



EASC

Eastern Europe Studies Centre

RAIGIRDAS BORUTA

CHINA'S INTERACTION WITH CENTRAL AND EASTERN EUROPE: RELATIONSHIPS AT CROSSROADS?

POLICY PAPER

EASTERN EUROPE STUDIES CENTRE

November 2021



RAIGIRDAS BORUTA is an Associate Expert at the Eastern Europe Studies Centre (China Research Programme) and a PhD candidate at the Institute of International Relations and Political Science of Vilnius University. He holds a Bachelor's degree in Asia Pacific Studies (Chinese studies programme) from the University of Central Lancashire (UK). In 2020, Boruta earned his Master's degree in International Relations from Sichuan University (China).

Summary

- China's interaction with CEE region and the objectives of its model of cooperation it formulated were premised not only on economic diversification but also on increasing Beijing's political (normative) influence. The ineffectiveness of the mechanism for interacting with Central and Eastern Europe was attributable to the fact that China's region-formation in the region revolved around historical and ideological considerations (a region with a socialist past) and a peculiar perception of the region as easily manipulable. Against the backdrop of Xi's more assertive foreign policy, China's region-formation strategy and efforts to expand political and economic influence have turned against it, with several CEE countries becoming some of the most vocal critics of China in the West.
 - Contrary to what is often said in the West, the claim that China is "buying up" the region is not factually correct. China's economic footprint in the region is rather minimal, with the exception of its greater dependence on imports and – in the case of the Western Balkans – loans. Although CEE countries have declared their support for China's Belt and Road Initiative (BRI), many of them have zero BRI projects implemented.
 - Lithuania's position on China has set a precedent that is rather unpleasant for larger countries. However, Lithuania's criticism towards China also reflects the disappointment shared among increasing number of CEE countries regarding the progress of cooperation and the increase of Beijing's influence.
-

-
- There is no doubt that the format for China-CEE cooperation is undergoing an existential crisis. It is likely that some countries within the format may follow Lithuania's lead; at the same time, however, one may observe China getting more actively engaged in dialogues with other CEE countries and making effort to gain more foothold in the region.
 - The EU's policy on China of the last few decades has revolved around economic pragmatism. However, more and more EU Member States have recently been expressing concern about China's growing influence and global ambitions. The EU's policy on China is beginning to change, several CEE countries are playing an increasingly important role in this resetting of bilateral relations. However, China continues to make active efforts to strengthen its relations with EU Member States – especially Hungary and Greece and, in part, Poland, – which signals that the formation of a more unified EU policy on China is rather unlikely.
 - The issue of Taiwan is gaining new relevance and importance in the West. The enthusiasm of EU Member States to maintain closer ties with Taipei is reflected in the increased frequency of meetings with Taiwanese representatives. This transformation inside the EU is undoubtedly being driven by the CEE region, especially Lithuania, Slovakia, and the Czech Republic. However, discussions on Taiwan often step outside the bounds of economic cooperation, this particular area is becoming an increasingly important point of friction between the EU and China.
-

Introduction

Active interactions between China and Central and Eastern Europe (CEE) started only as recently as the previous decade. Initially, China's "16+1" format for cooperation with the region was based on mutual economic interests. However, when Xi Jinping came to power and made a push for a more assertive foreign policy, this cooperation mechanism became a means of pursuing not only economic but also political and normative goals. Almost a decade in, most CEE countries were left disappointed: China's economic promises have not been fulfilled, investments have been distributed very unevenly, and trade deficits have soared. This was the impetus for calls to review the EU's China policy, with several CEE countries becoming the driving force behind the efforts to reset the bloc's relations with China.

This analytical study aims to assess the overall situation of CEE-China relations. Though there are several different definitions of CEE in the literature, this paper adopts the Chinese definition of the region, as reflected in the "17+1 format" (or "16+1", after Lithuania's withdrawal from it). The region encompasses Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia, Hungary, Bulgaria, Romania, Bosnia and Herzegovina, Montenegro, Croatia, Greece, Albania, Serbia, and North Macedonia. Though this definition may not be geographically accurate, the experience of CEE countries and their interactions with China do share some key similarities and points of contact, their analysis enables an in-depth look at the policy China pursues in the region.

1. Overall historical context and development of China-CEE relations

China's long-standing *Taoguang Yanghui*¹ diplomatic strategy, launched by Deng Xiaoping, the architect of modern China, was responsible for the country's passive and careful participation in the international arena. From the 90s onwards, Beijing mostly focused on periphery diplomacy. This strategy was inseparable from Beijing's endeavour to modernise China, where a stable and non-confrontational neighbourhood was necessary to ensure country's uninterrupted economic growth. However, as the fifth generation of leaders came to power in 2012, with Xi Jinping at the forefront, China's diplomatic strategy was fundamentally transformed. Xi's *Fenfa Youwei*² foreign policy strategy changed China's diplomatic behaviour and accentuated Beijing's global ambitions, as evidenced by, for example, China's massive infrastructure project, the Belt and Road Initiative (BRI). China became far more active and aggressive in both its rhetoric and actions (as evidenced by, for example, its so-called "Wolf-Warrior Diplomacy", which was pursued very actively during the pandemic). Moreover, Beijing became much more actively engaged in region-specific formats (viz. "16+1" in CEE, FOCAC in Africa, and China-CELAC in Latin America). Although the China-CEE cooperation format was launched by Xi's predecessor Hu Jintao, its significance and importance undoubtedly increased after Xi's rise to power.

Mechanism of the China-CEE cooperation: The "16+1" format

The formation of China's regionalism strategy in CEE was strongly influenced by historical ties with the region and a shared socialist past. From the 1950s up until the collapse of the Soviet Union, a number of CEE countries in the Socialist bloc maintained close ties with China. After the fall of the Iron Curtain, such bilateral relations were a priority neither to

China, nor to CEE countries (China focused on major Western countries and its neighbours, while the majority of CEE countries turned to the West seeking to join the EU and NATO). In the aftermath of the 2008 global financial crisis, however, the interest in each other started growing: CEE countries and China sought new alternatives for economic diversification. In 2011, an important breakthrough in the development of China-CEE relations was reached. Wen Jiabao, China's then-prime minister, delivered a speech in Budapest, where he proposed the idea of creating a cooperation format that would open a new page in

China-CEE relations. The first summit of China and 16 CEE countries took place in 2012 in Warsaw. CEE countries joined the format almost exclusively for economic reasons: the need to restructure CEE countries' economies arose from the fact that the region had found itself highly dependent on investments from the West, and China's interest in the region therefore appeared very attractive. However, once Xi Jinping took office, China's attitude to the "16+1" format changed. China's decision to get actively involved in this cooperation mechanism was motivated by both economic and geopolitical calculations:

China within the "16+1": motives and goals

Political (normative)	<ul style="list-style-type: none"> a. Projection of political power. Expanding the "diplomatic friends" network; strengthening of the country's position as an emerging global leader and increasing its economic leverage; b. Normative: Promoting China's economic and political model, ("The China solution"), the building of the "Community of Common Destiny for Mankind" and scaling up BRI projects in the region.
Economic	<ul style="list-style-type: none"> a. Economic diversification: global financial crisis had a serious impact on Western Europe, China's main partner, and economic diversification towards CEE was therefore a rational decision; b. The surplus capacity of China's construction sector: with the slowing down of domestic construction projects, China was experiencing a surplus construction capacity, and one way to resolve it was to develop construction projects abroad. The poor state of infrastructure in CEE countries attracted the attention of Chinese construction companies, who perceived those countries as potentially profitable markets.

