

China-CEE Cooperation: Features and Future Directions

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Since its inception in 2012, cooperation between China and Central and Eastern European (CEE) countries has scored tremendous progress in various fields. As the 16 CEE countries are all along the Belt and Road, China's cooperation with the CEE countries will play a role of pilot demonstration. A review of successful experience and existing challenges in the cooperation will have positive implications for China to push forward the Belt and Road Initiative in a wider scope.

Substantial Leaps in China-CEE Cooperation

In April 2012, then Chinese Premier Wen Jiabao put forward twelve measures for comprehensive development of relations between China and CEE countries at the China-CEE Forum held in Warsaw, Poland, marking the official launch of multi-faceted cooperation between the two sides. Since 2012, China-CEE cooperation has been conducted in various areas on a large scale, and has obtained some achievements.

Initial success in infrastructure, energy, industrial capacity and connectivity cooperation. In infrastructure, the China-built Zemun-Borca Bridge over the Danube River in Serbia was completed in 2014, and has become a demonstration project of China-CEE cooperation in infrastructure. The two motorways in Macedonia, one from Kicevo to Ohrid, and the other from Miladinovci to Stip, now under construction

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by Sinohydro's Bureau 7, are first projects implemented with the US\$10 billion special loan under the "16+1" cooperation framework and among the major Belt and Road projects in the Balkans. In the area of energy, the China Machinery Engineering Corporation signed a contract with the Serbian Electric Power Company and the Kostolac Power Plant in 2013 for investing US\$715 million, mostly preferential loans by Chinese government, into the second phase of the power plant project, which will be put into operation in 2019. In November 2015, the China General Nuclear Power Corporation and Romania's Nuclearelectrica signed an MOU for the development, construction, operation and decommissioning of units 3 and 4 of the Cernavoda nuclear power plant, with each unit expected to take 88 months for construction and the total investment of 7.2 billion euro. In August 2016, the Stanari Power Plant, the first large-scale infrastructure program since China and Bosnia and Herzegovina established diplomatic relations, was officially put into operation, and was hailed as the first project in operation under the "16+1" framework. In the area of industrial capacity, the Hebei Iron and Steel Group in China acquired the Zelezara Smederevo steel plant in Serbia in April 2016 with 46 million euro. In the following six months, it solved problems of the plant in equipment, technology, information and techniques, and reversed its huge losses over the past seven years. The plant's yield in 2017 is expected to reach 2 million tons, with the output value of US\$800 million and profits of US\$20 million. In connectivity, on November 25, 2013, China, Hungary and Serbia jointly declared that the three countries would work together to build the Hungary-Serbia railway connecting Belgrade and Budapest. The project will be an electrified railway for both passengers and cargo. It will add a second track to the current single-track railway and build a new double-track railway in some sections. This railway, with the designed speed of 200km per hour, will cut short the travel time between Belgrade and Budapest from the current 8 hours to less than 3 hours.¹

1 "Launch of Hungary-Serbia Railway Marks New Start of China-CEE Cooperation," December 24, 2015, http://europe.chinadaily.com.cn/business/2015-12/24/content_22798392.htm.



The China-CEE Institute was launched in Budapest, Hungary, on April 25, 2017. It is China's first think tank independently registered in Europe to promote people-to-people and academic exchanges.

Establishing new framework for investment and financing cooperation. In 2012, the Chinese government proposed to set up a special preferential loan of US\$10 billion and the China-CEE Investment Cooperation Fund, but the EU laws and regulations set limitations for EU members in Central and Eastern Europe to utilize the special preferential loan. To solve this bottleneck in investment and financing cooperation, China decided in 2014 to establish a new framework for China-CEE coordinated investment and financing cooperation with three approaches: (1) CEE countries are encouraged to continuously make full use of the US\$10 billion special loan. Considering the affordability of CEE countries, the Chinese side will, according to situation of the ongoing projects, provide more preferential terms, reduce financing costs, and expand the loan's

size at the proper time. (2) China encourages its enterprises and financial institutions to actively participate in the public-private partnership (PPP) and privatization process in CEE countries. China will set up a US\$3 billion investment fund to promote equity investment in the region through multiple approaches. At the same time, China will launch the second phase of China-CEE Investment Cooperation Fund with US\$1 billion to support investment to CEE projects. (3) China welcomes the issuance of renminbi-denominated bonds in China by CEE enterprises and financial institutions, and explores the possibility of establishing a renminbi-denominated cooperation fund for CEE countries. This will provide more financing means for the construction of projects, and contribute more support to China-CEE pragmatic cooperation.²

