

## 2. Economic relations: A sugar cane, or a sugar-coated stick?

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Ágnes Szunomár, Liisi Karindi and Andreea Leonte

CEE countries have increasingly perceived China as a country which could bring economic benefits to the region through developing trade relations, growing inflows of Chinese investment and recently also through infrastructure projects carried out by Chinese companies and financed from Chinese loans. This chapter examines China's presence in CEE by mapping trade and investment relations, issues of connectivity and infrastructure, financial cooperation and tourism.<sup>83</sup>

When compared to China's economic presence globally or in the developed world, China's economic impact on CEE countries remains small. However, it has increased significantly in the past decade leading to a number of challenges. Despite a politically driven warming up of bilateral relations, the trade relations remain relatively low, leading to increased deficit. Chinese FDI flows to the region are modest, concentrated in a few, mainly EU member countries. Infrastructural projects are negotiated all over the region but implemented ones are rare to find, while financial cooperation is also in its infancy yet. More and more Chinese tourists are visiting the region, however, it is not entirely clear whether this is a result of the 17+1 cooperation or due to the country's expanding army of middle class travelers.

### NOT SO SPECIAL: MODEST IMPACT OF 17+1 ON TRADE RELATIONS

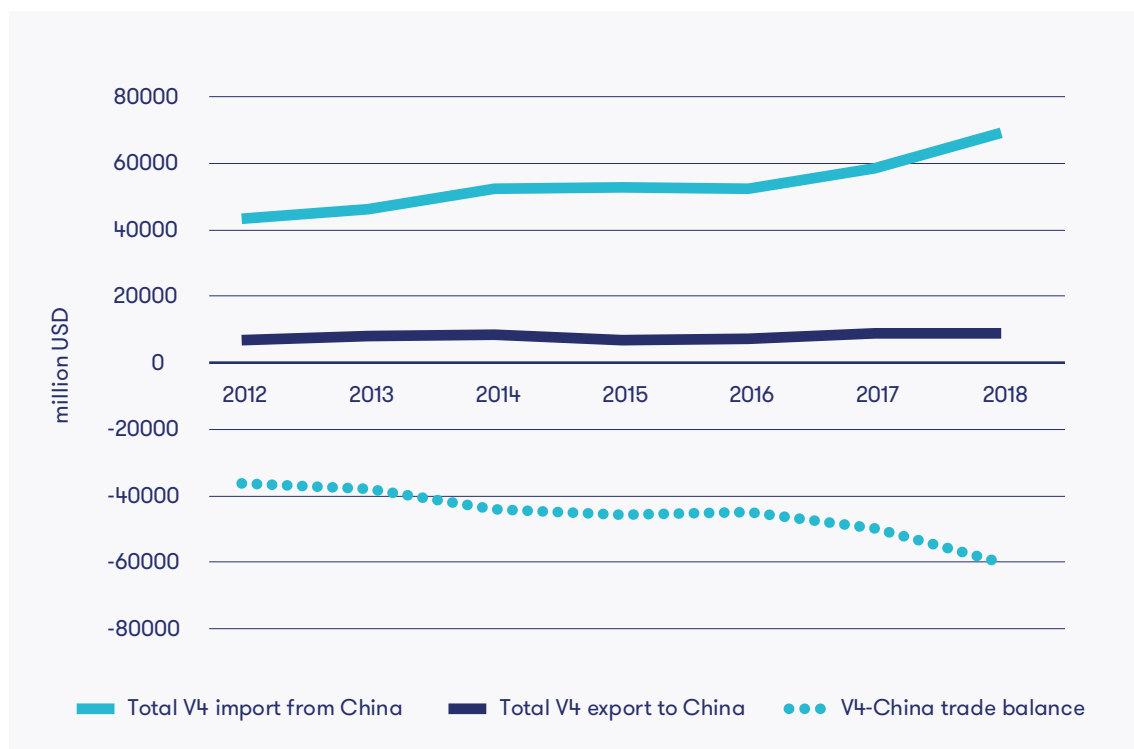
A comparative analysis of 17 Central and Eastern European countries' trade with China reveals that the majority of the countries (especially in the Baltic and the Balkans) have a relatively low trade with China. Within the whole CEE region the four Visegrád countries show the highest trade flows, followed by Romania, Slovenia, Serbia and Bulgaria. A common feature of CEE trade with China is a considerable and – in the past fifteen years – steadily increasing deficit. In 2018 the deficit amounted to around 75 billion USD. As the V<sub>4</sub> countries (especially Poland) receive the majority of Chinese exports, their deficit values are the highest as well.

Trade between V<sub>4</sub> countries and China has increased the most in the past few years, however, the increase dates back prior to the official launch of the 17+1 initiative: to the early 2000s, coinciding with the accession of CEE countries to the European Union. In the case of imports from China the platform indeed gave a new impetus to relations, however, while the V<sub>4</sub>'s imports from China increased substantially, the growth of V<sub>4</sub>'s exports to China remained rather modest after 2012, and even decreased slightly for a few years after 2014. As a result, the trade deficit increased rapidly.

In the case of the V<sub>4</sub>, especially Czechia, Hungary and Slovakia, the export dependency on Germany is obvious: 25-30% of V<sub>4</sub> exports are directed to Germany, while indirect exports (where goods are declared for export in, for example, Slovakia and leave the EU customs territory from Czechia) elevate this dependency even further.<sup>84</sup> The products or spare parts are often exported to China from Germany. The fact that the three above-mentioned V<sub>4</sub> countries are in a constant trade surplus with Germany may give a more nuanced picture on these countries' trade deficit with China.

If we analyze the trends broken down by each of the V<sub>4</sub> countries, the increase in Chinese imports since 2012 is the highest in the case of Poland and Czechia (79 and 66%, respectively), while the increase in imports from Hungary and Slovakia is rather modest (18 and 14%). Slovakia's imports even decreased for three years in a row after 2014. When it comes to V<sub>4</sub> countries' export performance, the numbers are less impressive: Czechia, Poland and Hungary export about the same value, while Slovakia lags behind. The export increase between 2012 and 2018 was the highest in the case of Czechia (above 50%) Poland (43%) and Hungary (31%) and shows a 7% decrease in the case of Slovakia. Although Polish, Czech or even Hungarian percentage numbers may suggest a significant increase in these countries' exports to China, it has to be emphasized that they started from a very low initial export amount, where the absolute change has still remained relatively small, therefore these numbers may give a misleading indication of countries' relative performance and the role China plays as an export destination.<sup>85</sup>

**GRAPH 1: TRADE BETWEEN THE VISEGRÁD REGION AND CHINA (IN MILLIONS USD)**



Source: own compilation based on UN Comtrade (<https://comtrade.un.org>)

**MAP 2: MAJOR COMMODITIES EXPORTED FROM 17 CEE COUNTRIES TO CHINA**



Source: authors' own compilation

Empty shell no more: China's growing footprint in Central and Eastern Europe

In all V<sub>4</sub> countries, the main import products from China are machinery and electronics. On the export side, V<sub>4</sub> countries' exports consist of product groups such as vehicles, machinery and electronics with the exception of Poland, where besides the aforementioned product groups, metals (such as refined copper and copper alloys) represent a significant portion of its exports to China. Although China's hunger for high-quality agricultural products has been growing globally recently, the share of agricultural exports is not significant: below 6% in Poland's and Czechia's total exports to China, and less than 3 and 1%, respectively, in the case of Hungary and Slovakia.

When examining the patterns of trade between China and the V<sub>4</sub> in the past fifteen years, it has slightly changed as well. These structural changes are characterized by a sharp rise in exports of high-tech products, increasing the high technology intensity of trade. The high-tech exports volume and share to China has been the highest in the case of Hungary. However, the high technology intensity of trade is mainly due to the large flows of automotive, electronics and telecommunications products, based on the activity of multinational companies in global production networks, not in local companies.<sup>86</sup> Therefore, the bulk of foreign trade between V<sub>4</sub> countries and China has been and still can be bound to certain products and several (multinational) companies. Because the volume of trade is relatively small (compared to, for example, V<sub>4</sub>'s trade with the EU or Germany) one decision of a global company concerning relocation or change in internal deliveries among affiliates can significantly change the trade volumes of a given country vis-à-vis China.

Trade between countries in the Balkans and China has also risen since 2012. In contrast with V<sub>4</sub>-China trade relations, where Chinese imports increased to a greater extent than exports, a 50% increase on the import side and a 65% increase on the export side can be observed in the Balkans. However, since the starting trade volumes were different in the case of imports and exports (imports from China were 5 times as many as exports to China in 2012), the trade deficit persisted, although declined a bit.

The intensity of trade varies from country to country: Greece and Romania are China's most important trade partners from the region, both for imports and exports, followed by Slovenia, Serbia and Bulgaria as further important import partners and Bulgaria, Slovenia and Croatia on the export side. China is among the three main trade partners of three Balkan countries – Albania, Montenegro and Serbia. Based on UN Comtrade statistics, currently, all 10 Balkan countries have a trade deficit with China, with Romania leading the group, with an enormous 4.425 billion USD trade deficit, followed by Greece (3.177 billion USD) and Serbia (2.075 billion USD).

