power, the liberal and centrist Civic Platform party lost the elections). The Law and Justice conservative opposition party won both elections, secured an absolute majority and established a non-coalition government. In its first year of existence, it continued a policy towards China of its predecessors. The change of approach is noticeable since early 2017. The paper focuses on Poland’s reasons for greater interest in China, goals and tools for achieving them as well as rationales and manifestation of the recent change in bilateral ties.

China as a prospective partner: Towards “Comprehensive Strategic Partnership” (2008–2016)

China as an economic and political partner

A significant shift in the Polish policy towards China was launched in late 2008. The symbol of Poland’s greater attention to China and the beginning of the reinvigoration of bilateral ties was Prime Minister Donald Tusk’s visit to the PRC in October 2008. It was the first ever visit of a Polish PM to China since 1994. Tusk focused on economic cooperation and was muted on sensitive issues such as human rights.

There were several reasons for this shift. After becoming NATO and EU members, it was time to set up new diplomatic goals and priorities. This process was accelerated by the global crisis with two main implications for Poland. The government realised that Poland’s economy is overdependent on the European (mostly EU’s) market – more than 80% of trade and

investments are done in Europe. This overdependence might have a negative impact on Poland in case of EU troubles. In that sense, Poland started to look for diversification of economic partners, especially new outlet markets for exports. What is more, the Polish Government was aware of the upcoming gradual decrease of structural EU funds and in that sense started to seek new sources of capital. Asia, including China, which coped quite well with the crisis, still recording impressive economic growth and an expanding middle class was perceived as a possible new direction of Polish foreign economic policy.

The second factor that convinced the Polish Government to intensify relations with China had a political nature. China's stable position despite the crisis, the global economic and political ascendance of the PRC was an evidence of China's rising position in the world. In that sense, having not intensive but only proper relations with the PRC is not enough and may lead to a situation that Poland would be perceived as a marginal state, at least at the EU level. In that sense, Poland started to perceive China not only as an economic but also political partner as well as a rising global power with which intensive ties are indispensable to be seen as a country with a solid position in the EU and globally. What is more, it was argued that after years of Poland's preoccupation in Europe and underestimating China as a political and economic partner we should catch up. It was argued that big "old" EU members such as Germany and France are already present in China and Poland should not leave itself behind.

A good example of this aforementioned mindset was presented in the document about Poland's foreign policy priorities (2012–2016). It was said that "the role of emerging markets is growing and China – which became the world's second largest economy and exporter – gradually outclasses the U.S. and Europe as far as investments are concerned. The PRC already competes in services and goods with the Western world, while in innovation rankings is getting closer to the EU and the development gap between China and the West is gradually decreasing".⁴ While in 2015, Minister of Foreign Affairs Grzegorz Schetyna said that the centre of the world's dynamics is shifting to the Pacific and the role of China as a global power is rising. In that sense Poland is facing a huge challenge – it will become a country capable of taking an important place in cooperation between Europe and other continents or will be doomed to limit its

⁴ Ministry of Foreign Affairs of the Republic of Poland 2012, 3.

activities to its own region, and in further perspective will be marginalised. Asia currently contributes one-third of the global GDP. Despite the fact that the European middle class is still the largest source of demand on the global market, in 2030, the demand generated by the middle class of the Asia–Pacific region will be almost three times higher than the European. Poland must be ready for these global trends.⁵

Poland's goals

This mindset led to a formulation of goals in Poland's policy towards China. The priority is economic cooperation, mainly expanding exports as Poland records a huge trade deficit with China. The second aim is to attract Chinese investment as a new source of capital but also know-how. In that sense, Poland is interested mainly in greenfield and brownfield FDIs as they create jobs and facilitate technology transfers. The third goal is to expand Polish investment to China.

While the political goal is to maintain a regular and intensive political dialogue both on central and local as well as high and lower levels. This goal has two dimensions. The first one is connected with Poland's aim to be perceived in the EU (and globally) as an important player – a country which has a capability and ability to actively shape its relations with global powers such as China. The second dimension is linked with the aforementioned economic goals. Intensive political dialogue with China is perceived as an umbrella or a facilitator for closer economic ties. It is argued that good political relations are signals for Chinese business and local authorities that Poland is a partner worth cooperating with.

Apart from economic and political goals, the sub-goals were established as well. They might be perceived as auxiliary and long-term related goals. The promotion of Polish culture and language to disseminate knowledge about Poland in the PRC is one of them. Moreover, Poland would like to attract Chinese tourists and students to come to Poland. Those goals had two dimensions as well – to create “consciousness” about Poland in China, but also to get some economic gains due to the rising Chinese middle class, which has money and more frequently travels abroad as tourists and students. When there is a demographic decline of the current

⁵ Ministry of Foreign Affairs of the Republic of Poland 2015.

generation of students at the Polish universities, more foreign students mean more financial gains. Moreover, more Chinese students and tourists coming to Poland as an attractive destination is also a way to build close people-to-people relations with China, which could also positively influence the economic and political cooperation if not now, then probably in the future.⁶ In that sense those “soft” goals are seen as long-term investments.

Intensive political dialogue

As it was already mentioned, the year of 2008 was a breakthrough in terms of political dialogue between Poland and China. Then Poland started intensive preparation work for Expo 2010 in Shanghai (May–October). This event was perceived as a huge opportunity for a promotional campaign of Poland in China. It was a result of some opinion polls conducted in China with devastating results that generally Chinese people knew nothing about Poland. Eventually, during the Expo, eight million people visited the Polish pavilion, including representatives of the Polish authorities: the Speaker of the Sejm, the Minister of Infrastructure, the Minister of Agriculture and Rural Development and the Minister of Culture and National Heritage were some of the guests. Moreover, 40 events promoting Polish economy and 130 events promoting Polish culture were organised in China at the margins of Expo 2010.⁷

The year of 2011 was an important period in Poland–China ties. In June, CPC Standing Committee member, He Guoqiang, visited Poland. He met with President Bronisław Komorowski, handing him an invitation to visit China at the end of the year. In August, China’s Foreign Minister Yang Jiechi paid a visit to Poland and met with Prime Minister Tusk and Foreign Minister Radosław Sikorski. However, the most important event was President Komorowski’s visit to China in December (the first such visit since 1997). It was considered a symbol of the new opening. The President met with Hu Jintao, Prime Minister Wen Jiabao, and the Chairman of the Chinese Parliament Wu Bangguo. The result of the visit was a joint declaration on upgrading relations to “strategic partnership”. The document includes the need to intensify high-level political dialogue, establish

⁶ Znak 2009.

⁷ PAIH 2010.

a new cooperation mechanism at the level of deputy foreign ministers (the so-called strategic dialogue) and support for cooperation at the local level as a new dimension of the relationship.⁸ The declaration was a signal that China recognised Poland as an important partner in this part of Europe.

Intensive political contacts were maintained in 2012. In March, Chinese Deputy Minister of Foreign Affairs Song Tao paid a visit to Warsaw. He took part in the first meeting of the newly established strategic dialogue. The most important event was in April when Prime Minister Wen Jiabao visited Poland – it was the first visit of the head of the Chinese Government since 1987. In addition to the bilateral, the visit also had a multilateral dimension. In Warsaw, a new formula of cooperation between China and Central Europe (the so-called 16 + 1 format) was established. At the economic forum accompanying the first 16 + 1 summit, Wen Jiabao announced “12 measures for friendly cooperation with Central and Eastern Europe”. This document is twelve short- and medium-term goals set by the Chinese side to strengthen cooperation with the region.

In June 2015, Minister of Foreign Affairs Grzegorz Schetyna paid a visit to China. At that time, the inaugural meeting of the Intergovernmental Committee was held in Beijing. Schetyna met with Foreign Minister Wang Yi and the Vice President of the PRC Li Yuanchao. In October, Wang Yi visited Poland. The most important event of 2015 was the visit of the new Polish President Andrzej Duda to China in November. It took place shortly after the change of government in Poland. The new Polish authorities confirmed their will to continue the policy of strengthening bilateral relations. In addition to bilateral, the visit also had a regional dimension – the president took part at the 4th 16 + 1 summit held in Suzhou. For the first time, Poland was represented at this forum by the head of state. The president highlighted that the 16 + 1 already has its permanent place in Europe–China relations. In addition to Suzhou, where Duda met with Prime Minister Li Keqiang, he also visited Beijing, where he met with Xi Jinping and the Head of the Chinese Parliament Zhang Dejiang. The president assured that the strategic partnership would be continued. He added that choosing China – the only Asian country – in the plans of his first foreign visits is an expression of the importance he attaches to the Sino–Polish relations. The president invited Xi Jinping to visit Poland in 2016.

⁸ Embassy of the PRC 2012.

Before Xi's trip to Warsaw, Polish Minister of Foreign Affairs Witold Waszczykowski paid his first Asian visit to China in April. In Beijing, he met with Minister Wang Yi, Li Yuanchao and Head of the National Development and Reform Commission (NDRC) Xu Shaoshi. In Chengdu he talked with the party secretary of the Sichuan Province Wang Dongming, visited the Polish consulate in this city (launched in June 2015) and the Qingbaijiang logistics centre, where a transshipment terminal is located, serving a regular Łódź–Chengdu cargo train.

On 19–21 June 2016, Xi Jinping paid an official visit to Poland (the first since 2004, when Hu Jintao visited Warsaw). Xi met with President Duda, speakers of two chambers of parliament and Prime Minister Beata Szydło. The heads of both countries took part in the International Silk Road Forum and the 4th Poland–China Regional Forum. The most important result of the visit was the declaration – signed by Xi and Duda – of elevating bilateral relations to a “comprehensive strategic partnership”. In the Chinese diplomatic nomenclature, this is the highest level of relations with countries that are not treated by China as a superpower. The declaration underlined the convergence of the Silk Road Initiative related to Chinese economic reforms with the Strategy for Responsible Development (the so-called Morawiecki Plan) and announced the strengthening cooperation between the two initiatives, as well as the formulation of a Polish–Chinese cooperation plan.⁹

During the visit, about 30 agreements and letters of intent were signed. The most important were three MoUs of the Ministry of Development and the NDRC: joint formulation of the assumptions of the bilateral cooperation plan; establishing a joint steering committee for industrial cooperation; agreements on the development of communication areas of information. Agreements have also been concluded to facilitate trade, including the increase of Polish exports to the PRC. The Ministry of Agriculture and the Chinese General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) have signed: a protocol of phytosanitary requirements for the export of apples from Poland to China; agreement on cooperation to control the level of harmful substances in Polish poultry meat and a letter of intent on scientific research and cooperation regarding the principles of regionalisation in relation to African swine fever. Meanwhile, the

⁹ Official site of the President of the Republic of Poland 2016.

Ministry of Economic Development and the PRC Ministry of Commerce (MOFCOM) formulated two MoUs in the field of logistics infrastructure and industrial parks.

Institutionalisation

2011–2016 is a period of institutionalisation of Polish–Chinese relations. This term refers to new cooperation mechanisms, which make bilateral dialogue regular. Institutionalisation was carried on two levels: national (Polish), which includes new institutions within the Polish administration; and bilateral, which concerns strictly bilateral mechanisms as the result of the decision between Poland and China.

In December 2012, Prime Minister Tusk established an Inter-Ministerial Team for Coordination of Activities for the Development of a Strategic Partnership between Poland and China. This is the government's advisory body. Its main tasks are: to formulate recommendations in order to deepen bilateral relations, to monitor them, to facilitate a smooth flow of information between state administration agencies, etc. The head of the team is the Deputy Foreign Minister, while its deputy is the Vice Minister of Economy. Members are the Ambassador of Poland in China and representatives of various ministries. The team meets at least twice a year.¹⁰ Until 2018, the team met 11 times. The latest meeting took place in April 2018.

In 2012, the Polish Information and Foreign Investment Agency (PAIiIZ) and the Ministry of Economy launched the “Go China” internet platform.¹¹ Its goal is to collect economic information about China in one place, to assist Polish entrepreneurs launching cooperation with Chinese partners. In the same year, the Centre for Polish–Chinese Cooperation was established in PAIiIZ, the only institution in the Agency devoted entirely to one country. The agency also opened its first foreign office in Shanghai.

New institutions were also established at the Polish Embassy in Beijing. In May 2014, the Polish Institute – a state agency under MFA to promote Polish culture and history abroad – was launched. The Institute was officially opened by Vice Minister of Foreign Affairs Artur Nowak-Far.

¹⁰ Monitor Polski 2012.

¹¹ See www.paih.gov.pl/publikacje/gochina.

In the same year, a new position – a counsellor representing the Ministry of Agriculture and Rural Development – was established in the Polish Embassy in Beijing.

Poland's commitment to the Silk Road Initiative was demonstrated by Prime Minister Szydło's decision on 31 May 2016 to establish a Team to prepare assumptions for cooperation in the field of infrastructure projects for implementation with China. The team is a government's advisory body. Its main goal is to prepare a list of Polish–Chinese projects and their financing schemes, including Poland's contribution. The body is headed by Deputy Minister of Economic Development and the vice-chairman is Deputy Minister of Foreign Affairs. Members are vice ministers of finance, energy, treasury, maritime economy and inland waterway transport, infrastructure and construction, agriculture and rural development.¹²

Institutionalisation also took place on a bilateral level. Poland–China Strategic dialogue was established by the declaration of upgrading relations to strategic partnership in late 2011. It refers to annual meetings of deputy foreign ministers of both countries. The first meeting took place in March 2012 in Warsaw and was chaired by Vice Ministers Song Tao and Jerzy Pomianowski. Until the end of 2018, there were five “strategic dialogues”. The last one took place in Beijing in September 2017.

Another bilateral institution is the Polish–Chinese Intergovernmental Committee established in 2012. The meetings are to take place every two years, and the ministers of foreign affairs of both countries are heads of this mechanism. Representatives of other institutions are also invited to the meetings, depending on the topic of the talks. The first meeting of the committee took place in June 2015 in Beijing.

In 2013, during the visit of Minister Tomasz Siemoniak in China, a strategic dialogue was established at the level of defence ministers. The first meeting in this formula took place in November 2014 in Beijing and was chaired by Deputy Ministers Robert Kupiecki and Wang Guanzhong.

Another new bilateral institution is the Poland–China Regional Forum. It is a platform for establishing contacts with local authorities, enterprises, universities and cultural institutions. The aim is to promote relations at the local level. The vast area of China, their large diversity and cultural differences mean that relations at the central level are not enough to achieve the main goals of Polish policy towards China. Local

¹² Monitor Polski 2016.

authorities know better both the needs and the advantages of their “small homelands” as well as local entrepreneurs. In that sense, it is easier for them to identify potential areas of cooperation. Therefore, the local dimension in Polish–Chinese relations is becoming an increasingly important way to implement the goals set by the Polish diplomacy. The first forum was held in April 2013 in Gdańsk, the second in June 2014 in Guangzhou, the third in June 2015 in Łódź, while the fourth in Warsaw in 2016. Cooperation at the local level in the discussed years has clearly intensified. A model example is the cooperation of Łódź city and the Łódź Voivodeship with Chengdu city and Sichuan Province. Both regions have opened their offices in partner cities, and since 2013 there has been a cargo train connection between Łódź and Chengdu. Cooperation at the local level was an impulse for the government to set up a new Polish Consulate General in Chengdu. The consulate was opened in mid-2015.

Economic cooperation

Poland's actions to improve economic relations. The economic goals – a cornerstone of Poland's policy towards China – are strictly connected with a necessity of greater access to the Chinese market. This requires promotion of knowledge about Asian business partners, markets, principles and ways of doing business, as well as potential export products that have a chance to exist on the Chinese market. In 2011–2016, the Polish authorities undertook two-fold actions. The first direction was an attempt to create a friendly political climate as an umbrella for companies in both countries. The other direction was the administrative decisions aimed at facilitating economic contacts between countries.

The first group includes discussing economic issues at all meetings, regardless of the level and format. During the visits of Presidents Bronisław Komorowski and Andrzej Duda, Polish–Chinese economic forums were organised. Such forums are also organised under 16 + 1 formats, and every two years in Ningbo in June there are meetings of representatives of ministries responsible for economic matters, on which Polish representatives were present. Polish authorities during meetings with Chinese representatives raised the issue of the huge trade deficit on the Polish side, barriers to Chinese market (e.g. difficulties in obtaining certificates for agricultural products or Chinese embargo on Polish pork),

and the issue of guarantees that the Chinese bank should repay after the unsuccessful Covec investment in Poland. They also encourage Chinese entrepreneurs to invest in Poland, paying attention to its competitive advantages.¹³

As far as decisions are concerned, two 16 + 1 mechanisms of an economic nature were established in Poland. In November 2014, PAIIZ launched a cooperation mechanism for investment agencies, while in December 2014, at the 16 + 1 summit, a Business Council was established with its secretariat in the Polish Agency for Enterprise Development. While in late 2016 and early 2017 a new 16 + 1 mechanism – the secretariat for maritime cooperation was set up in Poland, as a result of the Riga summit in November 2016. In March 2015, Poland submitted an application to the Asian Infrastructure Investment Bank (AIIB) in order to obtain the status of a founding member. On 9 October 2015, the Polish Ambassador to Beijing Mirosław Gajewski signed an agreement on the creation of AIIB.¹⁴

Silk Road. Since the announcement, Poland expresses a positive attitude towards the Silk Road Initiative. This initiative is perceived as a means that may help in expanding Polish exports to China, attract Chinese investments, and speed up Poland's reindustrialisation through synergies between the OBOR and Poland's Morawiecki Plan – e.g. upgrading Polish infrastructure. Nevertheless, no specific project has so far been launched since the announcement of the initiative (known also as “One Belt, One Road” – OBOR or “Belt and Road Initiative” – BRI). To date, China has rather recast existing projects under the Silk Road name, with a prime example being the Łódź–Chengdu cargo train line.¹⁵ In 2015, Poland signed a Silk Road MoU, while during Xi Jinping's visit to Poland, the BRI was reshaped into the above-mentioned declaration of “comprehensive strategic partnership”.

In 2016, Poland continued its involvement in the initiative of the Silk Road. In March, the parliament unanimously agreed to the ratification by the President of the agreement on Poland's accession to the AIIB.¹⁶ On 19 April 2016, the President signed a law that entered into force on May

¹³ GRADZIUK–SZCZUDLIK-TATAR 2012; Chancellery of the President of the Republic of Poland 2012, 12, 13, 19, 23; Official site of the President of the Republic of Poland 2015.

¹⁴ Ministry of Finance 2015.

¹⁵ See SZCZUDLIK 2016, 45–48.

¹⁶ Sejm 2016.

6. Poland became a full member of AIIB on June 15, when the process of its creation was completed at the meeting of the bank's governors.

In April 2016, a railway freight connection from Kutno to Chengdu was launched. The inauguration was attended by the head of the CPC in Sichuan Province, Wang Dongming. In addition to Łódź (which plans to expand the terminal, to more efficiently handle rail transports on this route) and Kutno, cooperation with China is also declared by the Lublin province. The dry port in Małaszewicze is transhipped as part of the Zhengzhou–Hamburg railway connection, which is served by PKP Cargo. Representatives of the province participated in a meeting with the Chinese delegation during the visit of Xi Jinping in Poland. It is also worth mentioning that President Andrzej Duda and Chairman Xi Jinping (during his visit to Poland in June 2016) took part in the inauguration of the “China Railway Express” connection. The first freight train with this logo came to Warsaw from Chengdu with car parts and electronics.

During the visit of Xi Jinping, several agreements were concluded which can be considered as related to the BRI. Apart from changing the BRI (along with the Morawiecki Plan) into the declaration on a comprehensive strategic partnership, cooperation agreements in the areas of logistics infrastructure, industrial parks, development of information communication areas (the so-called information Silk Road) or conditions for using Exim Bank financial support for infrastructure projects were signed in Poland.

Trade. For Poland, the biggest problem in bilateral ties is a huge trade deficit, which is rising. While in 2011 it was at the level of 10:1 – Poland imported 10 times more from China than exported – and amounted to nearly 12 billion euros, in 2015 this ratio increased to 11:1, and the deficit reached the level 18.6 billion euros. While in 2016 and 2017 this ration increased to 12:1 and reached respectively 20 billion euro (2016), and 22 billion (2017).¹⁷

The trade structure is still unsatisfactory. Roughly 40% of Polish exports were made up of unprocessed goods (base metals, chemical products, plastics) that are prone to price changes on global markets. However, in the Polish import from China, the products of the electromechanical industry (54.8%) and textile industry (10%) dominated. Due to the structure of this import, which mostly includes high value-added goods, Poland's goal in relations with China is not to limit imports from, but to expand exports to

¹⁷ Ministry of Enterprise and Technology 2017; Ministry of Enterprise and Technology 2018.

China. One of the reasons for expanding deficit is the embargo on Polish pork that was imposed by China in early 2014 due to cases of ASF in Poland's eastern borders. While at the end of 2016, China imposed sanctions on Polish poultry (after detecting cases of avian influenza) which was lifted at the end of 2017. Another reason was the difficult access to the Chinese market, mainly due to non-tariff barriers. For Poland, a particular problem is the difficulty of obtaining certificates for agricultural products. This issue was even more visible from 2014, when Russia imposed an embargo on agricultural products from EU countries.

The fact that Poland gained access to the Chinese market for fresh apples, due to the protocol signed in June 2016 during the Xi Jinping visit, should be considered a positive phenomenon in trade relations. Fresh apples from Poland were admitted to the Chinese market in November 2016 after all formal procedures were completed. The first transport of apples to China was launched in December 2016 to Chengdu.

Investments. To date, Poland has a small amount of Chinese investments. Nevertheless, recently, especially in 2016, there was a noticeable rise of Chinese FDI's. At the end of 2016, the estimated level of Chinese investment reached around EUR 757.6 million.¹⁸ In terms of sectors, Chinese investments include: electronics, electromechanical sector, machinery, distribution, ICT, energy, environment, infrastructure and banking. The latest biggest and perceived as high-quality investments took place in 2016. They embraced the following investments:

- In mid-2016, Suzhou Chunxing Precision Mechanical, a public company listed on the Shenzhen stock exchange that produces aluminium components for telecom, automotive, medical and other industries opened a prototyping workshop in Gdańsk.
- In 2016, China Hongbo Clean Energy Europe purchased a plot in Opole to build a LED lighting factory. The company intends to invest EUR 85 million and create about 100 jobs. Apart from manufacturing, Hongbo plans to set up an R&D centre as a second phase of investment and a result of company cooperation with the Technical University of Opole.
- In August 2016, China Everbright International, a leading player in China's environmental protection industry and the first one-stop integrated environmental solutions provider in the

¹⁸ Ministry of Foreign Affairs of the Republic of Poland 2018.

country, completed its acquisition of Novago, a leading solid waste treatment Polish company. The acquisition was approximately EUR 123 million.

- In October 2016, the Portuguese EDPR Group sold 49% of its shares in a wind farm in Poland to a fund controlled by China Three Gorges Corporation. Estimated value of acquired shares in Poland is calculated to EUR 289 million.

It is worth mentioning that in 2012–2015, one of China’s unsuccessful investments in Poland was a source of tensions in bilateral ties. In 2009, China Overseas Engineering Group (Covec) won a tender to build a highway in Poland that should have been finished before the football Euro Cup 2012. Covec, which won the tender offering the lowest price, during the process of construction, reported a need for increasing the contract value. Eventually, the Chinese investor abandoned the project. The topic of repayment guarantees by Chinese banks was raised by Poland on each occasion and during all meetings with Chinese officials. Guarantees were eventually repaid in 2015.

China as a Difficult Partner or a Challenge? Towards a more balanced approach (since 2017)

2017 was the second year of the Law and Justice in power. The incumbent government, which in the previous year continued the approach defined and shaped by its predecessors, in 2017 signalled caution towards the PRC. This new attitude was noticeable especially in the economic sphere – trade and investments. There are signals in the public domain – in public speeches and interviews given by government representatives – about some modifications of Poland’s approach towards China. What is more, several decisions that were made highlight this change. Moreover, at the end of 2017 and beginning of 2018, government officials more openly admitted that the strategic partnership does not work as the trade deficit is raising and there are no interesting projects that might be implemented together with Chinese partners. Furthermore, 16 + 1 results are almost zero, while this formula “casts a shadow” on bilateral relations, which are becoming less important for China. This part is to give an overview of this evolution.

Officially, the goals of Poland's policy towards China have not been changed. This was confirmed by the exposés of the Minister of Foreign Affairs delivered in early 2017 and 2018.¹⁹ Nevertheless, it is of utmost importance to expand Polish export to China, attract Chinese investments and maintain intensive and regular political dialogue. In 2017, political dialogue was continued and was intensive. In May 2017, Prime Minister Beata Szydło paid an official visit to China and then took part in the first-ever International BRI Forum in Beijing. In July, Zheng Dejiang visited Poland. He met with the Prime Minister, the Speaker of the Parliament and the President. Zhang also attended the Poland–China BRI Forum for Infrastructural Cooperation, where Deputy Prime Minister Mateusz Morawiecki talked about serious potentials for deepened trade, investment, infrastructure and economic cooperation between the two countries. He also mentioned that in the next ten years, and even in a shorter period, Poland will spend over USD 100 billion on infrastructure investments.²⁰ Deputy Minister of Foreign Affairs Marek Magierowski took part in the 9th and 10th 16 + 1 National Coordinators meeting in Beijing (July 2017) and in Budapest (October 2017) before the 6th 16 + 1 summit. While Prime Minister Szydło took part in the 6th 16 + 1 summit in Budapest in November 2017. What is more, the Polish mechanism for cooperation with China and bilateral institutions worked according to the plan. In 2017, the 9th and 10th, while in 2018 the 11th meeting of the Inter-Ministerial Team was held in Warsaw. In 2017, the 5th strategic dialogue took place in Beijing in September. However, it is also worth mentioning that in 2017, the planned second Intergovernmental Committee meeting headed by the Polish and Chinese Prime Ministers did not take place, as well as the fifth Poland–China Regional Forum.

In the economic domain, the deficit on the Polish side increased. Concerning investments, 2017 was a little bit worse than 2016. There were examples of Chinese FDI's such as the announcement of Nuchtech of its second investment in Kobyłka near Warsaw – a new manufacturing factory of scanners for air industry and custom services. It is argued that the new plant in Poland will be the fourth largest beyond China, Dubai and Brazil.

¹⁹ See the information of the Minister of Foreign Affairs about the tasks of Polish foreign policy in 2017 and 2018 on www.ms.gov.pl, 9 February 2017 and 21 March 2018.

²⁰ Wizyta Zhang Dejianga w Polsce [Zhang Dejiang's visit to Poland], 13 July 2017, www.paih.gov.pl.

What is more, Smithfield Foods group, owned by the Chinese WH Group, has taken over the meat factories of Pini Polska and Hamburger Pini and the Royal Chicken Company. Furthermore, the Chinese Shanghai Electric Power Construction took part in a public tender for the construction of a garbage incinerator in Warsaw and is considered a potential contractor. As early as 2018, examples of Chinese investments were announced. A value-added greenfield FDI by a Chinese producer of electric car battery components, Guotai-Huarong is also worth mentioning. The company plans to build a factory in Poland. While in June, Zhonglu Fruit Juice took over the Polish producer of concentrated fruit juices – the Appol Company.

It seems that the economic data – the steadily growing trade deficit – as well as examples of Chinese investments in other countries that may pose a risk for a hosting country (investments based on loans which increase public debt and make the host country dependent on China or hostile takeovers such as in Germany) were among the reasons why the Polish Government now is re-thinking or reconsidering bilateral ties assessing five years of strategic partnership. The analysis of decisions and remarks in 2017 and the beginning of 2018 vindicate a change or at least correction of the Polish approach. In early 2017, Polish authorities started to argue that Poland seeks Chinese investments but not as a source of capital (as the previous government argued facing upcoming decrease of EU funds) but as technology and innovative solution providers. It also started to underscore a slogan that capital has nationality and that investments should be based on Polish capital and ownership.

The first signal came in February when the government-controlled agency – the Military Property Agency – cancelled a tender for a land in Łódź where the transshipment hub was to be built. A Polish–Chinese company – with a Chinese co-owner registered in Dubai – was interested in this property. It was argued that the origin of the Chinese company is vague, which was vindicated by its unsuccessful or even shadow investments in Germany. What is more, the Polish side stated that the Agency's decision to announce an unlimited tender was not proper because that would mean that investors may do whatever they want, including taking full control over the investment. The tender was cancelled with an information that Polish capital would probably be involved and a limited tender would be announced in the near future.