Nevertheless, China's decision to build a cooperation format around 16 countries united only by their socialist past was not a rational one and had a negative impact on its effectiveness. Disparities between the 16 countries (or 17, after Greece came on board in 2019) are clear: there are significant historical, cultural, political and economic differences, with glaring disparities in their economic development. The potential for regional cooperation with CEE is also limited by the fact that 12 of the countries are EU Member States and 5 (the Western Balkans countries, 4 of which are official Candidate Countries) are not. This has a fundamentally limiting effect on the practical benefits of the format (for example, EU Member States must operate within the legislative framework of the EU, while non-EU countries have far more freedom in their decision-making).

Transformation of China-CEE cooperation format

China's "16+1" cooperation format was put together as the main and most palatable form of cooperation with CEE countries. Even though the format is meant to bring those countries together, the main acts of cooperation take place via bilateral channels, which has also led to inconsistencies in both its effectiveness and the benefits it brings (with Serbia and Hungary being the largest recipients of Chinese investments). In other words, this format is a China-led "multilateral bilateralism", where factual cooperation takes place on the bilateral level. This indicates the absence of a coordination mechanism, which would allow members to form a joint position on issues that arise and work together to resolve them³.

In its early stages, the "16+1" format was all about the positioning of China as its leader.

- China's insistence to position itself as the agenda setter (the first documents within this format reflect this goal especially clearly).
- Its secretariat was established in a department of the Chinese Ministry of Foreign Affairs (with representatives elected by member countries playing only limited roles).
- The format is used for political gain (the priority level of the format changes as needed; for example, in 2018 there was a talk of switching to biennial "16+1" summits⁴).
- China's efforts to further promote its own political goals became apparent in the early days of the format's existence (with China actively attempting to push the Chinese narrative).

Nonetheless, the initial concept for the format was undergoing significant changes from its very inception, partly due to the desire of participating countries to have more say on the format's goals and the way cooperation was to develop. But the fundamental changes occurred due to pressure from the EU, stemming from its concern that this region may become China's Trojan horse in Europe.

From the very beginning, the EU was suspicious of this newly formed platform, which it saw as China's attempt to use the "divide and conquer" strategy to influence and soften the EU's stance on China. The EU's largest Member States were especially concerned about the format's move towards institutionalisation that was taking place after its inception: for instance, the "16+1" Secretariat was established in a department of the Chinese Ministry of Foreign Affairs, which was responsible for organising meetings and preparing the content of joint declarations. The EU expressed its concern about further institutionalisation, which may negatively impact its overall policy towards China. Also worrying for the EU was a potential conflict between decisions within the format and EU law, as it comprises both EU Member States and countries outside of it.

The Bucharest Guidelines⁵, adopted after the 2013 Bucharest Summit, reflected the extent of the EU's influence on the mechanism. The joint declaration referred to the "China-EU relations" five times, strongly emphasising that this format is in line with the joint principles of the China-EU bilateral relations. The document also stresses that "China-[CEE] cooperation is in concord with China-EU comprehensive strategic partnership", while also

assuring that the format promotes “all-round development of China-Europe relations and agreed that China-[CEE] cooperation conforms to the respective features of development and cooperation needs of China and [CEE countries] and meets the common aspirations and interest”.

2. The China-CEE economic cooperation and the emerging points of friction

CEE countries' interest in the China-led cooperation format and the BRI, in contrast with China's, was based purely on their economic interest by way of a potentially easier access to China's vast market, coupled with China's expressed willingness to invest in the region⁶. Prior to the appearance of this mechanism for cooperation, China's economic footprint in CEE had been negligible, with the country focusing mostly on more economically developed countries in Western and Northern Europe. However, almost a decade into more active interaction and cooperation, the economic hopes of most of the CEE countries have not come to fruition. Closer cooperation, initiated in 2012, gave ground for high hopes. Against the backdrop of persisting economic disparities between Eastern and Western Europe, the potential of China's BRI generated a lot of enthusiasm from CEE countries to sign memorandums of cooperation regarding the support for this China-led mega project (see Fig. 1). The "16+1" mechanism was also eventually seen as a part of the BRI.

However, in many BRI-supporting countries no projects on the ground have actually been started, with the signed memorandums only serving as a symbolic expression of support.

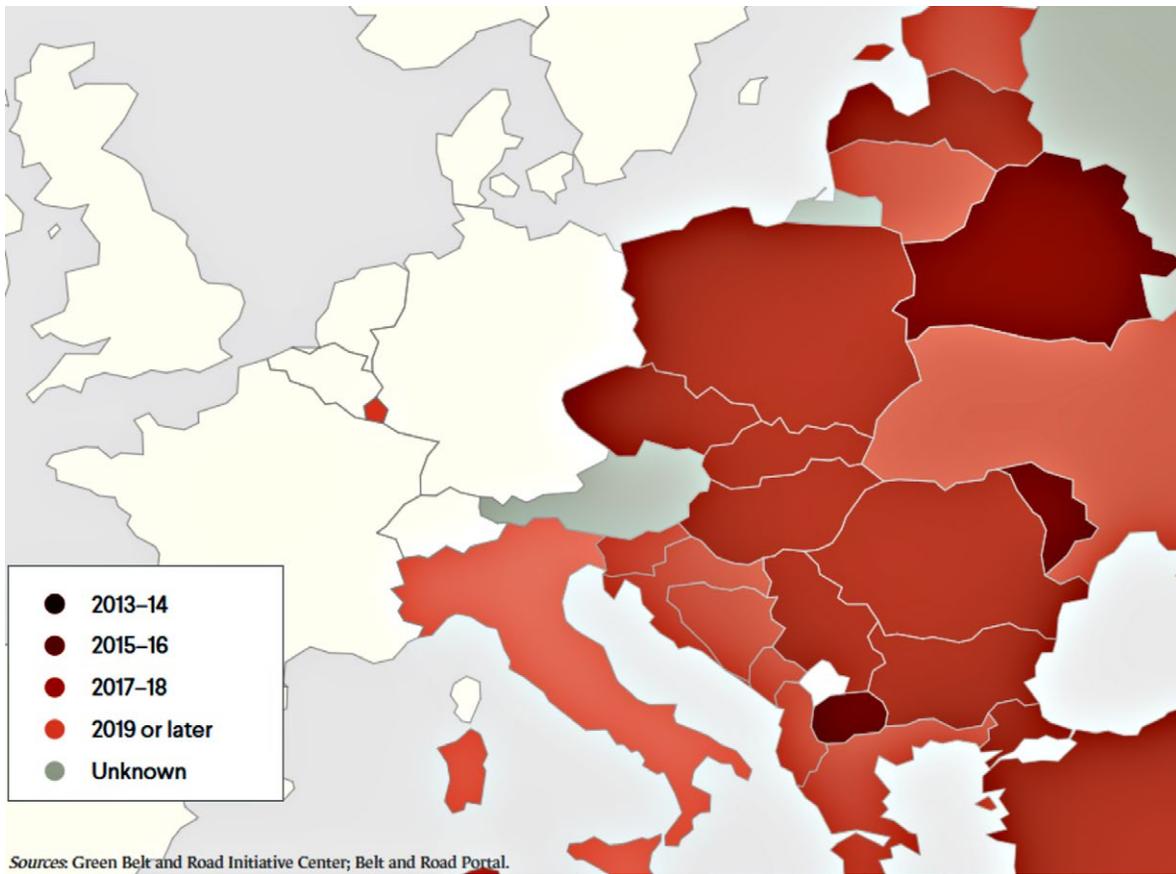


Fig. 1. Signing of agreements of support for China's BRI in the CEE region by year.