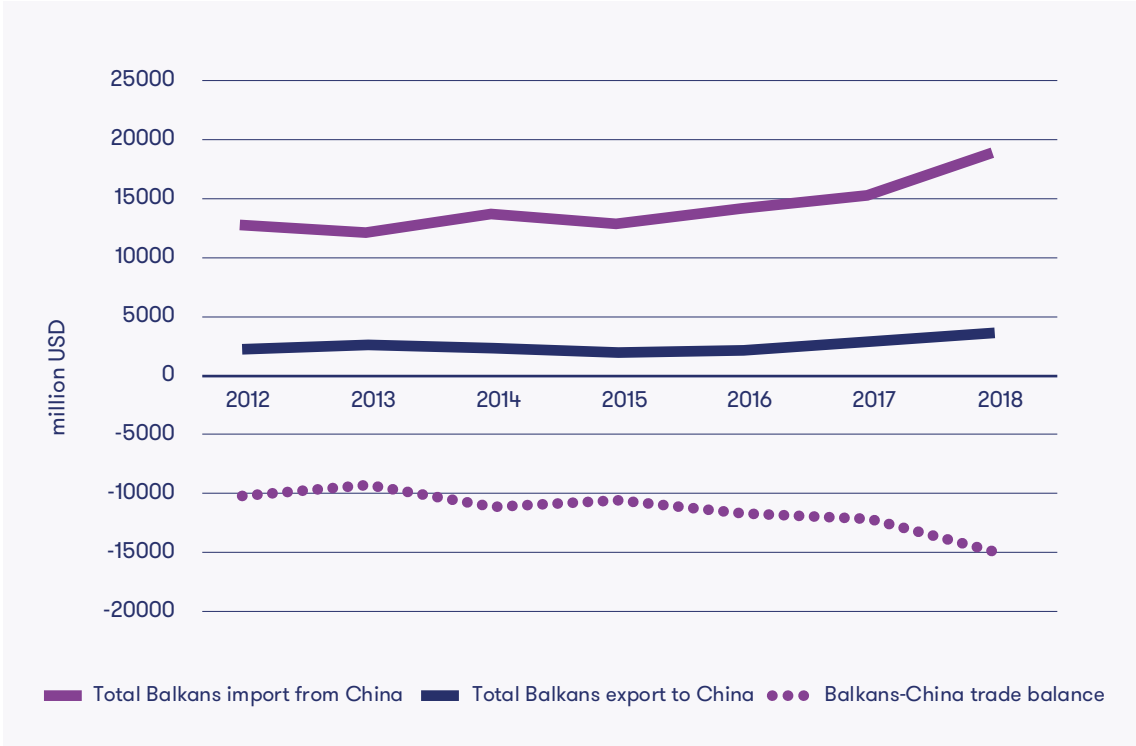
The increase in Chinese imports since 2012 is the highest in the case of Serbia and Montenegro (94% and 80%, respectively), followed by Bosnia and Herzegovina, Albania, Bulgaria and Serbia (all around 50% to 60%) and Slovenia, North Macedonia and Greece (around 40%). In Croatia Chinese imports even decreased by 36% during the period, potentially due to a decline in purchases of Chinese textile-related products, mainly footwear and apparel.

While Chinese imports in the Balkans are similar to Chinese imports elsewhere within the CEE region<sup>87</sup>, the Chinese export baskets of most of the Balkan countries are characterized by low value-added products and/or consist of a few raw materials. Montenegro exports almost exclusively aluminum ores and lead ores to China. These metals constitute 94% of the country's exports to China. North Macedonia exports

iron alloys which constitute almost 60% of the country’s overall exports to China.<sup>88</sup> Chromium ore exports are responsible for more than 86% of Albania’s exports to China, while in Bosnia and Herzegovina agricultural products (such as lumber and beech) and textile products cover up to almost 80%. Although Serbia exports agricultural products (45-55%), such as tobacco and wood, since the launch of the 17+1 initiative a rising share of the machinery, electronics and vehicle sectors<sup>89</sup> can be observed. Although Bulgaria and Greece are EU members, where production – and exports – are usually oriented towards higher added-value products, their Chinese export basket shows more similarities with the non-EU countries of the 17 CEECs, which is characterized by lower value-added production and exports. Greece exports salt, sulphur, cement and mineral fuels (60%) as well as agricultural products such as paper waste, olive oil and fruits (10 %) to China, while around 70% of Bulgarian exports comprise copper, ores, slag and ash. In contrast, in the case of three other EU member countries – Slovenia, Croatia and Romania – the export structure is different from the aforementioned countries with machinery, electronic products and vehicles responsible for the major share of their exports to China.

In Slovenia, there is a slight but persistent increase in exports to China after 2015, as a result of the upturn in the country’s automotive exports. Apart from components, Slovenia did not export to China in this category before, but after 2015, automotive accounts for more than 20% of Slovenian exports to China. This shift is probably due to Revoz, Slovenia’s only automotive manufacturer and one of the largest exporters, starting to produce – and export – Renault and Daimler models, including the new Twingo and Smart Forfour. Similarly, from 2016 onwards, there is a significant surge

**GRAPH 2: TRADE BETWEEN THE BALKAN REGION AND CHINA (IN MILLIONS USD)**



Source: own compilation based on UN Comtrade (<https://comtrade.un.org>)

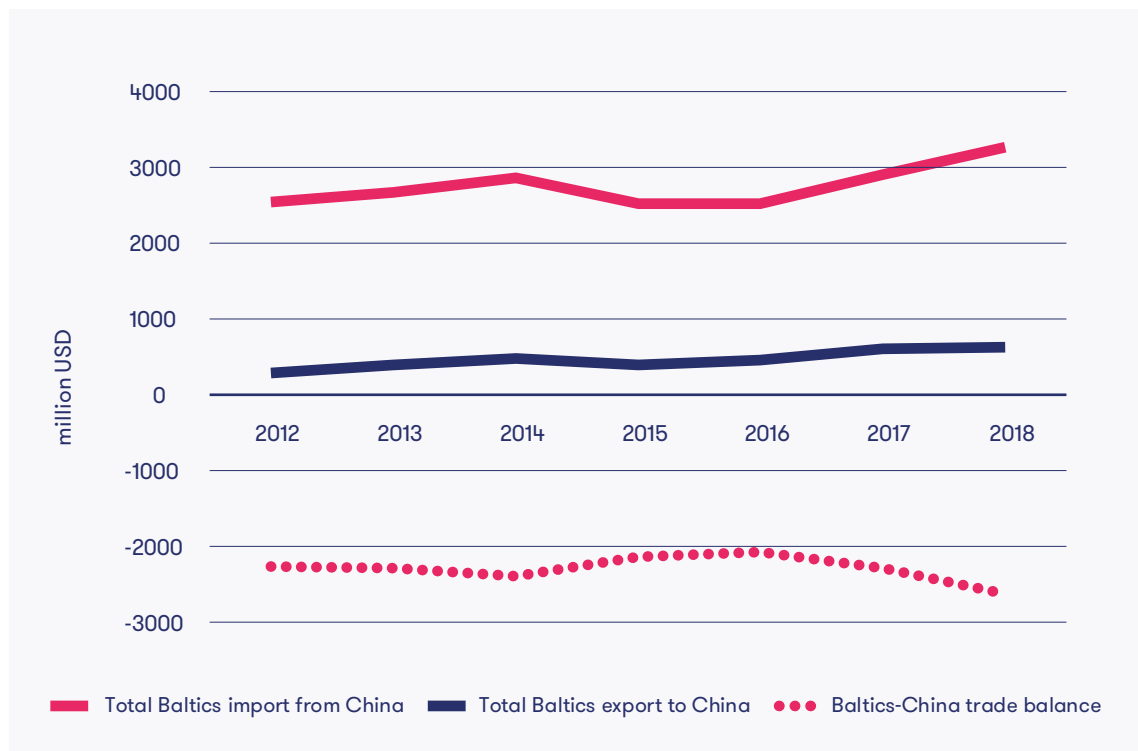
in Croatian exports to China which can be attributed to transport vehicles, especially cargo ships and other vessels. Transport vehicles were previously exported to China to a value of only a few million dollars, but in 2016 this category accounted for one third of total exports (and then fell slightly in 2017). Other Croatian traditional export sectors include machinery, electronics and wood. Finally, the main Romanian products exported to the Chinese market have been industrial machinery, optical and medical apparatuses, electrical machinery, vehicle parts and components, such as car tires, together with some textile and agricultural products such as apparel and wood.

Baltic-China trade has also increased since the inception of the 17+1 initiative. Patterns are similar to the V4-China trade relations: Baltic countries' imports from China increased to a much greater extent than their exports to China, as a result the trade deficit has risen rapidly.

When it comes to trading with China, the three Baltic countries started from an even lower base than the V4-China relations. The increase in Chinese imports since 2012 is the highest in Lithuania (48%), followed by Latvia and Estonia (29% and 18%, respectively). Latvia's and Lithuania's export performance to China between 2012 and 2018 seems huge, above 150% in both cases but these figures alone are again misleading as both countries started from a low level (below 100 million USD). Estonia's exports to China show a 60% increase but the base was just slightly higher in 2012: 135 million USD.

