

# ВНЕШНЕЭКОНОМИЧЕСКАЯ ПОЛИТИКА КНР

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*K. Zakić*

## ECONOMIC OUTCOMES OF THE 17+1 PLATFORM FROM THE CHINESE POINT OF VIEW<sup>1</sup>

**Abstract.** Central and Eastern European countries (CEECs) had generally good diplomatic relations with the People's Republic of China in the late 1980s due to similar patterns of development and political systems. Circumstances changed somewhat during the 1990s due to the political and economic transformation in Europe, which placed some strain on this relationship. The CEECs were preoccupied with their transition from command to neo-liberal economy, while at the same time endeavouring to accede to the European Union (EU). Co-operation between the two sides changed direction once more after the global financial crisis in 2009, which resulted in greater Chinese presence in the region, both on the political and the economic level.

The 17+1 co-operation platform (formerly known as '16+1') was officially established in 2012 with the primary aim of improving China's

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bilateral relations with each of the CEECs. Late 2013 saw the creation of the Belt and Road Initiative (BRI), which the 17+1 platform was subsumed into.

The main aim of this paper is to present the results of economic co-operation between China and member countries of the 17+1 co-operation platform from the Chinese point of view. The paper will use data from the Chinese Statistical Yearbook, and, in summarising the results achieved, will examine the views of Chinese authors. The main parameters that will be analysed are trade, foreign direct investments, and Chinese investment in development projects in the CEECs.

Having quantitatively and qualitatively analysed Chinese official data and positions on economic co-operation between China and the CEECs, the author concludes that China has every reason to be — and indeed is — satisfied with the results achieved. Some aspects of this collaboration (trade and development projects) have been more successful than others (foreign direct investment), but the overall results are good.

**Keywords:** 17+1 platform, China, Central and Eastern European Countries, economy, results, Belt and Road Initiative (BRI).

**Author:** Katarina Zakić, Ph.D. (Economics), Research Fellow, Centre for Belt and Road Initiative, Institute of International Politics and Economics (Belgrade, Serbia). E-mail: katarina@diplomacy.bg.ac.rs

### ***К. Закич***

#### **Экономические результаты работы платформы «17+1»: взгляд из Китая**

**Аннотация.** В конце 1980-х гг. страны Центральной и Восточной Европы (ЦВЕ) имели с Китайской Народной Республикой в целом благоприятные дипломатические отношения в силу сходства моделей развития сторон и их политических систем. Ситуация несколько изменилась в 1990-е гг. по причине политических и экономических преобразований в Европе, спровоцировавших определенную напряженность в отношениях государств ЦВЕ и Китая. Страны Центральной и Восточной Европы встали перед сложной задачей перехода от командной экономики к неолиберальной, одновременно стремясь войти в состав Европейского союза (ЕС). Направление сотрудничества сторон вновь изменилось после глобального финансового кризиса 2009 г., в результате которого произошло расширение китайского присутствия в регионе как на политическом, так и на экономическом уровне.

Платформа сотрудничества «17+1» (ранее известная как «16+1») была официально учреждена в 2012 г. с главной целью улучшить двусторонние отношения Китая с каждой из стран ЦВЕ. В конце 2013 г. была провозглашена инициатива «Пояс и путь» (ИПП), в которую была включена и платформа «17+1».

Основная цель данной статьи — охарактеризовать взгляд китайской стороны на результаты экономического сотрудничества КНР и стран-участниц кооперационной платформы «17+1». В статье используются данные Китайского статистического ежегодника, а при обобщении достигнутых результатов рассматриваются подходы китайских авторов. Основными сферами, подвергнувшимися анализу, являются торговля, прямые иностранные инвестиции и китайские инвестиции в проекты развития в странах ЦВЕ.

Проведя количественный и качественный анализ китайских официальных данных и позиций по экономическому сотрудничеству между Китаем и странами ЦВЕ, автор приходит к выводу, что Китай имеет все основания быть удовлетворенным (и действительно удовлетворен) достигнутыми результатами. Некоторые аспекты этого сотрудничества (проекты в области торговли и развития) были более успешными, чем другие (прямые иностранные инвестиции), однако результаты этого взаимодействия в целом весьма успешны.

