

Concurrence and Cohesion - The Baltic and Balkan States in China's '16+1'

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Introduction

The Chinese charm offensive of '16+1' in Central and (South-)Eastern Europe (CEEC) has led to newly gained self-confidence for a region that was long time subject to either foreign rule during the communist era or peripheral neglect during most of the European integration process. Conversely, the initiative hence provoked friendly to loyal gestures towards Beijing. Still, the cultural and political diversity in the CEEC region makes it difficult to find common grounds for diplomacy and cooperation. The initial relationship between the seventeen countries could be headlined by the questions of 'Why China?' and 'Why us?'.¹

Both can be answered with mostly economic motives: Central and (South-)Eastern Europe still builds a lower frequented access to the world's biggest domestic market of the European Union. The region provides general need for infrastructure investment towards overproducing Chinese companies on the one hand, but a quite well regulated and institutionalised political environment on the other. Thus, Central and (South-)Eastern Europe forms a natural training ground for Beijing's peripheral diplomacy in order to strategically overcome geopolitical distance.²

Scientific research regarding '16+1' is usually focusing on the big players of the CEEC such as Poland, Hungary or Serbia. Providing a clearer perspective on political processes and problems, smaller countries can however function as a geopolitical magnifying glass for future perspectives of the initiative and the cooperation on the New Silk Road.

The following analysis assesses the roles played by EU and non-EU members inside the CEEC grouping by comparing the interacting roles of two smaller European regions on both

¹ See: Moldicz, Csaba (Ed.): *China's Attraction: The Case of Central Europe*. Budapest 2017. p. 57. and Pavličević, Dragan: 'China Threat' and 'China Opportunity': Politics of Dreams and Fears in China-Central and Eastern European Relations. In: *Journal of Contemporary China* (27/113). p. 689.

² See: Zeng, Jinghan: Does Europe matter? The Role of Europe in Chinese Narratives of 'One Belt One Road' and 'New Type of Great Power Relations'. In: *Journal of Common Market Studies* (55/5), p. 1170.

respective sides - the Baltic States (Estonia, Latvia and Lithuania) and the Western Balkan States (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia)³.

Investment & Trade

The geopolitical interdependence of these two post-communist and post-socialist areas is particularly noticeable through their strategic vulnerability to the reciprocal costs of resource accessibility. Trade relations and production chains are characterised by the withdrawal of the state from the competitive market.⁴

Through their common historical past during the USSR or rather the SFRY, the countries are still regionally intertwined, though with differences in economic and political terms. The effects of the 1990s leap into capitalist waters are still limiting their national economies in terms of productivity and supply till today, last visibly in the aftermath of the financial crisis which had notably hit some of the smaller European countries.

In general, the GDPs of both regions are quite different - ranging from the front global midfield for the Baltic to last ranks for some of the Balkan countries. Another large north-south-difference can be seen in regards to national debt.⁵

The Baltic States are offering better opportunities for cooperation with China in modern innovative areas while the Balkans are better suited for building simpler value chains.⁶

Regarding Chinese investment in the Baltic states, one has to address the lack of financial institutionalisation as well as the general unfamiliarity of the region to Asian investors.

For these reasons, Lithuania has recently begun to tackle the provision of financial services to open a digital gate to the Baltic-Nordic region in the Fintech area.⁷ Furthermore, the number

³ Annotation: Kosovo isn't recognised by the People's Republic of China and not part of its CEEC definition.

⁴ See: Spindler, Manuela: Interdependenz. In: Schieder, Siegfried; Spindler, Manuela (Eds.): Theorien der Internationalen Beziehungen. Opladen 2003. pp. 92 seq., p. 111.

⁵ See: Oehler-Şincai, Iulia Monica: Determinants, Goals and Different Approaches of the 16+1 Strategic Cooperation Framework. Bucharest 2016. pp. 5 seq.

⁶ See: Richet, Xavier: The 16+1 Format: Chinese presence in fragmented markets on the periphery of Europe. In: China-CEEC Institute Working Paper (21/2018). p. 2.

⁷ See: Ministry of Finance of the Republic of Lithuania: Vilius Šapoka, the Minister of Finance: Lithuania seeks to become China's financial service gateway to Europe.

(<https://finmin.lrv.lt/en/news/vilius-sapoka-the-minister-of-finance-lithuaniaseeks-to-become-china-s-financial-service-gateway-to-europe>) and

Ministry of Finance of the Republic of Lithuania: Lithuania introduces world's first security ICOs platform, opens up for global blockchain based businesses.

of regional representative offices of companies such as Huawei or Alibaba is growing and they are increasingly providing financing of innovative technologies.⁸

However, the example of Estonia is nicely depicting the different priorities of economic promotion between China and the Baltic states: While Chinese investors are focussing on Estonian smart sharing, e-commerce or aviation technology, companies from Estonia in the Eastern market are promoting dairy products, fish and log cabins.⁹

The investment climate in the Western Balkans can be largely characterised by a general instability in the political and financial field which leads to a rather cautious international investment regime.