The main import products from China are electrical and industrial machinery and textiles in all three cases. On the export side, however, Baltic countries' exports vary considerably. In Latvia, agricultural products (mainly wood) cover up to 45-50%,

**GRAPH 3: TRADE BETWEEN THE BALTIC REGION AND CHINA (IN MILLIONS USD)**



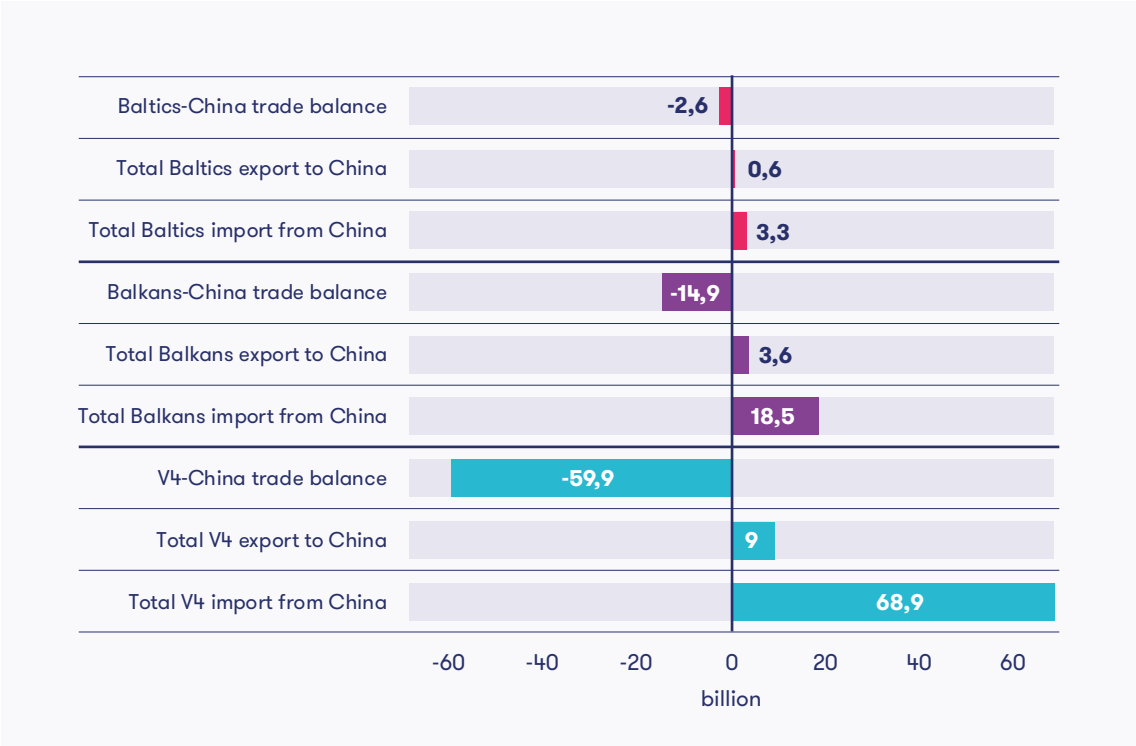
Source: own compilation based on UN Comtrade (<https://comtrade.un.org>)

with minerals and metals playing an important part as well. In Estonia, electrical as well as industrial machinery and equipment constitute a half of the country's exports to China, while agriculture (wood and fish) represents 30%. In Lithuania, metals, machinery and textiles together represent more than 60% of the country's Chinese exports, with agriculture (wood) playing a prominent role too.

Although indirect exports may also play a role, re-exports also have to be taken into account. In 2017, for example, re-exports of goods from Lithuania to China increased by almost 62% and reached a value of 48.7 million EUR. The main growth drivers were re-exports of machinery and mechanical appliances, mineral fuels and mineral oils and electrical machinery and equipment.<sup>90</sup> In Estonia re-exports are the highest in optical, photo, technical and medical apparatuses, electrical and electronic equipment as well as machinery, nuclear reactors and boilers.<sup>91</sup> Latvia does not provide data on exports of Latvian origin or re-exports. However, taking into account some similarities in the structure of exports to China with Lithuania, re-exports would probably take place in industries such as copper, wood, mineral fuels and oils, machinery and mechanical appliances, electrical machinery and equipment as well as fruits and nuts.

All three Baltic states have been working hard to improve trade relations with China by signing protocols for exporting dairy, meat and fish products as well as promoting their respective countries in China. In general, the Baltic states are not well known among Chinese consumers which makes it hard for the companies to sell to them. Often better-known labels like EU or Nordic/Northern Europe are used. Thus, the trade deficit remains an issue not so easily solved by increasing exports of local

**GRAPH 4: COMPARING V4, BALTICS AND BALKANS TRADE DATA (IN BILLIONS USD)**



Source: own compilation based on UN Comtrade (<https://comtrade.un.org>)



produce. Foreign companies like Ericsson contribute greatly to export numbers in Estonia, with electronic equipment making up 31% of all exports to China. Also, wood and articles of wood tend to be one of the main export categories in the Baltic states (24% of exports to China in Estonia, 45% in Latvia, and 17% in Lithuania, whereas furniture and prefabricated buildings constituted 22% of Lithuanian exports to China).

To sum up, Visegrád countries are the most important partners from the group of 17 when it comes to trading with China: in terms of volume the V4 countries import from and export to China more than the Baltic countries and the Balkans combined. As a result, the trade deficit between the four Visegrád countries and China is in many times that of the other two groups.

The structural picture remains quite stagnant for the whole CEE region, especially in the case of imports from China, which is in fact similar to imports from China to anywhere else in the world (mainly electronics, machinery and textiles). This hasn't changed a lot since 2012, leading to the conclusion that the 17+1 platform has not affected the structure of bilateral trade relations with China.

In contrast, CEE exports to China differ significantly within the region: V4's exports to China are dominated by foreign (mainly Western European) multinationals and high value-added products, while low value-added products and raw materials characterize the Balkans' exports to China. The Baltic countries lie somewhere in between, with both electronics and machinery as well as metals, agricultural and textile products in its export basket.

## **WE ARE THE CHAMPIONS: V4 COUNTRIES AND CHINA'S FOREIGN DIRECT INVESTMENTS**

The share of Chinese FDI in Central and Eastern Europe, compared with all the invested capital, is still very small, yet in the last few years the capital inflow has accelerated significantly. When searching for possible factors that make the region a favorable investment destination for China, the cost and quality of labor is to be considered first: a skilled labor force is available in sectors for which Chinese interest has been growing, while labor costs are lower in CEE than the EU average. However, there are differences within the CEE region as well; labor costs are lower in the Balkans than in the V4 or the Baltics. Nevertheless, these differences don't seem to really influence Chinese investors as – even if more expensive in terms of labor cost than the Balkans – there is more Chinese foreign direct investment in the V4 than in the Baltics or the Balkans. Other, presumably institutional and political, factors might also play a role here.

Similarly to trade relations, CEE countries host Chinese FDI to varying degrees: the four Visegrád countries take more than 75% of the total Chinese OFDI to the 17 CEECs, while the other thirteen countries – despite slight increases in many cases – haven't received significant amounts of Chinese FDI flows so far. The reason behind this difference is twofold: 1) Chinese companies prefer EU member states. As Chinese companies are often targeting EU markets with their products, they prefer to establish or purchase company sites in EU member states to avoid trade barriers such as tariffs and non-tariff barriers (e.g. quotas or embargoes) to market access. 2) China plays safe.

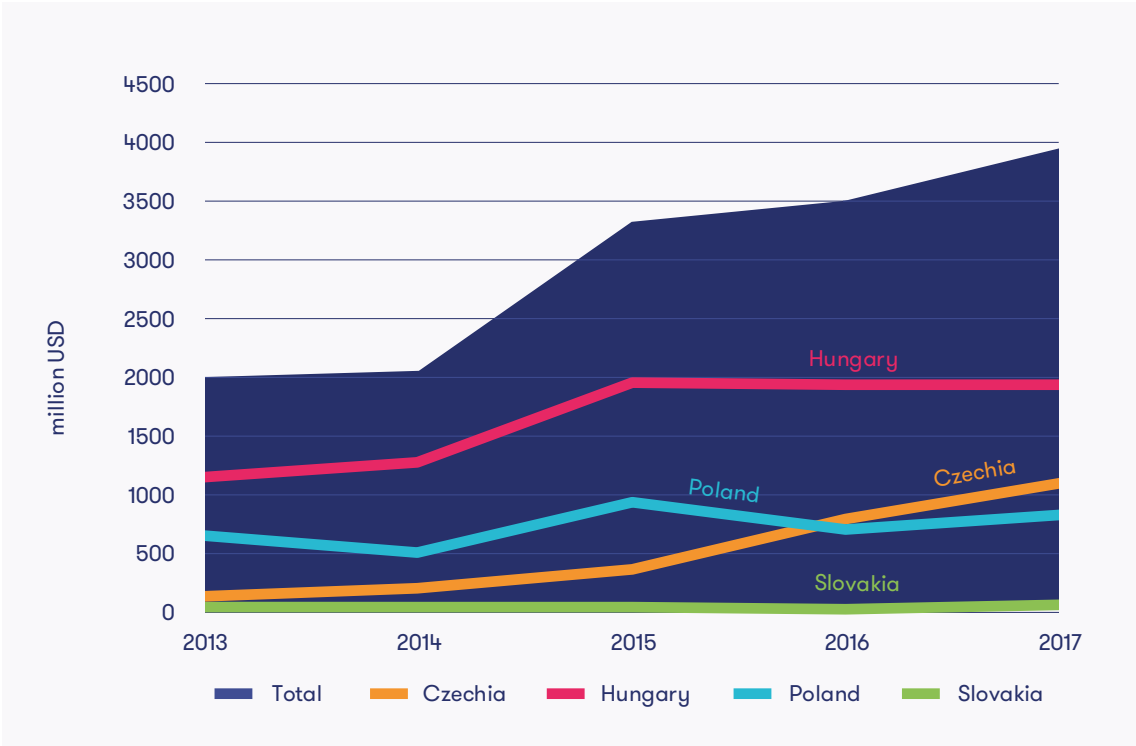


It targets with FDI Central and Eastern European countries that have already attracted investments from elsewhere, for example the US, Japan or Western Europe. Indeed, in general, FDI in V4 countries is the highest in the CEE region.