Source: Green Belt and Road Initiative Center, Council on Foreign Relations⁷

China's investment footprint in CEE: Emerging challenges and threats

China's promises about potential investments in the region were one of the reasons why the CEE countries decided to join the cooperation format. However, it is readily apparent, in hindsight, that direct investments were

distributed very unevenly during the period between 2012 and 2020. There is a clear long-term trend: Countries expressing a pro-China position or at least remaining neutral towards it in the international arena are also the main recipients of Chinese investments. This can be seen in China's investment data for 2020, where Serbia and Hungary outdo others in the region in terms of Chinese investment they received:

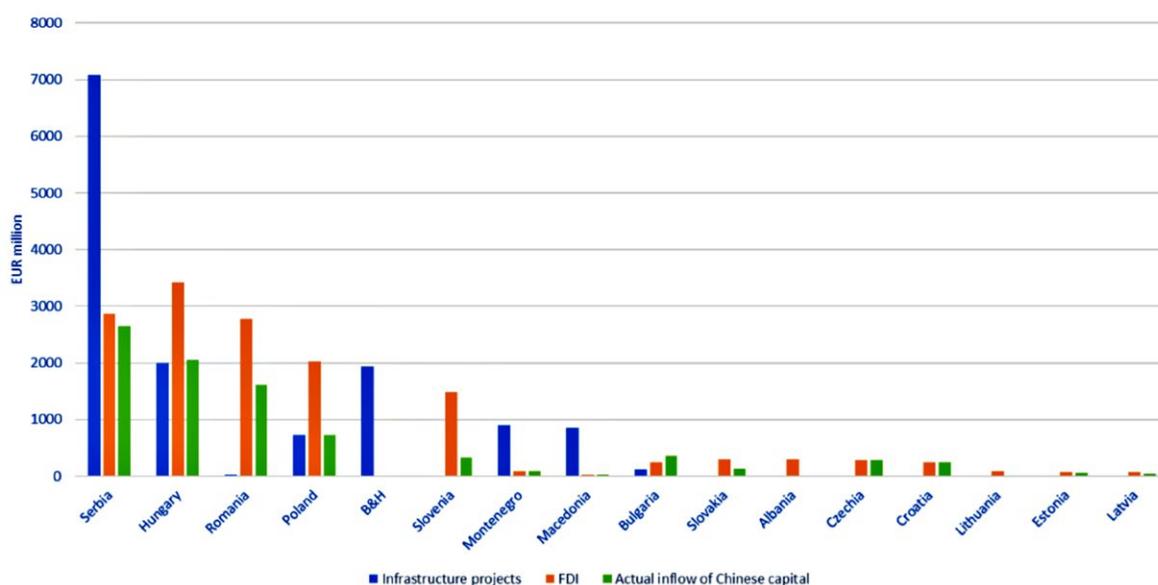


Fig. 2. Chinese investments in the region by category: infrastructure projects (blue), foreign direct investments (orange), actual inflow of Chinese capital (green) (2020).

Source: CEECAS⁸

Data from 2000-2019 on the total value of Chinese direct investments in different EU Member States also indicates Chinese investors' highly uneven and not significantly increased attention to CEE in comparison with Northern and Western Europe:

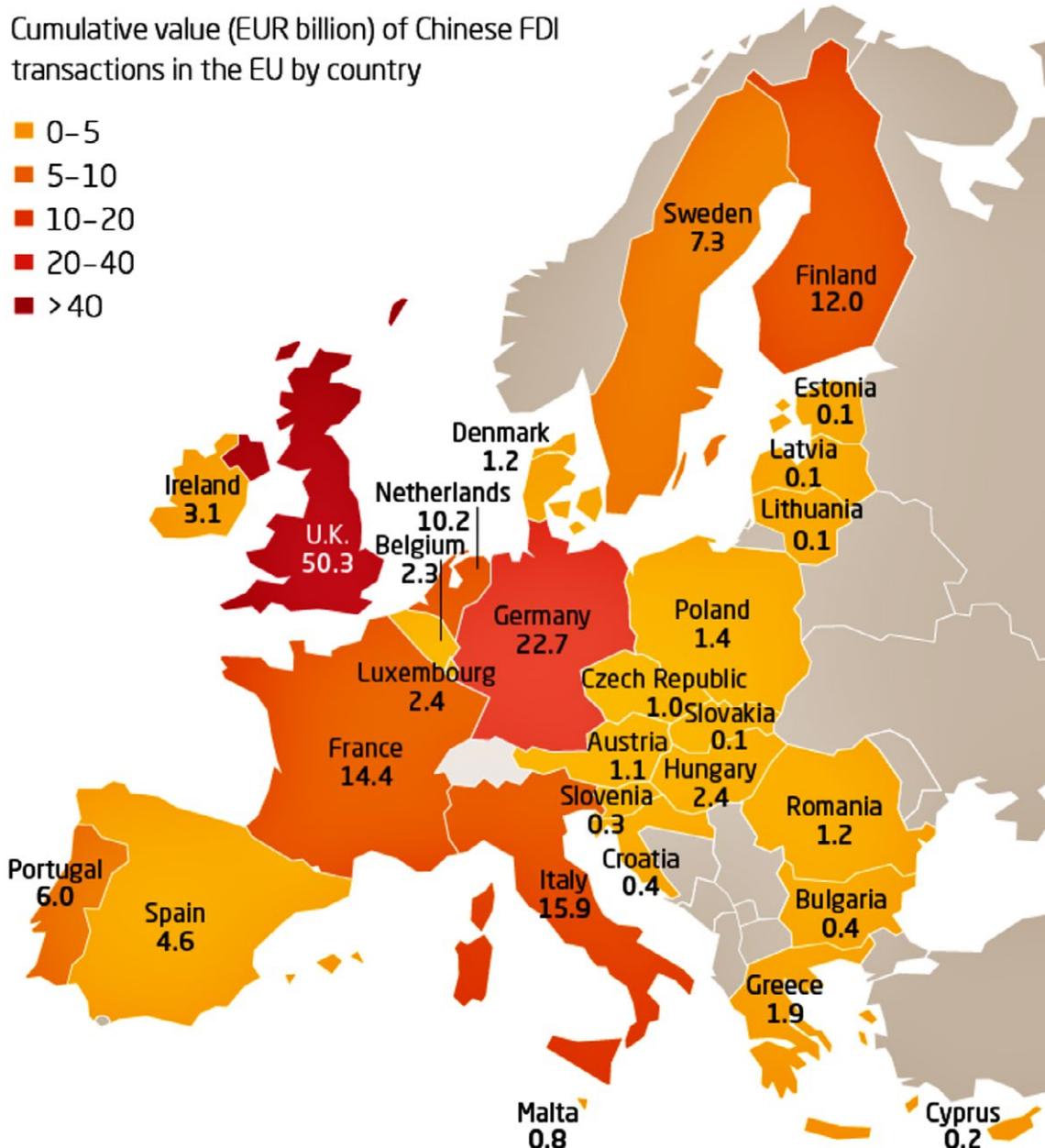


Fig. 3. Total value of direct Chinese investments in EU countries between 2000 and 2019 (in billion euros).