**Ключевые слова:** платформа «17+1», Китай, страны Центральной и Восточной Европы, экономика, результаты, инициатива «Пояс и путь» (ИПП).

**Автор:** Катарина Закич, доктор философии (экономика) (Ph.D. (Ec.)), научный сотрудник, Центр инициативы «Пояс и путь», Институт международной политики и экономики (Белград, Сербия). E-mail: katarina@diplomacy.bg.ac.rs

## Introduction

The history of diplomatic relations between China and Central and Eastern European countries (CEECs) has for decades been one of peace and co-operation. China established close relationships with some of these nations (Albania, Hungary, and Yugoslavia) as early as in the aftermath of World War II, whilst contacts with others may not have been as friendly but nonetheless always remained cordial (as was the case with Czechoslovakia). These bilateral relations saw many shifts throughout history, but

one thing was always certain: there were never insurmountable or threateningly serious disputes. This is likely one of the many underlying reasons why the traditionally good relationship between China and the CEECs improved again significantly in 2012 with the establishment of the 16+1 platform.

At the time, China was committed to pursuing its Going Global Policy, which constituted the first official declaration of the country's resolve to invest abroad. The policy was closely fulfilled, as was in previous times the Open Door Policy. Whilst the Open Door Policy allowed foreign capital to enter China, the Going Global Policy worked in the opposite direction: it allowed China to deploy its capabilities to invest in foreign countries, showcasing its determination to assert its economic presence beyond its borders. Its cautious moves to initially invest into geographically and culturally close nations (those of South East Asia) and those with which it had especially good political relations and needed their natural resources (such as Africa), proved unerring.

The CEECs, on the contrary, were not China's first choices when it came to investment. China was primarily interested in Western Europe and the United States, where Chinese firms could acquire companies operating in established markets and possessing excellent know-how, good management, skilled workforces, and stable purchasing power. These reasons were too attractive to be overlooked. This persistence paid off, and, in 2016, China saw record-breaking levels of outward investments worldwide. At the same time, China was able to increase its global trade on an unprecedented scale. It soon became the world's second largest economy, not only demonstrating its resilience in difficult times such as during the financial crisis and the SARS pandemic, but also improving its performance.

Why did China turn its attention towards the CEECs, and why did it choose this time to do so? The main reasons for the Chinese presence in Central and Eastern Europe (CEE) are:

- A sizeable market with a population of 129 million people;
- Reasonable opportunities to realise Chinese investment projects in these countries;
- CEECs are a bridge towards the European Union (EU) as most are EU members but not the bloc's top economic performers, meaning they

are easier to co-operate and negotiate with, and the remaining countries are also in the process of joining the EU;

- Members of this platform, except Greece, are all former socialist or communist countries that had been co-operating with China for many decades, mainly in the diplomatic sphere.

The timing was also important. China saw the situation at that time as a ‘window of opportunity’ that could be utilised [Liu. China-CEEC..., p. 10]. After the financial crisis broke out, the EU put all its efforts into addressing the issues faced by its members that needed the most help, namely Greece, Portugal, Spain, and Ireland. The new EU member states, mainly CEECs, did not receive attention immediately after the crisis began. This also meant that all new members’ investment projects were postponed. Countries that had recently embarked on the EU accession process were also told to be patient and wait for the crisis to die down. These messages from the EU were received in the CEECs with concern, and, in some cases, resentment, as such response had not been anticipated.

This was the moment in which China saw its ‘window of opportunity’ to invest in the region, correctly surmising that these countries needed investment but could not afford it. Moreover, opportunities for trade also looked good, which constituted another benefit. China also realised the opportunity would not remain open for long and it needed to act quickly. It is important to emphasise that, even though the 16+1 platform structure may have formally been introduced in 2012, the preparations for it ran from 2009 to late 2011.<sup>1</sup>

Countries that became members of the mechanism at the time were: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Czechia, Estonia, Hungary, Lithuania, Latvia, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovenia, and Slovakia. Greece joined in 2019, and the platform’s name was changed accordingly to ‘17+1’.