The second signal was sent in May during Prime Minister Szydło's trip to Beijing. She went to China with Mikołaj Wild who is a Government

Advisor responsible for the Central Communication Port (or hub) – a current flagship project of the government. When the project was announced, there were expectations that the Chinese company may be interested in it. But Wild said in Beijing that: “We did not go to China for money for the CCP [...]. We are not looking for financing, in return for control over the investment. We are looking for an economic partner who will also be interested in the success of this investment.”²¹ While another government representative said that: “We want investments to be under Polish control – obviously in cooperation with China. We would like to avoid the situation in which projects, such as CCP, are entirely financed by China [...]. Infrastructure investments must be carried out with caution, with the predominance of Polish capital. This applies not only to Chinese capital, but to every other. We believe that capital has nationality. It would be unreasonable at this point to ‘let’ investors enter into the infrastructure projects, giving them all the funding possibilities.”²²

There is also an example of an investment that has not been finalised. Agreed in May 2017, China Security & Fire’s purchase of Polish Konsalnet – the largest security company in Poland – for about EUR 110 million was officially halted in July. Supposedly, the reason is a new Chinese policy of greater control over the flow of capital from the country. However, there are also speculations that due to security reasons (the company had some links with the Chinese Communist Party, while the Polish company Konsalnet is responsible for protecting state agencies) Poland eventually cancelled this investment.²³ While in 2018, three potential Chinese investments in Poland have been eventually cancelled. In mid-2018, Chinese Ofo dockless bike-sharing company planned to launch its presence in Poland, mainly in Warsaw. Warsaw city authorities provided Ofo with a list of conditions to be met to start a business in the city. Eventually, Ofo stepped back from investments in Europe, focusing on the Asian market. It is also worth mentioning that the Chinese Stecol Corporation, which won in 2018 two tenders for the construction of two parts of a road in Poland, was eventually excluded from the tender due to some procedural mistakes.²⁴

²¹ Forsal.pl 2017.

²² Money.pl 2017.

²³ KALWASIŃSKI 2017.

²⁴ GRZYB 2018.

It seems that among the reasons for a new attitude were lessons learned from other Chinese investments. Polish officials rather openly admit that Poland is very cautious and would like to avoid what happened in Greece (Pireus) and Belarus (Wielki Kamien) – where China took full control over the investment or had access to the land where the investment was located. Other examples that are raised include the Belgrade–Budapest railway project that was scrutinised by the EU Commission, hostile and not transparent takeovers in Western Europe and Chinese investment skims based on loans and credits, which increase the debt of the host country with examples in the Balkans. The government started to highlight that money is not a key factor, as Poland has enough capital so far for infrastructural projects, e.g. from EU funds. In that sense, Poland is looking for technology and know-how and Chinese investors as partners, not money providers. It is argued that in the investment domain, Poland now presents a selective approach and would like to focus on those sectors where China may offer a comparative advantage. While in the trade domain, the presented posture is that huge trade deficit is a political issue and this message is a more vocal marketing to China.

It seems that the modification of Poland's approach is also connected with the wider global assumptions such as the resent discourse that China might not only be a partner but also a challenge: the rise of China as a global power, its greater engagement in the region which is becoming more visible in the Balkans but also in the Czech Republic and Hungary whose leaders pursue a pro-Chinese policy, the EU's more defensive approach towards China (e.g. discussions about an investment screening mechanism, cautions about BRI, etc.) and the perception that European countries might be put in an awkward position to choose between the U.S. and China. This assumption might be vindicated by Prime Minister Mateusz Morawiecki (appointed Prime Minister in December 2017) who said in an interview published in January 2018 that: "When I see our trade balance with China and the 1:12 ratio in favour of China, and in many countries in Central Europe the situation is similar, I wonder if we do not think about China using some clichés or even positive stereotypes such as placating the PRC for its openness. The possibility of providing services by foreign entities in China is extremely difficult. It is sometimes worth abandoning a political correctness, look at the numbers and be aware what the real challenges of the modern world are. And the United States think in a similar way. We

need a fair trade, as president Trump rightly pointed it out.”²⁵ In that sense, the Prime Minister underscored that Poland has a similar perception of China as the U.S. (U.S. records a huge deficit with the PRC as well) and signalled closer ties with the U.S. in terms of relations with China. While in June, Polish Minister of Finance, Teresa Czerwińska said that: “The Belt and Road Initiative must not be a tool of increasing power and control by any country”.²⁶ Finally, the Deputy Prime Minister’s attendance (instead of the PM) at the 16 + 1 summit in Sofia in July was a signal that Poland is not entirely satisfied with the cooperation with China. Poland’s discontent is also rising about China’s closer ties with Russia and its allies in Eastern Europe.²⁷

Conclusions

After a decade of intensification of bilateral dialogue, Poland–China relations are carried on three levels: bilateral, which includes central and local level; subregional – which means mostly 16 + 1 formula; and EU level. At the political level, bilateral relations are rather good – the best example is the change of bilateral ties into comprehensive strategic partnership. Political dialogue is maintained and is intensive – not only at the highest level such as heads of state, prime ministers and ministries of foreign affairs but also at the lower level including local cooperation (there are several examples of intensive cooperation between Polish and Chinese cities and regions). What is more, Poland’s representatives are taking part in all mechanisms under the 16 + 1 formula to have contacts with Chinese officials and to shape relations in various areas. The fact that there are three 16 + 1 mechanisms in Poland vindicated this approach. In that sense, Poland achieved its political goal in relation with China.

A worse situation has been created in the economic domain. Despite the very good “comprehensive strategic” political relations with China, Poland has not achieved its main economic goal – to narrow the trade deficit. Contrary, in the recent two or three years, trade deficit has been expanding significantly. In that sense, Polish officials started to use a different rhetoric

²⁵ Forsal.pl 2018; KALWASIŃSKI 2018.

²⁶ CHAUDHURY 2018.

²⁷ Sejm 2017, 5.

about trade deficit as a serious political problem. Despite the fact that in the last two years there are more Chinese investments in Poland, most of them are M&As (but it should be noted that several of them are perceived as high-quality takeovers), not *greenfield* investments which Poland is looking for. What is more, there are still no infrastructural projects under the BRI scheme and the goal to promote Morawiecki's plan similarly to what China is doing with its BRI has not been achieved as well. The reason for this might be Poland's rising caution as far as Chinese investments are concerned. In addition, the Team established by the Prime Minister in 2016, responsible for proposals of infrastructural projects that might be implemented with Chinese counterparts, does not work well either.

It is worth mentioning that at the EU level, Poland pursues a policy that is not very favourable for China. In that sense, Poland uses a manoeuvring approach to protect its interests. In 2016, Poland supported the EU decision not to grant China the market economy status, and did not oppose the first, harsher draft of the EU declaration after the Permanent Court of Arbitration in the Hague ruling, which rejected Chinese "historical rights" to the maritime areas of the South China Sea. While in 2017, Poland signalled a rather positive stance about the investment screening mechanism discussed in the EU.

China's rising global ascendance, examples of Chinese investments that might be a challenge for a recipient country, the restrained approach of "old" EU members and EU institutions due to rising Chinese influence in Europe, as well as the harsher rhetoric of the U.S. about China were probably among the reasons for Poland's realistic assessment of the "comprehensive strategic partnership" results. The outcome is Poland's more vocal rhetoric about trade deficit as a political issue, a more restrained approach towards Chinese investments (and a shift from a money-seeking to high-tech-provider narrative as well as a rhetoric that a capital has nationality) and a signal that Poland's policy towards China will be more leaning to the EU and the U.S. In case of minor (economic) gains despite "strategic" relations and facing potential challenges, the Polish stance which is to play two or three pianos – to present openly its discontent (e.g. about trade deficit, but also about the lack of 16 + 1 results, and concerns about China's ties with Russia), but having closer ties within the EU and with the U.S. and in that sense being a part of a big block which puts pressure on China, and still eager to cooperate with China – seems to be reasonable. It remains to be seen if it would work.

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China and Romania: Old Friends Drifting Apart

Abstract

Today, relations between China and Romania are still seen through the positive optic of the Communist era and still benefit from these old memories. Back during Nicolae Ceaușescu's rule, China and Romania developed a relation of friendship based on the fact that both of them were communist and both of them had strained relations with the USSR. Eventually, both of them also turned their gaze to the United States, hoping to balance the USSR.

Nowadays, Sino–Romanian relations encounter many difficulties and they remain just a shadow of their once strong connection of the communist era. Although during the tenure of Victor Ponta, the former Prime Minister of Romania, Romania displayed a growing interest towards China, culminating with the organisation of the then 16 + 1 Summit in Bucharest, in 2013; since then, relations have progressively weakened. Despite regular bilateral exchanges and talks at a ministerial level, the projects discussed during the 2013 summit have not made any progress. For example, the reactors 3 and 4 of the Cernavodă Nuclear Power Plant had been entangled in a puzzle of negotiations and were recently abandoned, joining other projects like the power plants Tarnița–Lăpuștești or Mintia–Deva.

Another sign of Romania's ambivalence towards China is demonstrated by its approach to the Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB). Regarding the BRI, Romania

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has signed only a ministerial memorandum of understanding, but has not developed any BRI projects with China. Regarding the AIIB, after missing the chance to become a founding member, Romania belatedly expressed its intention to join the AIIB, being admitted as a member in 2017, with the accession procedure taking more than a year and a half before receiving parliamentary approval.

This paper will begin by providing a brief overview of the basis of China–Romania relations from the communist era, followed by the evolution of their relations after 1989. The paper will then focus on current developments, like the role of the 16 + 1 (now 17 + 1) format, Romania’s perspectives and involvement in the BRI and the AIIB, the evolution of political relations, private Chinese investments and state-to-state contracts, the outlook for Romania–China relations and the main difficulties that they face.

Keywords: China, Romania, China–Romania relations, BRI, 17 + 1 format, AIIB, Chinese investments

Romania–China before and after the 1989 moment: A political outlook

In 1949, Romania was the third country to recognise the People’s Republic of China after its proclamation, paving the way for the golden age of the Sino–Romanian relations. But 70 years later, Romania and China are drifting apart as a result of a lack of involvement and concrete progress in deepening bilateral relations.

Back during Nicolae Ceaușescu’s communist rule, Romania had one of the most privileged relations with China of any country, based on mutual understanding and assistance. China supported Romania in 1968, when the USSR threatened Romania with an invasion similar to that of Czechoslovakia, after Ceaușescu refused to send Romanian military troops to quash the Prague Spring, as part of the Warsaw Pact invasion.² Soon, Romania had the chance to return the favour, because, during the early 1970s, it took the mediator role in the rapprochement between the United

² WATTS 2011, 388–389.

States and China,³ which culminated with the visit of Richard Nixon, the President of the U.S., to China. Thanks to their ideological affiliation and the distrust and resentment that both China and Romania nurtured for the USSR, the two countries managed to cooperate and develop their relations during the Romanian communist era. After the USSR,⁴ Romania was China's second largest trade partner during that time, and had an important contribution to the industrialisation and economic transformation of China. Romania and China exchanged technology, know-how, students, professors and experts, which improved China's technological and educational systems.

After the fall of the Ceaușescu regime in December 1989, China recognised the new government and even criticised Ceaușescu's rule⁵ with the obvious desire to continue its good relations with Romania. However, China's strategy did not pay many dividends, because post-communist Romanian politicians were wary of associating their government and their name with a communist regime. Thus, in the immediate period following the Revolution, relations with China were put on hold. For most Romanian elites, the communist era represented an atrocious regime, the memory of which they wanted to leave behind, and this trend was best shown by the strong desire of the Romanian political elite to join the Western international organisations, NATO and the European Union (EU). This pivot to the West became the main theme of the 1990s and Romania's attention and political capital was focused on the twin goals of joining NATO and the EU. Looking East, something associated with the communist regime, was no longer an interest.

A brief overview of the next 25 years of Sino–Romanian political relations, following the 1989 Revolution, shows two periods, with better relations during 1990–2005 and diluted ones after 2005. After the initial pause in political relations, Jiang Zemin became the first Chinese President who visited Romania after the 1989 Revolution, in 1996. He succeeded in rejuvenating Romania–China relations because, soon after his visit, in 1997, Romanian President Emil Constantinescu paid an official visit to China. It was followed by three visits by Adrian Năstase, the Prime Minister of Romania between 2000–2004, and that of Ion Iliescu, the

³ KISSINGER 2012, 90–91.

⁴ PENCEA–OEHLER–ȘINCAI 2012, 66.

⁵ CHIRIU–LIU 2015.

President of Romania, in 2003. Political relations seemed to undergo a period of development, because China expressed its intention to develop “a comprehensive friendly cooperative partnership”⁶ with Romania during Iliescu’s visit to China and this statement was later formulated into a joint declaration signed by the Romanian and Chinese presidents, during Hu Jintao’s visit to Romania in 2004.⁷ With the exception of Emil Constantinescu between 1996–2000, Romania was ruled for the rest of this period by a social democratic party that had many politicians, especially Ion Iliescu, who were politically active during the communist years.

This period could have been a period of stronger relations, as Romania benefited from two serendipitous connections: the Chinese leader between 1989 and 2002, Jiang Zemin, had spent half a year in Romania at the ARO Factory in Câmpulung in 1977, when he was an engineer.⁸ During this time, Jiang had also learned Romanian.⁹ At the same time, Li Peng, China’s premier between 1987–1998, who visited Romania in 1994, had studied together with Romanian President Ion Iliescu at the Moscow Power Engineering Institute in the early 1950s.¹⁰ Yet, these political connections did not materialise into stronger economic or commercial relations during the 1990s.

After 2005, Romania had both a right-wing government and president, and there was only one visit to China by a Romanian president, in 2006, when Traian Băsescu, the new Romanian President, paid an official visit. Băsescu met Hu Jintao, with whom he spoke about four aspects of the bilateral relation: “Maintaining high-level exchanges, expanding economic and trade cooperation, promoting cultural exchanges and strengthening multilateral cooperation.”¹¹ All these four aspects aimed to facilitate cooperation between China and Romania, but the proposals were not followed through and bilateral relations entered into an uncertain period, with Romania looking very much towards the West. Hu Jintao’s 2004 visit was also the last visit of a Chinese President to Romania. Romanian Prime Minister Emil Boc later visited China in 2011, but without any concrete results.

⁶ GE 2017, 128.

⁷ GE 2017, 129.

⁸ Evenimentul Muscelan 2011.

⁹ TOMOZEI 2012.

¹⁰ BADEA 2010.

¹¹ GE 2017, 128.

On a political level, the relations between Romania and China ebbed and flowed after 2005, reaching their apex in November 2013, when Bucharest hosted the 16 + 1 Summit and Li Keqiang, the Chinese Premier, visited Romania. The summit took place under the government of Victor Ponta, a social democrat, who had become Prime Minister in May 2012. Ponta, building on the work of his predecessors, Emil Boc and Mihai Răzvan Ungureanu, expressed a strong desire to deepen Romania's relations with China and his three-and-a-half-year tenure was one of the most active periods for Romania–China political relations after 1989.

Being in its infancy, the then 16 + 1 Summit was not a well-established forum, so China appreciated Romania's implication very much in organising the summit and the government's desire to serve as a standard-bearer of China's policies in Central and Eastern Europe. Praising Romania and its involvement in promoting China and the then 16 + 1 Summit, Li Keqiang expressed his belief that "Romania will become Europe's tiger and if all tigers join and cooperate, a huge market will develop".¹² The two countries also signed 10 memorandums of understanding,¹³ for projects whose total value was promoted as being 8.5 billion euros.¹⁴ Negotiations and public tenders soon began, but two years later, Ponta resigned, ending the period of rhetorical attention towards China, without any of these investments coming to life. Even if there is no correlation between Ponta's resignation and the lack of implementation of the projects, Ponta's tenure created a more favourable climate for developing relations with China. In this sense, many of the Romania–China MoUs regarding different projects were signed during Ponta's tenure.

As Prime Minister, Victor Ponta made two official visits in China: the first in 2013 and the second, one year later, in 2014. The two visits focused on strengthening both political and economic relations. Ponta hailed the 2013 visit as an important success, because he was one of the first European leaders to meet the new leaders of China, Xi Jinping and Li Keqiang. Ponta also proposed raising the bilateral relation to the level of a strategic partnership.¹⁵ The initiative never materialised and Romania's only strategic partner in Asia remained South Korea (in early

¹² Embassy of Romania in the United Kingdom of Great Britain and Northern Ireland 2013.

¹³ Știrile TVR 2013.

¹⁴ DIG124 2013.

¹⁵ Romanian Government 2013.

2018, negotiations began for lifting Romania–Japan relations to the level of a strategic partnership). As part of his 2013 visit, Ponta went to Chongqing and Shenzhen, where he visited the headquarters of Huawei and ZTE, two Chinese companies present on the Romanian market.

Although the two visits were promoted as the zenith of Romania–China relations, after 2004, they were not very fruitful, involving only projects which were never implemented (like a high-speed rail line between Bucharest and Iași, the modernisation of the Mintia thermal power plant or ultimately the Cernavodă Nuclear Power Plant). The only project where implementation had begun was a residential neighbourhood in Craiova, a city near Bucharest. It was planned to be an investment of up to 60 million euros, through a loan from China Development Bank, to build around 2,000 low-cost flats, with a deadline at the beginning of 2017.¹⁶ An agreement was signed during Ponta’s 2014 visit; but, the project had already been negotiated and approved in the previous months. The Romanian state provided the land for the construction. Even this project failed, as the construction company, Shandong Ningjian, halted the construction after starting work on two buildings, due to lack of funds. After two years of waiting, the local government in Craiova took over the project, with a few unfinished buildings, in the summer of 2017.¹⁷

While Ponta managed to build strong personal relations during his term in China, being frequently invited to China to speak at various events, after his resignation, close political relations again failed to result in stronger economic relations. Numerous projects, like a high-speed rail line, were floated but never agreed upon. Some of the projects that were put on paper, like the Cernavodă Nuclear Power Plant or the Rovinari Power Plant, continued to undergo negotiations even six years after signing memoranda on them at the 2013 Bucharest Summit. Thus, Romania–China economic or commercial ties remained largely stagnant, irrespective of the good political relations during Ponta’s term, from 2012 to 2015.

After Ponta’s tenure, a period of disengagement began, the only notable high-level political contacts between the two countries, with the exception of the then 16 + 1 Summits, being the brief meetings at international summits: a meeting between Klaus Iohannis, the Romanian President, and Xi Jinping, during the UN General Assembly in September 2015 and

¹⁶ Primăria Municipiului Craiova 2014.

¹⁷ APIPIE 2017.

a meeting between Dacian Cioloş, the Prime Minister, and his counterpart Li Keqiang in Ulaanbaatar, in July 2016, during the ASEM Summit. Even though Romania successfully organised the then 16 + 1 Summit in 2013, Romanian high-level participation in subsequent summits became sporadic. In November 2015, shortly after becoming Prime Minister, Dacian Cioloş decided not to travel to China for the Suzhou Summit, in order to focus on formulating the government budget for the next year. He was represented by the Deputy Prime Minister, but the Chinese Government, which was for the first time the host of the then 16 + 1 summit, was disappointed by his absence. In 2016, Cioloş did travel to Riga for the fifth then 16 + 1 Summit, where he also had a longer bilateral meeting with Li Keqiang, yet without bringing home any notable agreement. But in 2017, the short-lived Prime Minister Mihai Tudose again opted, for no clear reason, to skip the Budapest Summit, sending the Deputy Prime Minister in his place. This snub came after a different Romanian Prime Minister, Sorin Grindeanu, was absent from China's first Belt and Road Forum, in Beijing. Unlike many of its neighbouring countries (such as Poland, Hungary, Serbia or the Czech Republic), Romania was represented at the deputy prime ministerial level, a sign of its diminished interest in comparison with other Central and Eastern European countries that have strengthened their relations with China in the past decade. Prime Minister Viorica Dăncilă, like Ponta, a social democrat interested in stronger relations with China, took part in the then 16 + 1 Summit in 2018 and the 17 + 1 Summit in 2019, but still without any economic project materialising.

In July 2017, Liu Yunshan, the fifth-ranked Politburo Standing Committee member, in charge of propaganda, visited Romania for the then 16 + 1 Political Parties Dialogue held in Bucharest, and he met with the leader of the Social Democratic Party, Liviu Dragnea, who was the real power broker on the Romanian political scene.

Liu Yunshan also visited the city of Constanţa, the home of Romania's most important port. One month later, the ports of Constanţa and Ningbo-Zhoushan signed a cooperation agreement.¹⁸ While this might have looked like a good sign for the future of Constanţa's cooperation with China, in June 2017, China had closed its Consulate in Constanţa,¹⁹ indicating that greater Chinese presence in the region was not among Chinese plans.

¹⁸ AGERPRES 2017b.

¹⁹ Embassy of the People's Republic of China in Romania 2017.

At the end of April 2018, Politburo member Guo Shengkun visited Romania as Xi Jinping's special envoy, as part of a tour in Eastern Europe. These two visits were the highest-level Chinese visits to Romania since Vice Premier Zhang Gaoli's visit in 2014.

The state of Romania–China relations was best shown in 2019, when the two countries celebrated 70 years since the establishment of their bilateral relations. If, in 2009, Romania was visited by Xi Jinping, then Vice President of the PRC, in 2019 there was no important figure from either side who paid an official visit to Romania or to China.

After Victor Ponta's resignation in 2015, Romania has had five prime ministers in less than four years. Such a high turnover made maintaining good relations with China and implementing older projects almost impossible. As Romania's focus remains on the European Union and the United States, the lack of a strong government made it difficult for Romania to nurture relations with countries outside of this sphere of interest. As an example of Romania's general lack of interest for diversifying its relations, in January 2018, Prime Minister Mihai Tudose resigned because of a political conflict with the leader of his party, Liviu Dragnea, just one night before the first visit of a Japanese Prime Minister in the history of Romania. This left the Japanese Prime Minister, Shinzo Abe, who was accompanied by a large economic delegation, without a counterpart for economic dialogue that day.

During Viorica Dăncilă's tenure, there was an attempt to bring relations back to their 2012–2015 zenith. As the leader of the Social Democratic Party, Dăncilă tried to relaunch China–Romania relations, but without being as vocal as Ponta was. Yet nothing materialised from this attempt. Romania–China relations would then take a 180 degree turn when the right-wing National Liberal Party would form the government at the end of 2019.

Thus, in the past five years, Romania–China relations have oscillated between periods of slight improvement and periods of neglect, without bright perspectives for the near future. The U.S.–China trade war and the U.S. campaign against Huawei have not only affected Romania–China political relations, but also the economic ones.

Romania–China economic relations after 1989

The evolution of Romanian–Chinese political relations was reflected in bilateral economic relations, which passed through periods of ebbs and flows, because of Romania’s lack of interest in developing its relations with China. For a decade after 2000, although political relations were fluctuating, commercial relations followed an upward path, reaching their apex in 2011, when imports from China reached 2.5 billion euros.²⁰ This upward trend started in 2000, from a value of around 200 million euros, reached a higher level in 2011 and then started to decrease to around 2 billion euros in 2013.²¹ Since 2013, imports from China have again started to grow. In contrast to the 1989–2000 period, when the trade balance was positive, i.e. Romania exported more than it imported from China, since 2000 the trade balance has been negative.

More recently, in 2019, China occupied the 5th position regarding imports and the 21th position regarding exports in the top of Romania’s trade partners. The trade balance is still negative, with imports standing at 5.06 billion dollars, and exports of 690 million dollars, according to Romanian statistics.²² Chinese statistics indicate a different amount of trade between China and Romania, with Romanian imports of 4.56 billion dollars and exports of 2.32 billion dollars.²³ “China was Romania’s seventh largest trading partner and the second largest trading partner outside the EU (after Turkey).”²⁴ On the other side, for China, Romania is only the 70th trading partner. The products China imports from Romania are mainly mechanical and electronic products, audio and optical equipment, wood products, clothing and accessories.²⁵

In developing better economic ties with China, two problems have stood out over the past 10 years: the lack of a direct air connection and a stringent visa regime. TAROM (Romania’s national airline) maintained a flight route from Bucharest to Beijing until 2004, when it was discontinued. Romanian officials have talked about restarting this route ever since, especially during the Ponta years. None of these efforts materialised and, in the meantime,

²⁰ PENCEA–OEHLER-ŞINCAI 2015, 46.

²¹ PENCEA–OEHLER-ŞINCAI 2015, 46.

²² Ministry of Commerce of the People’s Republic of China 2020.

²³ Ministry of Commerce of the People’s Republic of China 2020.

²⁴ Ministry of Commerce of the People’s Republic of China 2020.

²⁵ Ministry of Commerce of the People’s Republic of China 2020.

numerous capitals in the region inaugurated an air connection to Beijing. While Romania could have served as a hub for these countries' connection to China, today it is unclear whether a direct route would be economically viable.

The second issue, the difficult visa regime, existed for a long period, finally being eased starting in 2013. Nevertheless, from Beijing's point of view, visas remained a sore spot in bilateral relations. In order to obtain a visa, Chinese citizens had to receive approval for their invitation from the Romanian Ministry of Internal Affairs, a process that would last a few weeks. More problematic for Beijing was the fact that China was on a list of developing countries that were subject to this regime, which it saw as a slight. According to a Chinese official, being on a list that included Afghanistan, Congo, Syria or Somalia was very disappointing. This issue was finally solved in September 2017, to the great acclaim of the Chinese side. While Chinese citizens will no longer have to wait for approval from Bucharest, a lot of time has been wasted during the past ten years, a period in which numerous Chinese citizens, tourists or businessmen preferred to acquire Schengen visas instead of Romanian visas, if they wanted to visit the country. Ironically, one of the reasons Romania was overcautious in liberalising the visa regime was its desire to become a member of the Schengen area. As there have been some problems with visa fraud in the past, Romania opted to maintain tougher requirements for Chinese citizens, in order not to jeopardise its Schengen prospects. Quantifying the impact of the visa policy and the lack of an air connection on economic relations is difficult, but it is obvious that these barriers did not facilitate Chinese investments in Romania, which have grown very modestly since Romania's ascension to the European Union in 2007.

Nevertheless, despite these drawbacks, Sarmiza Pencea and Iulia Monica Oehler-Şincai have identified three waves of Chinese direct investment flows in Romania.²⁶ The first wave, in the 1990s, was composed by family-owned companies or small and medium enterprises (SMEs); the two most representative businesses for this wave are the Red Dragon commercial complex in Bucharest and an industrial park in Pârscov. The second wave brought to Romania more important business companies, like Huawei and ZTE, some of the most prominent and successful Chinese investments in Romania. The third wave has been under negotiation and

²⁶ PENCEA-OEHLER-ŞINCAI 2015, 52.

refers to investments attracted under the 17 + 1 or the Belt and Road Initiative umbrella. The projects in this category have been agreed at the 2013 Bucharest Summit, such as the Cernavodă Nuclear Power Plant or power plants in Rovinari and Târnița-Lăpuștești.

All these Chinese investments in Romania can also be classified in three categories: private direct investments, inter-governmental negotiations and mediated investments. The first and second waves enter under the category of private direct investments, while the third wave is dedicated to the negotiations undertaken between Romanian and Chinese state-owned companies. The most efficient and long-lasting Chinese projects developed in Romania were private investments by companies like Huawei.

When it comes to investments negotiated by state-owned companies, the picture is bleak. The largest investment that has been abandoned is the Cernavodă Nuclear Power Plant. In 2013, after the process of attracting Western investors failed, the Romanian Government led by Victor Ponta signed a letter of intent with China General Nuclear Power (CGN), with the occasion of the then 16 + 1 summit. CGN was supposed to build two new reactors, units 3 and 4, a project estimated to cost around 6.4 billion euros (8 billion dollars).²⁷ One year later, in 2014, the Government organised a public tender on a short time frame, which was won by the only participant, CGN. CGN and the Romanian company Nuclearelectrica, which owns the Cernavodă Nuclear Power Plant, then signed a Memorandum of Understanding (MoU) after another year of negotiations, in November 2015. This was supposed to be followed, according to the MoU, by ten weeks of negotiations to write the articles of agreement for the new joint venture.²⁸ Nevertheless, these negotiations continued for almost six years. In the meantime, Romania has changed six prime ministers, a process that sometimes delayed the negotiations, as the government needed to periodically reconfirm the negotiating mandate. For example, the Grindeanu Government, in 2017, delayed this approval for four months and negotiations restarted only after Sorin Grindeanu was sacked and replaced by a new prime minister, Mihai Tudose. The complexity of negotiating an 8-billion-dollar investment in a nuclear plant with a long-term horizon, coupled with political instability, complicated European regulations and cumbersome bureaucratic procedures (renewing

²⁷ RISAP 2015.