For this reason, the relatively low financial conditions coming alongside Chinese credit lines are much more appealing to local governments than those of the European Union or Russia. At the same time, they are leaving the Balkan countries in an asymmetrically competition against each other, as evidenced in the highly different growth rates of Chinese FDI in the region.¹⁰

Trade relations of the Baltic and Western Balkans countries with the People's Republic are marked by an increasing trade deficit which overshadows their too growing exports.

As these are mainly consisting of agricultural and raw material products, they tend to prove rather instable regarding their long-term price performance. Despite evident trade benefits, the concurrent high-tech and industrial imports from China - that are much faster increasing in their value - add up to a deepening one-sided economic dependence of the two European regions.¹¹

In context of fragmented agricultural markets in the Balkans and Baltic, the highly acclaimed label of European 'Green Economy' appears to be status related symbolic capital for the

(<https://finmin.lrv.lt/en/news/lithuania-introduces-world-s-first-security-icosplatform-opens-up-for-global-blockchain-based-businesses>)

⁸ See: Andžāns, Māris; Berziņa-Čerenkova, Una Aleksandra: Assessing (the Lack of) Chinese investment in Latvia. In: Seaman, John et al. (Ed.): Chinese Investment in Europe - A Country-Level Approach. pp. 87 seq.

⁹ See: Estonian Chamber of Commerce and Industry: China and Estonia: Working Together for Economic and Trade Prosperity.

(<https://www.koda.ee/en/news/china-and-estoniaworking-together-economic-and-trade-prosperity>)

¹⁰ See: Jakóbowski, Jakub; Kaczmarski, Marcin: Beijing's Mistaken Offer: The '16+1' and China's Policy towards the European Union. In: OSW Commentary Nr. 250 (15.09.2017). pp. 2 seq. and Vangeli, Anastas: The Impact of China. In: Lange Sabine et. al. (Eds.): Resilience in the Western Balkans (EU Institute for Security Studies - Report No. 36/August 2017). p. 58.

¹¹ See: Scott, David: China and the Baltic States: Strategic challenges and security dilemmas for Lithuania, Latvia and Estonia. In: Journal on Baltic Security (4/1), p. 26.

Chinese 'super consumer' market. It does not lead to an effective promotion of morally responsible and sustainable domestic production there. In the end, only a few large national companies can generally even afford global trade strategies and advertisement campaigns to sustain in the hard-fought Eastern economy.

Infrastructure

In Central and (South-)Eastern Europe, Beijing is following a two-headed strategy regarding its approach to infrastructure financing both by sea and by land:

The maritime New Silk Road is supposed to give the People's Republic economic access to geographically closer and economically less competitive 'dragonhead' ports in the Mediterranean and Baltic Sea. Meanwhile, its land-based CEEC infrastructure investment consists mainly of railway consolidation and highway construction.

Therewith, China can speed up the transportation time of its export goods towards higher purchasing power countries of the North-Western European Union. These are simultaneously fuelled up with oil and gas through new to-be-erected pipeline routes.

With meanwhile two-thirds of Piraeus in the hands of Chinese shipping company COSCO, the Greek harbour has risen to one of the fastest growing deepwater ports in the world and cuts transport time to Europe by ten days to big North-Western European harbours.¹² While the disregard of workers' rights is being neglected by the investor, the neighbouring state-owned port part has meanwhile nearly went out of business with little to no docking ships.

The Freeport of Riga is being promoted as a 'Baltic Sea Container Hub' which is to attract industrial and logistical perspectives for neighbouring countries. For example, Belarus is planning to better access the Russian and CIS states through Latvia. In the background, this associated tripartite labour division presents a much simpler logic: While Belarus seemingly works as a workbench for Chinese steel exports, the Latvian intermediate infrastructure service opens up more profitable sales markets in the end.

¹² See: Kyngé, James: A tale of two harbours tells best and worst of China's 'Belt and Road'. In: Financial Times, 25.09.2018. (<https://www.ft.com/content/7699d13a-806a-11e8-af48-190d103e32a4>) and European Bank for Reconstruction and Development: China and South-Eastern Europe. Infrastructure, Trade and Investment Links. p. 2.

Further going, the solely national promotion of harbours alongside the Baltic Sea shore is causing a growing concurrence between the Baltic States, most visibly in the struggle of Latvian Riga/Ventspils with Lithuanian Klaipėda regarding future connections to trans-European energy and transportation lines.