The first ever Summit of Prime Ministers of the 16+1 countries was held in Warsaw, Poland (2012). Before the summit, China’s former Prime Minister Wen Jiabao had identified four key points for future co-operation: (1) respect and equality, with deepening mutual political trust;

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<sup>1</sup> The first China-CEEC Trade Forum took place in the Hungarian capital of Budapest in 2011.

(2) strengthening of economic and trade co-operation; (3) closer cultural and people-to-people exchanges; and, finally, (4) joint efforts of the two sides to inject new vitality into China-Europe relations [Wen outlines proposals...].

In late 2013, the newly appointed Chinese President Xi Jinping proposed establishing one or several international initiatives under what was at that time termed the New Silk Road or the One Belt, One Road (OBOR). The idea was to build a new network of countries that would co-operate on new infrastructural projects to better connect China with Asia, Europe, and Africa. In the meantime, the idea was elaborated on in many ways, and regional involvement was broadened. As the idea of the 16+1 platform proved similar to that of the Belt and Road Initiative (BRI), the earlier mechanism was subsumed into the BRI. All countries that are now members of the 17+1 platform are also involved in the BRI.

## Literature review

For the brief literature review publishing's by China-CEEC Institute, will be used. This institute has disseminated much Chinese research into this platform and its results, challenges, and opportunities.

Chen and Yang were among first to analyse economic co-operation under the 16+1 umbrella. The authors examined the correlation between economic co-operation and trade and business environments in the CEECs. Their main conclusions were: co-operation between China and the CEECs almost exactly matches their (CEEC) business environment; co-operation in investments and people-to-people exchange is at an outstanding level, followed by political co-operation, whilst trade and financial co-operation could be improved [Chen, Yang, p. 17–18].

Similarly, in a recent paper, Lin discusses co-operation between China and the CEECs through the lens of three economic indicators (trade, outbound direct investment, or ODI, and development finance). The author concludes that the extent of trade between China and the CEECs corresponds to those countries' roles in global trade chains: the better a country is integrated into these networks, the greater its volume of trade with China. According to Lin, Chinese ODIs in the CEECs are strategic-as-

set-seeking, in contrast to ODIs from EU countries, which are efficiency- and market-seeking. Lin believes this explains why Chinese companies invest mainly in the CEECs' traditionally attractive sectors. Finally, Lin's view is that using state resources to finance development projects is the traditional Chinese way of investing, and that this as a win-win situation for both parties involved [Lin, p. 24–26].

Discussing the broader links between the BRI and the 16+1 platform, Liu states that 'China hopes to receive an integrated response from the CEE region regarding its regional policy' [Liu. China-CEEC..., p. 12]. Liu also emphasises that the stability and economic development of the CEECs will have a positive impact on the future development of the EU, and that these countries' co-operation with China leads them in that positive direction.

Examining Chinese investments in the Balkans as part of the 17+1 platform and the BRI, Liu states that, notwithstanding China's unprecedented economic presence in the Balkans, these countries remain more closely connected to the EU, meaning China's involvement should not be exaggerated [Liu, 2019]. Liu also believes Chinese companies currently prefer investing in the Balkans as the region is seen 'the gateway to the EU market and the land bridge between China's Piraeus port and Central Europe [p. 104].

Having reviewed the literature dedicated to 17+1 co-operation, we will now turn to the analysis.

## Economic results of the 17+1 platform: data and findings

The economic results of this regional organisation can be measured by the volume of trade, foreign direct investments, and investment projects in its area of coverage. These numbers should give us some insight into the platform's state of development and provide a perspective of where it is going. This paper uses data from the Chinese Statistical Yearbook, and will as such present an analysis from the Chinese point of view.

Chinese statistical methods for calculating the indicators listed above differ from those used in the West. As such, we will first briefly explain these methodological differences before presenting the actual findings of the analysis.