Cultural and people-to-people exchanges developing in depth and width. Since 2012, China and the CEE countries have made significant progress in their cultural exchange. Cultural and people-to-people exchanges, political dialogues, and economic and trade cooperation constitute three pillars of China-CEE cooperation. Over the past five years, the China-CEE Education Policy Dialogue has been held four times, and the China-CEE Young Political Leaders Forum has also been held twice. In 2015, China and CEE countries co-hosted the tourism year to further promote mutual development of tourism. With strong official support, the Czech Republic, Hungary and Croatia have witnessed increasing Chinese tourists, with the number of Chinese traveling to the Czech Republic hitting 350,000 in 2016. To meet the emerging demands of tourists and business contacts, China and CEE countries have increased their direct flights. In May 2015, Air China opened the new Beijing-Minsk-Budapest route. Four months later, China's Hainan Airlines opened the Beijing-Prague direct route. In September 2016, Air China opened the Beijing-Warsaw route. In addition, cultural and art exchanges are booming. The year 2016 was the "16+1" cultural exchange year. It was the first time in

2 "Li Keqiang Attends Third Meeting of Heads of Government of China and Central and Eastern European Countries," December 17, 2014, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1220476.shtml.

the history of China-Europe cultural exchanges that the 17 countries co-hosted the event, which had great implications for China and Europe in their common efforts to build the partnership for civilization. At the Beijing International Book Fair in August 2016, the 16 CEE countries made their collective debut. The expansion and deepening of cultural and people-to-people contacts helps strengthen mutual understanding between the people of China and CEE countries, and cultivate a more solid social foundation for sustainable development of China-CEE cooperation.

Setting up specialized regional cooperation associations, chambers of commerce or secretariats. In order to highlight respective advantages of CEE countries and to propel active participation from both sides, a number of associations or secretariats have been established under the framework of “16+1” cooperation. For example, Serbia takes charge of establishing the China-CEE cooperative association for transport and infrastructure; Poland takes charge of establishing an executive body for China-CEE Joint Chamber of Commerce; a secretariat was established both in Beijing and Warsaw as a contact mechanism for investment promotion agencies in China and CEE countries; Bulgaria is in charge of forming a China-CEE association of agricultural cooperation; the agency for tourism promotion and the association of China-CEE tourism enterprises were founded in Hungary. Besides, bilateral cooperation mechanisms in forestry, energy and logistics are led by Slovenia, Romania and Latvia respectively. The establishment of all these coordination mechanisms has played a positive role in promoting “16+1” cooperation.

Working out mid-term plan and broadening areas of cooperation. At the 4th China-CEE summit in 2015, China and 16 CEE countries jointly released the Medium-term Plan for Cooperation, identifying nine major fields: economic ties; connectivity; industrial capability and equipment manufacturing; finance; agriculture, forestry and quality inspection; scientific and technological innovation; culture, education, sports and tourism; healthcare; and local cooperation. Ways to implement the plan were also introduced. The plan aims to specify the direction and focus for China-CEE

relations from 2015 to 2020, set free the potential for further cooperation and upgrade the quality and performance of “16+1.” The 17 countries will deepen mutual understanding of respective development paths, and engage in specific cooperation according to their respective laws and regulations and in line with the principles of equal consultation, complementary advantages and win-win outcomes, taking into consideration their own characteristics, needs and priorities.