Chinese investors typically target secondary and tertiary sectors of V4 countries. Initially, Chinese investment flowed mostly into manufacturing (assembly), but over time services attracted more and more investment.<sup>92</sup> The main Chinese investors targeting these countries are interested primarily in telecommunications, electronics, the chemical industry and transportation. In addition to the chemical company Wanhua, the largest investor in V4, major investors are Huawei, ZTE Corporation, Lenovo, BYD and Comlink. The ownership structure of the investing Chinese companies is rather mixed: some are state-owned companies (such as Wanhua or ZTE) as well as nominally private firms (such as Huawei or BYD). However, the majority of private companies are so-called national champion companies of China, which assumes home country support even if the owner is not directly the Chinese state.

Regarding the Chinese companies' entry modes, greenfield investments dominated and were especially common for the first Chinese investors (Hisense, Huawei, ZTE, Lenovo, TCL) bringing assembly activities to the region in the early 2000s. Since 2011, mergers and acquisitions (M&As) gained importance (Wanhua/Borsodchem, Liu Gong Machinery), while there were also examples of founding joint ventures (Orient Solar, BBKA, Shanghai Shenda). Hungary has received the majority of Chinese investment in the region, followed by Poland and Czechia, while Slovakia lags a little behind due to its small size and lack of efficient transport infrastructure. Since Chinese companies appreciate a business agreement being supported by the host country's government,

**GRAPH 5: CHINESE FDI STOCK IN V4 COUNTRIES (IN MILLIONS USD)**

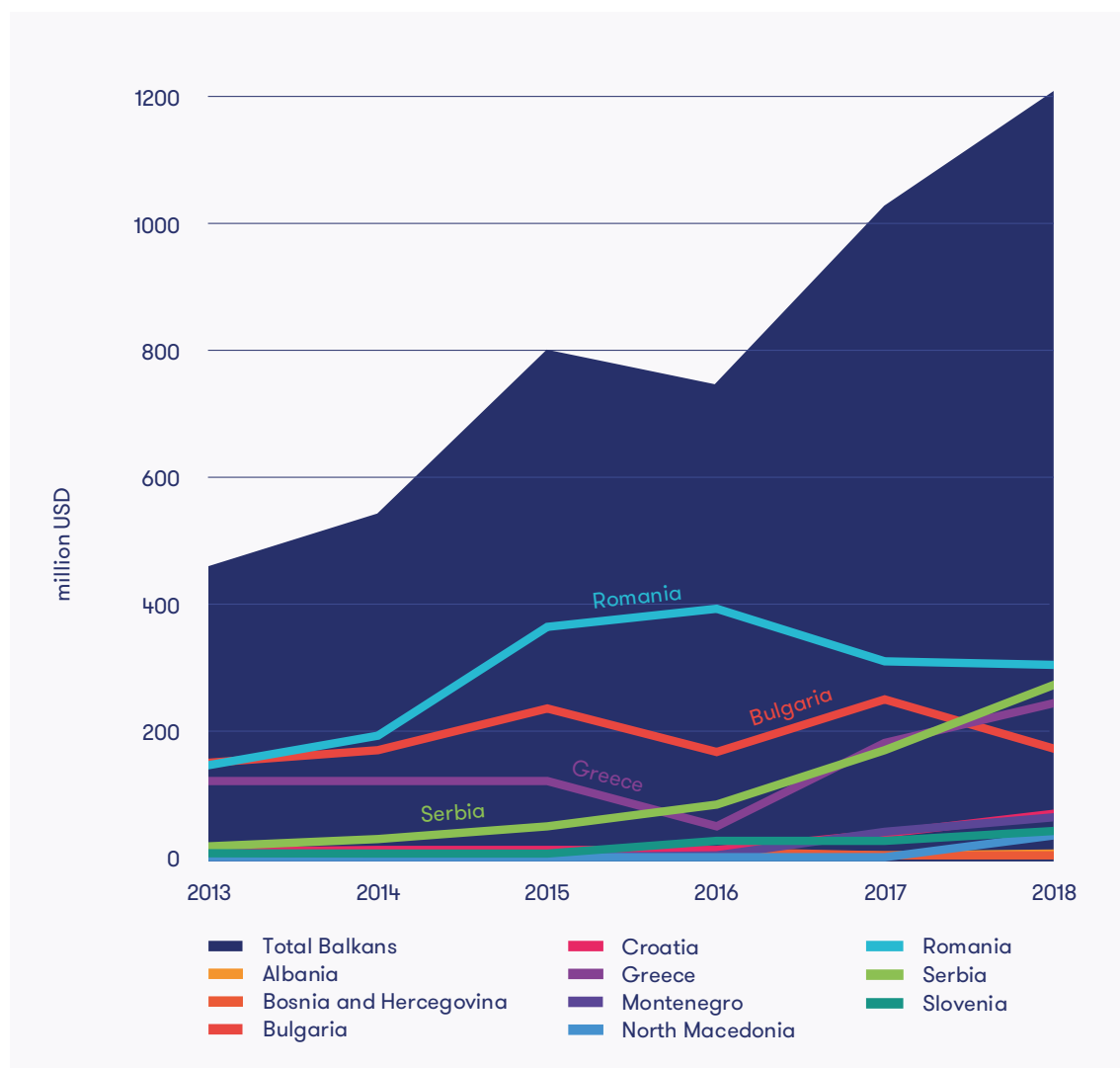


Source: own compilation based on OECD data (<https://data.oecd.org>)

Hungary's high-level strategic agreements with foreign companies combined with the lack of 'controversial' gestures of its political representation spurred Chinese investment into the country. In the framework of such agreements, Wanhua, for example, agreed to establish its European Information Centre in Hungary for developing the operations and the supply network of the company<sup>93</sup>, while the Bank of China promised to build closer relations with the Hungarian Investment Promotion Agency and Eximbank, and promotes Hungary in China as a European investment destination.<sup>94</sup>

The Balkan countries haven't so far received big amounts of foreign direct investment from China, despite the fact that some of them are EU members and others potential candidates. Romania, Serbia, Greece and Bulgaria are the top recipients; they host 80% of Chinese FDI stock in the Balkans (still, it is just one quarter of Chinese FDI stock in the Visegrád region). Based on Chinese statistics, countries such as Albania<sup>95</sup> and Bosnia and Herzegovina seem not to attract any significant Chinese FDI at all (data indicates both are below 10 million USD), while North Macedonia, Montenegro, Slovenia and Croatia also host less than 100 million USD Chinese FDI stock.