²⁸ Nuclearelectrica 2013.

the mandate-necessitated approval from four different bodies) meant that negotiations would last for almost six years, instead of the desired ten weeks. The Cernavodă project was also haunted by a problem connected to Romania's EU membership: the European Commission was not very keen on approving state aid for investments, but CGN was interested in obtaining a contract for difference, so that the Romanian state would guarantee a minimum price for the energy generated by the new reactors and would pay the difference if the market price is smaller. This mechanism was approved by the Commission in the case of the Hinkley Point C nuclear power plant, so it probably would have been approved for Cernavodă.

In May 2019, the Dăncilă Government signed an agreement for establishing the joint venture between Nuclearelectrica and CGN, four years behind schedule. However, by this time, the issue had become more complicated by the starting of the trade war between the U.S. and China and the U.S. campaign against Huawei. Because Romania is a staunch U.S. ally, which hosts two NATO military bases, including an antiballistic shield, the external pressures together with the previous negotiation problems and the new right-wing government that came to power in late 2019 sealed Cernavodă's fate. In 2020, the Romanian Government led by Prime Minister Ludovic Orban officially announced that it will end the CGN's involvement in building units 3 and 4 at Cernavodă.²⁹

During 2019, Romanian President Klaus Iohannis and then Prime Minister Viorica Dăncilă, both candidates running in that year's presidential elections, travelled to the United States, occasions on which two MoUs indirectly targeting China were signed. During Iohannis's visit, the two sides signed an MOU targeting Huawei's participation in the country's 5G network,³⁰ though without explicitly mentioning the Chinese company. Dăncilă later witnessed the signing of an MoU regarding U.S.–Romania civil nuclear cooperation.³¹ Although at first sight this MoU did not target CGN and Cernavodă, it seems to have been a code word used by the U.S. to refer to Cernavodă. This aspect was shown by the fact that U.S. Secretary of State Mike Pompeo, in an online conference with EU Foreign Ministers in June 2020, congratulated the Romanian Minister of Foreign Affairs, Bogdan Aurescu, for Romania's position regarding 5G and civil nuclear

²⁹ BRÎNZĂ 2020.

³⁰ HotNews 2019.

³¹ Romanian Government 2019.

cooperation, weeks after the official announcement that Romania will end CGN's involvement in Cernavodă.³²

The official end of CGN's involvement in the Cernavodă project came almost a year after the Dăncilă Government signed the agreement that green lighted the establishment of a joint venture company³³ – the final negotiation step. Because the joint venture was not implemented, Romania did not pay any financial compensations to CGN.

Today, without CGN, the future of Cernavodă is uncertain, as there are no investors that expressed interest in the project. Although Romania and the U.S. signed an MoU regarding civil nuclear cooperation, there is no American nuclear company interested in investing in Cernavodă, apart from modernising the two existing units, which does not imply an investment. Because of this, Nuclearelectrica is considering whether to self-finance the construction of only one reactor at Cernavodă.³⁴

A project that was completely shelved because of political instability and government changes is the Tarnița-Lăpuștești Hydropower Plant. This project is a pumped-storage hydroelectricity plant that was supposed to go hand-in-hand with the new reactors at the Cernavodă Nuclear Plant. The value of the investment has been estimated at over 1 billion dollars. The Ponta Government was interested in this project and in 2015 organised a public tender. Three out of five consortia of Chinese companies had been selected after the first stage of the process.³⁵ However, once the Ponta Government left at the end of the year, the next step of the selection process never materialised. The new government, led by Dacian Cioloș, published a draft of a new National Energy Strategy,³⁶ which omitted the Tarnița-Lăpuștești Hydropower Plant. In 2018, a different government unsuccessfully aimed to reintroduce the project in the final version of this National Energy Strategy.³⁷ Thus, the Tarnița-Lăpuștești Hydropower Plant fell victim to shifting political priorities of different governments. Whether or not this project will be implemented in the next years, or whether a Chinese company will be selected, is unclear, but highly unlikely.

³² Ministry of Foreign Affairs 2020.

³³ BRÎNZĂ 2020.

³⁴ BRÎNZĂ 2020.

³⁵ HotNews 2015.

³⁶ Ministry of Energy 2016.

³⁷ AGERPRES 2018a.

A change of government was not even necessary in order to abandon one of the agreements signed in 2013. It is the case of the modernisation of the Mintia–Deva Thermal Power Plant. About a year after the MoU was signed with China National Electric Engineering Co., Victor Ponta visited China and a 271-million-dollar contract was signed.³⁸ But just a few months later, the contract was abandoned. According to Romania's Energy Minister at the time, the decision was taken because the initial agreement lacked the necessary approvals (for example, from the general assembly of shareholders), the Romanian company could not find the funds for its share of the investment and the contracted technology was outdated and the power plant would have required another upgrade, after the Chinese investment.³⁹ Why these problems were not considered when the contract was first signed is unclear, but it shows how uncertain Romania's interest for Chinese investments really was.

Another thermal power plant, whose fate is at this time unclear, is the Rovinari Power Plant. It was supposed to be an investment of around 1 billion dollars for a new coal-fired unit and a MoU was signed with China Huadian Engineering in 2013. One year later, China Huadian and Complexul Energetic Oltenia, the Romanian company that owns the Rovinari Power Plant, signed an agreement for a joint venture.⁴⁰ After lengthy procedures, almost two years later, in 2016, the joint venture company was finally established.⁴¹ But by then, Romania had already entered in the period of frequent government changes, which meant that the project did not get off the ground. In the summer of 2017, negotiations between the two sides were restarted,⁴² but construction of the new units is yet to begun.

There is a third category of Chinese investments, those private investments that were mediated by other companies. It is the case of companies that came under Chinese ownership because their parent company (which is not a Romanian company) sold it or was bought by a Chinese company. For example, Smithfield Romania was a branch of the American company Smithfield which in 2013 was purchased by

³⁸ Știrile TVR 2014.

³⁹ IANCU 2015.

⁴⁰ Romanian Government 2014.

⁴¹ Complexul Energetic Oltenia 2016.

⁴² AGERPRES 2017a.

Shuanghui Group, the largest meat producer in China. Three other notable cases are Pirelli, Nidera and Takata-KSS. Pirelli, which owns a tyre factory in Slatina, was acquired in 2015 by ChemChina (China National Chemical Corporation).⁴³ COFCO (China National Cereals, Oils and Foodstuffs Corporation) bought 51% of Nidera, a Dutch agricultural trading company, in 2014 and later acquired the entire company in 2016.⁴⁴ COFCO International now owns a cereal terminal in the Port of Constanța and three grain storage facilities in Southern Romania. A more complicated case is that of Takata and Key Safety Systems. Each company owned three factories in Romania before being acquired by Ningbo Joyson Electronic Corporation.⁴⁵ Joyson Safety Systems now owns a few car-part factories in Romania.

But the most important case of such mediated Chinese investment was Rompetrol, an oil company owned by KazMunayGaz, which was renamed KMG International (KMGI). In 2015, KazMunayGaz sold 51% of its stake in KMGI to CEFC China. The transaction was abandoned, considering the numerous difficulties that CEFC China has faced (the detention of its chairman and the taking over of CEFC China by a Shanghai government agency;⁴⁶ the sale of 49% of CEFC's Czech operations to CITIC⁴⁷).

CEFC's acquisition of KMGI perfectly proves that neither private investments have been spared from roadblocks. The transaction was delayed for more than a year because of corruption problems that led to Rompetrol's assets being put into sequestration by the Romanian state.⁴⁸ The issue stems from a decade-long problem regarding debts owned by the Rompetrol Petromidia refinery to the Romanian state, before it was sold to Romanian businessman Dinu Patriciu. Patriciu developed the company while delaying the payment of the debt. In 2003, the Romanian Government accepted to transform the debt of around 600 million dollars into bonds, which were due in 2010. In the meantime, the Kazakh state company KazMunayGaz acquired Rompetrol and, in 2010, redeemed some of the bonds and converted the rest into shares. After a legal fight, in 2013, the Romanian Government and KMGI agreed to a solution that involved

⁴³ CHIROIU 2015.

⁴⁴ ROTARU 2016.

⁴⁵ DIGI24 2017.

⁴⁶ XIE 2018.

⁴⁷ Reuters 2018.

⁴⁸ TRAIUCU 2016.

the sale of some of these shares, combined with the establishment of an investment fund by KMG. Because of slow bureaucratic procedures, the sale of the shares was not completed when CEFC and KMG announced that the Chinese company would acquire 51% of KMG (Rompetro) at the end of 2015. Thus, in 2016, Romanian authorities scrambled to delay the transaction, in the hope of recovering the debt. Eventually, after long negotiations and threats with international arbitration on the part of KMG, the transaction was finally approved by Romania in 2017.⁴⁹ But by then it was too late for the sale to proceed smoothly, as CEFC was itself ensnared in a corruption investigation in China. The transaction thus fell apart. According to a Chinese official, another reason the transaction fell apart was that KMG was no longer interested in selling KMG (Rompetro) to CEFC.

The picture of Chinese investments in Romania is thus mixed. Between 1991–2016, 12,068 Chinese companies⁵⁰ were established in Romania, transforming China into Romania's main investor from Asia. Chinese companies represent 5.8% of the total number of foreign companies in Romania, but the value of their capital is only 315 million euros.⁵¹ For example, the number of the Chinese companies is larger than the number of Dutch companies, but Dutch companies have invested almost 44 billion euros in Romania, ranking 1st on the list of largest foreign investors. As a consequence, China ranks on the 5th position regarding the number of the companies set up in Romania, but only on the 18th position regarding the value of invested capital.⁵² This anomaly happened because most Chinese companies are family-owned companies or SMEs, with small investments and few employees. In contrast, Japan and South Korea have only 313 companies and 241 companies, respectively, established in Romania, but the value of invested capital is 181 million euros for Japan and 173 million euros for South Korea.⁵³ Another aspect that contributed to this anomaly is the fact that some Chinese companies like Huawei or Smithfield are not registered as Chinese companies, because they have their headquarters in other countries.

⁴⁹ CP 2017.

⁵⁰ Ministry of Justice 2017.

⁵¹ Ministry of Justice 2017.

⁵² PENCEA–OEHLER–ȘINCAI 2015, 46.

⁵³ Ministry of Justice 2017.

While most private direct investments are thus made by smaller companies, there are some successful stories of Chinese investments in Romania. The most prominent example is Huawei. Huawei is the most visible Chinese company on the Romanian market, with a growing consumer presence. Present in Romania since 2003, with around 1,500 workers and a revenue of 270 million euros,⁵⁴ Huawei is an important player in the Romanian IT&C industry. Huawei is present on the consumer market, selling smartphones, tablets and other gadgets, but also sells telecommunication equipment and provides business services. Huawei has a regional support centre in Romania, providing technical support for Huawei clients in numerous European countries. In Romania, Huawei provides network equipment to Romanian telecommunication companies and in 2016, the company won a contract to acquire assets from UPC Romania and assure the maintenance of its infrastructure.⁵⁵ In 2013, during the then 16 + 1 summit, Huawei also signed a general MoU with the Romanian Government that talked about strategic cooperation, support for extending Huawei's presence in Romania and reaching a number of over 1,000 employees and for Huawei's possible participation in government IT projects.⁵⁶

But in 2019, the U.S. campaign against Huawei determined Romania to take Washington's side and to sign an MoU, whose conditions would exclude Huawei gear from Romania's 5G network. In order to become legally bidding, the Romanian Parliament or Government has to transpose this MoU into a national law. In the future, the 5G and Huawei developments and Romania–U.S. relations may also influence the fate of Huawei's regional support centre in Romania.

Romania and two Chinese projects: AIIB and BRI

The Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB) are two Chinese projects that Romania was interested in, but also failed to capitalise on. In June 2015, the Romanian Ministry of Economy and the Chinese Ministry of Commerce signed a memorandum

⁵⁴ Ministry of Finance 2017a.

⁵⁵ Romania Insider 2017.

⁵⁶ HotNews 2014.

of understanding regarding the BRI, but on the Romanian side, it was signed only at the level of a state secretary.⁵⁷ Former Prime Minister Victor Ponta said that he avoided signing an MoU during his 2014 visit to Beijing because it was very close to the November presidential election in which he was a candidate and which he eventually lost.⁵⁸ Ponta said that he wanted to sign a BRI MoU at the prime minister level in 2015 at the then 16 + 1 Suzhou Summit, but he resigned three weeks before the summit, leaving Romania with no such agreement.⁵⁹ The yearly succession of governments that followed and the lack of interest of some prime ministers towards China meant that no project under the BRI umbrella has been implemented so far in Romania, even if the country promotes itself as one of the first European countries to sign a BRI MoU with China. The lack of high-level interest towards the BRI was demonstrated by the absence of Prime Minister Sorin Grindeanu from the First Belt and Road Forum that took place in 2017 in Beijing. While there is conflicting information in the Romanian Ministry of Foreign Affairs⁶⁰ (probably because the Chinese Embassy directly contacted the Prime Minister's Office, bypassing the ministry), it seems that Grindeanu was invited to the summit, but eventually decided not to attend. Romania was represented by a deputy prime minister, who was also minister of environment. At the Second Belt and Road Forum, in 2019, Romania was not represented by any government minister, highlighting its lack of interest in the BRI.

When it comes to the AIIB, Romania has also been ambivalent. When the deadline to become a founding member passed in the spring of 2015, Romania displayed no public interest towards the new bank. According to then-Prime Minister Victor Ponta, while he was interested in joining the bank, the new president, Klaus Iohannis, did not share his enthusiasm and because of their different points of view, Romania could not decide on a policy.⁶¹ Nonetheless, in the second half of 2015, Romania started to engage in informal contacts with the Chinese side regarding the AIIB.⁶² In the summer of 2016, the Government of Dacian Cioloş (who was closer to President Iohannis), with the consent of the president, officially expressed

⁵⁷ Ministry of Economy, Commerce and Tourism 2015.

⁵⁸ Interview of the author with Victor Ponta, April 2018.

⁵⁹ Interview of the author with Victor Ponta, April 2018.

⁶⁰ Discussions and interviews of the author with Romanian officials, 2017–2018.

⁶¹ Interview of the author with Victor Ponta, April 2018.

⁶² Interview of the author with Romanian officials, May 2018.

Romania's interest to join the AIIB.⁶³ The negotiations were concluded during the term of Sorin Grindeanu, Romania being admitted to the AIIB in May 2017, on the occasion of the First Belt and Road Forum.⁶⁴ It then took a year and a half for Romania's membership to be approved through a vote in Parliament, a delay to which the frequent changes in government contributed to. Only in April 2018, almost a year later, did the Ministry of Public Finance send a draft of the bill to the Parliament,⁶⁵ which approved it at the end of 2018.⁶⁶

According to the official government memorandum that approved starting negotiations to join the AIIB, the first reason for Romania's decision was to strengthen relations with China, because "Romania's absence from the list of members might create the risk of being singled out in contrast to the majority of EU states that have joined or are in the process of joining the AIIB. Another risk would be Romania's quasi-ignoring by Chinese authorities [...]".⁶⁷ Nonetheless, according to the Ministry of Finance, one of the reasons Romania decided to join the AIIB was the fact that it expanded its area of interest beyond Asia, approving the financing of European projects that might contribute to regional connectivity, thus making Romania eligible for AIIB investment.⁶⁸ If Romania's interest for joining the AIIB were to strengthen its relations with China, such a strategy would have paid higher dividends if Romania had been one of the founding members of the bank. Whether or not Romania will be able to attract any AIIB funds remains to be seen, as the Ministry of Finance declined to offer examples of possible infrastructure projects that might be financed by the AIIB.

Romania's subscribed capital is 153 million dollars, of which 30.6 million dollars is paid-up capital.⁶⁹ The amount will be paid in five equal annual instalments, after the Romanian Parliament ratified Romania's membership.

⁶³ RISAP 2016.

⁶⁴ AIIB 2017.

⁶⁵ AGERPRES 2018b.

⁶⁶ Romanian Parliament 2018.

⁶⁷ Ministry of Finance 2017b.

⁶⁸ Author's request for information from the Ministry of Finance, August 2017.

⁶⁹ Ministry of Finance 2017b.

Conclusions

While Romania–China relations are still seen as a traditional friendship, based on their apex when Romania was a communist country, today they are at a standstill gnant. The past 30 years since the Romanian Revolution have witnessed political ups and downs, the last period of stronger relations happening during the government of Victor Ponta. Since then, Romanian prime ministers have skipped two then 16 + 1 summits and both Belt and Road Forums. The frequent changes in government over the past five years, combined with other difficulties that manifested themselves even until 2015, meant that no project proposed at the 2013 Bucharest Summit has come to life. In 2020, the Cernavodă Nuclear Power Plant became the biggest proposed Chinese investment in Romania that was abandoned, due to long-running negotiations, political instability and external pressures.

While state-to-state economic negotiations have failed to achieve success, trade and economic relations have largely followed an upward path. While there are thousands of small Chinese investments in Romania, their combined invested capital is rather small. In the past few years, Chinese companies have indirectly acquired Romanian assets, by buying their Western owners. Moreover, there are also a few successful cases of large Chinese companies in Romania, such as Huawei.

The uncertainty of Romanian politics makes it difficult to anticipate the evolution of Romania–China relations. In 2020, Romania–China relations seem to be at a low level, both politically and economically. All the projects proposed in 2013 have been abandoned. The recent U.S.–China tensions also affected Romania–China relations, as Romania, a staunch U.S. ally, took Washington’s side in the Huawei saga, which risks further deteriorating its relations with Beijing. The only Chinese investments that may grow are in the private sector, especially through indirect acquisitions, but at a moderate pace. On the other hand, the lack of strong political relations makes large investments unlikely. While Romania and China remain rhetorical friends, there have been few concrete achievements over the past decade.

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From Budapest to Budapest – the 16 + 1 Cooperation: A Serbian Point of View

Abstract

In this paper we try to pursue a general overview of the platform for cooperation between PR China and sixteen European countries that the PRC initiated in 2012 under the name *Sixteen Plus One* or *China and Central and Eastern European Countries*. After five years, several prime ministers' summits and different sorts of established or developed ways of cooperation being introduced, it left most, if not all its European participants with mixed impressions about the very experience and the prospect for the future development of the platform. Regarding the complex environment and intense dynamism and controversies surrounding the platform "16 + 1", we will try to analyse the achievements, problems and limitations for its future development, including its visibility and overlapping with the Belt and Road Initiative and its position within EU–China relations.

Keywords: PRC, Central and Eastern European Countries, Sixteen Plus, Belt and Road Initiative, EU, connectivity, China rise

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Introduction of the framework and its geopolitical and geo-economic context

When announced in Budapest in 2011 by PRC's Premier Wen Jiabao and formally established one year later, the new format of cooperation between *Central and Eastern European Countries* and China took everybody by surprise, including the sixteen participants and the EU. Unexpectedness of the Chinese initiative did not help when it came to concerns coming from Brussels and over the Atlantic Ocean or readiness of the sixteen actors chosen for collaboration.

Many analysts and policy makers wanted to know what the interest was of the "16 countries", especially those eleven that at the time were already or just to become EU member states. Nevertheless, the period before and after the outbreak of the global economic crisis and the Eurozone crisis, was the period of disillusioning of the "new Europe" as they were left on their own, while the financial and trade borders of "old Europe" became again apparent in reality. Since the outbreak of the Eurozone crisis, all new EU member states had been experiencing significant budget deficits, credit crunch and liquidity squeeze as well as shrinkage of foreign direct investment (FDI) from the EU by 50%. In the midst of the EU's disappointing capabilities to deal with the ongoing crisis and the new emerging ones, China stepped in with the new platform for deepening and upgrading relations, especially when it comes to construction of traffic and energy infrastructure, financial sector, "industrial capacity cooperation", culture and education, trade and other projects that should build the connectivity within the sixteen and of the sixteen with China. China moved pro-actively onto the European soil offering what was needed: funds, capability to perform and connect, market for specific goods coming from "the sixteen".

When it came to the most important global market for China, the EU market, the world economic crisis only intensified and notably eased the realisation of huge Chinese interests in it. On the other side, it has significantly influenced the change of the EU's attitude towards China, which suddenly for some became an appreciated big investor, and even rescuer of the Union's economy and EMU through purchasing the EFSF and ESM bonds. For the others, it remained a threatening imposer and challenger of the EU dominance in Europe. An important alarming point for the latter position has been the reviving of the economic cooperation between China and Central and Eastern European countries through the

Sixteen Plus One (16 + 1) framework. For the Chinese and the crisis-stricken countries in Central and Eastern Europe, it was a promising and matching interest-based cooperation between CEE countries hungry for investments and technology and rising China in the middle of its global dispersing asset-acquisition process. The long history and tradition in cooperation, dated from the very birth of the People's Republic and the absence of political preconditioning only supported the initiative. Although some analysts saw this Chinese economic interest in countries that became EU members, as an attempt to get a shorter or cheaper way to the EU market, that engagement spread wider – into Eastern and Southeastern European countries.

Central and Southeastern European countries as former communist countries had a history in economic cooperation with China, exporting technology and experiences of their first steps in transition during the initial phase of the Chinese reform and opening up project. Also, they have relatively cheap and skilful work force and do not (or stopped to) press China with ideological issues. Chinese President Hu Jintao pointed out in Zagreb in 2009: “China has always respected sovereignty and territorial integrity of the South-European countries, as well as the development model chosen by the peoples of these countries.” In that sense, economic, political and every other aspect of cooperation with China flattered each of these countries. That cooperation, unlike one with major Western powers, was on equal footing, with no subordinating treatment. In that sense, too, countries of Southeastern Europe were also very stimulated to deepen cooperation with China; although in some of them there were concerns that such development could harm their close ties with most powerful EU countries that – paradoxically – have China as a high priority global partner.

Beyond the two high-level visits to Croatia (2008) and Serbia (2009), also other elements contribute to the impression of a much stronger political presence of China in the former republics of Yugoslavia. As a state that opposes the unilaterally declared independence of Kosovo and guarantor to the UNSC 1244 resolution that keeps the runaway province within Serbia, for the first time China behaved proactively when taking part in the debate before the ICJ in Hague, against unilateral secession. Also, Chinese police forces took part in the UN missions in Bosnia and Herzegovina and in Kosovo and Metohija.

Just a year later, after *Sixteen Plus One*, China initiated another much more resonant and almost globally spread initiative – the Belt and Road Initiative. Politically promoting the New Silk Road and strategic

connectivity over Eurasia through numerous bilateral agreements of good neighbourhood, and cooperative and strategic partnerships, China have financed and built traffic, communication and energy infrastructure corridors towards Central Asia, Turkey, East and Central Europe, as well as in Mediterranean, entering the European territory from the directions neglected before: southern and eastern ones. When it comes to the “16 + 1” cooperation, it added confusion to its already poor comprehensiveness. For some, including Chinese officials and scholars in various occasions, they merged or the prior and smaller one was absorbed by the BRI. As previously agreed and even built projects (like the *Pupinov most* in Belgrade, *Kostolac* thermal power station in Serbia) became proclaimed BRI projects (a similar thing happened with parts of the Trans-Siberian Railway), some “16 + 1” projects now “became” elements of BRI – lending and purchasing cargo terminals of the Piraeus Port or Belgrade–Budapest railway (that contrary to the general understanding had existed for decades).

Along with the continuing traditionally strong Chinese economic engagement primarily in Asia, the PRC has become a big donor and investor not only in Africa² and Latin America, but also – in accordance with its high leaders’ repeated announcements in 2009, 2010 and later – in Europe, too. Obvious and remarkably growing Chinese financial involvement, including European ones, has been happening as part of the realisation of the “Go global” strategy.³ Particularly noticeable Chinese interest was seen in the Mediterranean area, where some 30% of all Chinese investments in Europe had been concentrated since the outbreak of the global economic crisis in 2008.

Chinese first attempts to present its new infrastructure building and management capabilities in this part of Europe and in Europe generally were not that successful. On the contrary, a Polish road-building project in 2009 was a negative benchmark for cultural clashes and negative image of Chinese builders. It was marked by formal protests of the Polish company (that lost a bid with 50% more expensive offer than the Chinese one) and finally by a broken contract by China Overseas Engineering Group

² According to the OECD data, the biggest impact of Chinese investment has been in Africa where her foreign investment amounted to near \$51 billion a year since 2007. In proportion to the size of the economy, Chinese direct investment in Africa has been five times larger than in the rest of the world.

³ People’s Daily 2001.

(COVEC) as COVEC proved to be unable to deliver its USD 447 million contract for a 50 km highway from Warsaw to the German border.

When it comes to Southern Europe, China's interest could be noticed a few years before, although it was not announced as a strategy, nor later explained to the engaged "16" as such. Also, China proved to enter the EU through every channel it found or created – as happened with highly costly traffic infrastructure projects in Greece, a member state that had serious problems with the sustainability of its economic model and liquidity of its economy, which did not prevent China to make long-term investment of USD 2.5 billion while renting the Piraeus seaport for thirty five years, the main Greek trade port that is at the same time strategically positioned between three continents: Europe, Asia and Africa.⁴ Chinese state-owned shipping giant COSCO also invested additional 400 million Euros in upgrading and enlarging three container terminals of the port to enable them to connect with Southeastern Europe.⁵ Since 2009, PCT (Piraeus Container Terminal) a wholly owned subsidiary of COSCO Pacific Limited, a world-leading container terminal operator, has been operating in Greece and its engagement has been concentrated on increasing the capacity of the port's terminal by 30%.⁶ Finally, COSCO Shipping bought 51% of Piraeus Port (OLP) in April 2016 for 280.5 million Euros (USD 312.51 million) in a deal with the HRADF, Greece's privatisation agency.⁷

During the Chinese Prime Minister Wen Jiabao's visit to Europe in 2010, the Chinese side also announced the acquirement of Greek state bonds and formation of the regional investment fund for the Southeastern part of Europe, run by the *China Development Bank*. During the high-level visit, the intentions of Chinese corporations to rent the Thessalonica seaport were also expressed, as well as interests for investments in railways, airports, shipbuilding, telecommunications, tourism and agriculture. A total of USD 4 billion deals in shipping, trade and energy were signed by China and Greece during the visit of Premier Li Keqiang to Athens in June 2014 as a continuation of the numerous deals between state and business representatives from the two countries agreed in May 2013 during Greek

⁴ Sofia Echo 2010.

⁵ MICHALETOS 2010.

⁶ Dredging Today 2013.

⁷ Part of the deal was mandatory investments up to 300 million Euros that the Chinese company would pay HRADF an additional 88 million Euros and increase its stake by 16% to 67% in the following five years. See GEORGIPOULOS 2016.

Prime Minister Samaras to Beijing. Chinese firms were about to invest into international airports, regional airports, ports, railways, tourism, real estate and metal production. Although at the time humble China was the only visible face of the rising power, that visit also had an important role to eliminate scepticism of some political and academic circles in the EU about the very nature of the Chinese intentions. Wen Jiabao asked for undisturbed access for Chinese companies while announcing and making new business deals, which paved the way for the long-term presence of the Chinese companies and state in the whole Europe. Another message was also sent: China had already become an important player in the European financial market, the EU market and in numerous national markets of the EU member states and other European states.⁸

China has had a strong motivation to invest in strategic infrastructures in South and Southeastern Europe situated on the crossroads of major inter-regional and intercontinental routes, which had been neglected and for that reason expected to have strong growth; this happened to be the case in Serbia, also in Greece. That makes them smart investment choices. Additionally, an important development was the influx of the Chinese funds through bilateral loans, share placements and foreign direct investments (mostly joint ventures) thusly creating what many define a long-term strategy of Beijing to build a significant foothold in one of the most strategic placements of the European Continent. The railway links to Poland or Budapest from China over Eurasia were a similar strategic path from a different direction.

When the PRC's President Hu Jintao visited Croatia in 2009, it was the first highest-level visit from China to the region of the so-called Western Balkans and the first time that the Chinese intention to develop economic relations with the countries of the region was announced.⁹ During the visit, and later, Chinese companies expressed their interest to invest into Rijeka seaport, and into railway line Rijeka–Zagreb, that would fit into the wider Chinese positioning into transport and producing capacities in Europe. The next year, the third person in China's state hierarchy – Wu Banguo visited Serbia and declared the preferential financing and building of now famous “Chinese bridge” on the Danube in Belgrade (*Pupinov most*), the first bridge built by a Chinese corporation on European soil.

⁸ MITROVIĆ 2014, 24.

⁹ XING 2009.

