At a glance

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China, the 16+1 cooperation format and the EU

The 16+1 sub-regional cooperation format brings together China and 16 central and eastern European countries (CEECs), consisting of 11 EU Member States and five EU candidate countries. The format is controversial, given the concerns expressed about arrangements made under its umbrella being in conflict with EU law and about a perceived erosion of EU norms, values and unity. Nearly five years on from its creation, mutually satisfactory results still lag behind expectations.

Initial drivers of the 16+1 dialogue mechanism

In 2011, amid sluggish EU demand in the aftermath of the financial crisis, China stepped up its economic and financial diplomacy towards the CEECs, considering them attractive for their geostrategic role as a bridgehead to the EU markets and for the opportunities they offer for circumventing the EU's high import duties and anti-dumping tariffs. The CEECs, in turn, were 'looking east' for new investment in support of their recovery. Not eligible for EU structural funds, the cash-strapped Western Balkans were particularly eager in seeking alternative sources of funding to upgrade infrastructure and transport links and modernise outdated energy and industrial facilities. These needs were ultimately also to intersect with China's geostrategic interest in developing a key transport corridor of its One Belt, One Road (OBOR) connectivity initiative. Accordingly, in its 2012 Twelve Measures paper, China proposed to scale up its relations with the CEECs through a loose multilateral networking platform modelled on formats it had previously established with Africa and the Middle East, and later with Latin America. The proposal envisaged a China-centred institutional setup, exchanges at various political levels and 'pragmatic' cooperation on trade, investment, financial, connectivity and cultural issues, excluding sensitive topics such as human rights. It created an additional layer to bilateralism and the EU-China multilateral setting.

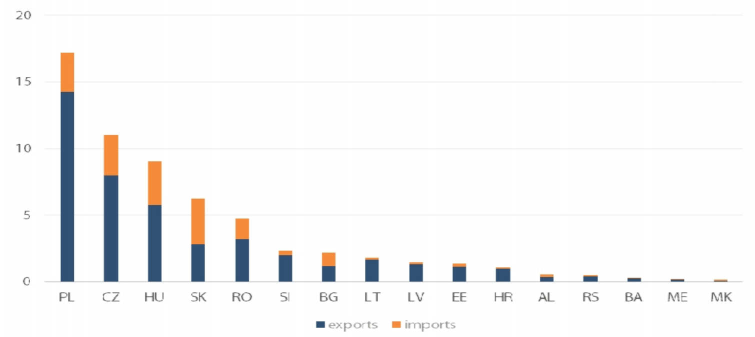
Achievements and challenges

Although the 'guidelines' of the 16+1 summits (see time-line) spelled out long roadmaps, achievements have been uneven, bilateralism still prevails and institutionalisation has been slow. Apart from a CEEC-China secretariat for logistics set up in Latvia in 2016, other coordination bodies for maritime affairs in Poland, transport and infrastructure in Serbia, forestry in Slovenia, agriculture in Bulgaria, and energy in Romania have been announced, but not yet created. The first multilateral project, launched in Riga in 2016, is the Adriatic-Baltic-Black Sea seaport cooperation. It draws on the Three Seas initiative aimed at bridging economic gaps within the EU and reducing energy dependence on Russia. It is set to generate synergies with OBOR and EU projects in these macro-regions.

Trade and investment: entrenching imbalances and China's non-reciprocity in market access

In 2015, China-CEEC trade stood at US$56.2 billion, only slightly more than half of China's initial US$100 billion target and down from US$60.2 billion in 2014. China's trade with the Western Balkans is still insignificant and, based on Eurostat data, *all* CEECs run a trade deficit with China. CEEC trade with China exhibits a high geographical and product concentration, with few changes in product specialization over time. Overall, CEECs have so far failed to export more value-added and high-technology goods to China.

Figure 1 – China's trade with the 16 CEECs in 2014 in US$ billion



Data source: National Bureau of Statistics of China, 2015.