Source: Merics⁹

Serbia, Hungary, and Romania are the countries that managed to attract the largest investments from China, with Lithuania, Estonia and Latvia having the smallest Chinese investment footprint. Some 80 per cent of Chinese infrastructure investments go to the Western Balkans, with most projects (around 80 per cent) being financed through loans from China¹⁰. The direction of investments is also uneven, with infrastructure investments taking the lead in Bosnia and Herzegovina, while Chinese direct investments dominate in Hungary. Across the EU as a whole, the total value of investment per country in 2000-2019 indicate one unchanging trend: Western European countries continue to be the main recipients of Chinese investments in Europe. However, despite the fact that some CEE countries continue to hope for more attention from Chinese investors, the US-led discussions about Chinese investments and their potential security implications were part of the reason why many of CEE countries decided to update their legal frameworks so as to introduce additional safeguards and checks for any new investments.

CEE countries have differing opinions on Chinese investments: Some are rather suspicious of China's investment strategy, but a few of the less developed countries, often with higher levels of political corruption, enthusiastically welcome the Chinese capital, which, at least on the surface, appears easily accessible. The issue of a "debt trap" laid by Chinese investments has already been raised in relation to the situation in Africa (for example, Chinese loans comprise a third of Kenya's total debt, with debt administration becoming more and more of a burden, and transferring the administration of the Port of Mombasa, East Africa's largest port, appears to be a not

so distant possibility). In Europe, the case of Montenegro appears to be a typical example of China's "debt trap diplomacy".

Montenegro's debt in 2020 comprised 103 per cent of the country's GDP of which the Exim Bank of China owns 17 per cent of Montenegro's debt. In 2015, a project was launched to construct a 41km section of a highway, with an estimated worth of \$943 million. From the very beginning, experts doubted the project's economic viability and Montenegro's capacity to administer the debt. In the very first repayment of the loan, Montenegro had no alternative but to turn to the EU for help¹¹. As per the project contract, in case of a default, the Chinese company would be able to acquire land in the country¹². However, due to the joint effort by the EU and the US, Montenegro has been able to make the first repayment on time¹³.

Although the extent of China's BRI activities in CEE is fairly minimal, Beijing is increasingly setting its sights on Hungary, which it hopes to turn into a key logistic hub. An infrastructure project partly within the EU and worth some \$2 billion, which has drawn a lot of attention and is considered by China "the first major infrastructure project in Europe for China's Belt and Road Initiative and the second most expensive infrastructure project in Hungarian history"¹⁴, is that of a railway line linking the Hungarian and the Serbian capitals. The 350km long Budapest to Belgrade high-speed railway was kick-started in October of this year. The agreement, concluded in 2019, was never made public, so no details are available, but it is believed that up to 85 per cent of the project cost will be covered by a loan from China. According to Chinese media, this railway link plays a key role in supporting China's global ambitions in Eu-

rope and is part of China's larger plan for CEE, of linking the region's capitals with the China-controlled Piraeus port. The port, undoubtedly, is an important strategic win for China;

moreover, a report came out at the end of October, stating that China's COSCO managed to increase its share to 67 per cent¹⁵.



Fig. 4. Railway link to the Piraeus port in Greece that China plans to build.

Source: Clingendael

China-CEE trade relations: China's actual economic influence and leverage

Viewed from a historical perspective, economic cooperation between China and CEE has indeed intensified, but not to a significant degree: China has increased its influence in the region to 1.25% of the CEE economy (an increase from 0.46% in 2009)¹⁶.

Country	China as an export partner (% of all exports)	China as an import partner (% of all imports)
Poland	19 (1.2)	2 (15)
Estonia	14 (1.7)	2 (9.9)
Latvia	20 (1.2)	7 (4.2)
Lithuania	22 (1.1)	7 (4)
Czech Republic	17 (1.4)	2 (18)
Slovakia	10 (2.7)	3 (7.4)
Hungary	15 (1.7)	2 (7.8)
Slovenia	23 (0.85)	5 (7.4)
Albania	9 (1.83)	4 (8.92)
Bosnia and Herzegovina	30 (0.2)	5 (8.1)
Greece	11 (2.8)	3 (8)
Montenegro	5 (6.7)	2 (10)
North Macedonia	8 (2.5)	4 (6.9)
Bulgaria	8 (2.8)	7 (4.6)
Romania	17 (1.3)	4 (6.3)
Croatia	27 (0.5)	6 (4.7)
Serbia	17 (1.9)	2 (13)

Fig. 5. Trade relations between CEE and China in 2020.

Source: UN Comtrade and Trading Economics¹⁷

China's regionalism in CEE is often viewed as an instrument for spreading its influence and increasing its economic leverage. However, as became apparent in the last conflict between Lithuania and China, its ability to ex-

ert actual economic pressure is very limited. China's position as an export market for CEE is negligible. Although the closer China-CEE cooperation from 2012 onwards allowed for an increase in export volumes, the 2020 data

shows that CEE exports to China remain minimal. According to the export statistics, China is among the top 10 export partners in only 5 countries (China's position is the highest in Montenegro, where it ranks 5th, taking up to 6.7 per cent of the country's exports). In Bosnia and Herzegovina, China ranks only as the 30th export partner with a 0.2 per cent share of the country's total exports. Although China's vast market is very attractive, the unfulfilled expectations and difficult access to it almost a decade in meant that the CEE countries were able to maintain independence from exports to China.

Somewhat less attention is paid to the imbalance of China-CEE trade: While there was little change in export volumes, imports increased

significantly, which resulted in an ever-growing bilateral trade deficit. According to data for 2020, China is among the top 10 import partners in every CEE country. The region is far more dependent on imports from China, with it ranking second in terms of import volumes in six countries (Poland, Czech Republic, Estonia, Hungary, Montenegro and Serbia). The lowest dependence on imports from China is observed in Lithuania, Latvia and Bulgaria, where China ranks 7th. Their low dependence on both imports and exports is also reflected in these countries' more assertive foreign policy towards China: They were among the most open sceptics of the "17+1" format, sending lower-ranking representatives to the 2021 Beijing summit with Xi Jinping.

3. China-CEE relations at crossroads: Challenges and prospects for the future

The confrontation between China and the US, which intensified in 2018, and Trump administration's active effort spurred active discussion in the West regarding the potential harm from China's growing influence and investments. China's adoption of a more active foreign policy, with unhesitating use of economic and political instruments of pressure at its disposal, had a negative effect on CEE countries' perception of China. Lithuania's statement of its position regarding China prompted more thorough discussion in the West on the future of its relations with China. Developments in the region and the increasingly outspoken criticism of China's foreign policy indicate that China-CEE relations are at crossroads. Interestingly, despite China's concerted efforts and the political and economic capital it invested in CEE, several countries in the region are among the most vocal critics of China on the continent, becoming, by the same token, a highly important driving force behind the calls for resetting of relations between China and the EU.

Future of China-CEE cooperation format: "16+1" or "27+1"?