The EU evolved its response towards a stronger China presence on European territory and its sphere of interest to more activism and participation from the initial suspicion-dominated but passive position. The outbreak of the world economic crisis has intensified and remarkably eased the realisation of the already enormous Chinese economic interest in Europe and especially the EU as the biggest unified global market. Since the very beginning of the initiation of the framework “16 + 1” or more realistically “1 + 16”,¹⁰ the EU has been responding rather strongly. First, pretty harsh criticism came from some academic and political circles in Brussels pointing at China as a distracting factor, that was “building a wall” across the EU territory or its zone of interest and future expansion.

The total value of debt bonds of Greece, Italy, Spain, Portugal, Germany and a few other EU states purchased by China remained unclear due to the cumulative nature of the relevant statistics. Together with appeals towards bigger Chinese involvement in this process came the opposite ones. Some analysts and politicians within the EU saw such development as hazardous for the economic and geopolitical independence of the European Union, as China’s economic, but also political importance within the EU and Europe grew upon the problems of the EMU economies. They saw China using the situation to empower its influence over certain countries, as well as over the whole EU. Although such development comes along the road, such understanding expressed reservations and partly prejudices towards China within certain circles in Europe and attempt to eliminate a competition by the others.

At the same time, China started to pursue another, more powerful role with the EU, as being just a big trade partner did not accommodate its interests. Beyond realising the “Go Global Strategy” Chinese companies were about to spread their financial surplus into more geographically dispersed baskets, including such attractive ones within EU, that, thanks to the debt crises, became more economically and politically accessible in the process of this “reverse FDI” process. In those acquisitions, Chinese companies were targeting rare gains for the investors – to acquire latest technology and managerial skills. The Chinese approach, however, was pragmatic as ever: making valuable bilateral business arrangements with individual EU member countries, which reduced a lot the negotiating power of the EU as a block. On the other hand, such an approach also enabled

¹⁰ MITROVIĆ 2014, 24.

member states to achieve individual national goals on the expense of the EU without seeking for consensus decision on each and every individual case. Also, the nominal devaluation of many assets within Europe made possible for China to maximise the effects of its investments.

Mr. Wen's last visit to the EU as the Premier of the PR China in 2012 corresponded with the "alternative" Chinese approach to Europe, e.g. through comprehensive, but primarily economic cooperation with the Central and Southeastern European countries through a framework created and financed for that purpose.¹¹

Unwrapping the package – “twelve measures”, their applicability and further

In April 2012, Chinese Prime Minister Wen Jiabao *de facto* co-hosted in Warsaw¹² high envoys from 16 Central and Southeastern European countries at the economic forum (announced a year before in Budapest) and introduced measures, later named “twelve measures” as tools for developing relations between the *Sixteen Plus One*. They included:

1. Set up a Secretariat for cooperation in Beijing, naming 16 national coordinators in each of the involved CEECs
2. USD 10 billion special credit line – 30% preferential loans
3. Investment cooperation fund – USD 500 million first stage
4. Increase total two-way trade to USD 100 billion by 2015
5. China to establish one economic and technological zone in each of the 16 in 5 years
6. Enhance financial cooperation between PRC and “the sixteen”
7. Expert advisory committee on the construction of transportation network
8. Organise a Forum on cultural cooperation and enhance cooperation
9. PRC to give 5,000 scholarships to students of the CEEC in the upcoming five years¹³

¹¹ MITROVIĆ 2013, 168–169.

¹² Previously, in 2011 Poland and China established the relations of strategic partnership, the second one after the first was established with Serbia in 2009.

¹³ A typical example of how some measures were realised was the distribution of scholarships in Serbia, which were given as a personal choice of the Chinese Ambassador in Belgrade, with no transparency of the “project”.

10. Tourism promotion
11. Establish a research fund on relations – China to provide RMB 2 million per year
12. Organise the Young Political Leaders' Forum in 2013

While some of the measures were immediately realised, as establishing the Secretariat in Beijing – although with a very modest number of assigned officials – naming the General Secretary, engaging the lower levels of administration in China to join, some waited much longer to come to reality (the Young Political Leaders' Forum occurred in 2017) and even became presented in public as a new joint venture and Chinese business involvement (the Borca economic zone in Serbia, in 2018).¹⁴ The announced Research Fund was launched in April 2018¹⁵ while availability remained vague and obviously meant to be used by Chinese academic and research institutions¹⁶ that would later pick up partners in “the sixteen”,¹⁷ often designated by the relevant state institutions through political connections in their relevant country, sometimes with no previous knowledge or experts on China. Usually, Chinese institutions would be advised by the Chinese Embassy in the relevant country and pick up an “appropriate” partner that would stage the annual “scientific conference”, that would allow funds to be used, Chinese scholars to travel to Europe and deliver the speeches and “cooperation” pursued. While tourist effects of such conferences, as well as opportunities for researchers to meet were created, the academic aspect of it remained dubious in many cases.

A credit line worth 10 billion US\$ for support of the future projects, among which some 30% of the amount noted to be financed under the preferential conditions soon became not at all preferential due to the

¹⁴ In January 2018, the Serbian Government announced that it was to “set up a joint venture with CRBC (China Road and Bridge Corporation)” and construct an industrial park in Belgrade’s suburb Borca. Construction works were to be done by CRBC and financed by loans from the Exim Bank of China and China Construction Bank and China Development Bank, while the Serbian Government would pay 300 million euros (362.2 million US\$) for an industrial park that was supposed to be “set up by China in each of the sixteen”.

¹⁵ Cooperation between China and CEEC 2018.

¹⁶ Please consult www.china-ceec.org/eng/yjjj_1/2014ndsqrn/t1410656.htm (Accessed: 17 October 2017.)

¹⁷ Please consult www.china-ceec.org/eng/yjjj_1/2018ndsqrn_1/t1529356.htm (Accessed: 27 May 2018.)

global downturn of the interest rates while the rest of the 70% were named “commercial loans”. So far the whole amount of USD 7 billion remained untouched, as unofficially explained, due to its unfavourable conditions. Projects in the area of traffic infrastructure (bridges, railways, ports, highways), high technology, renewable energy were said to be prioritised. Nevertheless, the conditions of the loans for infrastructure projects offered by China to the sixteen countries (the Chinese side required state guarantees from the recipient state) were not applicable to eleven of “the sixteen” that were EU member states due to EU regulations from 2011 and introduced code of conduct for performing projects (from the top political level to the corporations engaged, no bidding process, etc.) because these were declared market distortions by the EC and the relevant regulations.

In 2013, Chinese Premier Li Keqiang visited Romania, the first Chinese Premier to visit that country in nineteen years; this is a typical example of “rediscovering” old friends and partners that goes for most of “the sixteen”. Romanian Prime Minister Ponta was in China as that year Bucharest was the host of the second summit of the “China Plus Sixteen” Meeting of Heads of Government of Central and Eastern European Countries and China.¹⁸

Cultural cooperation or more correctly, Chinese cultural spreading over the sixteen became obvious. While in 2006, the first Confucius Institutes in CEECs were established in the capitals of Bulgaria and Hungary, by May 2014 there were already 24 Confucius Institutes and 8 Confucius Classrooms established in fourteen out of the sixteen CEE countries, with 18,000 students enrolled, mostly to study Chinese language. At the same time China’s announcement to offer 5,000 scholarships to CEE countries and invite 1,000 students to study Chinese in China started to be realised, but mostly in a non-transparent manner.

At the Belgrade Summit held in December 2014, the parties stated that they deem the basic principles of the document entitled *China 2020 Strategic Agenda for Cooperation* and the EU legislation as the basis for cooperation. As the first large-scale infrastructure project of the “16 + 1 Cooperation”, the reconstruction of the Budapest–Belgrade railway line was signed (although the agreement between the foreign ministers was signed two years before). At the Summit, the parties declared that they would support the set-up of the China–CEEC Business Council in Warsaw,

¹⁸ Bucharest Guidelines 2013.

which the regional economic organisations can join on a voluntary basis. A decision was passed on the formation of the first sectoral coordination centres: the China–CEEC Tourism Promotion Agency in Budapest and the China–CEEC Investment Promotion Agency in Warsaw and Beijing. During the Belgrade Summit, Chinese Premier Li insisted that all the agreements and projects were pursuing in accordance with the EU regulations.

The year 2015 and the first half of 2016 were marked by intensified cooperation and high level visits between China and 16 Central and Eastern European countries through the framework “16 + 1” regular prime-ministers’ summit held in Suzhou in November 2015 and through bilateral cooperation of China and a few crucial CEE countries: the Czech Republic, the Republic of Serbia and Poland that was highlighted by President Xi Jinping’s visit to the three states in Spring 2016. The general feature of the relations during that time was upgrading and framing cooperation into China’s wider internal and international frameworks and paths.

The project for the modernisation of the Belgrade–Budapest railway that was initially agreed at the meeting of the China–CEE countries premiers in Bucharest by China, Hungary and Serbia in November 2013, confirmed at the Bucharest Summit of prime ministers.¹⁹ Once completed, the 374 km rail was supposed to become a major commercial traffic corridor along the planned path from Athens (Piraeus Port) along Greece, over Macedonia, Serbia and upward to Hungary.²⁰ In Belgrade, in December 2014, the Memorandum of Understanding was signed by China, Hungary and Serbia. Again, the cooperation plan for the railway construction was signed in 2015 in Belgrade at the meeting of the Trilateral Group of China, Hungary and Serbia for Traffic and Infrastructure Cooperation, setting dates for certain phases of the project. The project was especially highlighted again at the Belgrade Summit, at the Suzhou Summit, the Riga Summit, the Budapest 2017 Summit and at the first Belt and Road Forum in Beijing in 2017. The Budapest Summit was postponed from May, as it was firstly announced to the end of 2017 as the beginning of works on the railway was expected, but it did not occur.

¹⁹ The 374 km long rail link between Belgrade and Budapest has its section through Serbia totalling over 200 km and through Hungary of 166 km. According to earlier estimates, the modernisation of the railway would cost between EUR 1.5 to 2 billion (MITROVIĆ 2016a, 8).

²⁰ MITROVIĆ 2016a, 8.

The problem was and remained that the three-party project, described by the Chinese media as “*China Railway Corporation’s* first project in the European Union”, had not started yet. Ever since it was announced, it came under fire by Brussels institutions. Brussels loudly criticised such deals as opposing the EU regulations and business practice because they excluded competition and public tenders and assigned (Chinese) companies that would deliver the works, as well as its price was marked as a ballooned one. Hungary, as an EU member state and Serbia, as a candidate country, have been under direct and indirect scrutiny, political pressure and questioning regarding the project. Orbán’s government proved to be tough in pursuing with the project as one of a national interest and at the same time trying to get it along with the EU regulations, while Serbia, being overindebted, was combining terms of the financing the project with the Chinese loan (USD 1.6 billion) and the previously received Russian loan for the upgrading of the railways and other possible models of financing, such as concessions or public-private partnership etc. Technical and legal preparations went on,²¹ but not a single piece of practical realisation of the project had happened until 2020, although announced several times.²² There was one more symbolic opening during the Budapest Summit in 2017, but it ended with the Chinese corporation’s engagement in renovating the Zemun railway station. The project was later officially connected to China’s Belt and Road Initiative, aimed at boosting Chinese trade with the EU as the modernised line would speed up the land transport of Chinese goods from the Greek harbour of Piraeus to Budapest and from there to the West and North of Europe, which remained a top priority for Chinese planners.²³ Aside from signing another relevant agreement with both Serbian and Hungarian prime ministers in Suzhou, the Chinese premier expressed China’s readiness to “build the China–Europe land–sea express line and promote connectivity in Europe”, while Chinese president Xi Jinping named it as a top project within the BRI Forum in May 2017. In Suzhou, in his opening remarks Li put that this framework for cooperation was one with “all win outcomes”: for China, the sixteen and EU, as the “16 + 1” cooperation “had fully accommodated the relevant concerns of the EU and moved in parallel with the greater interests of China–EU cooperation”. If that is going to be

²¹ KESZTHELYI 2014.

²² Xinhua 2015.

²³ For more see MITROVIĆ 2013, 167–185.

so depends largely on China's capacity to grasp Brussels frustrations, as well as the differential approach needed for achieving mutually beneficial cooperation with each of the very different sixteen CEECs.

Again, in Suzhou, another level in carving the framework of "16 + 1" was reached while EU posted itself more visibly and boldly. On the final day, President Xi held a group meeting with leaders of the sixteen Central and Eastern European countries, as part of the Fourth Summit. At the occasion, Xi Jinping and President Duda of Poland, Serbian Prime Minister Vučić, Prime Minister of the Czech Republic, Sobotka, Bulgarian Prime Minister Borisov and Slovakian Deputy Prime Minister Vážny, signed the intergovernmental memorandums of understanding on jointly constructing the "Belt and Road" between China and five countries.²⁴ Hungary was the first country to sign a memorandum of understanding with China on promoting the Belt and Road Initiative,²⁵ followed by the Czech Republic, the Republic of Serbia, etc.²⁶

When it comes to "connectivity in Europe" and connectivity between Asia (Eastern China) and Europe, there has been a notable increase of the railway lines across the three corridors, announced by China, as parts of the continental BRI or The Belt. The very strong political promotion of the new railway routes that connect China and Europe also serves China's political, commercial and security objectives, especially when it comes to creating an alternative path to export and import and reduce the Malacca dilemma. Still, its profitability and sustainability remain questionable.²⁷

Problems, achievements and opportunities

The fact that several of "the sixteen" cannot be found in the framework area of Europe, e.g. "Central and Eastern European Countries", but in the Southeastern part of Europe, only illustrates the way they were perceived and put in the same basket by the initiator. Beyond the fact that they were socialist countries, the criteria that China used when it decided to pick those

²⁴ Ministry of Foreign Affairs of the PRC 2015.

²⁵ TIEZZI 2015.

²⁶ MITROVIĆ 2016a, 7–23.

²⁷ It is evaluated that each container has been subsidised by provincial governments in the PRC by 7,000 US\$. See BESHARATI et al. 2017.

sixteen European former socialist countries, remains a puzzle. It seems that geopolitics and geography played an important role. Nevertheless, putting these sixteen very different countries, with different sizes, economic development, cultures and traditions in the same basket was not positively accepted. When Chinese PM wanted to meet all their prime ministers together during the summits, it caused negative reactions as they all wanted to be individually perceived and treated adequately.

These individual “treatments”, though, did not help the functionality of the platform and its quality, as lack of coordination and any block alignment among “the sixteen” make them exposed economically and politically to the enormously bigger partner. Not just that they could not articulate and coordinate their common interests in the platform, but they also performed as each other’s competitors for the “gate of China towards Europe”. Actually, the code of conduct of the *Sixteen Plus One* was bilateralism between each of them and China, much more than it became a truly multilateral cooperative platform. On the other hand, China’s attempt to connect itself with “the sixteen” and to support their interconnectivity did occur when it came to tourists, and especially experts in various think-tanks in “the sixteen”, that were showered with a variety of invitations from China and towards similar institutions in other “fifteen” CEECs. They grasped the chance that elevated their relevant importance in the national academic and research communities, while others took the opportunity to get government support and financing, as they became advising tools.

Although both sides experienced tremendous and substantial changes since they had been closely cooperating the last time, China successfully initiated a certain level of coordination of the development plans and courses of “the sixteen”, each of them with its ongoing 13th Five Year Plan and the Belt and Road Initiative’s agenda, as it was suggested by Li Keqiang at the Suzhou Summit.²⁸ Hungary introduced its Eastern Opening policy, Poland its Go China Strategy and the Czech Republic the China Investment Forum while Slovakia launched a three-year (2017–2020) Strategy for Development of Economic Relations with China. On the other side, for five years, growing trade produced multiplied deficits on the side of “the sixteen” while FDIs coming from China into economies of the sixteen remained modest compared to the surge of those in the leading economies of the EU. The growing political influence based on China in the eleven

²⁸ MITROVIĆ 2016b, 139–141.

EU member states and the “alternative model” that it could offer to five candidate countries caused concern and moved the European Commission into action.

Another problem alarmed by the institutions of Brussels came with the pattern of doing major infrastructure deals in the traffic and energy sector in Serbia, Macedonia, Montenegro, Bosnia and Herzegovina and Albania. Without proper transparency about the contracts and feasibility studies or public discussions on its quality or necessity, with assigning state-owned Chinese corporations to realise the projects and picking local subcontractors in the same manner, contributed to undermine the ongoing reforms of the local institutions, including the governance quality and sway them away from the reform path they chose according to the accession process towards membership of the EU. Also, with each individual project that could be huge in the relative context of the country’s economic strength, like the highway loan of USD 1 billion provided to Montenegro, that has a GDP of USD 4.5 billion,²⁹ China enlarged its economic presence without taking care of the financial burden made to the countries that received loans with a state guarantee, as the Chinese side required.

When explaining the platform, Chinese scholars and politicians would usually describe it as a part of EU–China relations or a way of empowering EU–China relations, but as the EU did not totally overlap with the “sixteen” and because of the specific elements of the platform introduced by China, it was not perceived as such from the EU side. That contributed to the vague impression of some in Europe, that China had some hidden agenda about the platform. When analysing economic cooperation between China and “the sixteen”, Chinese scholars typically analyse each of the sixteen countries individually and tend to express arithmetically their relevant “successes” in cooperation with China with little, if any consideration towards the specific interests of “the sixteen”.

When it comes to the “16 + 1” and the BRI overlapping or the first be absorbed by the latter, it remains ambiguous as ever, and open to different interpretations, while China’s determination to incorporate into BRI projects that were previously built or agreed was clear. When President Xi made three European, and all three “Eastern” European visits during the spring of 2016, it was very much about confirming the positions already taken. China and Serbia, as well as China and Poland,

²⁹ A 2017 estimate of the IMF (IMF World Economic Outlook 2016).

both of which strategically located, upgraded their strategic partnership to a “comprehensive strategic partnership” with the PRC during the visits. President Xi’s visit was aimed at further promoting political ties with both EEC countries, at improving the arrangement of the two’s respective development strategies with those of China and at reassuring commitments for the Belt and Road projects.³⁰ As Xinhua earlier pointed out in the commentary focused on President Xi’s visit to the Czech Republic in March 2016, “China, Czech Republic set example for broader region to advance Belt and Road Initiative”. Therefore, all visited countries in spring 2016 were expected to “set an example” and were seen as “pivot points” for the cooperation with the whole “sixteen group” and Europe by the Chinese side, including the media and analysts.³¹

President Xi’s visits were focused on further upgrading political ties with the Czech Republic, the Republic of Serbia and Poland, three EEC countries with different but important positions within “the sixteen”, as well as on firming the accommodation of their respective midterm development strategies with China’s Five Year Plan and on reassuring commitments for the Belt and Road projects. They were all seen and praised from China’s perspective as important to “set example for the broader region”, also as “pivot points” for the cooperation with the whole “sixteen group” within the Belt and Road Initiative. From their side, the three countries recommended themselves as “gates to Europe”, “gates to the EU”, “central points of China’s presence in Europe”, etc. Three CEECs visited by President Xi have been seeking for benefits that China’s economic presence in their relative economies could deliver through FDIs, opening segments of Chinese markets for their products and technology, better mutual and Eurasian traffic, communication, energy infrastructure and people to people connectivity, soft and available loans, that could all bring an upgrading business environment, recovery of their economies or be a strong impetus for more robust growth, more employment and other benefits that could come out of the cooperation, that China names as “win–win”. Additionally, the incapability of the EU institutions to tackle crucial problems mounting over it and Brussels’ persistent and endemic hypocrisy and bureaucratic stiffness when dealing with the weaker partners from within or outside have toppled the initial enthusiasm of the CEECs and for sure opened the door of

³⁰ MITROVIĆ 2016a, 7–23.

³¹ See Xinhua 2016.

the Eastern part of the European Continent to China wider. So far, some of them have been ready to expose themselves to pressure coming from Brussels and over the Atlantic from the political centres that follow the rise of China globally, including in this part of Europe, with strong suspicion.

Since China has started to push more boldly for its regional and even global ambitions, it also has become louder and more present in Central and Eastern Europe with a double dual approach to the EU: verbally abiding to its principle, while in reality using all its political, moral and economic weakness. Intensifying its far more important and profitable cooperation with the most developed Western EU economies, while pushing forward its cooperation with the eleven “newcomers” of the EU and the other five “willing to become members”. We can also observe that approach when it comes to the evaluation of China’s accumulated direct investments in the economies of the sixteen Central and Eastern European countries. By the end of 2016, they valued approximately USD 1.8 billion, according to the Ministry of Foreign Affairs (MOFA) and Statistical Bureau of China, in spite of the record breaking 2015 for China’s private and state investment in Europe of USD 23 billion. However, most of that impressive sum went to Western Europe with three quarters of it into real estate, automobile and IT industries. In 2017, the sum was astronomic, due to the acquisition of the Swiss *Syngenta* for USD 43 billion, but the rest of the FDI, which went into top EU economies also grew significantly and hit the new record of USD 38 billion. The other top eight EU countries, recipients of Chinese FDI by investment value were the U.K. (USD 20.8 billion), Germany (USD 1.9 billion), Italy (USD 1 billion), France (USD 1 billion), the Netherlands (USD 3.9 billion) Finland (USD 0.1 billion) and Portugal (USD 0.3 billion),³² accounting for almost 80% of the total European investment. They mostly went into agriculture and food, transport, healthcare, ICT and tourism.

President Xi’s visits to three CEECs in 2016 – actually two central European and one Southeastern – proved China’s demonstration of certain political triumphalism over flaws and weak points of Brussels’ high moral stands, including its concerns when it comes to all aspects of the “16 + 1” cooperation. A “new spring” in relations with the Czech Republic and Poland and the “special brotherly bond” with Serbia “proved” that China’s road was correct and that it was on the right track with perceiving itself

³² Baker and McKenzie 2018.

as a leading and creative power that “as the second-largest economy in the world should be more proactive in dealing with other countries”, as president Xi told to government officials, entrepreneurs and scholars in a recent meeting.³³ Additionally, by a strong position on the strategic water flow of Europe, the Danube (in Smederevo, Serbia), China strengthened its geopolitical grasp on Europe’s soil. As always, China was also pursuing its current internal and foreign political and economic goals that included the sixteen CEE countries, but much more modestly than those countries would have liked to see.

High-level visits and summits are important and powerful tools of political connections, but they failed to be followed by Chinese investors. As it happened during President Xi Jinping’s visit to Prague in March 2016, when he announced that the Czech Republic would receive over EUR 3 billion worth of Chinese investments by the end of that year, but so far there had been a very modest realisation of it. The similar outcome followed in Serbia after the presidential visit, where after a lot of promising from the Chinese side, only one investment deal was realised.³⁴ Also, beyond the dramatic difference of China’s FDI flow between the EU18 and “the sixteen” mentioned before, there has been a strong geographic asymmetry among “the sixteen” as some 95% of the Chinese FDI went to Hungary,³⁵ Bulgaria, Poland, Romania, the Czech Republic and Slovakia. However, in those countries, even in Hungary as the biggest recipient among the CEECs, they comprise only between 2.4 and 2.5% of the cumulative FDI in their economy. During the 6th Summit of the prime ministers of China and Central and Eastern European Countries in Budapest in November 2017, Chinese officials spoke of “Chinese investment in CEEC [...] over USD 9 billion”,³⁶ while they could actually only refer to Chinese loans borrowed to the different non-EU countries, as well as FDI into “the sixteen” that were less than 20% of the mentioned sum.

When it comes to trade, the proclaimed increase of the two-way trade up to USD 100 billion by 2015 as one of the “twelve measures” was not reached, trade increased continuously, mostly the trade deficit on the side

³³ AN 2016.

³⁴ E-kapija 2018.

³⁵ MATURA 2017.

³⁶ Xinhua 2017.

of “the sixteen”.³⁷ In 2016, the trade volume between China and CEEC reached USD 58.7 billion, according to Chinese data. Additionally, the two-way trade was also focused on the five mentioned CEECs by 82%. In numerous participations of the trade fairs in China and in the sixteen partner countries, Chinese corporations were mostly interested in enlarging their export, while the biggest exporters among the CEECs, like Poland, complained that Chinese markets opened at certain points, but, at the same time, got closed for other products.

Cooperation also included the financial sector, including the opening of the new branch of the *Bank of China Ltd.* that already existed in Budapest and Belgrade in 2017, and several divisions of the *Bank of China*: in Poland and the Czech Republic. The *Industrial and Commercial Bank of China* opened divisions in Prague and Warsaw and the *China Construction Bank* opened its Warsaw division, while the *Hungary Commercial Savings Bank* opened a representative office in Beijing in 2017. China also established the USD 10 billion China–CEEC Investment Cooperation Fund I in 2014 that invested in dozens of projects worth USD 422 million, again in five CEE countries, while Fund II announced the secured commitments of USD 800 million and one billion as a target for 2018.³⁸ Hungary, Serbia, Lithuania and Poland have participated in China’s bond market, while Poland was one of the founders of the Asian Investment Infrastructure Bank, lately joined by Hungary and Romania. Cooperation between the central banks of the partners was also introduced, as well as the China–CEEC Inter-Bank Association. China has signed currency swap agreements with three of the CEECs: Hungary, Albania and Serbia, with a total swap size of RMB 23 billion.

Different and numerous additional institutional mechanisms were also introduced to serve various fields of cooperation, such as China–CEEC Investment and Trade Promotion Agencies Contact Mechanism, The China Investment Forum, China–CEEC Business Council, China–CEEC Secretariats on Logistic Cooperation, for Maritime Issue, for Customs cooperation, etc., situated in different CEECs and their frequency of meetings and events was pursued. There were over twenty different mechanisms so far, and although it might look like helping people to people and economic cooperation, V4 countries were particularly annoyed by the

³⁷ PENCEA 2017.

³⁸ GHEORGHE 2018.

intensity of such frameworks that drained many of their capacities and as said, prevented them to focus on bilateral cooperation with China, that they appreciate much more than the “16 + 1” framework. According to China specialist in these countries, their relevant governments have already made such comments when addressing Chinese counterparts.

China and CEEC have truly witnessed growing people-to-people exchanges. In 2016, there were one million tourists between them, with the number of Chinese tourists visiting the CEE countries tripled compared to 2015.

Conclusion

For China, the platform has served as a tool for multiplying and strengthening its presence in Europe, through building a stronger influence on the EU from the inside and at the doorstep. China also wanted to get multiplied economic and geopolitical gains as seeing the building, financing, investing, trading, connecting and spreading of the Chinese culture as part of the realisation of its China Dream and a way of buffering domestic economic problems. Nevertheless, in spite of the stronger ever presence in the political arena and media in “the sixteen”, China’s economic presence remained symbolic compared to the EU or the German one, whether it comes to trade or foreign investments. Even that cause strong EU reactions on the side of Brussels and caused China to get a more pragmatic and hedged approach. At the beginning of 2018, there were rumours that China would initiate a new frequency of the *Sixteen Plus One* prime ministers’ summit by making it happen every second year instead of the yearly basis, but reactions within “the sixteen” were negative. Some saw this as China’s retreat in front of its much more important partner: the EU and its constant criticism.

However, the format, with all its shortcomings, put a strong light on the EU’s lack of political and economic capacity during the turbulent years of the crisis, during which eleven member states, not mentioning the candidate countries or the future candidate countries within “the sixteen” were politically disregarded and economically deprived of many of the EU funds. In addition, Brussels boldly insisted on the traffic corridors it drew while ignoring the needs and desires of the countries over the territories of

which they were supposed to pass. China stepped in into this “deserted” area and was welcomed by the local political elites, sometimes perhaps stimulated in various, not always acceptable ways.³⁹ It could be that the Chinese strong appearance “helped” the Brussels institutions to step in as responsible stakeholders with the Juncker Plan or Investment Fund for Europe and other financial tools for the member states, and to introduce though modestly, a Connectivity Agenda as part of the Berlin Process for the Western Balkans, worth of EUR 1.4 billion. The other part of the EU wakening process is a New Framework for Investment Screening that will make any further Chinese corporation’s attempt to acquire security sensitive asset, such as energy infrastructure firm, harbour, etc., much more difficult and submissive to strict EU rules.

Central and Eastern Europe are seen by China as important factors of China’s Belt and Road Initiative and partners as all the sixteen CEE countries are seated on the route charted by the Initiative, proposed by Chinese President Xi Jinping in 2013. That is why the previously initiated framework of cooperation *Sixteen Plus One* was immediately incorporated into the Belt and Road Initiative with all its twelve proposals. The major cooperation projects between the CEECs and China have been moving ahead steadily, with certain obstacles coming from limited capabilities of the relatively small economies of “the sixteen”, neglected ties between the two sides in the past decades, the tendency of China to treat them as a unique group of states, disregarding their differences, obstacles coming from the membership of eleven of the sixteen countries that has a legal, political and economic impact on the cooperation and China’s pursuing its way of conducting business operations and concluding business deals from the top political level and strong state involvement with minimum or no transparency. For the sixteen Central, Eastern and Southeastern European countries cooperation with China will be much more beneficial if their relevant governments manage to pursue less competition and more cooperation among them and try to form common middle and long-term positions in several major areas of cooperation. So far, they tend to be a passive partner in one of the complex experiments of China ascending towards its desired global position.