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Only a few countries have obtained Chinese safety certificates for their agricultural exports, and agricultural trade volumes continue to account for a small share of total exports. Chinese FDI stock in the CEECs is comparatively low and shows an even stronger geographical focus than trade. By 2014, the Visegrad countries, together with Bulgaria and Romania, accounted for 95.3 % of China's €1.69 billion FDI stock. China's ambition to acquire strategic assets has been facilitated by the withdrawal of Western investors from the Western Balkans and the urgent need to privatise ailing industrial facilities such as Serbia's largest steel plant in Smederevo. Chinese FDI has also targeted the regional energy sector such as Romania's coal-fired Rovinari power plant and KMG International, the owner of its largest oil refinery. These moves have raised environmental concerns, despite China also tapping into green energies. Critics have stressed the absence of a CEEC long-term vision and awareness of the geostrategic impact of these deals. Although Chinese FDI has covered a range of manufacturing and service sectors, analysts point to an expectations gap as regards China's investment mode and choice of sectors. While Chinese firms benefit from liberal CEEC investment regimes, CEEC FDI is restricted or prohibited in a number of Chinese industries for lack of reciprocal market access.

Financial cooperation and transport connectivity: emerging conflicts with EU legislation

The different degree to which CEECs are bound by EU law has confined the use of China's low-interest financing tools to the Western Balkans. EU Member States appear not to have drawn on them, since the granting of funds has been tied to sovereign guarantees and to Chinese companies carrying out large parts of the 'loan-and-build contracts'. This financing scheme has been a common Chinese practice in respect of infrastructure works in developing countries. If used in EU Member States in the place of public tenders, it would constitute a breach of the EU's internal market rules (public procurement, environmental impact assessment, technical standards and so forth). Since 2011, China-driven efforts to enhance railway-container traffic between China and Europe have resulted in a proliferation of cargo train connections. Technical barriers, such as the need for Chinese trains to frequently switch gauges because of their varying width from one country to another, and customs clearance, continue to create bottlenecks. While westbound cargo has witnessed enormous growth rates, the bulk of rail containers return empty to China due to lack of demand for eastbound cargo except for capital-intensive goods, such as laptops and car parts. So far, the only connectivity project which has started being implemented is the refurbishment of the Budapest-Belgrade railway line for high-speed trains and its extension through the Former Yugoslav Republic of Macedonia (FYROM) and Greece, to link it to the mostly Chinese-operated port of Piraeus. It has, however, been delayed due to a related infringement procedure initiated by the European Commission against Hungary.

Evolving normative alliances: challenges to European principles and values?

China's policies for the 16+1 format have faced the challenge of accommodating different expectations, needs and legal frameworks, but overall they have expanded China's political influence in CEECs. They have increased competition among CEECs for cooperation with China, with some CEECs offering it incentives such as visa-free entry or a residence visa. They have spurred the political alignment of some CEECs to China's 'core interests', among them territorial integrity (China considers official meetings with the Dalai Lama as support for Tibetan separatism) and sovereignty (South China Sea), economic interests (market-economy status for China) and silence on human rights issues. CEECs appear not to have articulated a unified strategy that would ensure that their (and the EU's) relations with China are governed by the principles of reciprocity, a level playing field and fair competition which are laid down in the EU strategy on China and the July 2016 Council conclusions.

The EU's response to China's OBOR initiative and the 16+1 cooperation format

Following the 2015 EU-China summit and China's voiced interest in contributing to the Investment plan for Europe, the EU set up the EU-China connectivity platform to explore synergies between the EU trans-European transport network (TEN-T) projects and OBOR. Several infrastructure projects have been identified, for which technical and financial cooperation could be envisaged. In this connection, the July 2016 Council conclusions stress that sub-regional cooperation frameworks, such as the China-CEEC one, 'will also aim at generating … synergies in line with EU policies and legislation'. Concerns about the format's potential to undermine EU unity have been raised, including by the European Parliament. To dissipate them the 2016 Riga summit papers highlight the need for EU Member States' actions to be carried out without prejudice to EU competence and legislation. To increase transparency, representatives of the EU institutions and the European Investment Bank attended the Riga summit as observers. However, the EU statement on the Permanent Court of Arbitration ruling in a Philippines versus China case has been widely perceived as an example of China's influence on EU decision-making through EU Member States taking part in the 16+1 format.