Lithuania's withdrawal from the format sparked new discussions about China's policy in both CEE and the EU as a whole. With that said, despite active internal debates about the usefulness and meaning of the format, there are no clear signs that other countries might be following Lithuania's example so far¹⁸. One possible reason behind this is that China's interactions with CEE, the region which at times felt being pushed to the bottom of the EU agenda, draw more attention to it

from the West and the EU, and stimulate discussions on ways to address various issues in the region. In other words, participating in the China-led format helps to strengthen the bargaining power of the CEE countries in discussions with their Western allies. Domestically, the format also brings significant benefits, demonstrating autonomy over country's foreign policy and the ability to interact with the Asian giant. Despite the fact that no other member of the format followed Lithuania's example, dissatisfaction with the "16+1" mechanism is palpable in other CEE countries, too. This was also reflected in this year's China-CEE summit, which demonstrated that the format is undergoing an existential crisis.

To neutralise the region's growing dissatisfaction with the format, the virtual 2021 Beijing Summit was upgraded, with president Xi Jinping himself representing China for the first time in the format's history. However, this move to demonstrate the region's importance to China was to no avail, as six countries (Lithuania, Latvia, Estonia, Bulgaria, Slovenia, and Romania) decided to send their lower-ranking representatives. Another distinguishing feature of this summit was the absence of the summit guidelines, a document traditionally issued during each summit. In addition, no venue for the next year's meeting was announced this time, either. Although these changes did in fact make the region's analysts question the future of the format¹⁹, knowing the extent to which Xi Jinping is personally invested in this format, a decision to abolish the mechanism seems highly unlikely. The first signal of China's efforts to stabilise its relations with CEE and save the format is Beijing's more involved communication with the region's leaders (on 1 March, right after the Beijing summit, for example, Xi spoke to

Polish President Andrzej Duda about the need to strengthen the China-CEE cooperation). On 27-29 October, China's Minister of Foreign Affairs was visiting Europe²⁰, stopping by in Greece, Serbia, Albania and Italy as part of an effort to stabilise respective bilateral relations and, according to Chinese media, "to address any misunderstandings that arose between China and the CEE countries" (with the exception of Italy, all the countries he visited were members in the "16+1" format).

China's interactions with CEE region are often seen as eroding the unity of EU Member States with respect to China and negatively affecting the prospects of the EU membership-seeking countries in the Western Balkans. To address this issue, during Germany's Presidency of the Council of the European Union, a proposal was made to hold a summit between China's and EU Member States' heads of state in Leipzig on 14 September 2020. However, the summit was cancelled due to the Covid-19 pandemic. Lithuania's departure from the format and active calls in the EU to initiate cooperation with China within the "27+1" format has had a fairly positive reception in Europe. This idea continues to be relevant to the European Council, which is attempting to formulate a firmer, unified EU policy on China²¹.

The prospects of the format remain cloudy (as Beijing may choose to downgrade its importance), but it is likely that China will try to save it. Despite its varying levels of effectiveness, this model does help further China's political agenda and often helps it on the international arena (see the map below).

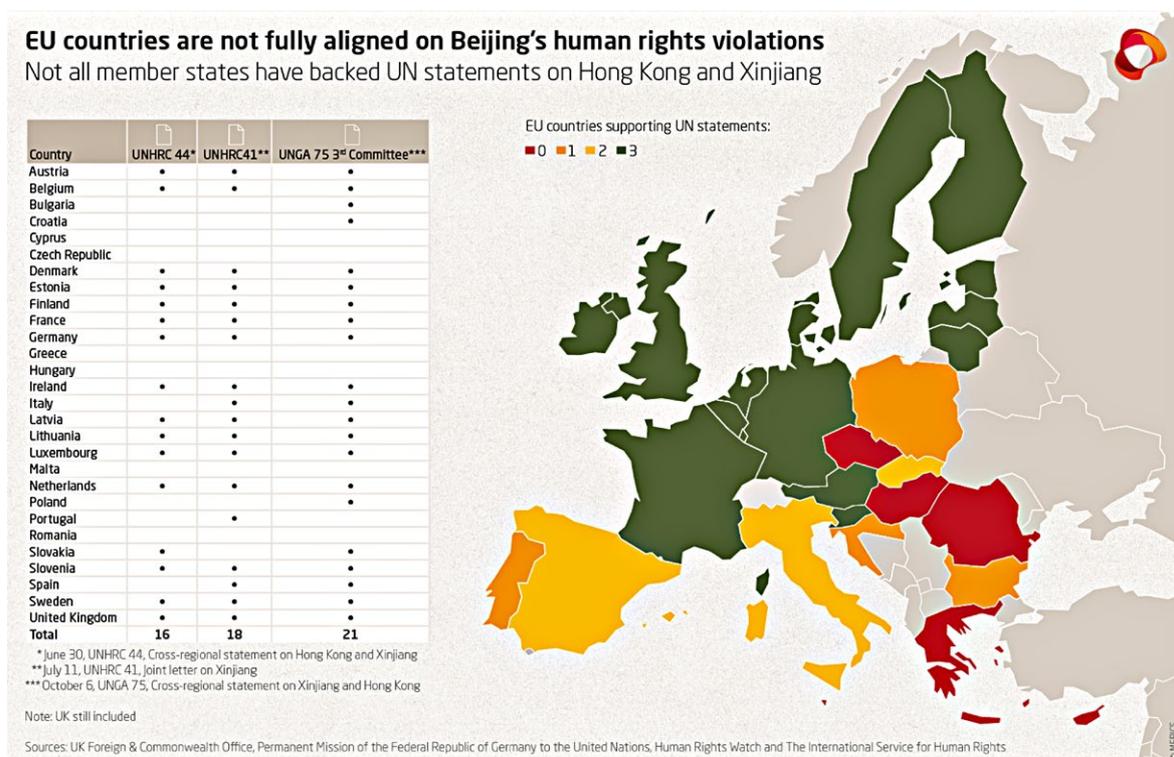


Fig. 6. EU Member States' support for three UN statements on human rights violations in Hong Kong and Xinjiang.

Source: MERICS²²

Looking at the ongoing internal debates in EU Member States, it seems possible that some of them may follow Lithuania's lead. When it comes to China's response, it is likely that the format will undergo a transformation into a "club" of China-friendly European countries (Belarus's participation in the China-CEE summit as an observer might indicate the possibility of its membership in the future). In light of the dissatisfaction with the lack of Chinese investment in CEE, Beijing may elect to increase its economic influence in the region to keep its countries interested and mitigate the increasingly negative views.

Additional security safeguards and the decoupling of Chinese investments from the strategic sectors

Recently, a lot of attention was paid to devising additional security safeguards and protecting strategically important sectors against less reliable investors. The extensive efforts in this area are not meant to suggest, however, that all Chinese investments are harmful, but these additional safeguards are essential to ensuring transparency and keeping investments in line with national security

interests. A study by the Bulgaria-based Centre for the Study of Democracy²³ shows that the growth of Chinese investment is directly linked to the deterioration of governance and legal standards.

Certain investments in CEE and the Western Balkans in particular are sometimes referred to as “corrosive capital” due to its lack of transparency, market orientation and accountability. This results in uneconomical projects being implemented (take, for example, the infrastructure projects in Montenegro), which increases the country's debt and deepens its burdensome financial obligations to China's financial institutions²⁴. This strategy can also be used to affect decision makers by means of targeted investments (e.g. China's investments in the Czech Republic and Slovakia in order to increase its influence in the domestic media²⁵).