**GRAPH 6: CHINESE FDI STOCK IN THE BALKANS (IN MILLIONS USD)**



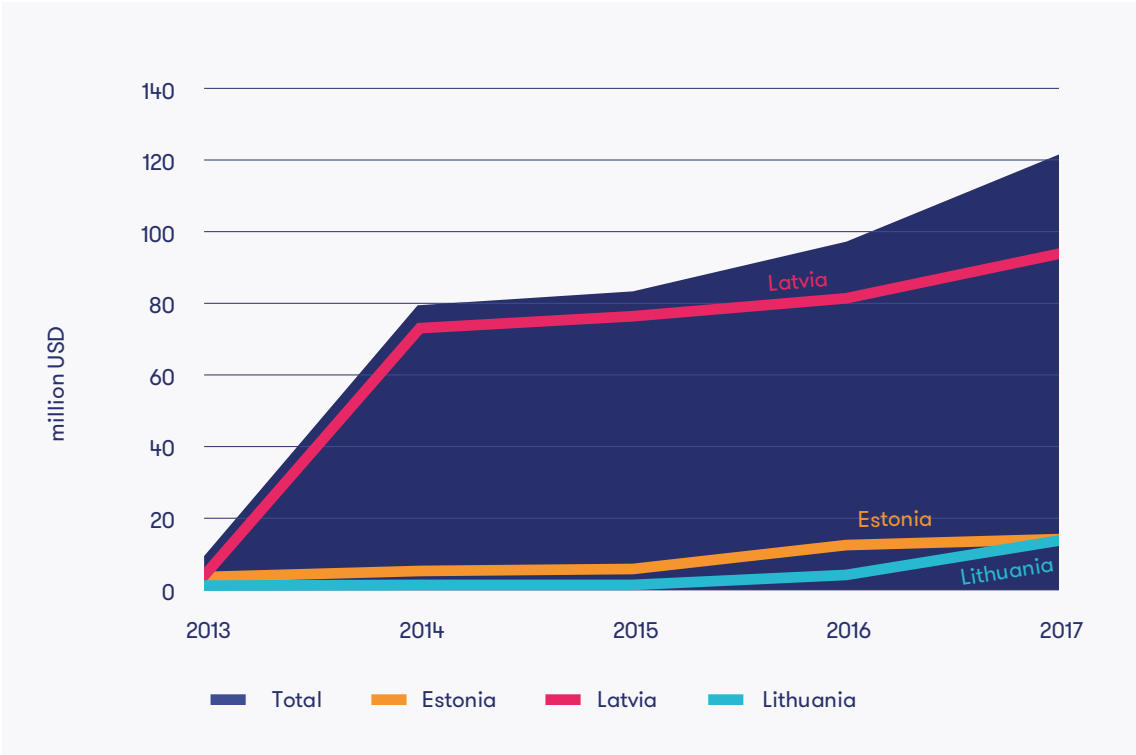
Source: own compilation based on data provided by the National Bureau of Statistics, China<sup>96</sup>

The above-mentioned trend may soon change, especially in the case of the EU member states in the region, as China has become very active in the Balkans recently. Chinese PM Li Keqiang visited Croatia for the first time in 2019. On this occasion the two countries signed several Memoranda of Understanding (MoU) on investment, aiming to strengthen economic relations.<sup>97</sup> For this purpose, a joint task force for investment cooperation was established. Huawei’s interest in contributing to the development of smart city solutions in the future, was also addressed. In Slovenia there is but one FDI case that is worth mentioning: one of the eight largest manufacturers of home appliances in Europe, Gorenje was acquired by Chinese company Hisense in 2018 for 339 million USD.<sup>98</sup> This purchase went through one of Hisense’s foreign subsidiaries, therefore it doesn’t appear in Chinese statistics.

As an EU member state, Romania is the most popular investment destination for China in the Balkans. Chinese companies target similar sectors as in the Visegrád region. The biggest investors are Huawei, ZTE, China Tobacco International Europe Company, Eurosport DHS (bicycle producer), but there are some other important Chinese companies that have invested in Romania indirectly, through foreign companies that were purchased by a Chinese company, such as Smithfield<sup>99</sup>, Pirelli<sup>100</sup> and Nidera<sup>101</sup>.

Chinese FDI in Bulgaria is less significant compared to Romania, however, it also hosts important companies in telecommunications, electronics and automotive sectors. The main Chinese investors are Huawei, ZTE, Shanghai Video and Audio Electronics Group, Great Wall Motors and Insigma Technology, which operates desulfurization facilities. There are examples of FDI into agriculture (Tianjin State

**GRAPH 7: CHINESE FDI STOCK IN THE BALTICS (IN MILLIONS USD)**



Source: own compilation based on OECD data (<https://data.oecd.org>)

Farms Agribusiness Group) and rather curiously into the media sector, as recently, China Today has entered the Bulgarian newspaper market, sharing the same editors and having the same headquarters as Russia Today.

In Serbia Chinese companies started to invest in 2016: the Chinese iron and steel manufacturing conglomerate Hesteel Group acquired the Smederevo steel mill, saving the financially distressed company as well as 5,000 jobs. Later on a few other companies – such as the automotive parts producer Mei Ta – arrived, while a number of significant investment projects to Serbia were announced during the visit of President Vučić and his ministers to Beijing in September 2018. The agreements included greenfield projects like the construction of a tire factory in Zrenjanin, a Chinese takeover of the firm Mining and Smelting Combine Bor (RTB Bor), and construction of an industrial park close to Belgrade.<sup>102</sup> These FDI cases are closely connected to the energy sector which is in line with China's Belt and Road initiative.

When it comes to Greece, as a newcomer to the 17+1 group, it is hard to evaluate the effects of this cooperation on Chinese FDI stock in the country but even before joining the group, Greece enjoyed a privileged position since COSCO, China's shipping giant, operates the Piraeus port. China – together with Hong Kong – belongs to the top ten source countries of foreign investment in Greece over the last decade, increasing significantly their investment presence during the last few years.<sup>103</sup> Chinese companies showed an interest in a wide area of sectors, including infrastructure, energy, real estate and high-tech. In one of the latest high-level meetings at ministerial level, the two countries discussed the possibility of future investments in waste disposal technologies.<sup>104</sup>

While the Balkans as a region is the second option for Chinese companies in CEE after the Visegrád region, the Baltics comes in third. Even though the Baltic states have been mentally quite open to Chinese investments and have made active use of the 17+1 format to promote their opportunities, the Baltic region hosts only a bit more than 2% of Chinese FDI stock in CEE, 12 times less than the Balkans.

Two possible reasons for the lower representation of Chinese companies in this region are likely: 1) Chinese companies preferred to target countries which are relatively bigger, more populous and closer to Western European markets with their greenfield projects. 2) China has been interested in big infrastructure projects or M&A deals in the technology sector, where small countries have not much to offer. Latvia is the only country in this region that managed to increase Chinese FDI stock by 23 times, however, this stock is still only around 100 million USD. The country gained some Chinese investments into the real estate sector due to its "golden visa" program<sup>105</sup>. Lithuania has positioned itself as the gateway to Europe for Chinese fintech companies and received a few investments in that segment. In Estonia, the best-known deal so far has been the takeover of Magnetic MRO by Guangzhou Hangxin Aviation Technology for 43 million EUR in 2018. Historically, the top deal in the region has been, however, the takeover of Nordic Cinema Group for 865 million EUR by AMC Theatres, which at the time of the deal was largely owned by Wanda Group, but the company was forced to sell some of its shares later in order to reduce its debt in China.<sup>106</sup>

With the growing awareness of potential challenges from Chinese investments to national security, some countries have strengthened their policy and legal frame-

work to better control such situations. Poland and Hungary have already created their own investment screening mechanisms and in Czechia the law is expected to be implemented in 2020, while Slovakia seems so far not to be considering drafting a law. Latvia established a mandatory review mechanism for transfer in ownership of companies and facilities “with significance to national security” or of national and European critical infrastructures.<sup>107</sup> Lithuania adopted an updated version of the law on the protection of “objects of importance to ensuring national security” to require notification and facilitate vetting of investments in certain economic sectors or in certain protected zones.<sup>108</sup> Estonia has not updated the current regulatory framework nor has it established its own mechanism, but it relies on the EU regulation on coordination.<sup>109</sup> The majority of Balkan states, however, have not even considered creating such a mechanism.

Interestingly, where the mechanism was already in place or was in the pipeline, it was not necessarily in line with the model defined by the European Commission: the Polish law introduced a much more invasive system, allowing the Polish state to police more directly the domestic investment market, while the Hungarian system utilizes a rather obscure and politicized oversight mechanism that is less bound by all of the principles mentioned in the EU’s regulation.<sup>110</sup> However, there has been no record yet of a foreign investment project under investigation based on the screening mechanisms. Without a sufficient number of records, it is difficult to predict whether these rather newfangled screening mechanisms will affect Chinese FDI in the region but since governments decide on whether to block a deal or not, the impact will be less significant in countries that have stronger, more friendly relationships with China.

## **ALL ROADS LEAD TO CHINA: COOPERATION IN INFRASTRUCTURE AND CONNECTIVITY**

Interestingly but understandably, the patterns of Chinese infrastructure projects in the CEE region are just the opposite of the FDI patterns. Infrastructural projects are implemented rather in the non-EU states of the 17 CEECs in the Balkans, since the infrastructure is relatively poor there, and strict EU rules and regulations do not hamper negotiations and processes, while other resources (such as EU structural funds) are not available or are less accessible.

In its first infrastructure-building attempts in CEE, China tried to replicate its experience from developing countries in Southeast Asia or Africa not considering the different (and sometimes very strict) rules and regulations or standards of the EU.<sup>111</sup>

Currently, China is planning and negotiating several infrastructure-related projects in the 17 Central and Eastern European countries. China is interested in building highways, constructing or reconstructing railways as well as building or expanding power plants (among others thermal, hydro, coal-fired as well as nuclear power plants). When taking a closer look, a clear link can be found between China’s Belt and Road Initiative and the 17+1 platform. On one hand, the CEE region is a strategic area for the Belt and Road and infrastructure cooperation of this kind can also enhance relations between China and the CEE countries. On the other hand, China can also learn from the experiences of the 17+1 initiative so far and can use it in its broader Belt and Road

strategy.<sup>112</sup> Such experiences are, for example, that more effective communication and a clearer definition of goals could help in the future to avoid excessive expectations and subsequent backlash and doubts.