CEE countries showing great enthusiasm for the Belt and Road Initiative. In June 2015, Chinese Foreign Minister Wang Yi and Hungarian Foreign Minister Péter Szijjártó signed an MOU in Budapest, in which the two countries are committed to push forward the Belt and Road construction — the first document of this kind between China and a CEE country. After that, most CEE countries have expressed their support and willingness to participate in the initiative in various flexible approaches. For example, the Bulgarian National Association for the Belt and Road was founded in Sofia in April 2017 to scale up cooperation under the BRI between China and Bulgaria. This association would serve as a platform for the Bulgarian government and the general public to improve bilateral relations and their understanding of the BRI, and for them to participate in specific projects under the initiative. In the same month in Warsaw, Poland, the Association for Belt and Road Promotion was established jointly by the Polish Economic Congress Foundation and China Region Development & Reform Institute, with former Polish Prime Minister Waldemar Pawlak serving as co-chair of the association, reflecting Poland’s strong support to the Belt and Road Initiative.

Notable Features of China-CEE Cooperation

So far, the framework for “16+1” cooperation has been established with a number of pragmatic projects underway. As the cooperation goes deeper, there emerge some distinctive features.

New cooperation concepts. It was the Chinese government who first

raised the concept of 16 CEE countries, comprising Poland, Hungary, Czech Republic, Slovakia, Romania, Bulgaria, Slovenia, Croatia, Serbia, Macedonia, Bosnia Herzegovina, Montenegro, Albania and the Baltic states (Estonia, Latvia and Lithuania). China regards the 16 CEE countries as a whole, which reflects the Chinese government's essential understanding of the political and economic development in the post-Cold War Europe, demonstrates China's new way of thinking and new strategy toward a new geopolitical landscape following the drastic change in Eastern Europe, disintegration of the Soviet Union as well as the EU's continuous eastward expansion, and also shows China's policy toward different regions on the European continent. The "16+1" cooperation is another multilateral cooperation framework proposed by the Chinese government following the Shanghai Cooperation Organization (SCO), and it was a milestone in the history of China's foreign relations. While expanding and deepening cooperation in various fields with CEE countries, China has also enriched its diplomatic concepts and ways to achieve its diplomatic goals.

Institutionalized cooperation. To facilitate cooperation between China and CEE countries, including the preparation for leaders' meetings and the implementation of consensus and agreements, the China-CEE Cooperation Secretariat was established in Beijing in September 2012, which is the first institution set up by the Chinese Ministry of Foreign Affairs to promote the development of multilateral relations between China and a particular region. The secretariat is responsible for communication and coordination with CEE countries on matters of cooperation; coordinate with responsible departments of the 16 countries to implement outcomes reached at leaders' meetings and work out future priorities and areas for China-CEE cooperation.³ As declared in the Bucharest Outline on China-CEE Cooperation in November 2013, the leaders from both China and CEE countries would hold annual meetings to examine progress and set out future

3 "The Inaugural Conference of China-CEE Cooperation Secretariat and the First National Coordinators' Meeting Are Held in Beijing," September 7, 2012, <http://wcm.fmprc.gov.cn/pub/eng/wjb/zygy/gyhd/t969490.htm>.

direction for cooperation. From 2013 to 2016, “16+1” Prime Ministers’ Summits were held successively in Bucharest (Romania), Belgrade (Serbia), Suzhou (China) and Riga (Latvia). Regular summits have become another prominent feature of China-CEE cooperation.

Summit diplomacy offers a big push. China’s top leadership has pushed for strengthening and upgrading relations with CEE countries. In March and June of 2016, President Xi Jinping visited the Czech Republic, Serbia and Poland, reaching consensus with leaders of the three countries on further promoting the “16+1” cooperation and the participation of the three countries in building the Belt and Road. Diplomatic efforts of the top leadership have injected incentives to deepen the “16+1” cooperation.

Studies on China-CEE relations and cooperation. The Chinese government has set up a research fund for China-CEE relations to encourage studies on “16+1” cooperation and other related issues. Two million yuan is provided each year to support Chinese and foreign research institutions and scholars in their academic work and exchanges. The Chinese Academy of Social Sciences (CASS) was entrusted in 2015 to set up the China-CEEC Think Tanks Network under the support of Chinese Foreign Ministry, in order to raise the frequency of communication with scholars from CEE countries. This network will hold a high-level think tank scholar forum every year before or after the China-CEE leaders’ meeting. In April 2017, the China-CEE Institute was established in Budapest, the first think tank independently registered in Europe by China to promote people-to-people and academic exchanges and policy communication between China and CEE countries.⁴

Future Directions for China-CEE Cooperation

China and CEE countries are taking a pioneering role in building the Belt and Road, and have scored initial success in their multi-faceted cooperation.