³⁹ Xinhua 2017.

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Richard Q. Turcsányi¹

Between Fascination and Ignorance: Slovak Political and Economic Attitudes towards China

Abstract

This chapter discusses Slovak–China relations since 1993 all the way to the present. The Slovak approach towards China is defined by the combination of *fascination* with the great power and exotic nature of China on the one hand, and the strategic focus on geographically more proximate areas on the other. The country’s diplomacy has respected China as a growing global power and paid the lip service to the importance of developing mutual relations, while at the same time basically *ignoring* China in the substance of its diplomatic activity. Shortcomings of the Slovak dealings with China will be emphasised as well, with perhaps the greatest one being the lack of knowledge and due attention being paid to China in Slovakia.

Keywords: Slovak–China relations, Slovak foreign policy, China–CEE, China–V4, China–Central Europe relations

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Introduction²

When devising foreign policies, Slovak leaders usually keep in mind the fact that their country has considerable limitations concerning its size and capacities. We are talking about the smallest of the Visegrád countries and one of the smaller countries in the European Union. Even though the country self-consciously accepts its ‘provincial’ character, it does not make the international positioning of Slovakia any less exciting, and certainly, it does not make it any easier. Moreover, occasionally Slovakia becomes part of a very interesting diplomatic development and one may say that it regularly punches above its weight.

Slovakia can be currently perceived as one of the most Western-leaning states in Central Europe, particularly in terms of its relatively pro-EU stances, especially when compared with Hungary and Poland who have been experiencing strained relations with Brussels, but also when compared to the EU-sceptical Czech Republic. In this case, the smallness of Slovakia is demonstrated in quite a consensual stance of its elite that membership and the active participation in the ‘core’ EU is the best way to navigate in global and regional politics.

On the other hand, Slovakia has traditionally had relatively good and functional ties with Russia, at times even sending signals that it wants to serve as a ‘bridge’ between West and East – which has been, in turn, heavily criticised by many experts as being dangerous and undermining the favourable Western orientation. In any case, this perception may, for instance, explain why Bratislava hosted a summit between American President George W. Bush and Russian President Vladimir Putin back in 2005, with both world leaders seeing it as an acceptable and to some extent ‘neutral’ ground, even though at the time Slovakia was already a NATO and EU member. For instance, Slovakia was the only V4 country which did not expel any Russian diplomat in the aftermath of the Skripal case, again paying respect to its tradition of being pro-EU and pro-Western, but not at the expense of relations with Russia.

When it comes to relations with China, the ‘provincial’ character of the Slovak international endeavours is manifested by the combination of *fascination* with the great power and exotic nature of China on the one

² Similar ideas have been published in previous publications of the author, such as PLESCHOVÁ–TURCSÁNYI 2019.

hand, and the strategic focus on geographically more proximate areas on the other. Therefore, ever since the independence of Slovakia in 1993, the country's diplomacy has respected China as a growing global power and paid the lip service to the importance of developing mutual relations, while at the same time basically *ignoring* China in the substance of its diplomatic activity with the sober realisation that it is too far to play a significant role in the 'day-to-day business' and that Slovakia is too small to achieve anything considerable there.

This chapter will discuss Slovak–China relations since 1993 all the way to the present. It is worth mentioning that although 1993 was the first time that independent Slovakia had diplomatic relations with China, the relations between the two sides were of course built on the legacy of the decades of Czechoslovak–China interactions. Legally speaking, Slovakia is, together with the Czech Republic, a successor of the common state with all its historical features with regards to China, including the fact that it was one of the first countries to officially recognise the People's Republic of China in October 1949.

The following section will briefly sum up the history of bilateral political relations from the 1990s 'low profile' stances of both sides, via the 2000s when the relations started to grow in importance after Slovakia entered the EU and NATO and both sides deepened their integration to the global economy. Furthermore, the Global Financial crisis starting in 2007 made China even more important. It was on this background that the 2010s saw the rapid development of relations thanks to the Chinese-initiated 16 + 1 and Belt and Road Initiative.

That will move the discussion to the second central part of the chapter – the economic relations. It will be shown that while trade-wise it has been relatively dynamic, with regards to investments we are still, as of 2020, in the era of 'waiting' for the arrival of Chinese FDI. In conclusion, the discussion about the potential future dynamics will be developed on the background of the assessment of past conduct.

It is a hope that this chapter can underscore that although Slovakia is a small country and its dealings with China are conducted in light of the vast asymmetry of power and geographical distance, the Slovak approach towards China is bringing about a few important points which perhaps can even offer a lesson to its regional fellows. At the same time, a few shortcomings of the Slovak dealings with China will be emphasised as

well, with perhaps the greatest one being the lack of knowledge and due attention being paid to China in Slovakia.

Political relations since 1993: ‘Low profile and never take the lead’

As has been mentioned already, although Slovakia started technically its independent diplomacy after 1 January 1993, it could draw on decades of Czechoslovakia’s experience, including the tradition of the few years of democratic diplomacy in the aftermath of the 1989 revolution and before the decision of the dissolution of the joint state in the second half of 1992. Before moving towards a chronological journey, it is worth noting that although the Czech attitudes towards China have influenced Slovakia, its own approach differed as well. Most notably, the strong personal input of the last president of Czechoslovakia and the first president of the independent Czech Republic Vaclav Havel put a strong ‘moralistic’ imprint on future Czech dealings with China. Although Havel’s ideas have always had followers in Slovakia, their impact has been considerably weaker than in the Czech Republic, both within political circles and among public opinion. Still, at times these ideas manifested publicly, such as when Slovak President Kiska met the Dalai Lama in 2016.

China is regarded as a rising global power with which Slovakia wants to develop intense relations. The Slovak government’s interest in relations with China is viewed as mainly economic – both regarding trade and investments, although security aspects are considered important since China is aspiring to become a leading global power and it also has its position as a permanent member of the UN Security Council.³

After the independence of Slovakia in 1993, China was not the priority of the foreign policy of the country – and it has never become one ever since. During the ‘reign’ of Vladimír Mečiar in 1994–1998, the country was wavering between the East and West. However, at the time, the memory of 1989 was still very much present both in China and in Slovakia and the two sides simply had different priorities and issues to focus on than the development of closer bilateral ties. Moreover, China’s role in international

³ MFA 2018.

affairs was far behind what it is today. Therefore, it was Russia that played in the 1990s the role of a Slovak 'alternative' to the West, not China.

Since the 1998 elections, the country reconfirmed its pro-Western direction and integration with the EU and NATO became the foremost priorities of its foreign policy. In the upcoming eight years, Slovakia was undergoing a rather dramatic process, which brought about membership in the EU and NATO and transformed Slovakia into a 'tiger economy'⁴ thanks to economic liberalisation, the attraction of foreign investments and subsequent growth of export-led production, particularly in the car manufacturing sector.

In this period, the development of relations with China did not attract much interest in Slovakia both for economic and political reasons. The Slovak development model in the 2000s was very much following the liberal market patterns such as deregulation and lowering of the tax burden, opening up for trade and foreign direct investments, or privatisation. This economic recipe came hand in hand with the politically strong pro-Western liberal democratic emphasis.

China did not fit within these processes and in fact it could offer little at the time, although the mutual trade was growing steadily – firstly, Chinese exports to Slovakia (as a result of liberalisation of the Slovak trade and China's membership in the WTO), and secondly, Slovak exports to China (as a result of the relatively successful establishment of pro-export economy in Slovakia). Although substantially, China was becoming more important economically, mostly due to the structural development on both sides, rather than any specific bilateral action. It may be pointed out, that although the Slovak domestic development switched after 2006 from the pro-reform oriented towards a local version of social-democracy (with strong populist and nationalist leanings), the perception that systemic steps are more important than ad hoc direct interventions have prevailed among many policymakers to these days.

It was only in 2003 when during then President Rudolf Schuster's (former high-ranking member of the Communist Party) trip to China, the new institutional framework of the bilateral relations between Slovakia and China was established after signing a new agreement about bilateral relations and cooperation in various areas including economic, cultural,

⁴ REYNOLDS 2004; K. M. 2011.

or projects of reforestation in China.⁵ At the same time, even during that time, there were relatively large numbers of state visits on both sides, pointing towards the vague realisation that China is an outstanding global actor although perhaps not so much in the direct sense at the given period.⁶

Incidentally, the year 2003 was also when the Taipei Representative Office in Bratislava opened.⁷ Slovakia was the last one from among the V4 countries to open such an office for conducting relations with Taiwan, with the office in Budapest opening in 1990, in Prague opening in 1991, and in Warsaw in 1992.⁸

With the first government of Robert Fico in 2006–2010, nonetheless, certain signals about foreign policy refocusing were sent out. Fico, a former member of the Communist Party turned-social-democrat after 1989, wanted to distance himself from the previous government of Mikuláš Dzurinda and declared a ‘pragmatic foreign policy’ conduct with the emphasis on economic diplomacy. This brought him to a number of countries, which previously were not in the country’s focus, including China,⁹ which he visited in 2007.

During the visit to China, Fico announced he wanted to open the door for Chinese investments to enter Slovakia. He has signed various sectoral agreements but called previous plans of President Schuster in forestry cooperation ‘fiction’. Fico refrained from touching upon human rights issues and when pushed by Slovak journalists, he went into offensive arguing that such a small country should not lecture China and that it would be inappropriate for a guest to do so. Fico explicitly said that the previous government did not do enough in terms of economic diplomacy, particularly with regards to China, and that his visit constituted a beginning of the new era, which would bear fruits in a few years’ time. During the visit, Slovakia tried to position itself as a Chinese gateway to Europe.¹⁰ It is well worth noting that the title of ‘bridge’ or ‘gateway’ and overall rhetoric of economic promises later became regular

⁵ TASR 2003.

⁶ GREGUŠOVÁ 2003, 303–306.

⁷ Taipei Representative Office in Bratislava 2018.

⁸ TUBILEWICZ 2007.

⁹ Other countries that fall in this category that Fico visited include, for instance, Libya, Cuba, Belarus or Vietnam.

¹⁰ HUDEC 2007.

staples not only of Slovak dealings with China but even more so for the broader Central and Eastern Europe.¹¹

Another high-profile visit, this time in another direction, happened in 2009 when Chinese President Hu Jintao visited Slovakia. The agenda of the meeting was to discuss cooperation in various spheres, particularly the option that China might participate in infrastructure projects, especially highways – public-private partnership (PPP) schemes were at the time favoured by the government ahead of utilising EU funds.¹² Eventually, China did not participate in any of the PPP projects in Slovakia, mainly due to new Slovak Government as of 2010, which brought in different priorities. Later on, the second Fico Government who returned to power in 2012 did not revoke the idea of cooperation with China as a part of PPP projects, perhaps also due to the fiasco of a similar project in Poland, where the COVEC company won a tender to construct a highway but could not finish it and left the construction, resulting in problematic delays.¹³

Hu Jintao's visit in Slovakia, however, sparked some incidents when supporters of the Chinese president attacked human rights protestors in front of the Slovak President's Palace. As a result of the physical interaction between the two groups, some of the human rights activists sustained some minor injuries and eventually the police had to separate and arrest some of the protestors. Interestingly, most of the arrested people were from the human rights group, rather than the Chinese president's supporters. The incident continued to be discussed after the visit and in the process, the Slovak Minister of the Interior said that the Chinese Embassy in Bratislava organised the pro-China demonstrators.¹⁴ Similar incidents, only on a (much) more extensive scale, happened in the Czech Republic in 2016 with President Xi Jinping. In fact, the two visits well underscore the qualitative similarities between the two countries but also point out very different intensities – while Bratislava pro-human rights group consisted of a few dozens of protestors at most, in Prague the protestors numbered in thousands on various locations of the city.

As hinted already, 2010–2012 saw a short intermezzo with the central-right wing coalition government of Iveta Radičová and Minister of Foreign

¹¹ TURCSÁNYI 2015.

¹² PLESCHOVÁ–FÜRST 2015.

¹³ GRZESZAK 2011.

¹⁴ PLESCHOVÁ–FÜRST 2015.

Affairs Mikuláš Dzurinda, who made it clear that he opposes the concept of the ‘pragmatic foreign policy’ of the Fico Government and announced his own value-oriented approach.¹⁵ However, due to the early election and another shift in the government, this direction remained relatively underdeveloped and since 2012, Slovakia has always been ruled by social-democrats, firstly alone, and after the elections in 2016 in the coalition government. Only the election in 2020 moved the social-democrats to the opposition.

Interestingly, while in 2006–2010 during his first government, Fico himself made an official visit to China and talked about economic cooperation, since 2012, Fico changed his pro-active attitude towards China, culminating in 2015 when he abstained from the 16 + 1 summit of Prime Ministers of China and CEE countries in Suzhou. Officially, the reason was health issues; however, it can be doubted for Fico continued his program in Bratislava, seemingly in a way, which was prepared beforehand. Moreover, already a year before Fico spoke publicly that he would not go to China for a tourist trip if nothing were prepared.¹⁶ On top of that, during the second Fico Government, the post of the Slovak Ambassador in Beijing was vacant for about a year,¹⁷ also signalling the low priority the government assigned to China. Hence, the repositioning of the second and third government of Robert Fico vis-à-vis China can serve as an evidence that China was not perceived as a real promising economic partner, although Fico continued to speak in favour of developing relations, primarily as part of his domestic political position and as a means of criticism of the opposition, president, etc. This direction was largely kept by Fico’s successor in the Prime Minister’s Office Peter Pellegrini who ruled between 2018 and 2020.

When it comes to the domestic political treatment of China, a comparison with the fellow V4 countries would reveal again that Slovakia is somewhere between the Czech Republic on the one hand, and Poland and Hungary on the other – China is not such a politicised and divisive topic as in the Czech Republic, but still more so than in the other two V4 countries.¹⁸

¹⁵ TASR 2010.

¹⁶ TASR 2014.

¹⁷ The Slovak Embassy in Beijing 2018.

¹⁸ TURCSÁNYI et al. 2019.

In the aftermath of the kick-start of the 16 + 1 process in 2012 and the Belt and Road Initiative announcements in 2013, Slovakia has clearly counted as a country with the least developed relations with China from among the V4 – it was the only one who has not elevated its relations with China to the level of strategic partnership and in general the only one who was not actively sending pro-active welcoming signals to China.

Having said that, Slovakia has always stated that it wants to have good relations with China and it suggested various projects that it believed could be developed mutually.¹⁹ However, there was little ‘overwork’ done to push these projects into realisation – especially when compared with the very active and at times high-profile diplomacies of the remaining three Visegrád countries in China. Slovakia chose a much more ‘down to the ground’ position, basically suggesting that economically interesting projects would materialise, irrespective of the political processes. At the same time, it seems that doubts regarding the economic rationale of the relations surfaced in Slovakia much earlier than elsewhere in the region, perhaps even before the 16 + 1 and Belt and Road Initiative started in 2012–2013 – and the two initiatives changed little in this Slovak perception. It is noteworthy here that this realisation took place in Slovakia during the rule of the ‘pragmatic’ Robert Fico left-wing social democratic government, who – if anything – would be ideologically inclined to develop more active relations with China.

Two particular incidents deserve our attention here – namely the acceptance of the Uyghur prisoners from the U.S. Guantanamo Prison in 2013 and the Slovak President Kiska’s meeting with the Dalai Lama in 2016. First, in 2013, in a somewhat surprising move, the second government of Robert Fico decided to accept the remaining three Uyghur prisoners from Guantanamo. The decision was naturally met with an adverse reaction from China, which claimed the Uyghur prisoners were terrorists, asserted that they would pose a security threat in a country which would accept them, and demanded that they are returned to China for prosecution. The Slovak diplomacy, on the other hand, stated that the three Uyghurs were never charged with any terrorist act and took a relatively low-key position without direct commenting on Chinese calls.²⁰ Although the Chinese public criticism was more targeting the U.S. than Slovakia, the incident

¹⁹ European Commission 2018.

²⁰ Pluska 2013.

still negatively affected relations with China, at a moment when relations between China and a number of CEE countries started to develop rapidly as part of the 16 + 1 platform.

The second incident came in 2016, when President Andrej Kiska decided to meet the Dalai Lama, who was visiting the country as part of his European trip. Kiska met the Dalai Lama ostensibly in his personal capacity and outside of his office, but the move nonetheless attracted strong Chinese reaction, this time targeting Slovakia explicitly and directly. Among others, the Spokesperson of the Chinese Ministry of Foreign Affairs expressed the official stance during the regular press conference in Beijing²¹ and China announced it would retaliate against Slovakia.²² On the Slovak side, the Slovak Government communicated via diplomatic channels that this was a personal decision of the president and not the government policy (the Slovak president is not the head of the government in Slovakia) and that the move does not affect the Slovak position vis-à-vis the Chinese, including the respect towards China's territorial sovereignty, integrity, the 'One China' policy etc.

After both of these incidents, there was a discussion whether China would 'punish' Slovakia and it was conjectured that most probably the whole act was a symbolic one. In reality, as will be explained in the next section of this chapter, there is little in terms of economic relations, which would give China a means how to retaliate against Slovakia substantially. Slovak exports to China are almost entirely taken care of by the big car manufacturers and they are not a function of the Slovak economic diplomacy or Slovak–China relations as such. Besides, they were on a downward trajectory after 2012. Moreover, there are almost no Chinese investments in Slovakia and no concrete projects under negotiations, which could be used as a form of economic pressure by China. Therefore, both incidents might have made it more difficult for the Slovak diplomacy to engage China and perhaps even some business and other exchanges were cancelled and this way Slovak–Chinese relations might have suffered, but no concrete and considerable evidence has been made public.

In spite of the low level of activity of the relations between China and Slovakia, Slovakia became the first V4 country and perhaps even the first in

²¹ Chinese Ministry of Foreign Affairs 2016.

²² Reuters 2016.

the CEE, to have attempted to develop an official ‘China policy’.²³ In April 2017, the Slovak Government passed the *Strategy for the Development of Economic Relations with China 2017–2020*, produced under the auspices of the Ministry of Economy. The 37-pages-long strategy²⁴ suggests that Slovakia needs to utilise (what is more, strengthen) its relatively good political relations with China for economic purposes and then it moves on to mention various measures how to achieve that, including increasing the number of diplomatic personnel in China, opening ‘Slovak houses’ in various parts of China to attract Chinese investors and tourists, attempting to prepare schemes how to use Chinese funds to build infrastructure at home and many others.²⁵

The strategy was to be followed by the ‘Action Plan’ in autumn that year, which, however, was stopped in the process due to objections within the government, likely from the Ministry of Foreign Affairs. Apparently, there were disputes between those who favoured focusing on China and those who claimed that the Chinese economic potential for Slovakia was relatively limited and that more attention should thus be paid to higher chances of succeeding, especially towards the developed countries in the West.

Economic interactions²⁶

Trade

Slovakia experiences a trade deficit with China since it imports from China currently about four times as much as it exports to China. As Figure 1 (see below) shows, Slovakia’s trade position vis-à-vis China changed significantly since about 2011 – in 2016 Slovakia exported to China less than in 2010. We can see that Slovak exports to China grew since about 2005 and in the aftermath of the 2008 crisis they increased rapidly, narrowing the gap between exports and imports. Since 2011, Slovak exports to China have been decreasing or at best stagnating.

²³ Ministry of Economy 2017.

²⁴ National Council of the Slovak Republic 2018.

²⁵ TURCSÁNYI 2017.

²⁶ Parts of this section appeared in KIROŇSKÁ–TURCSÁNYI 2017.

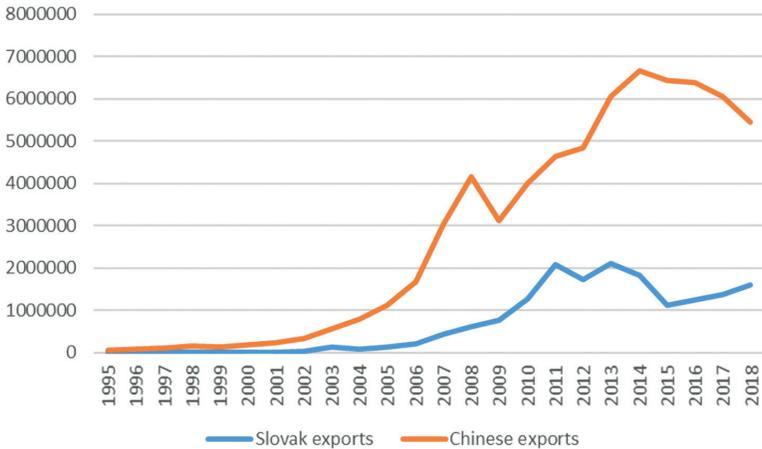


Figure 1
Slovak–China trade relations

Source: UNCTAD.

Figure 2 (see below) compares Slovak exports to China with those of all CEE16. Slovakia together with its V4 neighbours belongs to the leading exporters to China from among the CEE16. In the previous years, Slovakia's decrease in exports was the fastest among the V4, meaning that while in 2011 Slovakia was the most prominent exporter to China among the CEE16, it lost its position in the subsequent years. Still, Slovakia has one of the smallest trade deficits with China among the CEE16.

China is a major import partner for Slovakia – more than 8% of the Slovak imports come from China, the amount only surpassed by the Czech Republic (more than 10%) and Germany (almost 17%). As for the exports, China takes the 14th position with roughly 1.6% of the Slovak exports. The main export partners of Slovakia are the EU countries such as Germany, the Czech Republic, Austria, Poland, France, the Netherlands, Hungary, but also the USA and Russia score above China.²⁷ On the other hand, China is still by far the most dominant export destination for Slovakia in Asia.

²⁷ World Integrated Trade Solutions 2017.

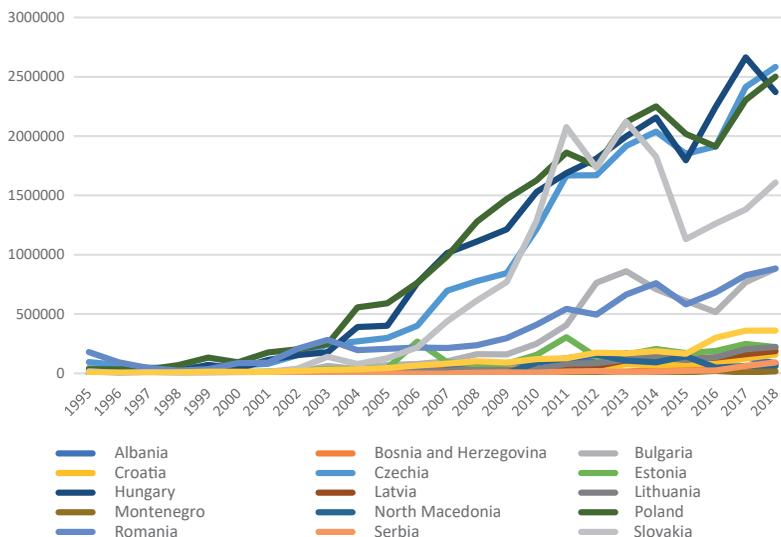


Figure 2
CEE16 exports to China

Source: UNCTAD.

As for the composition of the Slovak export to China, it is heavily dominated by products of automotive industries – more than 70% are taken by motor cars only. Slovak exports to China and Asia are the most concentrated from among the V4 in this single area. Hence, the decrease of China's demand for the imported luxurious cars in the recent years resulted in a relatively sharp decline of the Slovak exports to China.²⁸ Slovak medium and small enterprises take marginal shares in the overall export from Slovakia to China. In other words, the vast majority of Slovak exports to China are created by international pro-export production in Slovakia rather than by homegrown businesses. This is an important point when considering options for the Slovak economic diplomacy in China.

²⁸ ÉLTETŐ–SZUNOMÁR 2016.

Investments

A brief sum up of Chinese FDI in Slovakia can be that there are no significant Chinese investment deals in the country. Yet, there have been recently a few cases, which had a potential to change the situation. Although most of them did not materialise, the option that this could change in the near future cannot be rejected.

For now, however, Chinese FDI in Slovakia lags not only behind ‘traditional’ Western European investors but also behind other Northeast Asian ones such as Japan, South Korea and Taiwan. Similarly, regarding Chinese investors, Slovakia has attracted far lower amounts not only compared with the Western European countries but also within the CEE region. All in all, Slovakia counts among the countries with the lowest (absolute and even relative to GDP) levels of Chinese FDI in Europe.

The Chinese Ministry of Commerce data show Poland having the most Chinese FDI with the remaining three Visegrád countries following not too far behind. In general, all four Visegrád countries have rather little Chinese FDI (see Figure 3). Interestingly, while in Western Europe the discussion is often that Chinese MOFCOM data overestimate Chinese FDI, in CEE and particularly the V4 it is the other way when Hungary, Poland, and the Czech Republic have received more FDI than is reported by this source. That is, however, not the case for Slovakia, where no strong claim that the Chinese MOFCOM data might be in any way misrepresenting reality exists.

MERICS (2020) uses a different statistical method to track investments in cooperation with Rhodium Group, which has followed the Chinese FDI stock closely in the EU and published its results since 2014. According to this source, the gaps between the four countries are much more extensive, with Hungary leading the way with 2.4 billion EUR of Chinese FDI as of 2019, Poland following with 1.4 billion EUR, and the Czech Republic coming third with 1 billion. Slovakia ranks the last one with mere 100 million EUR.

When looking at the data provided by the China Global Investment Tracker of the American Enterprise Institute – Heritage Foundation, which lists more significant Chinese investments worldwide (of more than 100 million USD), there is no single enlisted Chinese investment in Slovakia – neither realised, announced, nor failed. From among the EU countries, only Lithuania and Estonia are similarly without any such

Chinese FDI project and just a few other non-EU countries in Europe – but even worldwide – are in such situation. For comparison see Table 1 listing the substantial investments in the V4 countries.

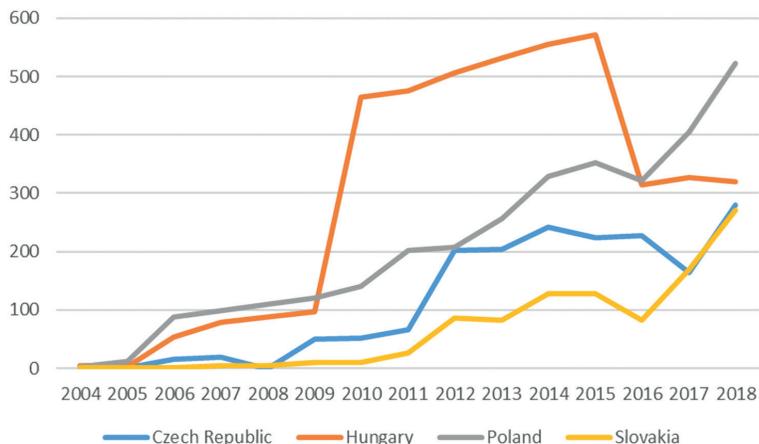


Figure 3

Chinese FDI stock in the V4 (millions of USD)

Source: MOFCOM 2017.

Table 1

Chinese investment in the Visegrád countries

| Heritage Foundation – China Global Investment Tracker | Total volume (million USD) |
|---|----------------------------|
| Hungary | 4,840 |
| Czech Republic | 960 |
| Poland | 2,180 |
| Slovakia | 0 |

Source: AEI 2020.

To mention a few examples of the Chinese investments which did take place nonetheless, we can mention Huawei and Lenovo (limited) presence in Bratislava, a number of automotive-related production or service providing

facilities (SaarGummi, ZVL Auto, Heiland Sinoc Automotive, Inalfa Roof Systems, Mescan European Research and Technical Centre, IEE Sensing Slovakia), or Flame Shoes producing rubber shoes in Bardejov.²⁹ However, perhaps the largest deal in Slovakia involving Chinese capital took place in 2017, when CNIC Corporation Limited acquired a Samsung and TESCO logistical centre near Galanta in Western Slovakia. The exact price of the deal was not disclosed but judging from the property characteristics, some previous similar deals, and the official statistics, it may have been around 100–150 million EUR.³⁰

At the end, Chinese investors have not been flocking in Slovakia as perhaps some had expected. There may be a number of explanations for that, including little understanding and knowledge of each other's political, economic, cultural, linguistic and other conditions. However, the main reason is arguably the structural gap – there may be merely little complementarity between the two sides. As for China, the first wave of its outward investments in the 2000s targeted the developing countries where it was seeking natural resources and constructing the state-driven infrastructural projects. Since about the 2008 crisis we have observed the second major wave of the Chinese outward investments, this time aiming at the developed countries and their first-class technology and brands.