China's motivations are easy to understand, as BRI will allow it to expand its political and economic sphere of interest. Once the alternative transport routes are completed China will be in a more favorable strategic position as it will have more alternative transport routes, will be able to reach its target markets easier and faster and to work off some of its industrial over-capacities accumulated in recent years. In addition, projects completed in the 17 CEECs may provide a reference for further Chinese investment in the broader region, especially in Western Europe.

Central and Eastern European countries have been cautiously welcoming of the BRI, including V4 countries. Hungary was the first European country to sign a memorandum of understanding with China on promoting the Silk Road Economic Belt and Maritime Silk Road, during Chinese Foreign Minister Wang Yi's visit to Budapest in June 2015. The Hungarian government was very keen on the railway project and when it signed the construction agreement in 2014, Prime Minister Orbán called it the most important moment in cooperation between the European Union and China.<sup>113</sup>

During the then Prime Minister Wen Jiabao's visit to Warsaw in 2012 China offered a special credit line worth 10 billion USD to the CEE region to be used for investments in infrastructure, modern technologies and the green economy. This credit line was part of 17+1 cooperation, available for all countries gathered in the initiative. However, later on it turned out that EU member states could not use those funds as certain conditions of this funding opportunity (such as the requirement on involvement of Chinese companies and materials) may go against EU rules, for example on public procurement regulations.

One of the most salient areas of cooperation between China and the CEE countries in recent years in terms of connectivity has been in rail freight. The decreased cost of rail freight transport, infrastructure improvements and progress in customs cooperation among the involved countries leading to shortened travel times have injected impressive growth into the China-Europe freight rail connections. With their geographical position, the CEE countries are the natural gateway to EU markets. Openings of new connections have been used by China to herald the results of the cooperation under 17+1 and BRI and have gained significant coverage in Chinese state media.

While the first connections between China and Europe – officially branded as the China-Europe Express later on – were tested in 2008 by private companies<sup>115</sup>, they have grown exponentially ever since, gaining political support under the BRI and 17+1 initiatives. While there were only 11 China-Europe trains in 2011, the number has grown to 8,255 in 2019.<sup>116</sup>

The China-Europe express can bring economic benefits for the involved countries, including from tariff settlements, fees for the use of their rail infrastructure and rolling stock and also impetus for the growth of the logistics sector.<sup>117</sup> So far, the biggest benefactor of the China Europe express connections has been Poland, as around 95% of all the connections have taken the route via the Poland-Belarus border, using the Małaszewicze terminal.<sup>118</sup> The city of Łódź in Poland itself services 25% of all China-Europe trains.<sup>119</sup>

**TABLE 1: LIST OF CHINESE PROJECTS — CONSTRUCTION/RECONSTRUCTION/ EXPANSION — UNDER IMPLEMENTATION OR NEGOTIATION IN 17 CEE COUNTRIES SINCE THE INITIATION OF 17+1<sup>114</sup>**

country	projects
<b>Albania</b>	'Blue Corridor'/Adriatic-Ionian sea connection (potential); motorway between the Albanian Ionian Sea to the Bulgarian Black Sea (potential till 2018, when the Albanian Government decided to build it with Albanian companies)
<b>Bosnia and Hercegovina</b>	Stanari thermal power plant; Tuzla coal-fired power plant (the credit agreement has been signed but the construction works have not started yet); Banovici thermal power plant (potential); Banja Luka-Nov Grad motorway; Vukosavlje-Doboj highway and Vukosavlje-Brcko branch
<b>Bulgaria</b>	Four motorways (Veliko Tarnovo-Russe, Vidin-Botevgrad, Varna-Burgas) and a tunnel under the Balkan Mountains (Gabrovo-Kazanlak); Varna port development; modernization of the Novi Sad-Subotica railway section (potential); development of a logistic base near to Burgas; Belene nuclear power plant; Plovdiv airport management for 35 years (plus potential expansion)
<b>Croatia</b>	Pelješac Bridge (under construction); modernization of the Zagreb-Rijeka railway; Banja Luka-Split motorway (potential)
<b>Czechia</b>	New blocks on Dukovany nuclear power plant (company China General Nuclear Power Corporation (CGN/CGNPC) raised interest); Hodonín logistic centre (potential, planned in 2015)
<b>Estonia</b>	Construction of Rail Baltica (Chinese raised interest); FinEst Bay's Tallinn-Helsinki tunnel (potential)
<b>Greece</b>	Further expanding Piraeus port; the development of Athens' former airport at Hellenikon; lignite power plants at Megalopoli and Meliti (both bids failed)
<b>Hungary</b>	Belgrade-Budapest high-speed railway (planned to be built by 2023)
<b>Latvia</b>	Construction of Rail Baltica (Chinese raised interest)
<b>Lithuania</b>	Construction of Rail Baltica (Chinese raised interest); Klaipeda port (potential); Kaunas combined heat power plant (potential)
<b>North Macedonia</b>	Kozjak hydro power plant; two stretches on the motorways linking Kichevo-Ohrid and Miladinovci-Shtip
<b>Montenegro</b>	Smokovac-Matesevo highway; Bar-Boljare highway; Mozura Wind Park; investment in various energy projects (e.g. hydro power plant, thermal power plant – all potential); renewal of the country's ship fleet (potential)
<b>Poland</b>	Logistic hubs connected to the Chengdu-Europe Express Rail (for example in Małaszewicze, Kutno and Łódź); Jaworzno coal-fired power plant (a Chinese company raised interest, a contract has been made but in the end the cooperation failed)
<b>Romania</b>	There are no finalized projects yet, despite the many initiatives, such as various nuclear, thermal and hydropower plants; the Constanța-Bucharest-Budapest high-speed rail and Bucharest-Iași-Chișinău high-speed rail line or the restart of the direct air connection between Bucharest and Beijing
<b>Serbia</b>	Danube ("Mihajlo Pupin") bridge in Belgrade; Belgrade-Budapest high-speed railway (planned to be built by 2023); the Belgrade-Niš-Preševo railway; construction of the Obrenovac-Ub and the Lajkovac-Ljig sections of Corridor XI motorway; the Surcin-Obrenovac section of Corridor XI motorway; construction of highway between Belgrade-Zrenjanin and Zrenjanin-Novi Sad (planning and technical documentation for the project has already started); 350MW unit at Kostolac thermal power plant (credit agreement has already been signed, construction has not started yet)
<b>Slovakia</b>	There are no projects under implementation. No potential construction projects seem to be negotiated. The project of a hydroelectric dam on river Ipeľ was discussed in the past but did not come through due to unwillingness of the Slovak government to provide sovereign guarantees.
<b>Slovenia</b>	Krško nuclear power plant (potential); Divača-Koper railway line (potential)

Source: authors' own collection



Although Slovakia has tried to promote itself as an alternative route, with a target to process 50% of China-Europe rail cargo, its share has remained negligible.<sup>120</sup> The chief reason has been the situation in Ukraine which several times led to transit being stopped completely. Latvia has been another champion of rail freight transport, hoping also to take advantage of its ports for further shipment by sea. The Latvian Ministry of Transport even has a representative in China, stressing the importance of connectivity issues for Latvia which has also spearheaded cooperation with China in this area within 17+1. A potential for growth of transport also exists on the so called Land-Sea Express Route that joins the port of Pireaus and Central Europe through the Balkans and Hungary.<sup>121</sup>

However, rail freight cooperation with China is not always smooth. Mirroring the overall trade imbalance in China-EU trade, rail transportation has been overwhelmingly tilted towards inbound cargo to Europe, with trains often returning half-empty on the return journey to China. For this reason and also because of the overall higher costs of transporting goods to Europe by rail as opposed to sea, the connections have been heavily subsidized by local governments in China, leading to significant market distortions.<sup>122</sup> With the central government planning to gradually withdraw the subsidies, it remains to be seen how much of the current trade volume will continue.<sup>123</sup> Finally, despite the lowered costs, rail transport only remains competitive for a selected segment of goods, where transport faster than by sea but cheaper than by air is necessary.

Since companies and public institutions from EU states have access to more attractive forms of funding, including EU structural funds, there are not too many infrastructure projects in the V4 or in the Baltics. The aforementioned Chengdu-Europe Express Rail connecting Chengdu with the Polish city Łódź was already in operation before the 17+1 cooperation was initiated, and keeps on expanding,<sup>124</sup> while the Budapest-Belgrade railway – although the contractor has been chosen – won't be ready before 2023. Chinese companies have raised an interest in several projects in the V4 region, such as Dukovany nuclear power plant, but V4 countries seems to be more cautious with Chinese (as well as Russian) constructors.

While V4 countries are more cautious or bound by EU rules and regulations when it comes to Chinese construction projects, the Balkan countries are in a very different situation. As seen in the table listing key Chinese projects under implementation or negotiation in the 17 CEE countries since 2012, while there are only a few potential projects in EU member states, there are a number of potential projects in non-EU countries that have either begun or have already been completed.