### 1. Trade

According to the Chinese Statistical Yearbook, ‘export commodities are calculated at the Customs of the countries (regions) of destination and the import commodities are calculated at the Customs of the countries (regions) of origin’ according to instructions of the ‘*Harmonized Commodity Description and Coding System (HS)* stipulated by the Customs Cooperation Council (World Customs Organization) and China’s reality of imports and exports’ (CSY, Brief Introduction, 2015). Even though China’s calculations follow international practice, there are major differences between its figures and those produced by Western countries. Noting the significant discrepancy between US and Chinese trade volume data, the Congressional Research Service Report (Martin, 2018) goes on to say: ‘The greatest discrepancy is in the “eastbound trade” data, which accounts for 80–90 % of the overall difference in annual trade balance...can be attributed to goods that “leave China, enter the commerce of **intermediate** countries or regions, and then [are] re-exported to the United States” ’ [Martin, p. 7]. Other factors that compound this problem, according to the same author, are differences in official definitions of exports and imports, definition of territory, timing, declaration of country of origin, value differences in direct trade, and under-invoicing [Martin, p. 5–6]. Those factors also contribute to the major discrepancies seen in statistics of the volume of China-CEEC trade.<sup>1</sup>

What do Tables 1 and 2 reveal about the volume of trade between China and the CEECs? Firstly, trade has increased on both sides, but growth on the Chinese side has been far greater. Secondly, of the 17 countries, only five decreased their trade deficits with China between 2012 and 2018, namely Croatia, Estonia, Hungary, Latvia, and Lithuania (highlighted in green in Table 2). Thirdly, only one country, Slovakia, has a trade surplus

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<sup>1</sup> For example, the 2018 Statistical Yearbook of the Statistical Office of the Republic of Serbia reported that Serbian exports to China amounted to US\$ 92mn, while Serbian imports from China were valued at US\$ 2.16bn [*Statistički godišnjak*, 2019, p. 302]. By contrast, Chinese data shown in Table 2 indicate that Serbian exports amounted to US\$ 72.8mn, whilst Chinese exports to Serbia stood at US\$ 223.87mn. For statistical purposes, Serbia considers the country of origin to be the exporting country, so that many Western multinational companies’ products made in China and imported into Serbia are deemed to be Chinese exports (and not those of the country where the multinational is based). This consideration goes some way towards explaining the huge discrepancy in trade volume figures.



with China.<sup>1</sup> Fourthly, countries with the greatest volume of trade with China are, in decreasing order, Poland, Czechia, Hungary, Slovakia, Greece, and Romania. It would appear, then, that countries of the Visegrad Group (V4) trade with China the most extensively. Fifthly, countries that have significantly increased their trade deficits with China are Albania, Bulgaria, Czechia, Greece, North Macedonia, Poland, and Serbia.

Even though a number of European researchers have examined the same issue using a variety of data sources, their findings on global trend trade have been similar to presented findings [Szunomar A. *et al.*, p. 41].

Chinese authors who focus on this aspect of 17+1 co-operation are aware of the current state of trade relations. According to them, the growth of trade is a positive development, and the 17+1 initiative has allowed many new CEE products to find their way to the Chinese market. For instance, Chen reports that China's trade with Central and Eastern European countries increased by 28 % from 2011 to 2017. During the same period, the trade volume between China and the 28 EU countries only increased by 8.5 %' [Chen, p. 4]. Chen's view is clearly that China has significantly increased its trade with the CEECs, especially when compared to EU countries.<sup>2</sup>

Chinese researchers do note there are trade issues that need to be addressed, such as the huge trade imbalance that has been causing CEECs significant trade with China. Measures they propose for achieving greater balance include decreasing tariffs, ensuring CEEC products are better represented in the Chinese market, lowering regulatory requirements, developing free trade zones [Liu. China-CEEC..., p. 16], lifting China's embargoes on some products (such as Polish pigs), and exporting to China greater quantities of superior-quality products such as environmentally-friendly equipment and anti-pollution devices China urgently needs [Liu. China-CEEC..., p. 19].

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<sup>1</sup> Interestingly, Slovakia exports cars and food to China; automobile exports are the main reason for the country's good performance. Nevertheless, the Slovak Government and economic analysts are dissatisfied with the results even though they are better than those achieved by other CEECs.