Ironically, Slovakia (and most of the CEE region) is somewhere in between the developed and the developing world in this context. On the one hand, there are not many cutting-edge technological solutions, which China might be interested in acquiring, such as, for instance, in Germany. On the other hand, Slovakia being a part of the EU with its strict regulations, and having relatively developed infrastructure, it does not offer such an open playing field as Africa or Latin America, for instance.

While Slovakia and many of its neighbours have developed in the aftermath of the 1989 revolutions thanks to foreign direct investments leading to export-oriented production, China is at present not much interested in this kind of activity. While some Chinese companies will undoubtedly choose at one point to locate in Slovakia (as some have already done), it is open for debate whether this will reach the levels of the developed countries which are using Central Europe as a production base for the European markets.

²⁹ For more details see TURCSÁNYI 2014.

³⁰ Trend 2017.

Recent Chinese investment plans in Slovakia

There have been a few cases under negotiation recently, which deserve a brief look. Most importantly, the Chinese He Steel Group, the world's second biggest steel conglomerate, was in a serious negotiation to acquire the largest employer in Eastern Slovakia, U.S. Steel Kosice. For some time, the deal was rumoured of with neither side confirming it, but the general expectation was that it would be announced in April 2018. This was because five years before, the Slovak Government signed an agreement with the U.S. Steel that due to the government's support if they sell the company before this date, they would have to pay a financial compensation. Eventually, it was announced that the deal was not closed and the U.S. Steel is staying in Košice.³¹

The second project that has been rumoured recently included the CEFC company allegedly partnering with Penta Financial Group with the aim of purchasing the parent company on the most viewed TV station in Slovakia, Markíza. It is questionable what the future holds for this deal currently as CEFC is facing some serious problems.³²

Another deal where a Chinese company was trying to get involved was the acquisition of Slovenské elektrárne (the Slovak power enterprise). The company is the leading energy producer and provider in Slovakia, and 66% of the shares was sold to the Italian Enel in 2005. In 2014, Enel was planning to sell its shares, and one of the potential buyers was the state-owned China National Nuclear Corporation.³³ Eventually, Enel announced it would sell its shares to EPH, a Czech company. Interestingly, the Chinese company CEFC indirectly holds a share in this company as well, via its investments in J & T Financial Group (where its share is 50%).

Chinese investors have also been mentioned since at least 2016 with regards to acquiring (or long-term rent) of the Bratislava Airport.³⁴ The airport might be relevant especially from the perspective of cargo transport. However, there has not been any information about the process of this deal recently.

³¹ PORACKÝ 2018.

³² KARÁSKOVÁ et al. 2018.

³³ SITA 2014.

³⁴ ČTK 2016.

More recently, Chinese infrastructural investments are being discussed related to the railway transportation. The projects which are considered related to this idea include construction/upgrading of intermodal terminals in Košice, Žilina, Leopoldov and Bratislava and the construction of a global logistics and industrial park in Košice at the location of the newly built intermodal terminal.³⁵ Sometimes even the idea of constructing a broad-gauge railway all the way to Western Slovakia is being floated, such as by former Premier Fico, although it is not seen very realistic by most experts.³⁶

Conclusions

Slovakia has been mostly ‘cautious’ in its approach towards China, trying to avoid taking various critical stances as, for instance, the Czech Republic has done on numerous occasions especially before 2012. With the Belt and Road Initiative and the Chinese-driven 16 + 1 platform for developing relations with Central and Eastern Europe, Slovakia counts among the least active countries. It has tacitly supported the initiatives and even suggested some projects but has done little overwork to push through.

At the same time, however, Slovakia did make international headlines with some steps which can be seen as somewhat ‘daring’ vis-à-vis China: in 2016 President Kiska met ‘privately’ with the visiting Dalai Lama and in 2013, the Slovak Government accepted to repatriate the remaining three Uyghurs from the Guantanamo prison, amid intense pressure from China.

Moreover, despite the little activity, economically speaking one may argue that the country has not been particularly unsuccessful, especially when compared to the V4 neighbours. From the perspective of trade relations, Slovakia had been until recently in the best position vis-à-vis China from all the sixteen Central and Eastern European countries involved in the 16 + 1 platform, yet the favourable trade position of Slovakia vis-à-vis China somewhat changed later on. Still, the country is among those with the lower trade deficits with China among the V4 and CEE16. From the perspective of investment, the country did not attract significant amount of Chinese investments, but again one may argue that it does not make it much different from the neighbouring countries, which host more Chinese FDI,

³⁵ TASR 2018.

³⁶ ŠTALMACH KUŠNÍROVÁ–PORACKÝ 2016.

but this is still negligible compared to the ‘traditional’ investors. Hence, although a ‘late-comer’, Slovakia has not missed anything important.

The specific approach of Slovakia towards China within the V4 group deserves a comparative assessment. Slovakia has been the only V4 country, which has not responded overly enthusiastically to the Chinese 16 + 1 and Belt and Road Initiative. While stressing an interest in developing relations with China, it refrained from ‘out of the way’ welcoming gestures and attempts to attract China as the remaining V4 countries did occasionally. The Slovak attitude can be explained by two factors. First, the experience of the 2000s reform process might have taught Slovak elites a lesson that it is the structural factors which are the real ‘game changers’, rather than looking for the shortcuts, such as trying to gain economic rewards by wooing non-democratic powers with political gestures. Adopting a language, which at times became popular in the country, one must do its ‘homework’ first and foremost. Second, being the smallest of the V4, Slovakia might have come the fastest to the realisation, that making business in and with China might be a too hard nut to crack and/or might not be so promising as many would expect it to be.

Interestingly, as of 2020, it may seem that actually the Slovak ‘wait and see’ approach might have been a viable strategy. None of the remaining three Visegrád countries can claim to score much vis-à-vis China economically speaking so far, as data showing only marginal (if any) increases in terms of trade and investments prove. Furthermore, the assertive development of political relations with China may have come at certain costs with the traditional political and economic partners within the EU and NATO, which have observed the growing presence of China in Central Europe with some worries. While Hungary and Poland’s relations with Brussels are sour at present not primarily because of the China factor, it may have played some role at least symbolically. In the global context of (quickly) worsening of the U.S.–China relations and also (to a somewhat lesser extent) EU–China relations, many of the exchanges with China are coming at an even higher price in terms of strategic relations with the Western allies.

On the other hand, not all is rosy with the Slovak policy towards China. While being restrained performed relatively well so far, one may argue that it has also had something to do with the level of ignorance of China. There is a very little due attention being paid to China all across the board in Slovakia, including the politicians, local businessmen, media, civil society and public at large. China appears as a favourite ‘exotic’ topic in public

discourse, but there is almost no discussion about the issues concerning bilateral relations.³⁷

This goes hand in hand with the low level of readiness to address certain issues connected to China. As was explained, while the Chinese presence in the country remained limited, it could have changed – and still can – with one or two single deals. As an example, the Chinese ownership of the major Slovak commercial TV station, a major national employer, or the capital airport would all have some strategic implications. However, at present, there are little to no options how to tackle these challenges. It can be argued, therefore, that the biggest need ahead of Slovakia concerning China in the near future is to build sufficient capacities to address the Chinese presence and influence – which is going to grow in the future, although perhaps not as rapidly as some may think.

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³⁷ KARÁSKOVÁ et al. 2018.

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Slovenia–China (Economic) Relations

Abstract

Slovenia started cooperating with China already in the 18th century. Initially economic cooperation lagged behind political–cultural ones. Later economics started to dominate, particularly trade, while foreign direct investments and tourism became more important later but still lags much behind potential. A major barrier is the small size of the Slovenian economy, lack of knowledge and weak competitiveness of firms compared to large MNCs. Strengthening the cooperation of Slovenia with China is of strategic importance in view of China’s growing role in the global economy. By strengthening economic cooperation with China, Slovenia can reduce its dependence on the EU and strengthen the resilience of its economy.

Keywords: China, history, trade, FDI, policy

Short history

Early roots of relations between Slovenia and China can be traced already in the activities of the Jesuit Ferdinand Halerstern,² a Slovenian astronomer and mathematician who made an important contribution to the development

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² Chinese name: Liu Songling.

of science and astronomy in 18th century China as well as in Korea, playing a historic role as a cultural link between Europe and China. In the court of Emperor Qianlong, he was appointed the very high rank of mandarin of the third rank. Among other things, he elaborated a map of China in the world.³

Another historic “connection” of the two nations was the Boxer rebellion (1900) which attracted the attention of the Slovenes who “understood the essence of events unfolding in China at the turn of the 20th century”. Independence and nation building was for both nations of high importance. All leading Slovenian newspapers of the time openly sided with the Chinese in defending against foreign colonial aggressors under the Slogan, “China to the Chinese”.⁴

As a part of Yugoslavia, Slovenia started cooperation with China soon after Yugoslavia recognised China in 1949, although China, because of Informbiro,⁵ has not recognised Yugoslavia until 1955 when diplomatic relations were established. In 1958, China’s foreign policy changed and relations deteriorated so much that the ambassadors were recalled. Normalisation started in 1970 when Slovene sinologist Vinko Trček started his advisory position in the Yugoslav Embassy (1970–1974) in Beijing. After the Tiananmen incident in 1976,⁶ relations deteriorated again to be strengthened only after the death of Mao Zedong (1976). Doors were opened for the visit of President Tito in China in 1977 and continued with President Hua Guofeng’s very important visit in Yugoslavia in 1978, laying the foundations for future relationship between the two countries. After his visit, quite a number of industrial cooperation projects started.⁷ The new Chinese Open Door Policy (the Reform and Opening Up) and economic reforms opened the gates for the cooperation of the Yugoslav republics with Chinese

³ SAJE 2015; VAMPELJ SUHADOLNIK 2015..

⁴ LIPUŠČEK 2013.

⁵ Abbreviation of the “Communist Information Bureau” dominated by the Soviet communist party. In 1948, Yugoslavia started a more independent policy, strengthening cooperation with the West and getting out of the Soviet ideological domination. The conflict with the Soviet Union, referred usually as Informbiro, was a consequence.

⁶ The incident occurred on the traditional day of mourning, the Qingming Festival, and was triggered by the death of Premier Zhou Enlai earlier that year.

⁷ For instance: 1. semaforisation of Beijing (Iskra Avtomatika equipped with traffic lights all the major transport hubs in Beijing); and 2. micro motors for refrigerators by Rotomatika (interview with V. Lukanc).

provinces. Ljubljanska Banka opened a representative office in Singapore covering also China and Hong Kong in 1970s.

Soon after Hua Guofeng's visit, a consortium of Slovene companies for cooperation with China was established. Economic cooperation was thus facilitated and resulted in quite a number of deals. Smelt's business was the largest: it set up an oil refinery in Guangdong province (1985–1990) and built a titanium dioxide factory in the province of Gansu (1988). Important investment projects in China were carried out by Emona (two poultry farms), Gorenje (refrigerator factory), Kostroj (leather goods), IKOS (reconstruction of shoe factory), Krka (development of anti-malaria medicines) and Adria Airways with Sichuan Province to train pilots and airport staff.⁸

Slovenia became in the 1980s the strongest economic partner of China from Yugoslavia (approximately 60% of all Yugoslav industrial projects in China). It was not a surprise that Chinese president Jiang Zemin visited Slovenia as a party representative in the 1980s. Chinese Prime Minister Zhao Ziyang stated, during his visit in Slovenia in 1986, that relations between Slovenia and the Sichuan Province are an example of successful cooperation.

Afterwards cooperation started to stagnate due to the crisis of the Chinese economy and financial (payments) problems related to compensation business. The penultimate Ambassador of Yugoslavia in China (1985–1990), Zvone Dragan of Slovene nationality, was very active in stimulating the bilateral cooperation. He was also instrumental in organising the visit of the Prime Minister of the Yugoslav Republic of Slovenia, Šinigoj, in China at that time. After returning home, he was helping the organisation of the visit of the Foreign Minister of Slovenia, Rupel, in Beijing (February 1992). He was received by Chinese Foreign Minister Qian which was rather exceptional since China was against the disintegration of Yugoslavia. This visit was instrumental in the official recognition of the republic of Slovenia by China three months later.

The cooperation was not limited to economics. Cultural and scientific cooperation evolved swiftly in early Yugoslav times. The first cultural exchange could be traced back to 1956 when the Slovene Octet visited China and the Chinese circus came to Ljubljana.⁹ Later on, the driving force for greater links with China began at the Faculty of Arts with the introduction

⁸ ČEPLAK MENCIN 2012, 184.

⁹ ČEPLAK MENCIN 2012, 173.

of Sinology in 1995,¹⁰ culminating with the establishment of the Confucius Institute in Ljubljana at the Faculty of Economics in 2010. The Chinese Government accepted the proposal of the Slovenian President Danilo Turk during his visit in Beijing in the year 2007, to establish a lectorate (department) of Slovenian language in one of the Chinese universities. The lectorate for Slovenian language in the University for Foreign Studies in Beijing, which was the result of this initiative, will start the new academic year with the Slovenian language as a major course. At present, lectures of Slovenian language also exist at the Beijing International Studies University and at the Hebei International Studies University.

Slovenian attitudes towards cooperation with China

The knowledge about China is not very strong in Slovenia although many firms cooperating with China have better knowledge and experiences. The general public support for cooperation with China has been strengthening although some reservations remain when it comes to a more developed form of cooperation like FDI or undertaking large infrastructural projects by Chinese firms. According to the Episcenter public opinion poll in 2015, more Slovenes have a negative than positive view on China (52% vis-à-vis 45%), but almost a third admire China's economic development.¹¹ Like in many other CEEs,¹² the majority reports and analyses in the Slovenian media regarding China are rather negative following the same attitude in EU and especially U.S. corporate media. Like the majority of Slovenian politicians,¹³ leading Slovenian media editors are also not aware of the more and more decisive influence of China in the world.

Future looking attitudes related to China can be traced in the survey conducted by Raskovic and Rašković and Vuchkovski¹⁴ among Slovenian

¹⁰ Teaching on China and Chinese language started much earlier but was really strengthened by the establishment of the Asian Studies department in 1995.

¹¹ MAKOVEC 2015.

¹² See ŠIMALČIČ 2018.

¹³ President Pahor has not included China among the most important non-EU and NATO partners of Slovenia in his lecture to the diplomatic core in 2014. Mentioning India and Japan, the Chinese ambassador left the event.

¹⁴ RASKOVIC 2018; RAŠKOVIĆ–VUCHKOVSKI 2016.

Millennials.¹⁵ They have a generally positive attitude towards China (over 80%). However, Millennials are not totally representative for the general public opinion being by definition more liberal, more open-minded and less path dependent. The majority of the respondents do not support the acquisition of either Nova Ljubljanska Banka or its biggest retailer (Mercator) by the Chinese. Strengthening China–Slovenian relations are seen in the area of trade, international relations and FDIs, there is a very high support for Chinese investments into selected infrastructure projects.

Slovenian foreign policy relations with China

The first priority of the Slovene foreign policy, after becoming independent in 1991 was international recognition of the new state and its integration in all major international organisations. In 1992, Slovenia became a member of the United Nations. By becoming a member of the UN Security Council (non-permanent seat from 1998 to 1999), Slovenia realised one of its priorities, to become an important player in international relations. The second priority was to become a member of the EU and NATO.¹⁶ The third foreign policy priority was to get *away from the Balkans*, to dissociate from it. This orientation lasting from 1992–1998 was later gradually changed into *back to the Balkans* (1999–2004). Ironically, the very same Euro-Atlantic external foreign policy environment to which Slovenia wanted to get closer, pushed Slovenia to reorient its foreign policy ‘back to the (Western) Balkans’ in 1998. During the presidency of the EU Council in 2008, the Western Balkans appeared to be one of the specific contributions Slovene presidencies could make.¹⁷

¹⁵ A survey and a study were conducted in November 2017 among Millennials (born in the 1980s and 1990s) in Slovenia, students of either business and economics, or international relations studying at the University of Ljubljana. The analysed sample included 293 university students. This segment of the population has been deliberately selected because Millennials will represent the future businesspersons, policy makers and leaders who will shape the further development of China–CEE cooperation. They are also good and “neutral” yardsticks in terms of measuring stereotypes, perceptions and attitudes in social psychology, as well as international business and relations.

¹⁶ This was so high a priority that even the Strategy of International Economic Relations of Slovenia with other integration groupings and countries has not selected China among the selected countries to develop specific cooperation with (see MEOR 1996).

¹⁷ See BOJINOVIĆ FENKO–ŠABIČ 2017, 53–55; BOJINOVIĆ FENKO–POŽGAN 2014.

Initially, the country's foreign policy orientation was mostly a bottom up spontaneous activity without any strategic documents to back it. The Slovene Parliament adopted the first strategic document *Declaration on the Foreign Policy of Slovenia* as late as 1999. Its main emphasis was Europeanisation and strengthening cooperation with neighbours. Asia or China has not been given much attention, although the declaration stated that:

“Particular emphasis will be devoted to cooperation with the People’s Republic of China as a permanent member of the UN Security Council and to those countries in which large groups of Slovenian emigrants live.”¹⁸

This Declaration was followed by the more comprehensive foreign policy of the Republic of Slovenia adopted in 2015.¹⁹ It follows previous priorities among which strengthening relations with China was again not very high on the agenda (less than one page for the entire Asia among the total of 25 pages). The strategy stipulates that:

“Slovenia’s leading Asian partners include India, Japan, and China as the world’s economic superpower. Slovenia’s economic interests in Asian countries are closely associated with the Port of Koper, Slovenian railways, the Slovenian automotive industry, and Hi-Tech cooperation. The highly important segments of Slovenia’s cooperation with Asia concern the fields of science, development and innovation.”²⁰

Although of a relatively low priority, political relations with China were strengthened to the very high level rather early.

Table 1
Major bilateral meetings until 1996

| | |
|----------------|---|
| 1992 | Visits of the delegation of the Chinese Foreign Ministry |
| February 1993 | Slovenia Embassy opened in Beijing |
| August 1993 | Chinese Embassy opened in Ljubljana |
| September 1993 | Protocol on consultations between foreign ministries signed in Ljubljana during the visit of China Deputy Prime Minister and Foreign Minister |
| June 1994 | Foreign Minister Peterle visited China |
| February 1995 | Prime Minister Drnovšek visited China |

Source: CENCEN 2011, 279–281.

¹⁸ Declaration of the Foreign Policy of the Republic of Slovenia, the National Assembly of the Republic of Slovenia adopted at its session of 10 July 2015 (see National Assembly 2015).

¹⁹ Ministry of Foreign Affairs of the Republic of Slovenia 2015.

²⁰ Ministry of Foreign Affairs of the Republic of Slovenia 2015, 21.

From 1992, there were 24 visits of high Slovene politicians, including 4 visits of Slovene prime ministers in China (1995, 2003, 2007 and 2015) and one by its deputy prime minister in 2016. The President of the Republic of Slovenia (RS) visited China 3 times (1996, 2008 and 2009) followed also by visits of the President of the Slovene National Assembly (2011 and 2015).

China officials also visited Slovenia at high political level rather frequently (13 times from 1992) including visits by prime and deputy prime ministers, the minister of foreign affairs and high officials of the Chinese People's Political Consultative Conference (CPPCC) and other high party officials of central and regional levels.

The reasons for such rather intensive bilateral political relations were initially in the interest of Slovenia to get international recognition and it was also important for China, as a permanent member of the UN Security council. The main driver on the Chinese side was to establish relations with the new state as well as to deter Slovenia from getting too friendly with Taiwan. That was successful since Slovene authorities many times reiterated that they support the one China state policy.²¹ In the economic field, China regarded Slovenia as a springboard to the EU (the Port of Koper is regarded by the Chinese as a hub) and finally a more intensive economic and technological cooperation was beneficial for the competitiveness of their firms.

Table 2
Interests for bilateral cooperation

| Chinese | Slovene |
|---|--|
| Establishing relations with new states as part of global strategy | Recognition of a new state |
| Deterring Slovenia from Taiwan | China as a member of the UN Security Council |
| Economic and technological cooperation | Large Chinese market |
| Slovenia as a springboard to the EU | |
| Strengthening its position in Europe | |

Source: CENCEN 2011, 280–281.

China was also interested in observing development in the region after the dissolution of Yugoslavia and, as the latest 16 + 1 initiative demonstrated, in the development of the whole region of Central and Eastern Europe

²¹ China also stated frequently that the Tibet question was equally important.

(CEE). Not least since China has been in transition, therefore, its interest was also to study experiences of countries like Slovenia on their path through transition. Because China is, as Yugoslavia was, a multi-ethnic–multinational state, the experiences in this regard were also of interest to China. However, China was somehow reluctant to support the position that all successor states of former Yugoslavia are equal successors of former Yugoslavia. China has also not supported the position that Milošević’s Federal Republic of Yugoslavia has to apply for a membership in the UN as a new state. It was only after 1996 that China clearly stated (President Jiang Zemin) that China has no special interests in Southeastern Europe seeking good relations with all states.²² Nevertheless, it has not recognised Kosovo as an independent state.

Institutional basis for mutual cooperation

Such intensive bilateral relations resulted in a number of agreements, signed quite early and aiming at building the institutional framework to facilitate bilateral political and economic cooperation.

The first official visit after Slovenia became an independent state happened in February 1992, when Foreign Minister Rupel visited China. Soon after (May 1992), the two countries established diplomatic relations and the Slovene Embassy in Beijing started to work in February 1993. In order to boost economic cooperation, a cooperation agreement was signed in 2000 between the Slovene Chamber of Economy and CCPIT, according to which a Joint Commission for Trade and Economic Cooperation was established.

The first economic strategy towards China was developed only in 1999 by the Ministry for Economic Cooperation and Development (MEOR) and the Slovene Chamber of Economy. Its basic orientation was to expand export in four priority areas: automotive, pharmaceuticals, industry of electrical machines and wood industry. The Program gave special attention to new emerging markets like BRICS. Such programs were upgraded in 2015 with the 2015–2020 *Programme for Internationalisation*²³ which gave special attention to diversification of economic ties, to increasing export to

²² See CENCEN 2011, 281.

²³ Government of Slovenia 2015.

non-EU members in which China is of course included. China is specifically mentioned in the context of the promotion of the international operation of companies, especially SMEs, including Intellectual Property Rights (IPR) Helpdesk China.

Table 3
The major economic agreements between Slovenia and China

| | |
|--|--|
| Interstate | Agreement on trade and economic cooperation Agreement on scientific and technological cooperation Agreement on the promotion and mutual protection of investments Agreement on the avoidance of double taxation and the prevention of tax evasion |
| JAPTI ²⁴ | CIPA (China Investment Promotion Agency) – agreement on mutual cooperation |
| Chamber of Commerce and Industry (GZS) | China Council for the Promotion of International Trade (CCPIT) – agreement on mutual cooperation Council for the Promotion of International Trade (CCPIT) – agreement on the establishment of China–Slovenia Business Council Trade Development Board at the Ministry of Trade (MOFCOM) |
| EU | Agreement on trade and economic cooperation ADS (Authorized Destination Status), which also obliges Slovenia as of 01.05.2004 – Chinese tourists must enter and leave the EU as a group with at least five people; they have to travel within the EU area within the tourist program The bilateral EU–China agreement on WTO |

Source: Compiled by the author.

The last strategic document adopted by the Government of Slovenia was the Development Strategy of Slovenia 2030. It is predominantly internally oriented, more a list of development objectives with an almost absolute omission of the international setting. It does not give any regional or foreign trade priorities. China is mentioned in the global context chapter only implicitly by a statement that: “economic power is moving towards Asia, which influence the global changing power relations.”²⁵

²⁴ The Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investment.

²⁵ Government of Slovenia 2017, 10.

Two memoranda of cooperation in infrastructure and sports were signed in 2018. China has shown interest in boosting cooperation with Slovenia in sports and sports infrastructure particularly in the context of the preparations for the 2022 Beijing Winter Olympics.

The memorandum on the participation of countries in transport and infrastructure was signed in 2018 in Beijing in spite of the many times expressed interest of China to invest in that area. The Memorandum stressed the importance of maritime transport and infrastructure development in the area of railways, motorways and logistics. Slovenia would like the transport routes along the Silk Road to get connected with transport corridors crossing Slovenia.

Slovenia and China also signed agreements on boosting cooperation in aviation that will allow Slovenia's producer of ultralight aircraft Pipistrel to sell its planes in the Asian country. The Chinese aviation is growing fast and has great market potential and this agreement will boost sales of ultralight aircraft and equipment on the Chinese market.

Economic cooperation

There are three major starting points that serve as the framework for bilateral cooperation. The first is the geostrategic position of Slovenia represented by the Port of Koper, the largest container terminal in the Adriatic, and second largest car terminal in the Mediterranean.²⁶ It offers one of the best logistic access to Southeastern Europe.²⁷ Over 800 million euros worth of goods is transhipped in the Port of Koper (the Chinese data is much higher, approximately double, because they count all the shipment to Koper as export to Slovenia even if its final destination was elsewhere). Each week a Chinese ship with 5,000 containers is coming to Koper. The plan is that a larger one, for 8,000 containers, will start operating regularly between China and Koper. Therefore, it is no surprise that "China is willing to actively participate in Slovenia's projects at the Port of Koper and railway reconstruction and carry out cooperation with Slovenia in fields such as trade parks, logistics, equipment manufacturing, and transportation infrastructure based on China's initiative of 'cooperation

²⁶ VRABEC ZORNADA 2016.

²⁷ See more in MIROŠIČ 2016.

in three port areas' of the Adriatic Sea, Baltic Sea and Black Sea. China supports its enterprises to participate in the privatisation of some state-owned enterprises in Slovenia and launch cooperation with Slovenia in fields such as new energy, high and new technology, biological pharmacy and environmental protection. China is willing to expand cooperation in agriculture, forestry and tourism."²⁸

The second is that Slovenia offers to China the way to materialise one of its major strategic objectives for the next decade, the penetration of global markets by higher value-added manufacturing and hi-tech products. The cooperation with CEE countries may be regarded by the Chinese as a “soft belly” entrance in the EU.

The third is whether the spectacular rise of China and their FDI abroad, in this case in Slovenia, is an opportunity or a threat. In the article the “Chinese are coming”,²⁹ the authors see the growth of China mainly as an opportunity and a challenge. Twelve years later, the same title was applied by Finance's special dossier, China,³⁰ largely based on the analysis of Godement and Vasselier,³¹ with almost the same title. Nevertheless, the main message was quite different, warning about the threats of the enhancing role of China in the global economy, the Chinese sharp power, about imposing its standards etc.

Foreign trade

The country's strong dependency on Europe is based on the traditional European orientation of the Slovene international economic relations; this necessarily implies a lower priority to the cooperation with Asia and China in such a framework. Tectonic changes are underway; the particularly spectacular growth rates of China were underestimated (9.6% growth rate in the period 1979–2005, which slowed down during the great recession but were still very high at 6–7%).³²

²⁸ See the interview with H. E. YE Hao, Ambassador of the People's Republic of China in Slovenia (FISTER 2016).

²⁹ SVETLIČIČ–SICHERL 2006.

³⁰ Finance 2018, 14–31.

³¹ GODEMENT–VASSELIER 2017.

³² The Economist 2018.

Initially the bilateral trade was rather unbalanced. China exported to Slovenia much more than Slovenian firms to China. The important step forward in stimulating economic cooperation was the establishment of the Slovene representative office in Shanghai by JAPTI in February 2008. In addition, there is also the Club of Slovenes in Shanghai, which brings together 40 entrepreneurs who work mostly in the eastern part of China and share their experiences and contacts.

As late as in 2014, Economy Minister Dragonja said at the conference of trade and economy ministers from China and 16 Central and East European countries in Ningbo that Slovenia plans to double its exports to China over the next five years. The Chinese side meanwhile expressed interest in investing in infrastructure, energy, biomedicine and automotive sectors. Gao Hucheng expressed support for Slovenia's plans and said that Slovenia should boost food exports and expressed the wish that activities related to the issue of visas and work permits at Slovenia's embassy in Beijing and the Shanghai consulate would be simplified.

In spite of the constant growing trade with China, its share in the total Slovenia foreign trade remained very modest although gradually increasing (see Table 4). It has become much higher in terms of import, which substantially increased while the share of export to China in the total Slovene export still remained modest at 1.12%. Nevertheless, China remained a less important trade partner for Slovenia assuming in 2017 the 8th most important import (in 2005 17th) and the 21st most important export destination country (in 2005, 32th).