China's so-called 'railway diplomacy' in the Baltic and Western Balkans States is currently most observable in two different projects:

"The high-speed rail project *Rail Baltica*, which will connect the three Baltic capitals with Warsaw, will have a logistical terminal in Salaspils, near Riga, that will transfer containers from the European-gauge rail system to the Russian-gauge rail system. This creates an additional opportunity to channel goods from the Baltics to China."¹³ Considering this trade route in reverse, Beijing is therefore looking to gain diplomatic access to the high-profile European transport project. For this, a symbolic first trans-Eurasian freight train, carrying 84 containers from Yiwu, arrived on time at Riga Central Station for the 2016 '16+1' summit in the capital of Latvia. Latvian Politicians had already worked on a "privileged relationship with China"¹⁴ since the 2000s to promote the country as a transcontinental transport hub.

The Belgrade-Budapest high-speed railway on the other hand lacked international investment interest for a long time, as did further Serbian projects. Only the successful completion of Belgrade's new Danube bridge secured the future financing of the railway junction from the Western Balkans into the European Union. However, this very territorial integration into Hungary caused the works to a halt. The government in Budapest is now facing an infringement case from the European Commission against itself for a non-public tender invitation of the train route.

As by that both of these transportation flagships are still unfinished, one has to look further eastwards for first results of New Silk Road transportation on the rails - to the many train routes through Central Asia: Freight trains can nowadays choose between the routes of Chongqing–Duisburg, Chengdu–Lodz, Zhengzhou–Hamburg, Warsaw–Suzhou or Yiwu–Madrid which are mainly following the exact same rail line through Russia and Kazakhstan in their geographical centre. All these connections are possessing a low economic performance

¹³ Gubins, Sergejs: *The New Silk Road: Latvian Branch*. In: Certus Think Tank. Riga 2017. p. 13.

¹⁴ Scott, *ibid.*, p. 28.

as half of all freight trains return empty to China and the countries bordering the route are being left out of their direct global value chain.¹⁵

Compared to maritime transport, the uneven Chinese import-export balance and the high number of involved operators are creating much larger transportation costs on the rail and thus leave railroad exports almost insignificant. Finally, the many infrastructure agreements are yet primarily securing economic growth of the local Chinese high-speed train industry through a full order book in the upcoming years.¹⁶

China's infrastructure consolidation in the Western Balkans is largely increasing national debt and challenging in particular the smallest economies of the region. Paired with the instable local political circumstances and a general pull-out behaviour of Chinese investors for risk aversion, the unusual flow of money creates great internal challenges for governments of the region: While the former North Macedonian prime minister had already stumbled over a corruption scandal partially tied to a Chinese highway project, Montenegro recently had its international credit rating downgraded due to high debts for another risky Chinese highway project and might even miss its financial fulfilments of EU accession requirements.

Current Issues & Future Solutions

Especially Beijing's debt policy in South-Eastern Europe presents China as a negative player in the region as it poses a substantial threat to the EU accession and the Berlin Process.

In general, the European Union and its largest member states still seem to be sitting on the side table of the '16+1' initiative - regardless of Chinese soft balancing. Although both sides might be profiting from a closer future cooperation, for example in the fields of multilateral geopolitical security or climate protection, China's 'singling out diplomacy' is seemingly creating a negative centrifugal force. The 'Chinese Model' further encourages countries with existing authoritarian tendencies like Poland or Hungary and more frequently prevents a common European position regarding subjects such as the Tibetan question or the South China Sea dispute.

¹⁵ See: Makocki, Michal: One-Way Train from China to Central Europe.

In: Andžāns, Māris (Ed.): Afterthoughts: Riga 2016 International Forum of China and Central and Eastern European Countries. Latvian Institute for International Affairs, 2016. and Gubins, ibid., p. 13.

¹⁶ See: Kratz, Agatha; Pavličević, Dragan: China's High Speed Rail Diplomacy: Riding a Gravy Train? In: Lau China Institute Working Paper Series. London 2016.

China's fundamental dilemma with '16+1' remains political diversity: Despite its differing rhetoric, Beijing shows low interest in deepening the regionalisation of the format. Although regional groupings such as the Visegrád Four already exist, own attempts at shaping smaller dialogues inside the initiative have generally failed and only created further concurrence between the members.

At this point, other emerging regional powers and organisations place themselves in position: The Polish initiated *Three Seas Initiative* might become a challenging alternative model to '16+1' as it is both providing funding for new North-South networks which will connect existing routes and full institutional integration of the European Union's financing instruments - Beijing's two weak points.