<sup>2</sup> That being said, we should be aware that the starting point of trade volume in the EU and the CEEC with China was not the same, and that should be also taken under consideration.

**Table 1. Chinese trade with 17+1 countries (2012–2014, USD 0000s)**

Year	2012			2013			2014		
Country	Export	Import	Total	Export	Import	Total	Export	Import	Total
Albania	34 391	14 312	48 702	32 460	23 484	55 944	37 827	18 932	56 759
Bih	4671	2330	7001	9133	2088	11 221	28 398	3724	32 123
Bulgaria	105 457	83 889	189 346	111 698	95 674	207 373	117 806	98 486	216 292
Czechia	632 304	240 699	873 003	683 780	261 492	945 272	799 290	298 669	1 097 959
Croatia	129 983	7451	137 434	138 994	10 427	149 421	102 733	10 066	112 799
Estonia	123 354	13 577	136 932	110 982	19 958	130 940	114 610	22 550	137 160
Greece	359 317	42 730	402 047	321 898	43 327	365 224	418 561	34 567	453 127
Hungary	573 797	232 310	806 107	569 228	271 515	840 743	576 417	325 990	902 407
Latvia	131 271	6883	138 154	137 427	9916	147 343	131 670	14 691	146 361
Lithuania	163 043	8950	171 992	168 618	12 479	181 096	165 829	15 749	181 578
Montenegro	14 576	2202	16 778	8638	1614	10 253	15 707	5356	21 063
North Macedonia	8875	13 978	22 853	6348	10 797	17 145	7666	9058	16 725
Romania	279 718	97 957	377 675	282 254	120 750	403 004	322 318	152 067	474 384
Poland	1 238 646	199 690	1 438 336	1 257 488	223 180	1 480 667	1 425 680	293 474	1 719 154
Serbia	41 288	10 135	51 422	43 191	18 013	61 204	42 456	11 274	53 730
Slovakia	242 303	365 523	607 826	308 444	345 816	654 259	282 850	337 608	620 457
Slovenia	156 664	25 603	182 267	183 281	30 280	213 561	199 194	33 146	232 341
Total			5 607 875			5 874 668			6 474 419

*Source:* Chinese Statistical Yearbook for 2013, 2014, and 2015.

Liu also notes that there are problems with the current transport channels that are also affecting trade such as: lack of cargo, railway technology and standards, the electrification level, and transport efficiency of the Central and Eastern Europe railway [Liu. Europe and the “Belt and Road” Initiative..., p. 62–63].

Lin comments that ‘[f]or smaller states, however, China’s growing import demands of primary goods and resource-based manufactures, which are also the defining feature of China’s trade relations with other developing countries, seems a promising new path to enhance the trade relation-

Table 2. Chinese trade with 17+1 countries (2015–2018, USD 0000s)