Table 4

The share of export and import from China in total export and import of Slovenia (in %)

| | 1994 | 2000 | 2008 | 2012 | 2017 | 2018 | 2019 |
|--------|------|------|------|------|------|------|------|
| Export | 0.6 | 0.16 | 0.39 | 0.65 | 1.12 | 0.99 | 0.83 |
| Import | 0.5 | 0.39 | 1.91 | 2.79 | 3.14 | 3.34 | 3.70 |

Source: Bank of Slovenia 2017 and 2020.

The EU has remained the major foreign trade partner of Slovenia in the whole period, where almost 77% of the Slovene export and 80% of import is directed, followed by countries of former Yugoslavia. The export to Serbia alone is more than 4 times larger than that to China (2015).

The foreign trade with China increased in the period 2000–2017³³ by 15 times: export from 2.2 million euros to 32.5 million euros, while the import from 53 million euros to 801 million euros. More reliable data after 2004³⁴ show an increase of the export to China by almost 9 times and the import by 4.4 times. The result of such unbalanced trade resulted in the substantial and growing trade deficit. It increased from 27 million euros in 1994 to 502 million euros in 2017. Although Slovenia is a small open economy, according to the last available data (2011), there were as much as 8,000 Slovene firms importing from China and 270 exporting there; on the one hand, this is good news but on the other, it increases transaction costs and risks. Not all firms, particularly small ones, have the knowledge and skills to successfully overcome all the risks involved in international operations.

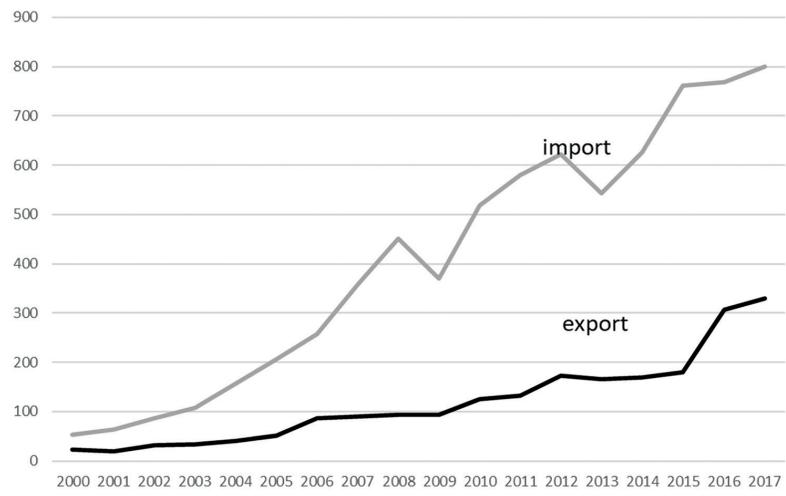


Figure 1

Dynamics of Slovenia trade with China 2000–2017 (value in EUR millions)

Source: Statistical Office of the Republic of Slovenia (SURS).

³³ 11 months only.

³⁴ Data on trade before 2004 is not compatible totally with those before 2004. The methodology has been changed after Slovenia became EU member. Therefore, the more reliable comparisons are only those after 2004.

Trade with China started to increase after its WTO membership. Prior to 2002, only those firms that had already established contacts with China from Yugoslav times were active there, or those whose managers transferred the knowledge of doing business with China from the companies in which they had been employed at the end of the 1980s and early 1990s and then opened their own businesses.³⁵

Oscillations in the export can be explained by some huge deals some firms made in particular years while drop in import in 2009 occurred due to the crisis of the Slovene economy. Unfortunately, Slovenia has not seized the opportunity to facilitate exit from the great recession in 2008 by enhancing export to China. On the contrary, import from China during the crisis increased more than export. Slovenia was not very specific in that regard as most EU member countries, including new members, have not grasped the opportunity of enhancing cooperation with China as a way out of the crisis.³⁶

Initially trade with Hong Kong (HK) was rather important, since it represented as much as 40% of export to China in 2000 (import much less; 21%). Parallel with strengthening cooperation with China, the share of imports and exports to HK has been decreasing, although the import was in fact in these 17 years almost halved (0.7% of the shares in total import from China), while the export increased 6 times to 12% of the shares.

Huge oscillations in trade have been parallel with substantial changes in trade structure; otherwise, it was similar as in the case of import from China. The machinery and equipment dominated in the Slovene export to HK with a decreasing trend. To conclude, Slovene firms are not using “small” Hong Kong enough as a good starting gate to the large Chinese market. Such cooperation can be particularly suitable for new entrants and SMEs.

Along with the transition, restructuring of the Slovene economy and high growth of China’s economy, trade has become more and more inter-industry trade. Manufactures dominated in the whole period on both sides in export and import. While initially textile, a traditional export item of less developed countries, represented a rather high share in the Slovene imports from China, its share in 2000–2017 decreased almost 4 times. Just the opposite trend could be observed in the export, where the share

³⁵ IVANČIČ 2009, 36–37.

³⁶ TKALEC–SVETLIČIČ 2014, 176.

of machinery and equipment (capital goods) increased more than 4 times. Consumer goods formed initially a high share in the Slovene import from China, but almost halved in 21 years partly as a reflection of the higher standard of living in Slovenia and enhanced awareness of the importance of health and environmental standards where Chinese firms are still not following all the European standards.

Table 5
Trade structure of export and import of Slovenia with China 1994–2015
(SITC rev.2), in %

| | Export | | | | Import | | | |
|-----------------------------------|--------|-------|-------|-------|--------|-------|-------|-------|
| | 1994 | 2000 | 2008 | 2015 | 1994 | 2000 | 2008 | 2015 |
| Manufactures | 88.85 | 97.99 | 94.34 | 90.95 | 91.08 | 93.17 | 96.83 | 95.42 |
| Machinery and transport equipment | 30.25 | 32.45 | 73.90 | 49.65 | 11.26 | 29.82 | 43.60 | 46.73 |
| Chemicals | 10.26 | 22.99 | 6.04 | 18.12 | 11.89 | 7.87 | 7.14 | 13.17 |
| Food | 4.84 | 0.01 | 5.46 | 4.54 | 5.19 | 2.97 | 0.92 | 0.67 |
| Agricultural raw material | 1.69 | 1.58 | 0.16 | 3.15 | 2.38 | 0.40 | 0.34 | 0.33 |
| Ores and metal | 3.27 | 0.41 | 0.02 | 1.22 | 0.62 | 3.42 | 1.90 | 2.80 |
| Textiles | 12.99 | 0.72 | 1.66 | 0.78 | 38.34 | 16.03 | 16.10 | 10.85 |
| Fuel | 1.13 | n.a. | 0.01 | 0.13 | 0.74 | 0.04 | 0.02 | 0.77 |

Source: Statistical Office of the Republic of Slovenia (SURS).

Increasing opportunities are also offered in services, particularly tourism. In 2016, about 156 million Chinese tourists crossed the border (including businessmen), spending USD 261 billion. Slovenia attracted 62,000 Chinese tourists in 2017 (35% more than in 2016) who stayed overnight. Slovenia would like to become the entrance gate for Chinese European tours.

Investment cooperation

Chinese firms started to be interested in investing in Slovenia in 1996, while Slovene firms only after 2000. The major motives of Slovene firms for investing in China are the market (tariff jumping factories or other types of protectionism) and efficiency seeking FDI (large market, low labour costs).

The market seeking investment and recently, gaining knowledge were the second major motives. It seems that without local production it is, at least in the long run, impossible to sell the products on the large market of China.

In addition to FDI and business activity, there may be some macro-economic, even political considerations behind them as well. On the Slovene side, such consideration can be diversification of its economic ties from the very high European dependence. On the Chinese, it can be “jumping” on the EU markets through Slovenia, particularly using the Port of Koper or acquiring Maribor Airport as a springboard. In such a way, China also gets insights and influence on what is going on in the EU. Their investment in infrastructure³⁷ can be regarded as a part of the China flagship project, the One Belt One Road initiative (OBOR).

In terms of microeconomic motives, Chinese investment in Slovenia in industry does not depart much from general motives for investing in Europe: gaining knowledge, getting access to technology and trademarks are the motives of such investments, usually combined with EU market seeking strategies.

Slovene investments in China are surprisingly extremely low since they started much before Slovenia became an independent state (see section *Short history*). Initially major motives were to exploit low labour costs locally and to import such labour-intensive products back in Slovenia. In some cases of semi-finished products, suppliers to large multinational companies operating in China entered the market in order to get closer to their “customers” building their product in, e.g. cars (induced internationalisation). Getting access to the huge local market was the next motive.

³⁷ Chinese investors have been interested in buying or investing in the Port of Koper. In 2011, the Slovene Prime Minister Pahor revealed that the Chinese Government offered up to 10 billion euros for the purchase of Slovenian Railways and the construction of high-speed lines that would be carried out by Chinese companies with Chinese workers. He had rejected the offer, as the arrival of thousands of Chinese workers to Slovenia could have caused a social bomb that our country could not tolerate. Chinese Southern Airlines (the second largest in the world) was ready to buy Adria Airways, a freight airport and aviation school. Their plan was to convert Brnik Airport into a hub to Western Europe. The project collapsed as no Slovenian state representative found the time to accept the Chinese delegation (JENKO 2016). The airport was rather sold to the German Fraport AG in 2015, reflecting, at least partly, the traditional Slovene mentality: “Made in Germany means quality.”

The share of investments in China in the total Slovene investments abroad increased from 0.3% in 2012 to 0.8% in 2016. In terms of value, they gradually increased (although oscillating annually) from extremely modest 0.1 million euros in 2002 to 7.7 million euros in 2006 and finally to 44 million euros plus 4.4 million euros in HK in 2016.³⁸ This is of course far from what other countries are doing in China being, after USA, the number two location for FDI in the world and considered the most promising FDI home economy for 2017–2019.³⁹

The main activities of Slovenian companies in the Chinese market are production of footwear, products and semi products for thermoplastics electronics and electromechanical industry, products and components for the automotive industry, sales promotion and market operations, support to the purchasing activities of the parent company. More than thirty Slovenian companies have representative offices and companies in the field of automotive, electro, chemical, footwear, textile industry, trade and transport, operating in China.⁴⁰ Among them are Le-technika,⁴¹ Gorenje, Domel,⁴² Etol, Cablex, Letrika, Kolektor, Krka,⁴³ Cosylab,⁴⁴ Alpina, Unior, EURO PLUS engineering, Cablex, Gostol.

The Chinese FDI in Slovenia, although growing, is also very modest, so small that the Bank of Slovenia does not report about it among the 4 most important Asian investing countries. That is surprising due to the fast growth of Chinese investment in Europe in general which increased

³⁸ Data according to Bank of Slovenia 2017, 31.

³⁹ UNCTAD 2017, 9.

⁴⁰ Due to data confidentiality, it is not possible to include the comprehensive list of such ventures.

⁴¹ It was the first wholly owned company (Sinoslo Technology) established by a Slovene company in 2002.

⁴² Entering China in 2005 in order to get closer to its suppliers like Philips, Electrolux and Rowenta.

⁴³ Krka and its Chinese partner Ningbo Menovo Pharmaceutical have set up a joint venture Ningbo Krka Menovo Pharmaceutical in 2017. Krka holds a 60% stake. Another pharmaceutical firm, Lek was active in China but after being taken over by Novartis, this activity of Lek in China terminated.

⁴⁴ According to Mark Pleško, General Manager and owner, Cosylab gained a larger deal in the treatment of cancer with proton therapy, and so was able to employ in its own company there a top team of seven Chinese. The Chinese now have fewer than five proton centres, and they want to have 70 in the next five years. “With our software we can shorten their entry to the market from five to two years” (see BERTONCELJ 2018).

over 4 times in the period 2013–2016. Among CEE countries only Estonia, Macedonia, Latvia and Montenegro host less Chinese FDI. Nevertheless, their share in total outward FDI increased from extremely low 0.3% in 2012 (first time they appeared in 2002) to still very low 0.8% in 2016 or 11 million euros.⁴⁵ They are almost 4 times smaller than the Slovene FDI in China. The situation is in practice a little better because some investments are not registered as Chinese since they are undertaken by Chinese firms located in other countries or are Slovene companies located abroad.

Chinese investors believe Slovenia to be very attractive due to its strategic location and well-educated work force. Their investments in Slovenia are typically strategic; they want to acquire modern technology and knowledge.⁴⁶ Here are the examples.⁴⁷

- The largest Chinese FDI in Slovenia is the purchase of Outfit 7 bought from Slovene owners for 1 billion dollars by Zhejiang Jinke Peroxide (renamed after the acquisition into Zhejiang Jinke Culture Industry).
- The investment in the Slovenian high-tech company Elaphe⁴⁸ (producing in-wheel electric motors).
- The joint venture (JV) Pipistrel Asia Pacific (49% by Chinese partner Danny Wu and 51% by Pipistrel) was started by the construction of a new factory to produce 800 advance airplanes annually. Pipistrel would additionally sell 100 planes by export. The original idea of a simultaneous JV investment by the Chinese firm Sino in Pipistrel in Slovenia later collapsed due to the opposition to Chinese co-ownership in Pipistrel in Slovenia. The EUR 350 million deal in seven years will be upgraded with 5 additional ventures of Pipistrel Asia Pacific for airport construction, aircraft production, airport management, aviation training and construction of business and housing work.

⁴⁵ Bank of Slovenia 2017, 19.

⁴⁶ Some examples may be investment in DINOS (although waste processing is also becoming quite technology intensive), Javna razsvetljava [public lighting] and Maribor Airport.

⁴⁷ If not otherwise stated, data according to Finance 2018, 22–23.

⁴⁸ According to the agreement, the Zhejiang Asia-Pacific Mechanical & Electronic APG will become a 20% owner of the Slovene company and strengthen it with 10 million euros of fresh capital (Delo 2015). This cooperation is of a strategic importance in view of one among major long-term strategies of Chinese automakers to boost export of cars, particularly electric ones in Europe.

- TAM Europe. TAM Durabus, a Chinese–Dutch JV, re-launched bus production in Maribor in spring 2013; it is specialising in the production of electric busses. However, the company is producing losses although the general manager is optimistic about the future.
- Fotona, also a hi-tech producer, was bought from the state by Americans in 2014 to be three years later sold to Chinese Agic Capital.
- Arctur offering super computer services has also a Chinese co-owner.
- Acies Bio, the biotechnology firm is 22% (5 million euros) in Chinese Desano, a pharmaceutical firm.
- Huawei is also present in Slovenia with a small company employing only one person.
- The China-Central and Eastern Europe Investment Cooperation Fund, (China–CEE Fund) spent 22 million euros to get 84.1% share in Javna razsvetljava [public lighting], lighting, signalisation, engineering and electricity production.
- In January 2019, SHS Aviation has terminated its fifteen-year concession of the airport, less than two years since taking over in March 2017. Despite not delivering on most of what it promised, including transforming Maribor Airport into a hub for Chinese tourists, the operator expressed its unhappiness with delays by the central government in adopting a zoning plan, which would allow it to begin its massive 660 million euro airport redevelopment project (extend the airport track and expanding the airport with other facilities so that the airport would allow intercontinental flights) which was not very welcomed by the local population.⁴⁹
- DINOS (waste processing) was bought by the Chinese firm Chiho Tiande Group from German owners.
- In May 2019, Hisense announced a takeover bid for Gorenje offering 12 euros per share which valued the company at about 293 million euros. By July 2018, it acquired over 95% of the Gorenje shares, which is the largest Chinese investment in Slovenia after the investment in Maribor airport turned out to be a failure.

⁴⁹ KUTIN LEDNIK 2019.

The experiences of investors on both sides clearly show that:

- The best way is to have a two-way (investment) cooperation: Chinese firms in Slovenia and Slovene firms with the same partners in China. Cases of such cooperation are Pipistrel, Arctur,⁵⁰ Elaphe.⁵¹
- Concentrating cooperation in specific niches, particularly hi-tech is the best for smaller Slovene firms not able to compete on economies of scale or scope.

Problems

Slovene firms cooperating with China are claiming that entering the Chinese market is harder (64%) than doing business on other markets. It implies that firms are facing there more problems. Among them the firms have indicated a poor competitiveness, a lack of financial resources (for investments), cultural and language barriers⁵² and lack of trust. Lastly, the firms also ran into problems because of the poor preparations before entering the Chinese market. Quite a number of them reported that they have not consulted anybody prior to entering the Chinese market. A number of more general concerns regarding cooperation with China, indicated by Istenič,⁵³ are also relevant for Slovenia. For instance:

- a) “Chinese investment in CEE will raise Beijing’s ability to wield political influence over the decision-making process in the EU.” It will “divide” CEE from the rest of the EU due to states’ competition to attract Chinese investment what might significantly affect the EU unity and coherence and weaken European leverage vis-à-vis China on matters of strategic importance.
- b) Chinese acquisition of key/strategic industries, which are critical for a nation’s economic growth and international competitiveness,

⁵⁰ This high technology firm active in high-performance computing can also promote hi-tech export goods from China to Europe having the exclusive rights for export to Europe.

⁵¹ It is a leading firm producing in-wheel electric motors, which are considered the future in electric cars.

⁵² Interestingly, the language problem had the same rating by firms who have employees mastering mandarin language and those lacking such cadre.

⁵³ ISTENIČ 2017, 10, 11.

would endanger the national security of the individual CEE country in question.

- c) Trade imbalance with China and the lack of investment reciprocity due to limited access to the Chinese market are creating uncertainty and could bring serious challenges in the future.

The open Slovene market is not met by the same openness on the Chinese side applying less transparent selective FDI channelling approach to some strategic sectors. The danger of acquiring key strategic industries is less relevant with the exception perhaps of the Port of Koper and related railways.

The nonexistence of any Chinese bank in Slovenia⁵⁴ limits future cooperation. Economic cooperation seems not to be grasping the totality of opportunities offered by the growing importance of China in the global economy. Slovenia has not attracted more Chinese investments in spite of their spectacular growth in the last decade, nor the opportunity to enhance export to China as a crisis exit instrument. Slovene firms are also not utilising enough the opportunities offered by regional programs such as the EU SME Centre, or China IPR SME Helpdesk, also under the auspices of the European Commission. They provide practical information and free assistance to European companies, including protecting and enforcing intellectual property (IP) rights in China. It is particularly important since China remains one of the most problematic countries in terms of intellectual property protection, local market protectionism and human rights. Companies must be vigilant in order to be faster than local imitators. Internationalisation is a way to address weak IP protection or forced transfer of technology by China.

Slovene companies can also use the services of the Eurochambres, the association of 43 European Chambers of Commerce and Industry. Membership of Slovene companies in such an organisation could be very instrumental in facilitating cooperation.

⁵⁴ The presence of such a bank could stimulate bilateral cooperation such as membership in the Asian Infrastructural Investment Bank (AIIB) of which Slovenia is not a member although 21 EU member countries are (including all CEEs except Slovenia and Croatia). According to Lipušček (interview), “it is impossible to develop strategic cooperation with China not being a member of AIIB”.

There are several further explanations for lagging cooperation with China. On the one hand, there are objective factors like the small size of the Slovene economy and comparatively small size of its firms. Even the largest Slovene firms, few Slovene multinationals, are small compared to most Chinese firms either state or privately owned. The large geographic and cultural distance and the historically strong European orientation of international political and economic cooperation are also barriers in this regard.

Several biases are preventing the expansion of future cooperation. The first one is the lack of knowledge about China in general in Slovenia, as well as the inferiority complex of the Slovenes in considering themselves a small country with many limitations which is preventing closer cooperation with such a big country as China. Survey among managers and graduate students has demonstrated that managers rated knowledge about Chinese culture (together with India's) the lowest. Not surprisingly, they rated the improvement of such knowledge as the most important way to avoid mistakes in business relations⁵⁵). In the heads of the general population, China is still prevailing a less developed economy, with consumers demanding cheap products. Chinese firms like to cooperate with Europeans in order to boost their sales on the local market. Firms are informed better, but many stereotypes exist regarding China as a less reliable partner, with goods of lower quality, low technology development, low health safety or environmental standards, which make Chinese products less reliable for Slovene customers.

There is also a fear of the Chinese side, imposing their way of doing things, their management styles and their standards, which do not match the European ones. Firms are not well prepared when entering into cooperation. They lack knowledge about their Chinese partners and their subcontractors. The last in the chain to execute the contract is paid much less and consequently the performance is not up to the desired standards (interview with Tanja Drobnič, SPIRIT Slovenia).

In order to promote cooperation with countries such as China, a lot of time, money and human resources have to be invested. This is a problem particularly for SMEs lacking capital and human resources.

⁵⁵ KRALJ–SVETLIČIČ 2017.

Not surprisingly, a Manual has been prepared by the Chamber of Commerce and Industry of Slovenia on how to do business with China.⁵⁶

There are also problems, which Chinese firms are facing when operating in Slovenia. The favourable geographic position and the Port of Koper alone are not enough to convince Chinese companies. Chinese partners observed a significant deterioration in payment discipline and a lot of mistrust among business partners.⁵⁷

One problem is also that Slovene companies are not paying enough attention to macro political-economic plans China is making for the future development. Firms should pay close attention to China's national economic development plan for 2016–2020. It unveils the development concept of *Innovation, Coordination, Green Development, Opening Up and Sharing*, as well as the action plan *Made in China 2025* and *Internet+*, which show that the internet, ocean and green economy are becoming the key development points.⁵⁸

Concluding remarks

In spite of the spectacular growth of China's economy in the last four decades, becoming the number one economy in terms of GDP (PPP) and foreign trade, Slovene–Chinese economic relations, although growing fast in the last decade:

- a) are substantially lagging behind its potentials
- b) have not received appropriate high priority attention in foreign policy orientation of Slovenia
- c) have not been utilised as a crisis exit instrument
- d) are also lagging behind the very strong international economic involvement of Slovenia since the share of trade in GDP is over 146% while the share of export to China in total export constitutes only around 1% (import 3%)
- e) investment cooperation (inward and outward FDI, and GVCs) are much below the potential

⁵⁶ POLAJŽER–TURK 2013.

⁵⁷ KOS 2014.

⁵⁸ See Fister 2016.

- f) have missed the time to grasp the first mover advantage of the Chinese market which would at least partly reduce the shortcoming of a small economy/firms
- g) have not utilised enough the opportunities offered by the 16 + 1 initiative due to a rather late and not proactive enough approach

The reasons for such lags or missed opportunities are:

- a) Attitudinal barriers and stereotypes regarding China, although recently they started to change.
- b) Lack of knowledge on the development of China in the last decades.
- c) Predominant orientation towards Europe. Consequently, it was forgotten that necessary internationalisation of a small open economy demands “walking on 2 legs”: European and global.⁵⁹
- d) Objective factors like 1. lower competitiveness of Slovene companies compared to technologically more advanced multinational firms from Western countries; and 2. the complexity of a small economy/firm presents a barrier for cooperation with such a large market as China.
- e) The fears of Slovenia that the Chinese can dominate certain infrastructure objects in Slovenia (port, railway) if allowed to build them, which is a part of a general public, not official, fears regarding FDI.

Strengthening the cooperation of Slovenia with China is of strategic importance, both in political and economic terms. Therefore, in the future, Slovenia–China relations must be designed more strategically in line with the role of China in the global GDP and trade.⁶⁰ A long-term visionary approach is also needed taking into account where the future consumption will come from. The emerging-market middle class in Asia-Pacific is estimated to grow from USD 4.9 trillion in 2009 to USD 32.9 trillion in 2030, at which point it will comprise 59% of the global middle class spending.⁶¹ The bulk of this growth will come from Asia: by 2030, Asia

⁵⁹ SVETLIČIĆ 1993.

⁶⁰ The export of Slovenia to China is lagging much behind the import absorption capacity of China. If Slovenia wants to grasp more proactively China’s import absorption capacity, export to China should increase substantially.

⁶¹ The Futures Centre 2018.

will represent 66% of the global middle class population and 59% of the middle class consumption, compared to 28% and 23%, respectively in 2009.⁶²

The next major challenge is to be on time in catching the opportunities if wanting to benefit from first mover advantages, which offers many possibilities.⁶³ Latecomers get “crumbs from the table”.

By strengthening economic cooperation with China, Slovenia can reduce its dependence on the EU and strengthen the resilience of its economy. Good political relations are a precondition for successful economic cooperation and have more weight as compared to some other countries.

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⁶² PEZZINI 2012.

⁶³ “Anyone who has been with the Chinese up to now is treated better or at least as equal. Soon Chinese will be looking at those who will take too long to deal with that giant market or offering lower quality goods than Chinese can produce themselves, *from above*.” (Mark Pleško, Director and Co-founder of Cosylab).

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China and Ukraine: Success or Failure?

Abstract

The relations between Ukraine and China had both high and low points. Certain periods of fruitful and dynamic cooperation were followed by the periods of frustration in the bilateral relations. However, the dominating trend is the growth of trade, growing Chinese interest in Ukraine's high-tech and agricultural potential, Chinese expectations to establish free trade area and visa free regime with Ukraine. In its turn, Ukraine tries to balance between Beijing, Brussels, Berlin and Washington and to use its transit capacities for joining and benefiting from the "One Belt, One Road" Initiative.

Keywords: Ukraine, China, foreign policy, trade

Bilateral political relations since 1991

A founding stones in the bilateral relations between Ukraine and China was the recognition of Ukraine as an independent state on December

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27, 1991 and further establishment of the diplomatic relations on January 4, 1992.

Since that time and up to the current moment, China consistently supports Ukraine's sovereignty and territorial integrity whereas Ukraine in a reciprocity manner is committed to the "One China" policy.

While in the early years of the Ukrainian independence (the period of the presidency of Leonid Kravchuk in 1991–1994) the intensity of bilateral contacts was not high. It has significantly intensified in the period of Leonid Kuchma's presidency in Ukraine (1994–2005). Presumably, such developments were caused by the multi-vector foreign policy applied by President Kuchma² in his attempts to minimise foreign policy risks, diversify foreign policy priorities and engage big players (Russia, the U.S., the European States and China) whom he expected would balance each other and, therefore, none was to gain domination over Ukraine. One of the significant achievements of that time was the endorsing of the Memorandum on Security Assurances in connection with Ukraine's accession to the Treaty on the Non-Proliferation of Nuclear Weapons³ (*Memorandum on Security Assurances in connection with Ukraine's accession to the Treaty on the Non-Proliferation of Nuclear Weapons*, also known as Budapest Memorandum) by all nuclear states including China (China and France joined its provisions at a later stage in the form of individual statements). Kuchma paid several visits to China: first in December 1995 and later in November 2002. On April 3, 2003, at the meeting in Beijing between President Hu Jintao and Kuchma during which China's head of state officially declared Ukraine to be a key partner in Eastern Europe.⁴

The relatively productive relations between Ukraine and China under Kuchma's presidency, which besides other factors were also rooted in the Chinese interest in the Ukrainian military-industrial complex (more details in section *Economic relations since 1991*) became less prioritised at the time of his successor, Viktor Yushchenko (2005–2010). One of the key reasons for the deterioration of the bilateral relations was, on the one hand, the openly pro-Western preferences declared by Yushchenko alongside with breaking ties with the Russian Federation (whereas the

² KHOMENKO 2013.

³ Budapest Memorandum 1994.

⁴ LIU 2016.

Chinese side had the unconscious perception of Ukraine as part of the post-Soviet space to which Russia allegedly had some rights).⁵ Another trigger of the deterioration of the relations was the fact that Ukrainian officials offended Beijing by inviting high-ranking Taiwanese officials to attend semi-official international conferences in late 2005, leading to a stalling in senior-level exchanges during the Viktor Yushchenko Administration.⁶

However, another rotation in the Ukrainian administration and the presidency of Viktor Yanukovich was marked by the notable increase in the bilateral contacts. In the beginning of his term, Yanukovich paid interest to Kuchma's legacy of multi-vector policy and geographically remote China was perceived by him as an alternative to Russia, as a power trying to dominate Ukraine and the West trying to impose rules and values that Yanukovich did not share. Both in 2011 and in 2013, there were exchanges of the state visits of heads of state, which served the purpose of signing basic bilateral documents aimed at determining the key principles, achievements and priority spheres for further mutually beneficial development of Ukraine–China international cooperation. Notably, Chinese President Hu Jintao's state visit to Ukraine in 2011 was the first visit by a Chinese head of state to Ukraine in a decade. The two leaders signed a joint statement upgrading their countries' friendly and cooperative relations to a strategic partnership.⁷ An important content of the China–Ukraine strategic partnership was to support each other on issues concerning national sovereignty, reunification and territorial integrity. The two sides agreed that cooperation in the fields of trade and economy, investment, science and technology, aviation, aerospace, agriculture and infrastructure construction is a priority in the future development of bilateral relations.⁸

The two countries enhanced mutual cooperation in many fields and strengthened political ties. The contacts at the presidential level were supplemented by the intergovernmental cooperation. Ukrainian Prime Minister Mykola Azarov visited China and attended the Boao Forum for Asia in April 2011. Meanwhile, Chinese Vice Premier Zhang Dejiang

⁵ GONCHARUK et al. 2016.