Also Baltic states have been actively promoting infrastructure development and connectivity via land and sea. For a while, talks about potential Chinese investments into Klaipeda port have been ongoing, with no concrete results yet. Both Estonia and Latvia have been trying to promote their ports to Chinese partners, however, without a clear success so far.<sup>125</sup> In addition, Latvia has been active within the 17+1 format in establishing collaboration in the logistics sector by creating the CEECs-China Secretariat on Logistics Cooperation and trying to open a train route to the region from China.<sup>126</sup> Rail Baltica is the largest infrastructure project in the region, however, as the project is financed by the EU and the three Baltic governments, it remains subject to the relevant procurement procedures.<sup>127</sup> Another project of potential interest from

Chinese companies has become FinEst Bay's Tallinn-Helsinki tunnel which should be finished as early as 2024.<sup>128</sup> The implementation of this project is still under discussion as there is a certain skepticism concerning its completion time as well as its profitability.<sup>129</sup>

The Baltic states have been keen on building 5G infrastructure and have been allegedly willing to collaborate with Huawei on this matter and recent pressure from the USA influenced decision-makers in this regard. On 31 October 2019, Estonia signed a memorandum with the USA to strengthen cooperation on 5G security and development, restricting the use of the Chinese mobile technology company Huawei's products.<sup>130</sup> As a reaction, Huawei announced that it would reconsider continuing offering its new models on the Estonian market.<sup>131</sup> In Latvia, Huawei's partner Bite Latvija decided to continue to work with Huawei citing other companies in Europe such as Deutsche Telekom, Elisa, Orange, Telia Sonera and Vodafone that do so.<sup>132</sup> Furthermore, Latvia's Tele2 has chosen Huawei for its first 5G handset.<sup>133</sup> Lithuania has taken a more careful approach, advocating for decisions on Huawei technologies to be taken at NATO and EU levels.<sup>134</sup>

Attitudes towards 5G and Huawei differ in V4 countries, too. In September 2019, Poland made a political statement showcasing its support for the US stance on 5G by signing a joint US-Poland declaration on 5G.<sup>135</sup> However, as of early 2020, it seems that the Chinese company will not be completely excluded from the Polish market. The Czech National Cyber and Information Security Agency issued an unprecedented warning against Huawei in 2019, following the announcement of the German government which did not exclude Huawei. Nonetheless Prague will most likely follow Germany's approach, despite the US preference.<sup>136</sup> Hungary went even further since the Hungarian MFA already announced in Beijing in November 2019 that Huawei would build its 5G wireless network.<sup>137</sup> Based on the Slovak Prime Minister's declaration, Slovakia does not seem to consider Huawei to be a security threat (in the absence of compelling evidence to the contrary).<sup>138</sup> In the Balkans, Romania also signed an MoU with the US, in August 2019, to exclude Huawei from 5G network development. Other countries in the region are, however, less committed. Despite concerns raised in some EU countries, Serbia has been cooperating with Huawei for a long time: "Safe city" and "Smart city" projects have been set, while the state-owned telecommunication company Telekom is already working on the construction of telecommunication infrastructure that will enable 5G technology with Huawei being the key partner in the project. Since the US banned Huawei from the construction of 5G infrastructure, the representatives of Serbia have stated that there are no concerns regarding Huawei, that they are satisfied with the cooperation and that it will be further developed<sup>139</sup>.

## **FOLLOW THE MONEY: FINANCIAL COOPERATION IN V4**

When analyzing financial cooperation between China and the CEE region, the Visegrád region seems again to be the most active. The Hungarian Minister of Finance has recently called financial cooperation one of the most rapidly growing areas of Hungarian-Chinese relations.<sup>140</sup> And indeed, the Bank of China has established

a regional and CEE headquarters in Budapest, while Hungary was the first sovereign issuer, in 2017, sold government bonds (dim sum and Panda bonds) both on the onshore market and in Hong Kong.<sup>141</sup> Furthermore, the Hungarian OTP Bank, the largest commercial bank in the country, opened its first office in Beijing in 2017. Bank of China in Hungary and China UnionPay issued the first Chinese renminbi and Hungarian forint debit card in 2017, which was also the first case of a renminbi bank card to be issued in Europe by Bank of China.<sup>142</sup>

When it comes to Chinese banks in the V<sub>4</sub>, in Hungary and Poland there are branches of Bank of China (opened in 2003 and 2012, respectively), while the Czech branch of BOC, which was opened in 2015, belongs to the Hungarian branch of the bank. BOC doesn't have any representation in Slovakia although the Slovak PM Fico has long lobbied for a Chinese bank to set up operations in Slovakia. Warsaw and Prague already host branches of Industrial and Commercial Bank of China (ICBC), while ICBC is, at the time of writing, looking into the possibility of opening a branch in Hungary.<sup>143</sup> Similarly, Hungary and Poland decided to join the Asian Infrastructure Investment Bank (AIIB), while Czechia considered joining for a while but did not initiate it and it is unlikely in the current atmosphere that Czechia would join. Slovakia has no immediate intention to participate.

When compared to the Visegrád region, Balkan countries have a relatively weaker level of financial cooperation with China. For example, only three of ten Balkan countries decided to become members of the AIIB: Romania joined in late 2018, while Greece, together with Serbia, joined in summer 2019. The majority of these countries lack any Chinese banks in their respective territories. Exceptions include Serbia – where the Bank of China opened its first branch (2017), being the first Chinese bank in the country, as well as in the Balkan region – and Romania (2019). The Agricultural Bank of China also opened its first office in Romania in the same year. The China Construction Bank announced its intention to enter Bulgaria in July 2019,<sup>144</sup> while two banks (BOC and Commercial Bank of China) have expressed their interest in entering the Greek market.<sup>145</sup>

In the financial sector, China's UnionPay International (UPI) expanded to Serbia (2018), Croatia and Bosnia and Herzegovina (2019). UnionPay has already been working with the Croatian bank of Privredna Banka Zagreb (PBZ) so that UnionPay cards can now be utilized locally. When it comes to Chinese loans to realize the already mentioned infrastructure projects in the Balkans, it is usually China Ex-Im Bank that finances the projects.

None of the Baltic states has become a member of the AIIB.<sup>146</sup> However, within the 17+1 format, Lithuania has been the most active in promoting itself as the FinTech gateway to Europe by developing a FinTech coordination centre in Vilnius. The Bank of Lithuania signed a cooperation agreement with the China Banking Regulatory Commission in 2015.<sup>147</sup> Since then it has granted four Chinese companies electronic money institution licenses and one payment institution license and an additional 10 companies intend to join the bank's central payment system Centrolink.<sup>148</sup> Cooperation has also been established between UnionPay International and Swedbank, one of the largest banking groups in Northern Europe and the Baltic Sea. UnionPay sees the Baltic states as emerging travel destinations in Europe for Chinese tourists as well as having increasingly closer economic and trade cooperation with Asia Pacific,

especially Hong Kong, South Korea and Russia, where UnionPay cards are used on a large scale.<sup>149</sup>

## THE IRRESISTIBLE DRAW: CHINA-CEE TOURISM AS A SUCCESS STORY

The CEE region is becoming an attractive place to visit for the continuously expanding Chinese middle class. Over the course of 2018, the top three European destinations in terms of volume of Chinese arrivals were the United Kingdom (up 2.4%), Germany (up 2.6%), and France (up 7.7%), however, the three fastest growing destinations were Croatia (up 45.7%), Estonia (up 35.8%), and Hungary (up 25.1%).<sup>150</sup>

The Visegrád countries are among the most popular destinations for Chinese tourists within the CEE region. Since tourist groups from China typically visit their destinations as part of a travel package, the majority of them visit at least three – if not all – countries of the V<sub>4</sub>. A Budapest tour is usually merged with a journey to Czechia and Austria, while other countries of interest include Poland, Croatia and Slovenia. The trend is also contributed to by direct flights between Beijing and major V<sub>4</sub> cities, such as Budapest, Prague and Warsaw. On average, Chinese tourists spend some 12 days in Europe during one visit.

Prague is the most popular destination for Chinese tourists visiting the V<sub>4</sub> region: from over 21 million people that visited Czechia in 2018, 619,000 were Chinese.<sup>151</sup> The high number can mostly be put down to the direct flights that opened in the last few years between China and Czechia: direct air connections operate between Prague and four Chinese cities (Beijing<sup>152</sup>, Shanghai, Xi'an and Chengdu).

In 2013 at the Bucharest summit, China called upon Hungary to establish a co-operation platform in the field of tourism with the aim of increasing tourism co-operation between China and the CEECs resulting in the establishment of the Central and Eastern European Countries' Tourism Coordination Centre. But, apart from this, most of the official tourism agencies have a Chinese language site and/or customized travel services for Chinese visitors.