CEE countries increasingly see it a priority to ensure that investments are safe and meet national security requirements. Examples are growing in number. In May 2020, Romania cancelled its deal with China to build a nuclear power station²⁶ and telecommunications infrastructure²⁷; in early 2021, Lithuania blocked the use of scanning equipment manufactured by the Chinese company Nuctech in one of its airports²⁸ and adopted an amendment to Republic of Lithuania Law on the Protection of Objects of Importance to Ensuring National Security²⁹. In the same year, political parties in the Czech Republic unanimously decided not to allow Chinese companies to participate in its nuclear power station tender³⁰. Perhaps the largest display of CEE unity was the decision to decouple Chinese investments from the telecommunications sector and 5G infrastructure development, in support of the US's Clean Network Initiative.

Viewed from the long-term perspective, CEE-China relations will undergo only minimal changes, but the attractiveness of the Western Balkans to China remains high. EU investments in this sub-region are often linked with the progress of domestic reforms tied to EU membership criteria. For this reason, China's investments continue to seem more appealing and more easily accessible. Countries in the sub-region are either official or potential Candidate Countries, but the fact that China's economic footprint negatively affects the countries' governance and legal standards means that economic cooperation with China is becoming an increasingly large obstacle for their integration into the EU. The Balkans are crucial for the continent's overall stability and security, but this issue does not receive enough attention at the EU level. A more attractive EU investment strategy (such as the EU's Global Gateway initiative) would help to curtail China's economic influence in the region and have a positive effect on the transparency and progress of the EU integration process.

Potential reset of EU-China relations and the issue of Taiwan

EU debates on the necessity of reviewing EU-China bilateral relations have recently been gaining momentum. For decades, the EU's policy on China has been dominated by economic pragmatism, but recently it has been undergoing some fundamental changes, with events in Hong Kong and Xinjiang drawing increasingly outspoken criticism from the bloc. The key breaking point in bilateral relations was the EU's move to impose sanctions on China on 22 March 2021 for human rights

violations in Xinjiang³¹. This was the EU's first set of sanctions on China since the events in Tiananmen Square in 1989. By way of retaliation, China sanctioned five Members of the European Parliament from entering China and thus further strengthened anti-China sentiments. This is also reflected in the fact that the adoption of the EU-China investment agreement, whose hasty finalisation and questionable usefulness has been subject of controversy within the EU itself, has remained suspended to this day.

Alongside discussions regarding the reset of China-EU relations, the issue of Taiwan is now also back on the EU's political agenda. At this point of increasing friction between the EU and China, a significant role is played by CEE countries, especially Lithuania, Czech Republic, and Slovakia.

In the region as a whole, Lithuania's position on China stands out in its sharp and principled nature. In Chinese media, Lithuania is often described as "the flag bearer of the newly forming anti-China bloc". Although many CEE countries looked with caution at the Lithuanian precedent, the EU's overall policy on China began to move from a standstill. This is clearly reflected in the European Parliament (EP) resolution of 21 October 2021, adopted by a large majority, which urges to strengthen economic and political ties between the EU and Taiwan, while also calling on the EU to support Lithuania's stance and condemn China's pressure. European Parliament resolution on EU-Taiwan political relations and cooperation³² is a significant one – it is the first Taiwan-related European Parliament document of this kind.

However, the content of this legally non-binding document, which provides various recommendations to the European Commis-

sion, is largely symbolic. Except for the urge to rename the EU representation in Taipei to underscore the political dimension of the resolution's title, the resolution did not contain any significant ideas that sought a fundamental revision of the status quo in China-EU relations. The adoption of this resolution in the EP has drawn sharp criticism from China, who views it as only a symbolic step of "the most anti-China institution in Europe" that would have no real effect on the general EU policy on China (China emphasised that resolution speaks on behalf of EU institutions, while EU Member States with Taipei representations are not called on to follow the lead of the EP). Chinese experts on European issues emphasise that the stance taken by the EP does not reflect the EU's overall position at all, which lacks unity on the issue of China. The EP's stance is markedly different from that of the European Commission and the European Council.

Despite the commitment to "pursue our own interests, in particular vis-à-vis China which we consider as a competitor, a partner and a systemic rival"³³, expressed during an informal meeting of the members of the EC, the topic of China and Taiwan was absent from the agenda of the EC summit this October. The 15 October conversation between President of the European Council Charles Michel and Xi Jinping was also unremarkable in its content. According to the Chinese Ministry of Foreign Affairs, President Michel assured that "the EU is strongly committed to supporting the One China policy and has never changed its policy on Taiwan"³⁴. In her 2021 State of the Union Address, President of the European Commission Ursula von der Leyen presented the EU's Global Gateway initiative as a strategic counterpoint to China's infra-

structure project, but there were no important hints on the resetting of relations with China and Taiwan was never mentioned³⁵. However, the determination of the EP and some EU Member States to strengthen their ties to Taiwan is also evident from the increasingly frequent visits: the August 2020 visit to Taiwan of the 90 person delegation headed by President of the Senate of the Czech Republic Miloš Vystrčil, which drew China's ire³⁶, the visit of a delegation of French senators this year³⁷ and the visit of a business delegation from Taiwan in Lithuania, the Czech Republic, and Slovakia at the end of the very same month³⁸, Taiwanese Foreign Minister Joseph Wu's visit to the Czech Republic, Slovakia, and Poland at around the same time³⁹, and the first official European Parliament delegation to Taiwan in early November⁴⁰.

China sees the enthusiasm of some EU Member States to strengthen their relations with Taiwan and the increasingly outspoken discussions in the West on the issue of Taiwan in an extremely negative light, which is also evident in the narrative of Chinese media⁴¹. Analysis of China's position suggests that Beijing is willing to put up with other countries deepening their economic ties to Taiwan, but recent debates and actions often step outside the bounds of pure economic cooperation. In the case of Lithuania, China's response was very stern, with the wrath of the Chinese caused by Lithuania's uncompromising rhetoric towards China and the issues surrounding the naming of Taiwan's representative office in Vilnius⁴². An increasing number of countries turn to Taiwan and their politicians keep visiting it receive sharp criticism from Beijing that dismisses this growing trend as "actions of specific politicians, which are unrelated to the official position of the government".

China's position remains unchanged: Any instance of stepping outside the boundaries of economic cooperation means crossing China's red line and violating the One China policy. Current Taiwan-China relations are at their historic low and Beijing is highly sensitive to any changes in the status quo with respect to Taiwan.

Conclusions and recommendations

The model of cooperation with CEE that China formulated in 2012 was essentially ineffective in increasing economic cooperation. While China has managed to achieve several important wins in non-EU countries, Greece and Hungary, it did not bring about fundamental changes in CEE countries' attitude towards China. The cherished hopes of Chinese investments did not come to fruition, the growing dissatisfaction with economic cooperation and Beijing's pursuit of political goals in the region had a considerable influence on Lithuania's decision to withdraw from the "17+1" format. With that said, the main reason for Lithuania's departure was the moral position of Lithuania's governing majority, which is also reflected the EU's and the US's concerns about the format's divisive effect on the region. However, China is not going anywhere: Its economic footprint in the Western Balkans and Montenegro⁴³ and Serbia in particular is not shrinking; China is more actively involved in strengthening its cooperation with EU Member States Hungary and Greece. EU institutions, especially the European Parliament, are increasingly outspoken about the necessity to reset EU-China relations. The growing number of countries that want to deepen their relations with Taiwan might force China to pay more close attention to strengthening its influence in CEE in order to have some sway over the prospective unified EU policy on China.