4 “China-CEE Institute Launched in Hungary,” April 25, 2017, http://www.china.org.cn/world/2017-04/25/content_40686852.htm.

However, it needs to resolve the following problems to ensure sustainable development of the cooperation.

Deepening understanding of CEE countries and the EU, and strengthening feasibility studies on planned projects

Objectively speaking, China has not had a comprehensive and in-depth understanding of CEE countries which have gone through overall social transition, and CEE countries' understanding of China has also remained superficial. The complexity and diversity of the 16 CEE countries in language, culture, ethnicity, religion, history as well as different levels in economic development and consumption make it difficult for China to get to know the region. Chinese enterprises should have a deep understanding of the socio-economic situation, political landscape, public opinion, and business environment before starting cooperation with CEE countries. Since more and more CEE countries have joined the EU, their laws and regulations will increasingly converge with those of the EU. The experience gained in trade and investment cooperation with Latin American, African and Asian countries cannot simply be imposed upon CEE countries. Most of the problems encountered by the Chinese side in the "16+1" cooperation result from lack of understanding of the actual situation in countries concerned. Therefore, there is an urgent need to speed up studies on CEE countries' political, economic, and social situation, as well as on their laws, regulations and investment environment. Any reoccurrence of the autostrada A2 project in Poland contracted by a Chinese enterprise⁵ will not only damage the image of Chinese enterprises and China in the region, but also make it more difficult for China to "go into Europe."

The "16+1" leaders' meeting is the main venue for the countries concerned to release annual or cross-year cooperation projects. It is necessary to strengthen feasibility studies based on macro-planning to

5 The compensation for the failure of China Overseas Engineering Group (COVEC) to complete the A2 motorway project has yet to be settled between China and Poland, which seriously affects Chinese enterprises to participate in future public tenders of Poland's infrastructure projects.

ensure implementation and completion of projects on schedule. For example, the Hungary-Serbian railway, as a flagship project under the framework of China-CEE cooperation, has not yet kicked off because China did not fully understand Serbia's national strategic needs⁶ before launching the project, and Hungary, as an EU member, has to seek approval from its congress and the EU prior to its use of special preferential loans from the Chinese government.

Refining cooperation at different levels and on various scales

Since 2012, China has taken the 16 CEE countries as a whole when designing relevant policies, thus confronting challenges in policy implementation. The 16 countries have diverse languages, cultures, religions, social customs and traditions, economic scales and development levels as well as self-identities. As they are divided as EU or non-EU member states, eurozone or non-eurozone members, Schengen or non-Schengen states and potential or non-potential EU candidates, the disparities in their respective relations with the EU are huge. There are also significant differences in China's relations with individual CEE countries, which can be divided into six categories: comprehensive strategic partnership (with Serbia and Poland), strategic partnership (with the Czech Republic), comprehensive friendly and cooperative relations (with Romania), friendly and cooperative relations (with Hungary), comprehensive partnership of cooperation (with Croatia), and normal relations (with other CEE countries). The various levels of bilateral relations with China and differences in national conditions make it difficult for CEE countries to perform as a whole and form a coordinated mechanism in cooperation with China. With respect of this diversity, under the unified policy framework, China should take the interests of most CEE countries into consideration, instead of the major countries only, in developing China-CEE relations,

6 Serbia became a landlocked country following the disintegration of Yugoslavia. Therefore, the strategic priority for Serbia has been gaining access to the sea. The Morava canal is thus a more urgent project for the Serbian government than the Hungary-Serbia railway.

making “16+1” cooperation true to its name. Of course, more attention should be given to key CEE countries such as Poland and Romania. However, if investment and projects concentrate in just a few countries, it may cause misgivings from other CEE countries toward China’s political and economic intentions. This will not help China keep a political balance in the region, let alone making more friends.