As far as Hungary is concerned, the number of Chinese tourists has grown based not only on direct flights (Beijing, Shanghai, Chengdu, Xian and recently also Chongqing) but also customized services, such as the opening of 14 Hungarian visa offices in China or the quick – within 48 hours – issuance of accepted visa applications. According to the China National Tourist Office in Budapest, 256,000 Chinese tourists visited Hungary in 2018 (while 23,600 Hungarian tourists visited China during the same period), and 262,000 tourists arrived in the first 11 months of 2019<sup>153</sup>. A similar increase in Chinese tourists has been seen in Poland. The country was designated – as the only European country – by China Travel Agency magazine as the „New Holiday Destination of the Year 2018”. In 2017, a record number of 138,000 Chinese tourists visited the country, while these numbers increased even further in 2018.<sup>154</sup> The numbers grew for Slovakia as well. Although the numbers of Chinese tourists in Slovakia are lower (61,000 in 2017), it was twice as many as in 2016.<sup>155</sup>

Among the ten countries in the Balkans, only Greece has a direct flight connection with China (between Athens and Beijing), operated by Air China since 2017. In addition to this already existing connection, another direct flight between Athens and

Shanghai has been announced to open in June 2020, operated by the Shanghai-based Juneyao Airlines.<sup>156</sup> Serbia did have a direct flight connecting Belgrade with Beijing, launched in 2017, and operated by the Chinese Hainan Airlines, however, this route was closed in November 2018, after one year of operation because it was not profitable and carried only a few passengers.<sup>157</sup> Before that JAT Yugoslav Airlines launched a flight to Beijing in 1979 and operated until late 2000. Romania's Ponta government also wanted to restart the direct air connection between Bucharest and Beijing, with the Romanian national airline Tarom, however, the flights were stopped in 2003 due to their low profitability. The restart was thus never achieved – the official reason given in 2014 was that Russia denied the right for Tarom to fly in its airspace. Chinese airlines are also considering launching a direct flight between Zagreb and Beijing, while there are further countries from the region, including Macedonia, Bosnia and Herzegovina, Slovenia and Montenegro, that are also seeking to boost the number of Chinese tourists visiting their nations with a direct air connection.<sup>158</sup>

Even if a direct flight connection is not an option for most of the Balkan countries to increase the number of tourists from China, they have taken other steps to attract Chinese tourists, such as abolishing visa requirements or granting visas free of charge. A mutual visa exemption exists between China and Bosnia and Herzegovina, which took effect in 2018, resulting in a growing number of tourists.<sup>159</sup> Serbia has had a mutual visa free bilateral policy with China since 2017. This tourist friendly system brought over 92,000 Chinese tourists to Serbia during 2019, five times more than in 2016.<sup>160</sup> In 2018, Albania also announced a visa-free policy for citizens from Bahrain, Belarus, China, Oman, Qatar, Russia, Saudi Arabia and Thailand.<sup>161</sup> This visa-free policy helped to develop tourism as by June 2018 the number of Chinese tourists was estimated at about 8,600, double the number registered in the same period of the previous year.<sup>162</sup>

Bulgaria, Macedonia, and Montenegro don't have any preferential visa policy towards China and the number of Chinese tourists is not that significant either. In order to boost tourism, the Bulgarian Minister of Tourism has signed an agreement with China's leading tour operator, HiSeas International, and has announced that the Bulgarian official tourism portal will be available in Chinese.<sup>163</sup>

Romania, too, lacks a preferential visa system for Chinese citizens. However, the visa regime for Chinese citizens was simplified in 2017.<sup>164</sup> Even so, the number of Chinese tourists is very small and the number of visas issued by the Romanian embassy in Beijing between 2017 and 2019 averaged around 3,300. Currently, Croatia and Slovenia do not have any preferential visa treatment for Chinese nationals either. Nevertheless, the number of tourists has been growing in both countries. In 2018 the number of Chinese tourists was estimated at about 250,000 in Croatia while in Slovenia this number has increased by 300% since 2015 when it was only 50,000 (0.8% of all tourists).<sup>165</sup> To facilitate consumption by Chinese tourists within the country, Slovenia has set up payment points for Alipay, the Chinese mobile application.<sup>166</sup>

As mentioned above, the Beijing-Athens direct flight has benefited tourism in Greece, along with the involvement of some big Chinese companies that offer special tourist packages for Chinese Nationals (e.g. COSCO Shipping, Fosun)<sup>167</sup>. At present, around 200,000 Chinese nationals visit Greece each year.<sup>168</sup> Greece has a golden visa

program in place that grants five-year residency rights for all investors who make strategic investments in Greece (over 250,000 EUR) or buy real estate, with a possibility to renew the residency permit if the investment remains in Greece. After seven years of uninterrupted residency a resident can also apply for citizenship.<sup>169</sup> In the context of this publication, it is worth mentioning that more than 65% of the golden visa holders are Chinese.<sup>170</sup>

Similar to other regions, tourism is one of the most important industries in the Baltic region. In 2019, the Estonian Tourist Board at Enterprise Estonia put out a tender to find a partner in China to more actively promote Estonia as a tourism destination.<sup>171</sup> In 2017, 20,000 tourists arrived from China to Estonia – five times more than in 2016.<sup>172</sup> In Latvia, the number was 22,774, but declined a bit (-0.2%) the year after.<sup>173</sup> In Lithuania, in 2018, incoming tourism from distant markets grew rapidly, with 20.6% more from China than a year earlier.<sup>174</sup> It was especially the success of Finland in attracting Chinese tourists that has made the regional players look into ways of getting them to move further into other Baltic countries, stay longer and spend more. The Estonia-based cruise ship operator Tallink Grupp and some other operators in the tourism sector have also introduced Wechat Pay, AliPay as well as UnionPay to better serve their Chinese clients.<sup>175</sup> In order to promote Latvian businesses on the Chinese market, the Latvian Investment and Development Agency signed an agreement on long term tourism cooperation with the Alibaba Group on China's largest travel website Alitrip in 2017.<sup>176</sup> Furthermore, in 2018, China's CMB Financial Leasing Co., Ltd. and airBaltic signed a Letter of Intent for the "sale and leaseback" of four Airbus A220-300 aircraft, which coincided with speculation about the possibility of direct flights taking off from Latvia to China.<sup>177</sup>

It seems that the 17+1 cooperation has led to better promotion of the 17 CEE countries which has resulted in an increasing number of Chinese tourists in several countries of the region. However, it is not entirely clear whether these developments are due to the better promotion of CEE countries in China or China's expanding army of middle class travelers: wealthy Chinese take an average 5.9 international trips per year<sup>178</sup> and European destinations are on their shortlist. Nevertheless, the CEE region is far from being "invaded" by Chinese tourists: based on the number of nights spent at tourist accommodation in CEE countries by Chinese tourists, calculated by Eurostat, Chinese tourists represent less than 1% of all tourists in the region.<sup>179</sup> Based on the Eurostat dataset, this ratio is the highest in Czechia and Hungary (1.4% and 1.16% of all tourists) and the lowest in Bulgaria (0.18%).<sup>180</sup>

## **THE ECONOMY OF PROS AND CONS: CONCLUSION AND RECOMMENDATIONS**

When compared to China's economic presence globally or in the developed world, China's economic impact on CEE countries is relatively small. CEE countries are highly dependent on both trade and investment relations with developed, mainly-EU member states, while China represents a minor (although increasing) share. As far as trade or investment statistics are concerned, the CEE region is also far from being among the most important partners for China.

Trade relations remain relatively low and unbalanced, leading to an increasing trade deficit in all the 17 countries with China. The structure of CEE exports is characterized by higher value-added products in the case of the Visegrád region, Lithuania and Estonia, while the Chinese export baskets of most of the Balkan countries – with the exception of Slovenia, Croatia and Romania – consist of low value-added products and/or a few raw materials.

Chinese FDI are modest and concentrated in a few countries with Hungary, Czechia and Poland being at the forefront, with almost no opportunity for the other countries to receive big amounts of investment, especially not in the higher value-added sectors. Infrastructural projects – financed from Chinese loans – are negotiated all over the region but non-EU countries seem to be more open to use this opportunity while EU member countries in Central and Eastern Europe express growing reservations in this regard. Although financial cooperation is gaining momentum, it is currently limited to EU member countries.

Tourism is perhaps the real success story of economic cooperation within the framework of 17+1, since CEE countries have been achieving higher visibility in China, however, the growing number of Chinese middle class travelers may also play a role here.

Although China created the 17+1 platform to deal with the CEE region, it has to be emphasized that it still handles its economic affairs on a bilateral basis with the CEE countries. Bilateral relations especially with the countries of the Visegrád region and Serbia seem to be of particular importance. Relations with other CEE countries are lagging behind with only slightly beneficial or stagnating results.

Most of the CEE countries don't have a clear China strategy and even if they have their own economic intentions, they do not coordinate among themselves. As a result, 17+1 economic cooperation is mainly driven by China: China sets the agenda that the 17 countries rarely question. In order to benefit more from economic cooperation with China, CEE countries should work and act together. Regular 17+0 consultation meetings – where economic interests and intentions should be gathered – should precede 17+1 summits. Moreover, monitoring and evaluation meetings could follow the annual summits, where the representatives of the 17 CEE countries can share their experience, reservations and plans on how to proceed.

The major challenges of trade relations, such as trade deficit, cannot be overcome by single country solutions; CEE countries should follow the EU's strategic aims in trade policy. Since a significant portion of CEE's exports to China is connected to – mainly Western European – multinational companies based in CEE, local decisions may have less, or even no effect.

Coordinated rules should be established relating to investment screening also in non-EU member states.

When it comes to non-EU countries' recent rapprochement with China, the EU's responsibility is undeniable: it must play a more active role in these countries' economic development, enhancing their engagement with the EU and providing a credible enlargement perspective.