- 1. A consensus on the One China policy among Lithuanian institutions.** Recently, Lithuania's rhetoric in relation to the foreign policy on Taiwan has been more cautious. The issue regarding the Taiwanese representative office negatively affected the effectiveness of efforts to stabilise relations with China. Lithuania needs to make a decision: to continue strictly adhering to its values-based foreign policy and make no concessions despite China's continuous pressure, or to soften the current position by explicitly declaring that the ties with Taiwan will be strictly limited to economic cooperation while, at the same time, avoiding closer political interactions. Pursuing an effective policy on China requires Lithuania to decide on

what Lithuania's "One China Policy" actually is. Ideally, such choice of Lithuania's "One China Policy" (viz. how Lithuania perceives China's One China policy) should be made through the consensus between all key national institutions.

2. Deciding between "only economic relations with Taipei" or a values-based stance and preparation for escalation of the crisis.

Economic cooperation with Taiwan is potentially very beneficial for Lithuania's economic diversification and its efforts to create higher added value. However, in talks with China, Lithuania must underscore the economic/trade dimension of Lithuania-Taiwan relations if it wishes to keep open the possibility of maintaining economic ties with China. Based on China's official statements and Chinese media narrative, the key issue in the diplomatic conflict between China and Lithuania is the naming of the representative office of Taiwan in Lithuania, which does not highlight solely economic cooperation and Lithuania's apolitical stance (which, in Beijing's view, significantly changes the existing *status quo*). Chinese media and analysts positively viewed the fact that Taiwan's foreign minister did not visit Lithuania and that the opening of the Taiwanese Representative Office in Vilnius was postponed. This was regarded as Vilnius' show of willingness to try and mitigate the conflict with Beijing. On the other hand, the emphasis on the political side of relations with Taiwan would likely escalate the diplomatic crisis between China and Lithuania and the country would need to prepare for further actions of China that would try to maximise its pressure towards Lithuania.

3. The forming of coalitions to replace "16+1" with "27+1". Lithuania's position with respect to the China-CEE cooperation format and the general dissatisfaction with the situation in China-EU relations will become more effective if, first and foremost, Vilnius would engage in more active dialogue with Estonia and Latvia, which may also decide to withdraw from the format or at least abstain from further decisions. It is also important to maintain a constructive dialogue with Poland, because, in Beijing's view, Warsaw is a middle power in the region and plays the role of a "superintendent" within the format. Slovenia, Bulgaria and Romania are also potential partners in the dialogue, because they stand united with the Baltic states in terms of significantly changed priorities on cooperating with China through the format, as evidenced by their lower-ranking represent-

atives delegated to the summit. A close dialogue and efforts to reach a joint position would help to propel the debate at the EU and CEE levels on the negative influence and harm of the China-CEE cooperation mechanism and to gain more support for the idea of the "27+1" format.

- 4. The importance of the Western Balkans.** If some of the countries decide to follow Lithuania's example and withdraw from the 16+1 format, China may start paying even more attention to the region: Beijing might pull its resources together to maintain its influence in the Western Balkans, Hungary, and Greece; it may also show more attention to Poland. Inside the EU, it is often emphasised that the stability and security of Europe as a whole depends on the strategically important region of the Western Balkans. It is important to strengthen alternatives to China's investment strategies in the region (e.g., the Three Seas Initiative, the Global Gateway), which may help bring the region's countries to the side of the West.
- 5. Lithuania's China policy synchronisation with the US.** Lithuania's policy on China will inevitably be viewed through the lens of security and relations with the US. Accordingly, it is essential to take into account the need to align and synchronise political decisions with the US, because this is the only way to secure requisite and timely help (including the aspects of attention/prestige) should the crisis with China escalate further. So far, Vilnius's revision of relations with Beijing had a positive effect on the transatlantic relations and Lithuania's prestige: Vilnius is set to host the 2023 NATO summit; Lithuania was elected to the UN Human Rights Council for 2022–2024; the country recently hosted a high-level "Future of Democracy" forum, which serves as a preamble to the "Summit for Democracy", initiated by the US president. At this point in time, it is important to use the newly accumulated capital of prestige by turning it into a new/additional dimension of relations with the US alongside already existing issues such as security and deterrence of Russia.

Endnotes

- ¹ The strategic vision formulated during Deng Xiaoping's rule is described in China as 韬光养晦 ("keeping a low profile"). This vision is characterised by passive and non-confrontational foreign policy, avoidance of conflicts with neighbouring countries and economic pragmatism. This strategy was adhered to up until Xi assumed power.
- ² The more proactive foreign policy strategy, 奋发有为 ("striving for achievement"), which was based on Xi Jinping's vision, resulted in a far more active and assertive behaviour of China in the international arena, resulting in not only more aggressive actions in the South China Sea and the East China Sea but also a transformation of the country's diplomatic style. China's "grand goals" (i.e. "National Rejuvenation", the Belt and Road Initiative, and "Community of Common Destiny for Mankind") are part of this strategy.
- ³ Nadege Rolland (ed.), "An Emerging China-Centric Order: China's Vision for a New World Order in Practice", *NBR Special Report No. 87*, 2020. https://www.nbr.org/wp-content/uploads/pdfs/publications/sr87_aug2020.pdf
- ⁴ Lucrezia Poggetti, Jan Weidenfeld, "China seems to tone down its 16+1 engagement: Three possible explanations", *MERICs*, 2018. <https://merics.org/en/analysis/china-seems-tone-down-its-161-engagement-three-possible-explanations>
- ⁵ Ministry of Foreign Affairs of the PRC, "The Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries", 2015. http://www.china-ceec.org/eng/zdogjhz_1/t1410594.htm
- ⁶ Richard Turcsanyi, "China and the Frustrated Region: Central and Eastern Europe's Repeating Troubles with Great Powers", *China Report*, 56(1), 2020, 60-77. <https://journals.sagepub.com/doi/pdf/10.1177/0009445519895626>
- ⁷ David Sacks, "Countries in China's Belt and Road Initiative: Who's In And Who's Out", 2021. <https://www.cfr.org/blog/countries-chinas-belt-and-road-initiative-whos-and-whos-out>
- ⁸ Tamas Matura, "Chinese Investment in Central and Eastern Europe: A reality check", CEECAS Report, 2021. https://bird.tools/wp-content/uploads/2021/04/72d38a_373928ea28c44c7f9c875ead7fc49c44.pdf
- ⁹ Lucrezia Poggetti, "EU-China Mappings: Interactions between the EU and China on key issues", 2021. <https://merics.org/en/short-analysis/eu-china-mappings-interactions-between-eu-and-china-key-issues>
- ¹⁰ Clingendael, "China's Approach to the Western Balkans", *Clingendael Report*, 2020. <https://www.clingendael.org/pub/2020/china-and-the-eu-in-the-western-balkans/1-chinas-approach-to-the-western-balkans/>
- ¹¹ Stefan Vladislavljev, "Why the EU Must Deal with Montenegro's Chinese Debt", 2021. <https://chinaobservers.eu/why-the-eu-must-deal-with-montenegros-chinese-debt/>
- ¹² Rob Schmitz, "How A Chinese-Built Highway Drove Montenegro Deep Into Debt", 2021. <https://www.npr.org/2021/06/28/1010832606/road-deal-with-china-is-blamed-for-catapulting-montenegro-into-historic-debt>
- ¹³ Nikola Dordevic, "Montenegro narrowly avoids Chinese debt trap, for now", 2021. <https://emerging-europe.com/news/montenegro-narrowly-avoids-chinese-debt-trap-for-now/>