Especially in Serbia and the Bosnian Republika Srpska, an economic confrontation with the existing Russian investment regime seems inevitable in the long term. At the same time, Chinese military cooperation with Moscow is highly concerning NATO members bordering the Russian Federation, as their joint military exercise *Joint Sea 2017* has shown.

For the Baltic and Western Balkans States, the stage of '16+1' promises two different roles as regional 'laboratories' for greater Chinese global policy.¹⁷ They are providing a small and relatively secure frame for future strategies alongside the New Silk Road:

Despite their relative international unknownness and their geographical position inside the "Baltic cul-de-sac"¹⁸, Estonia, Latvia and Lithuania are promoting themselves as future high-tech hubs with some of the world's highest innovation indices.

Compared to the Baltic pragmatism and entrepreneurship, the Western Balkan countries are confronted with significantly more internal problems and general structural deficits. Regarding their lesser developed stage in comparison to the European Union members of the initiative, Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia can serve China as a northern development laboratory for global South-South cooperation on an elevated level. The build-up of a 'Balkan Silk Road' will challenge Beijing's capability of dealing both with more difficult political partners in a rather unstable environment and historical external actors like Turkey and Russia.

¹⁷ Vangeli, Anastas: 16+1 as a Laboratory: Lessons China's New Relations with CESEE Can Teach Us about the Future of the Belt and Road Initiative. In: Ping, Huang; Zuokui; Liu (Hrsg.): How the 16+1 Cooperation promotes the Belt and Road Initiative. Peking 2017. p. 1.

¹⁸ Bērziņa-Čerenkova, Una Aleksandra: China's New Role in the Baltic States. In: FPRI Baltic Bulletin, 30.01.2018.

At the same time, a renewed workbench process through outsourced production and creation of an enlarged low-wage system in the already challenged Western Balkans has to be avoided. The New Silk Road connection with rising cheap wage countries in Central Asia will already challenge European Union members of '16+1' with large production sectors in the first place. Furthermore, the CEEC should act rather cautious regarding cooperation with the People's Republic in high-tech and security sensitive areas such as data processing and tracking.¹⁹

Future cohesion inside the '16+1' initiative should strongly be based upon an expanded 'institutions building':

A new cooperation on local levels, for example throughout the *European Local Government Units*, together with leaderless negotiations, offside the highly symbolic and formal political communiqués of the annual summits, would further strengthen the initiative. This would provide both a higher visibility of Chinese effort, especially in economically weaker regions, and a higher substantial expertise.²⁰

Finally, multiple integrational speeds - adapted to the individual needs of '16+1' members - will need to be provided too. Beijing should embrace the diversity of the group instead of seeing their differing positions as a general rejection of its diplomatic policy.

Conclusion

Growing global interdependence continues to blur the lines between the forces of modernisation. Especially America's estrangement with multilateralism in the last years poses the question whether the United States or China is playing the global revisionist. Nevertheless, Beijing's "leadership by default"²¹ is still caught in the middle of revisionism and status quo; its global political role jumping back and forth between developing country, emerging great power, established economic power and regional power.²²

¹⁹ See: Scott, p. 34.

²⁰ See: Hackaj, Ardian: China in Europe: A View from the Balkans. In: Ping, Huang; Zuokui; Liu (Eds.): How the 16+1 Cooperation promotes the Belt and Road Initiative. Beijing 2017. p. 104. and Pendrakowska, Patrycja: A Balancing Act: The 16+1 Cooperation Framework. In: Institute for Security and Development Policy, Policy Brief 202, 2017. p. 1.

²¹ Chan, Gerald: Understanding China's New Diplomacy. Silk Roads and Bullet Trains. Cheltenham 2018. p.117.

²² See: Zonglei, Wei; Yu, Fu: China's search for an innovative foreign strategy. In: Contemporary International Relations (2/21).

If Beijing wants to convince its critics, it needs to promote internal and external transparency as well as moral reciprocity like core values - not only in '16+1' but for the New Silk Road as a whole. Keeping up too close with strategic games and security threats as well as fuelling uncertainty regarding its own internal economic development, will only scare off potential partners and harm the bigger picture of actual peaceful development.

Regarding the relations with Europe, a mutual relationship has to be held up and common middle grounds have to be found between an overeager and a fragmented global actor. While the European Union shouldn't blame China for stepping in a lucrative regional investment void, Beijing should recognize Brussels' important role as a background player in structurally and economically stabilising its hand-picked diplomatic partners.

In an easternising world, Europe as a continent on the verge of global descent would largely profit from a newly blossoming Silk Road with its many undiscovered Eurasian markets. The best moment to develop a new post-Atlantic Far East policy appears to be right now.