Focusing on pragmatic cooperation

Since China put forward proposals for developing all-round cooperation with CEE countries, a variety of discussions at various levels and in multiple fields have been held between China and CEE countries. These forums and think tank meetings are conducive to creating a favorable atmosphere for cooperation and planning future directions. However, how to turn the amicable atmosphere and well-meant planning into pragmatic cooperation is an important task for both sides. To foster comprehensive relations, pragmatic cooperation in other areas apart from economics and trade should also follow up. In particular, priorities should be given to those projects which consolidate cooperation and contribute to sustainable development, to avoid the hollowing of China-CEE cooperation.

Enhancing market consciousness and avoiding randomness

In advancing the “16+1” cooperation, market rules should be respected to ensure the sustainability of economic and trade cooperation. Since the start of Chongqing-Xinjiang-Europe train in 2011, many provinces and cities in China have opened their own railway lines to Europe through Xinjiang. However, since China’s exports to Europe are far more than imports, this has led to a serious shortage of return cargo. Some operators’ insistence on train returned even in case of goods shortage has resulted in excessive no-load rate. The provinces and cities, in the name of China-EU cooperation and of going global, give large amounts of financial subsidies to the railway operations, reflecting arbitrariness of local governments in international cooperation. This is detrimental to the market-oriented operation of China-

Europe railway services.

Handling relations with other stakeholders cautiously

Currently, the external powers actively engaging in the CEE region include China, Russia, the United States, Japan, as well as Germany, who has maintained closest relations with CEE countries. Other powers have set their foot in the region earlier than China, and have seized the corresponding “high ground” based on their own comparative advantages.

The United States keeps developing political and military relations with CEE countries, and is keen on advancing democracy on the basis of “universal values.” Washington hopes the CEE countries will join its effort to spread the “universal values” to other areas. Following the Ukraine crisis, the US has strengthened its military cooperation with CEE countries by establishing military bases and deploying troops in the Baltic region, Poland, Romania and Bulgaria. Therefore, to avoid clashes of interests with the US in this region, it is advisable for China to avoid touching upon defense cooperation with CEE countries.

Russia mainly develops energy cooperation with CEE countries, and seeks to exert its political influence. Through energy cooperation, Russia connects its cooperation with CEE countries and with other EU countries. Moscow not only takes some CEE countries as transit to transport energy to other EU member states, it also undermines the EU’s common energy policy. While carrying out cooperation with CEE countries which maintain energy cooperation (especially nuclear energy cooperation) with Russia, China should seek to avoid homogeneous competition with Russia to sustain the extraordinary China-Russia relations which have maintained at high level.

Germany has established close political and economic relations with CEE countries and looked upon the region as its sphere of interests. Germany shows highest vigilance and strongest resistance to the escalation of China-CEE cooperation. As Germany is capable of pushing the EU to adopt relevant laws and regulations and set up obstacles to China’s cooperation with

those CEE countries that have been EU members, instead of competing with Germany in the latter's advantageous areas, China should explore and utilize the empty space in Germany-CEE cooperation and develop ties with CEE countries in these areas.

Strengthening soft power building

China and CEE countries are far apart geographically, and their social systems, values, cultural traditions and development patterns differ. Most people in CEE countries, especially the young people, do not have enough understanding of China. Despite rich cultural resources, the lack of a strong and attractive cultural industry has undermined China's ability to publicize its image abroad. At the same time, most of the media in CEE countries are controlled by Western media groups. On the pretext of practicing the "nature" of journalism, there are still considerable negative coverage on China in the mainstream media of CEE countries, which is the major source that leads to local people's limited understanding of China. Therefore, China should try to adapt to the audience in CEE countries, refraining from macro and visionary description, providing more objective and neutral reports, and using small and simple words to present broader events. Many Confucius Institutes and Confucius classrooms have been established by China in CEE countries, but the positive effect is limited. The 7,000-people Plan⁷ to facilitate exchanges between people from the two sides seems to be a bright spot in China-CEE cooperation, but for various reasons, the project has yet to be implemented. People-to-people exchanges lay the foundation for bilateral relations. The expansion of communication will promote mutual understanding, and guarantee sustainable development of China-CEE cooperation. 

7 In April 2012, then Chinese Premier Wen Jiabao declared in Warsaw to award 5,000 scholarships to the 16 CEE countries in the next five years, and announced a plan to invite 1,000 students to China for learning Chinese while sending 1,000 Chinese students and scholars to the 16 CEE countries.

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