- ¹⁴ Penelope Liersch, "Construction begins on Budapest to Belgrade railway", 2021. <https://newseu.cgtn.com/news/2021-10-15/Construction-begins-on-Budapest-to-Belgrade-railway-14nTeKukkCY/index.html>
- ¹⁵ Eleni Varvitsioti, "Piraeus port deal intensifies Greece's unease over China links", 2021. <https://www.ft.com/content/3e91c6d2-c3ff-496a-91e8-b9c81aed6eb8>
- ¹⁶ Martin Vladimirov, Alexander Gerganov, "Chinese Economic Influence in Europe: The Governance and Climate Conundrum", 2021. https://csd.bg/fileadmin/user_upload/publications_library/files/2021_09/Chinese_Economic_Influence_Europe_WEB.pdf
- ¹⁷ Trading Economics, "Import and export statistics of 2020", 2021. <https://tradingeconomics.com/lithuania/exports/south-korea>
- ¹⁸ MERICS, "EU-China Opinion Pool: The future of 17+1 after Lithuania's departure", 2021. <https://merics.org/en/opinion/eu-china-opinion-pool-future-171-after-lithuanias-departure>
- ¹⁹ Filip Šebok, "Has Xi Jinping Just Presided Over the Last 17+1 Summit?", 2021. <https://chinaobservers.eu/has-xi-jinping-just-presided-over-the-last-171-summit/>
- ²⁰ Shannon Tiezzi, "China's Foreign Minister Tries Again to Win Europe Back", 2021. <https://thediplomat.com/2021/10/chinas-foreign-minister-tries-again-to-win-europe-back/>
- ²¹ Robin Emmott, "EU, China to hold summit, Michel says after Xi call", 2021. <https://www.reuters.com/world/europe/eu-china-agree-hold-summit-michel-says-after-xi-call-2021-10-15/>
- ²² Lucrezia Pogetti, 2021.
- ²³ Martin Vladimirov, Alexander Gerganov, 2021. https://csd.bg/fileadmin/user_upload/publications_library/files/2021_09/Chinese_Economic_Influence_Europe_WEB.pdf
- ²⁴ Francesca Ghiretti, "The Belt and Road Initiative in the Eastern and Southern EU", 2021. https://cadmus.eui.eu/bitstream/handle/1814/71780/RSC-PP-2021_07.pdf?sequence=1&isAllowed=y
- ²⁵ Anthony B. Kim, Alexander Jelloian, "How Chinese Corrosive Capital Influences Foreign Governments", 2021. <https://www.heritage.org/asia/commentary/how-chinese-corrosive-capital-influences-foreign-governments>
- ²⁶ Madalin Necsutu, "Romania Cancels Deal With China to Build Nuclear Reactors", 2020. <https://balkaninsight.com/2020/05/27/romania-cancels-deal-with-china-to-build-nuclear-reactors/>
- ²⁷ Matei Rosca, "Romania reveals the limits of China's reach in Europe", *Politico*, 2021. <https://www.politico.eu/article/romania-recoils-from-china-aggressive-diplomacy/>
- ²⁸ Reuters, "Lithuania blocks Chinese scanning equipment on national security grounds", 2021. <https://www.reuters.com/article/us-lithuania-china-idUSKBN2AH2AR>
- ²⁹ The Seimas of the Republic of Lithuania, Draft Law Amending Article 19 of Republic of Lithuania Law on the Protection of Objects of Importance to Ensuring National Security No. IX-1132 19 and Supplementing It with Article 13(2), 2021. <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/261e32f0b3e811eb9624b75b-084fae15>
- ³⁰ Robert Muller, "China sidelined for Czech nuclear tender, Russia still in play", 2021. <https://www.reuters.com/world/china/china-sidelined-czech-nuclear-tender-russia-still-play-2021-01-27/>
- ³¹ European Parliament, "Chair's statement of 23 March 2021 on EU sanctions on human rights violations; Counter-sanctions by the PRC", 2021. <https://www.europarl.europa.eu/delegations/en/chair-s-statement-of-23-march-2021-on-eu/product-details/20210324DPU29209>

- ³² European Parliament, "Resolution on EU-Taiwan political relations and cooperation", 2021. https://www.europarl.europa.eu/doceo/document/TA-9-2021-0431_EN.html
- ³³ European Council, "Oral conclusions drawn by President Charles Michel following the informal meeting of the members of the European Council in Brdo pri Kranju, Slovenia", 2021. <https://www.consilium.europa.eu/en/press/press-releases/2021/10/06/oral-conclusions-drawn-by-president-charles-michel-following-the-informal-meeting-of-the-members-of-the-european-council-in-brdo-pri-kranju-slovenia/>
- ³⁴ Ministry of Foreign Affairs of the PRC, "Xi Jinping Speaks with European Council President Charles Michel on the Phone", 2021. https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1914915.shtml
- ³⁵ European Commission, "2021 State of the Union Address by President von der Leyen", 2021. https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_21_4701
- ³⁶ Kathrin Hille, "Czech senate president's Taiwan visit draws China's ire", Financial Times, 2020. <https://www.ft.com/content/3997a4a4-b9da-4f5f-b120-9db5a69785ce>
- ³⁷ <https://www.france24.com/en/live-news/20211006-french-senators-visit-taiwan-despite-china-protests>
- ³⁸ Augustas Stankevičius, "Tvyrant įtampai tarp Pekino ir Vilniaus, Lietuvoje lankosi Taivano verslo delegacija", LRT.lt, 2021. <https://www.lrt.lt/naujienos/verslas/4/1529446/tvyrant-itampai-tarp-pekino-ir-vilniaus-lietuvoje-lankosi-taivano-verslo-delegacija>
- ³⁹ Ben Blanchard, "China angered by Taiwan foreign minister's Eastern Europe trip", Reuters, 2021. <https://www.reuters.com/world/asia-pacific/taiwan-foreign-minister-adds-slovakia-rare-europe-trip-2021-10-21/>
- ⁴⁰ Sarah Wu, Yimou Lee, "Taiwan welcomes first official European Parliament delegation", Reuters, 2021. <https://www.reuters.com/business/cop/taiwan-welcomes-first-official-european-parliament-delegation-2021-11-03/>
- ⁴¹ Global Times, "GT Voice: EU warned not to play with fire on Taiwan question", 2021. <https://www.globaltimes.cn/page/202109/1235387.shtml>
- ⁴² Lithuania's 20 July statement about the plans to allow Taiwan to open a "Taiwanese Representative Office" received harsh criticism and condemnation from Beijing. However, despite the Chinese economic and political pressure on Lithuania, on 18 November, the Taiwanese Representative Office in Vilnius officially began its operations.
- ⁴³ The new government of Montenegro made it known that their position on financing infrastructure with Chinese loans is not a positive one. Podgorica is signalling its wish to reduce China's economic influence in the country, but it remains unclear whether this can be achieved.