⁶ YAN 2017.

⁷ LIU 2016.

⁸ LIU 2016.

visited Ukraine and co-chaired the first meeting of an intergovernmental cooperation commission at the vice premier level. In addition, the China–Ukraine Business Council was launched.⁹

In the course of the Chinese President’s visit to Ukraine in June 2011, the Joint Declaration on Establishment and Development of Strategic Partnership Relations between Ukraine and China was signed. The visit of the President of Ukraine in December 2013 was marked with signing the Treaty on Friendship and Cooperation between Ukraine and the People’s Republic of China, the Joint Declaration on Further Deepening of Strategic Partnership Relations between Ukraine and the People’s Republic of China, and the Program of Development of Strategic Partnership Relations between Ukraine and the People’s Republic of China for the years 2014–2018. The parties agreed to strengthen high-level exchanges and to enhance strategic mutual trust as well as to enhance the role of the China–Ukraine Intergovernmental Cooperation Committee, to strengthen cooperation in the fields of agriculture, energy resources, infrastructure construction, finance and high-tech. Ukraine also expressed its readiness to join the “Silk Road Economic Belt”. The Chinese side welcomed this and was ready to discuss the relevant cooperation with the Ukrainian side.¹⁰ However, the timing was far from perfect since the visit took place already in the period of mass manifestations in Ukraine further known as the Revolution of Dignity.

Albeit the fall of Yanukovych, further development of the relations between the two states continued under President Poroshenko. Interestingly, China was one of the first countries in mid-March 2014 to propose a peaceful settlement of the “Crimean issue” in the form of an international coordination mechanism which had to include all stakeholders. These calls and China’s position were virtually ignored by Kyiv, its Western partners and Russia.¹¹

The first cautious steps were the meeting of Pavlo Klimkin, the Minister of Foreign Affairs of Ukraine, with Mr. Wang Yi, the Chinese Minister of Foreign Affairs, in the margins of the Milan ASEM Summit in October 2014 followed by the meeting of the President of Ukraine

⁹ FENG 2011.

¹⁰ Embassy of the People’s Republic of China in the Kingdom of Norway 2013.

¹¹ GONCHARUK et al. 2016.

Poroshenko with the head of the Chinese Government Li Keqiang in January 2015 in the framework of the Davos World Economic Forum.

In December 2015, the delegation of the CPC Central Committee International Affairs Department paid a working visit to Ukraine while in January and December 2015, Beijing hosted the Ukrainian–Chinese political consultations at the level of heads of MFAs concerning bilateral relations and UN-related matters.

The first short meeting of the leaders of the states occurred on April 1, 2016 at the Washington Nuclear Security Summit. They discussed the intensification of Ukraine–China cooperation and holding the next meeting of the Ukraine–China Intergovernmental Commission on Cooperation.

However, the really significant breakthrough happened in 2017. On 17 January 2017, in the framework of the Davos World Economic Forum, President of Ukraine Petro Poroshenko met with President of the People’s Republic of China Xi Jinping. At the meeting, the two heads of state expressed their interest in intensifying the political dialogue at the highest level and deepening the economic cooperation between Ukraine and China. Besides, the agreements were reached on holding the next meeting of the Ukrainian–Chinese Intergovernmental Commission on Cooperation in 2017 and the Ukrainian delegation’s (headed by the Vice Prime Minister) participation in the “One Belt, One Road” international forum (held in Beijing in May 2017). Xi Jinping also reconfirmed China’s support of Ukraine’s territorial integrity and sovereignty.

On 5 December 2017, in the framework of the Kyiv Third Meeting of the Commission on Cooperation between the Governments of the two countries, Petro Poroshenko, President of Ukraine, and Volodymyr Groysman, Prime Minister of Ukraine, held their talks with Ma Kai, Vice Premier of the State Council of the People’s Republic of China, head of the Chinese delegation.¹² Soon afterwards, Ukraine’s Prime Minister Volodymyr Groysman announced that 2019 would be the “Year of China” in Ukraine.

Besides, in the 2017 Analytical Report to the Annual Address of the President of Ukraine to the Verkhovna Rada a special emphasis was made on the deepening of the strategic partnership between Ukraine and China, and the PRC’s signals for support of the sovereignty and territorial

¹² Ministry of Foreign Affairs of Ukraine 2018a.

integrity of Ukraine were mentioned.¹³ Also, the parties signed the Ukraine–China Action Plan on implementing the initiative to build jointly the Silk Road Economic Belt and the 21st Century Maritime Silk Road that is especially important given the role of the initiative in the foreign economic strategy of China. Besides, according to the announcement made by the Vice Prime Minister of the State Council of the People’s Republic of China Ma Kai during his visit to Ukraine in December 2017, China assigned USD 7 billion for the cooperation with Ukraine; this sum can be increased in case of successful project implementation (although none of the documents signed in December 2017 mentions specific investments, and the Action Plan has just general phrases about the cooperation deepening in certain areas without any reference to the specific projects).¹⁴

Economic relations since 1991

Ukraine’s independence launched the economic relations between the two states that are regulated by the Trade and Economic Cooperation Agreement between the Government of Ukraine and the Government of the People’s Republic of China (1992) setting the most favourable regime regarding the duties levy for exported and imported goods of both countries as well as taxes and other domestic dues.¹⁵ Not surprisingly, the primary interest area of the Chinese state was the Ukrainian military-industrial complex inherited from the USSR (Ukraine inherited approximately 35% of the Soviet-era military capacity). And indeed, China hugely benefited from the severing of trade ties between Ukraine and Russia, as the two countries had a tightly-integrated defence industry, and without bilateral trade both needed new export markets which China was happy to provide.¹⁶ China purchased various military equipment from Ukraine, including ships, tanks, aircraft and the aircraft carrier formerly named Varyag (now known as Liaoning). Ukraine has also been exporting different, around 30 types of military technology to China, including

¹³ National Institute for Strategic Studies 2017.

¹⁴ MAKSAK 2018.

¹⁵ Ministry of Foreign Affairs of Ukraine 2018b.

¹⁶ AVA-POINTON 2018.

power systems for aircraft carriers and large ships, supersonic advanced training aircraft, key equipment for tank engines and air-to-air missiles as well as engines for high altitude helicopters.¹⁷ Ukraine has played a vital role in China's recent military modernisation, in particular through the sale of aircraft and tank engines, naval gas turbines and the world's largest military-purpose amphibious hovercrafts, as well as research and development for military transportation aircraft.¹⁸ The "Snow Dragon" ("Xue Long") icebreaker (which nowadays is a significant asset for the fulfilling of the Chinese Polar strategy) was also purchased from Ukraine in the mid-1990s and rebuilt according to China's needs.¹⁹

In 2012–2016, China was the main customer of Ukraine's defence industry (28%).²⁰

Another hi-tech cooperation field is space-related industrial cooperation. Ukraine is now fulfilling 21 contracts with China worth a total of over USD 67 million; it also implemented its own five-year program of space industry development (2012–2017).²¹ In 2017, Ukraine and China renewed the program of the cooperation in the space sphere until 2020. The agreement provides the implementation of more than 70 projects. The majority of them are the creation of rocket and space equipment, including the implementation of the Moon program and mission on the research of the Solar system by China and the creation of new materials and remote sensing of the Earth.²²

The newly emerging cooperation in the field of renewable energy also looks promising. In particular, Ukraine is interested in implementing joint investment projects with China, establishing joint factories for the production of equipment and materials for renewable energy facilities, and creating financing mechanisms for clean energy projects.²³ Reportedly, the Chinese company wants to capitalise on the wind coming off the Azov and to build a 500-megawatt wind farm.²⁴ Besides, 'Naftogaz Ukraine' got a USD 3.6 billion credit from the National Development Bank of China

¹⁷ LIU 2016.

¹⁸ DÜBEN 2015.

¹⁹ GERASYMCHUK 2018.

²⁰ POPESCU–SECRIERU 2018.

²¹ GONCHARUK et al. 2016.

²² 112 Ukraine 2017.

²³ Business Standard 2017.

²⁴ BROOKE 2018.

and the CNBM Company owns several solar power plants in the Odessa region, with the whole investment worth USD 1 billion.²⁵

However, the cornerstone of the bilateral economic relations remains the agricultural sector. Both countries signed a deal in the autumn of 2012, which stipulated that Ukraine would export 300 million tons of grain each year to China over a period of 15 years, in exchange for more than USD 3 billion in loans.²⁶ Also in 2012, Ukraine and China signed a USD 28 billion contract under which Ukraine would supply agricultural products to China in exchange for the purchase of Chinese fertilisers and agricultural equipment.²⁷

In the period of flourishing relations with the administration of Viktor Yanukovych in September 2013, Beijing and Kyiv reportedly concluded a 50-year contract for two Chinese state-owned companies to ‘rent’ up to 3 million hectares of farmland in eastern Ukraine.²⁸

The largest volume of investment was directed to enterprises in the agriculture, forestry and fishing, industry, wholesale and retail trade, as well as repair of motor vehicles and motorcycles. China’s Noble Agri, wholly owned by COFCO (China National Cereals, Oils and Foodstuffs Corporation), has two assets in Ukraine. The first is located in Mariupol. It is a sunflower seed processing complex with a daily crushing capacity of 1,500 metric tons and storage capacity of 180,000 metric tons. The second facility is a newly built Mykolaiv grain port terminal, which boasts a trans shipment capacity of 2.5 million tons per year and storage capacity of 125,000 tons. Ukraine is the only European country where Noble Agri has a presence, and is competing with such large U.S. companies like Cargill, Monsanto and Bunge. In 2015, Ukraine overtook the U.S. as China’s number one corn supplier. Traditionally heavily reliant on U.S. agricultural products, China is reducing this dependence with the help of Ukrainian agricultural produce.²⁹ Since Russia annexed Crimea in 2014, the volume of agricultural trade between Ukraine and China has increased by 56%. Although there is no direct linkage between the annexation and the agricultural trade turnover growth, it is fair to assume that to some

²⁵ Newropeans Magazine 2017.

²⁶ DÜBEN 2015.

²⁷ MYKAL 2016.

²⁸ DÜBEN 2015.

²⁹ MYKAL 2016.

extent it was caused by the reorientation of the Ukrainian producers to the Chinese market instead of the Russian one.³⁰

2017 was the year of the relative intensification of the bilateral relations not only in the political but also economic field. According to the data provided by the MFA of Ukraine,³¹ the trade turnover between Ukraine and China amounted to USD 7.69 billion. Thus in 2017, the trade of Ukraine–China was lagging behind Russia with USD 11.14 billion but reached 2nd position leaving behind Germany with USD 7.19 billion. Chinese trade turnover with the neighbouring Poland, the Czech Republic and Hungary was higher though. At the same time, Chinese exports to Ukraine amounted to USD 5.65 billion (+20.5%) and Chinese imports from Ukraine amounted to USD 2.04 billion (+11.3%). The balance of bilateral trade in favour of China amounted to USD 3.61 billion. The structure of the Chinese exports to Ukraine are dominated by commodity groups: machinery and mechanical appliances, electrical equipment (35.53%); textiles and textile products (11.38%); base metals and articles of nonferrous metals (10.90%); plastics and articles thereof (7.93%); chemical products (7.33%); miscellaneous industrial products (7.13%); footwear, headwear, umbrellas (4.86%). The import of Ukrainian goods to China was submitted by such groups: mineral products (42.57%); vegetable products (from 23.76%); animal or vegetable fats and oils and products of their processing (23.49%).

Besides, in 2017 China's Bohai Commodity Exchange acquired the Ukrainian Bank for Reconstruction and Development³² and that arguably gives a signal about the Chinese desire to engage further into Ukrainian economics although not because of the Ukrainian market but due to Ukrainian producers' ability to adjust to Chinese economic interest and also due to the potential Ukraine possesses as a transit country. The Ukrainian proximity to the European Union and its status of the signatory of the Association Agreement including Deep and Comprehensive Free Trade Agreement can attract further Chinese investment and manufacturing.

³⁰ OLENIKOVA 2016.

³¹ Ministry of Foreign Affairs of Ukraine 2018b.

³² BROOKE 2018.

The impact of the Russian aggression in Ukraine on China–Ukraine relations

The Chinese investments in Ukraine and Ukraine's transit potential for transporting of the Chinese goods to the EU caused Beijing's interest in a relative stability of the country. Thus, China's new leadership did not support Yanukovich's approach to the resolution of the political crisis in Ukraine. Already a few days after the overthrow of the Yanukovich Government in Kyiv, China's Foreign Ministry Spokeswoman Hua Chunying implicitly expressed Beijing's support for the new government, stating that "China does not interfere in Ukraine's internal affairs [and] respects the independent choice made by the Ukrainian people in keeping with Ukraine's national conditions".³³

What is more, when the State Duma of the Russian Federation issued permission on 1 March 2014 to use its own troops against Ukraine, China took a clear position as soon as on 2 March in support of Ukraine's independence, sovereignty and territorial integrity and urged the sides to use dialogue and negotiations based on international law and the norms of international relations for peace and stability in the region.³⁴ Interestingly, in addition, a Chinese representative expressed the opinion that there were reasons for the events in Ukraine. This approach made it possible to interpret China's official position widely. Arguably, it can relate both to Russia fuelled narratives on the Western footprints in the Ukrainian Revolution of Dignity as well as to an alleged proxy war between "the West" and Russia in the territory of Ukraine.

China's Foreign Ministry Spokesman Qin Gang stated on 2 March that: "It is China's longstanding position not to interfere in others' internal affairs. We respect the independence, sovereignty and territorial integrity of Ukraine."³⁵ When queried at the regular press conference the following day if Beijing had offered diplomatic support to Moscow after the Russian Parliament voted to approve the use of force against Ukraine, Qin merely referred back to his previous statement.

China's Foreign Ministry repeated that it is the statement on confirmation of "respect" for the sovereignty and territorial integrity of

³³ Embassy of the People's Republic of China in the Islamic Republic of Afghanistan 2014.

³⁴ GONCHARUK et al. 2016.

³⁵ DÜBEN 2015.

Ukraine, at several other press conferences clearly pointing that Beijing abstains from support to Moscow's violent steps. Throughout March, the official position of Beijing on this matter did not change, Liu Jieyi, China's Permanent Representative to the United Nations, also made such statements in several Security Council meetings.³⁶

Presumably, although traditionally China was backing the Russian behaviour at the international arena, in case of Ukraine, the Chinese leadership has rather perceived the annexation of Crimea and Russian aggression in the East of Ukraine as overreaction. Arguably, the Chinese leadership was also annoyed with the method applied for justification of the annexation of Crimea – the so-called “public referenda on the future status of Crimea”. For the Chinese leaders it is clear that might the international community accept such practice as a precedent, China may face problems with its territories as well (e.g. Tibet, Xinjiang and Taiwan).

Certainly, neither did China enjoy the developments of Ukraine. Usually, Beijing with Russia-spread narratives perceives so-called “colour revolutions” as the attempts of latent foreign interference, but the annexation of Crimea and the military engagement in the East of Ukraine are leveraging the international law, which China currently benefits from and also destabilises the region which China perceives as the transit territory for its global initiative “One Belt, One Road”.

Therefore, despite the Russian expectations, the Chinese Government has taken a relatively neutral stance.

The Ukrainian approach to the relations with China also created favourable conditions for the further development of the relations with China. Kyiv in a situation of de-facto war with Russia was seeking for allies in different parts of the world and also tried its best to ensure if not the support then at least the neutrality of the powerful global players to the club of which China definitely belonged.

At the Third Nuclear Security Summit held on March 24, 2014, the representatives of the new Ukrainian Government expressed their commitment to respect all the agreements that the overthrown authorities had concluded with China.³⁷ In its turn China in a reciprocity manner expressed its commitment to continue to develop the bilateral strategic

³⁶ Xinhua 2015.

³⁷ LIU 2016.

partnership and expressed its hope that Ukraine would maintain sustainability in its policies towards China.

Simultaneously, Beijing feels that the Russian influence in Ukraine after the annexation of the Crimea and launching of the military operation in the East of Ukraine will inevitably deteriorate. In addition, the relations with the EU would not develop fast due to the bureaucratized mechanisms of the EU and the need for Ukraine to conduct prompt and efficient reforms, therefore, Beijing has taken the chance of the strategic uncertainty of Ukraine to propose Kyiv the options that would bring Ukraine and China closer. The suggested options corresponded with the Chinese approach to the other countries of the European neighbourhood as well to the Chinese strategic interests in the region. Beijing suggested Ukraine closer relations notwithstanding the progress in the reforms. Formal steps of the Chinese Government to bring Ukraine closer were the following: at the First International Ukrainian Forum of the Silk Road in November 2016, the Ambassador of China to Ukraine Du Wei announced that at the working level China proposed to Ukraine the ambitious goal of setting a free trade area between the two countries. The Ambassador emphasised that the Ukrainian side will study this issue and give the response to Beijing. After suggesting the free trade area, the Ambassador also stressed that further economic ties between China and the EU would hardly be possible without the Ukrainian participation.³⁸

Another formal step for setting closer relations with Ukraine undertaken by China was the proposal to set mutual visa free regime between the two countries. The Chinese Ambassador to Ukraine in 2017 announced that the respective negotiations have not started but will start immediately when the Ukrainian side will inform China about the readiness for the respective talks.³⁹ In April 2018, China unilaterally established a visa free regime for the Ukrainians visiting the resorts of the Hainan Province.⁴⁰

The enthusiasm of the Chinese side is perceived in Ukraine with mixed feelings. On the one hand, within the Ukrainian strategy of building the coalition of allies able to support Kyiv in its fight with

³⁸ Ukrinform 2016.

³⁹ 24 Kanal 2017.

⁴⁰ Ukrmedia 2018.

the Russian Federation, closer relations can be perceived as an asset. However, at the same time, Kyiv has to consider the relations with the EU and the U.S. who are the key allies of Ukraine providing economic and military assistance. The emerging tensions between the U.S. and the EU on the one hand and China on the other hand put Ukraine into an awkward position when each step in the direction of closer relations with Beijing can be nervously perceived in Washington, Brussels and Berlin.

Under such circumstances, Ukraine has chosen the tactics of the delayed decisions. The proposals of the Chinese side on the free trade zone and mutual visa free regime remained without any response from the Ukrainian side.

Only at the end of 2017 has Ukraine taken the steps that can be assessed as the indicator of the increase of positive dynamics in the bilateral relations. After the meeting of the President of Ukraine Petro Poroshenko with the Chinese leader Xi Jinping at the beginning of 2017, the parties have agreed to resume the activities of the Ukraine–China Intergovernmental Cooperation Commission and, indeed, on December 5, 2017, Ukraine’s First Deputy Premier and Minister of Economic Development and Trade Stepan Kubiv and China’s Vice Premier Ma Kai launched the third session of the respective Commission. It is worth mentioning that the scheduled time of the Commission’s meeting was 2015 but both parties took the time before formal steps on enhancing cooperation. At a meeting with Vice Prime Minister Ma, President Poroshenko assessed the results of the Commission’s third session as positive, confirming Ukraine’s interest in continuing involvement in China’s “One Belt, One Road” initiative, in relation to which Ukraine’s priority is to include Chinese technological possibilities and capital in the development of the country’s economy. During the meeting, Poroshenko handed over an invitation to President Xi to visit Ukraine.⁴¹ The Ukrainian side also took this opportunity to highlight the importance of China’s consistent position with regard to respecting the territorial integrity and sovereignty of Ukraine and not recognising Russia’s temporary occupation of Ukrainian territory in Crimea.

⁴¹ HONCHARUK–KIKTENKO 2018.

Ukraine's participation in global and regional initiatives of China

Except for the bilateral relations with China that have improved recently, the important asset in the relations with Beijing would have been Ukraine's participation in the China-led global initiatives and its regional projects. Back in 2013, Ukraine was among the first European countries that expressed support to the Chinese global initiative "One Belt, One Road". However, the support was only declarative and was expressed by President Yanukovich who lost his power as soon as in 2014.

Since that time, the Chinese Government has already made huge allocations to OBOR through the mechanisms of the Asian Infrastructure Investment Bank (USD 100 billion) and the Silk Road Fund (USD 40 billion).⁴² The Bank funds infrastructure, energy and agricultural projects of the participating countries. However, due to a number of reasons, Ukraine abstained from joining this institution. Arguably, one of the reasons was the fact that the initiative was opposed by the U.S., Ukraine's key ally in security-related issues, who explicitly warned its European allies that the AIIB, a supposedly politically neutral body designed to support the building of infrastructure in Asia, would in reality serve Chinese economic and geopolitical interests.⁴³

The Chinese Government also proposed Ukraine to apply for a loan from its USD 40 billion Silk Road Fund for financing the infrastructure plans falling within China–Ukraine–European Union (EU) rail and ferry scheme.⁴⁴ The proposal was voiced back in August 2016.⁴⁵ However, since that time, there have been no success stories related to the projects funded through this initiative.

Ukraine invested its hopes into the infrastructure projects (cargo trains) that would link China to the EU bypassing Russia. At the end of January 2016, China lent its official support for a freight train from Ukraine to Kazakhstan and China, bypassing Russia. The suggested route was starting at the Black Sea Port of Illichivsk near Odesa, bound

⁴² MYKAL 2016.

⁴³ STANZEL 2017.

⁴⁴ SCIMIA 2016.

⁴⁵ Business in Ukraine 2016.

for Georgia, Azerbaijan, Kazakhstan and eventually China. It was multi-modal by its nature and included ferries across the Black Sea and Caspian Sea (Illichivsk–Batumi and Alat–Aktau Port). The first trial run took 15 days to reach the Kazakh–Chinese border. However, the interest of the Chinese exporters was low due to the transportation cost and delivery time. It is expected that launching of the new Beskyd Tunnel that belongs to the Ukrainian part of the extended TEN-T corridor and can lead to doubling domestic and international freight train operations to 24 million tonnes and 56 trains in both directions over the next ten years can revitalise the Chinese interest in the Ukrainian route.⁴⁶

The Ukrainian side also believes that China will consider the fact that the Port of Illichivsk, which serves the rail line running between Ukraine and China, also has direct cargo train links with countries in Northern Europe (e.g. Lithuania that has already signed a preliminary memorandum on cooperation on the cargo train to China from Ukraine).

Theoretically GUAM – the international organisation that assembles Georgia, Ukraine, Azerbaijan and Moldova and was created as an alternative to Russia-led integration initiatives in the post-Soviet region can also benefit from the Chinese engagement in the region. Although Beijing usually abstains from political involvement and unlikely will confront Russia politically, it can create the economic impetus for the economic cooperation of the countries of the region. At its latest 2017 meeting, GUAM members decided to embrace a more economic agenda and focus primarily on the Trans-Caspian International Transport Route (TITR) and a free trade agreement among GUAM member states.⁴⁷ With the development of a GUAM FTA and with the activation of the China–Georgia FTA (and potentially, China–Ukraine FTA), the integration of the region’s economy will increase.

It is noteworthy that some of the Ukrainian politicians also think about the prospects of joining other China-led initiatives e.g. the 16 + 1 format – sub-regional group that brings together China and sixteen Central and Eastern European countries, consisting of eleven EU Member States and five EU candidate countries. In 2016, the influential First Vice Speaker of the Parliament of Ukraine Iryna Gerashchenko suggested that it is very important for Ukraine to join the “16 + 1”

⁴⁶ EIB 2018.

⁴⁷ Radio Svoboda 2017.

format and become a full member of the Silk Road project.⁴⁸ Another option considered by the Ukrainian side is joining 16 + 1 in the capacity of observer following the Belorussian example. However, the Chinese approach is less enthusiastic and supposedly Beijing first wants to test the relations with Ukraine in the existing bilateral formats and to check the Ukrainian willingness for closer cooperation in launching the negotiations on the free trade area and visa free regime. Unless there is a visible progress in these dimensions, it is unlikely that China will consider the Ukrainian participation in the alternative formats of cooperation.

Conclusions

The history of the bilateral relations between Ukraine and China that started in 1991 faced both high and low points. Although at the very beginning of diplomatic relations Beijing still perceived Ukraine as a part of the collapsing Soviet Union and then a state that belongs to the exclusively Russian zone of influence, at the end of 1991 when it became clear that Ukrainian independence was inevitable and irreversible China recognised Ukraine as an independent state and established diplomatic relations.

Although, in the early years of the independence of Ukraine it was not yet clear what would be the nature of the bilateral relations, it began shaping in the period of the presidency of Leonid Kuchma. The Chinese vector perfectly fitted into Kuchma's multi-vector foreign policy. Kuchma welcomed the Chinese engagement perceiving Beijing as the alternative pole of the international system that will balance the competing Western and Russia vectors whereas China also appreciated Kuchma's openness to dialogue and even declared Ukraine to be China's key partner in Eastern Europe.

However, the inability of Leonid Kuchma to assure the sustainability of the multi-vector policy and first his isolation from the West and then the events of the Orange revolution and election of Viktor Yushchenko as the successor of Leonid Kuchma brought certain frustration into bilateral relations. Yushchenko's explicitly pro-Western foreign policy

⁴⁸ Cooperation between China and Central and Eastern European Countries 2016.

alongside with the open confrontation with Russia and flirting with Taiwan put China into an awkward position and caused the slowdown in the dynamics of the bilateral relations.

In 2010 though, the relations started to improve with Viktor Yanukovich and his team coming into power. Arguably, despite pro-Russian politics, Yanukovich was trying to restore some elements of the multi-vector approach into his foreign policy. China reacted enthusiastically, and three years of Yanukovich's rule were marked with the significant warming up of the relations. But again, the events of 2013–2014 resulted in another round of frustration. The fall of the regime of Yanukovich put the bilateral relations between China and Ukraine under question and only Ukraine's decision to endorse previously reached agreements with Beijing led to a new step in the bilateral relations.

Interestingly, although China did not confront Russia on the annexation of Crimea and military intervention in the East of Ukraine it did not ally with Moscow on these issues either. China demonstrated that it would not sacrifice the relations with Ukraine for the sake of closer relations with Moscow.

Indeed, China has practical interest in preserving both political and economic ties with Ukraine. Cooperation in the defence industry, military equipment and hi-tech production provides China with the access to the desperately needed technologies bypassing Russia, whereas cooperation in space industry provides China with the opportunities to benefit from Ukraine's potential in this field inherited from the Soviet times. No less important is cooperation in the agricultural sector since the demand for agricultural products is growing in China while Ukraine possesses vast fertile lands and can contribute significantly to the Chinese market.

Potentially China may also benefit from Ukraine's status of the signatory of the Association Agreement with the EU and Ukrainian transit potential that can be used for strengthening the "One Belt, One Road" initiative and creating the alternative routes bypassing Russia that eventually will give China more space for manoeuvre in negotiations with the Russian counterparts.

However, Chinese willingness to cooperate and invest into Ukraine does not come unconditional. Beijing has learned the lessons of 2004 and 2013–2014, and now wants to get the guarantees of the Ukrainian loyalty prior to further improvement of economic cooperation and enhancement

of political dialogue. In this regard, China proposed to Ukraine the creation of the free trade area and launching of the mutual visa free regime. Beijing perceives Ukraine's reaction to these proposals as a litmus paper that will demonstrate Kyiv's readiness for setting closer ties. Unless Ukraine starts the respective negotiations, it is unlikely that China will make any further steps in bilateral relations. A challenging task for Kyiv nowadays is preserving and developing the relations with China, participation in its global and regional projects alongside with keeping dynamic and mutually beneficial relations with the EU and the U.S. and fighting back Russia's attempts to revive its political and economic dominance in Ukraine.

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China did not play a significant role in Central Europe for decades following the transition from communism to capitalism in the region. The global financial crisis and the economic struggles of the European Union, however, have fundamentally changed the situation. China has gradually become an important economic and political partner to many countries of Central Europe since 2011 and the rise of Beijing's influence has drawn European and American attention to the region once again. The present book offers an insight into bilateral relations between China and some of the most significant Central European countries and attempts to explain the motives and interests of the involved parties. The authors agree that China's influence in the region is limited and concerns about its potentially malign intentions are exaggerated in most cases. Still, the Chinese presence in Central European countries is here to stay and it is of utmost importance to analyse and to understand the role it plays in the region.

The editor

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