Year	2015			2016			2017			2018		
	Export	Import	Total	Export	Import	Total	Export	Import	Total	Export	Import	Total
Albania	43 019	12 786	55 805	50 672	12 860	63 532	45 403	19 622	65 026	53 991	10 804	64 794
Bih	5998	5373	11 371	6413	4355	10 768	7882	5725	13 607	10 972	7740	18 712
Bulgaria	104 326	74 831	179 157	105 654	59 011	164 664	116 905	96 918	213 823	144 025	114 643	258 668
Czechia	822 613	278 045	1 100 659	806 175	295 154	1 101 329	879 297	369 571	1 248 868	1 190 958	439 905	1 630 863
Croatia	98 556	11 179	109 735	101 724	16 144	117 868	115 964	18 308	134 273	132 716	21 200	153 916
Estonia	95 329	23 496	118 825	96 417	21 179	117 597	100 635	26 034	126 669	103 151	24 519	127 670
Greece	366 498	28 550	395 048	420 269	28 311	448 580	475 138	43 004	518 142	649 832	56 251	706 083
Hungary	519 745	287 555	807 300	542 517	346 423	888 940	604 935	407 722	1 012 657	654 021	434 207	1 088 229
Latvia	102 251	14 459	116 709	106 272	13 221	119 493	114 824	17 724	132 548	116 609	21 305	137 914
Lithuania	121 090	13 879	134 969	129 167	16 401	145 568	160 027	25 515	185 543	176 296	33 004	209 299
Montenegro	13 415	2427	15 842	10 835	3258	14 093	13 246	6640	19 886	17 810	4174	21 983
North Macedonia	8653	13 270	21 923	9014	4671	13 684	7804	8669	16 473	10 574	4834	15 409
Romania	316 224	129 495	445 719	344 872	145 522	490 394	377 796	182 432	560 228	450 711	216 785	667 496
Poland	1 434 487	274 195	1 708 682	1 510 002	253 772	1 763 774	1 787 305	335 351	2 122 656	2 087 621	364 537	2 452 158
Serbia	41 510	13 374	54 883	43 224	16 270	59 494	54 564	21 159	75 722	72 830	22 387	95 217
Slovakia	279 447	223 732	503 178	286 234	241 017	527 251	272 948	258 496	531 444	253 585	524 563	778 148
Slovenia	209 174	28 951	238 124	227 026	43 686	270 712	288 693	49 535	338 228	442 423	59 102	501 526
Total			6 017 929			6 317 741			7 315 793			8 928 085

Source: Chinese Statistical Yearbook for 2016, 2017, 2018, and 2019.

ship in the short and medium-term. In the long run, it depends on the investment carried by Chinese multinationals in the region, as their European counterparts, to promote and develop bilateral trade in goods and services' [Lin, p. 10].

## *2. Foreign direct investments*

The introductory section on foreign direct investments in the 2015 Chinese Statistical Yearbook defines 'overseas direct investment' as comprising the 'basic situation of domestic investors and overseas enterprises, investment, earnings and their distribution between domestic and overseas invested enterprises, import and export of commodities through overseas enterprises, approval of overseas enterprises'.

Lin notes that China established its system for calculating ODI in 2002, even though it used definition of FDI as employed by the International Monetary Fund (IMF). In that regard, Lin explains that '[a]s found in other countries, China's ODI statistics are limited to report direct investing destinations of Chinese enterprises, thus **disguising round-tripping or trans-shipping FDI transactions**. Taking into account the fact that 72 % of China's ODI in the world at the end of 2017 were concentrated in Hong Kong, Cayman Islands, and Virgin Islands, we may have very limited information about ultimate investing destinations of a big part of China's ODI, causing underestimation of Chinese ODI in CEE' [Lin, p.10]. This is, of course, the same reason for the underestimation of data on Chinese FDI in the CEECs, with the real values certainly being higher.<sup>1</sup>

A look at Table 3 shows that Czechia, Poland, Slovakia, and Lithuania have benefited the most from Chinese FDI in CEE. With the exception of Lithuania, the V4 group are again revealed to be the leading countries here. It is once again apparent that Chinese companies prefer investing into the more developed CEECs, and these are the countries that are EU members.

How do Chinese authors see this situation? Lin reports that, according to his research, Chinese companies tend to avoid investing in CEECs, ins-

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<sup>1</sup> This is again well illustrated by an example from Serbia. According to the National Bank of Serbia, in 2018 China invested EUR 190mn in FDI, whilst FDI from Hong Kong amounted to another EUR 457.6mn (see [URL: [nbs.rs/internet/english/80/platni\\_bilans.html](http://nbs.rs/internet/english/80/platni_bilans.html)]), significantly higher than the values shown in Table 3.

tead preferring to engage in mergers and acquisitions, as they see these as safer options for starting businesses locally due to the various issues Chinese firms can experience in these countries, including due to political, financial, business-related, and cultural differences [Lin, p. 17–18]. On FDI, Lin concludes: ‘In this context, China’s future ODI in CEE countries would be largely shaped and influenced by policy coordination and bilateral political factors’ [Lin, p. 18].

*Table 3. Chinese FDI in 17+1 countries (2012–2018, USD 0000s)*

Country	2012	2013	2014	2015	2016	2017	2018	Total FDI by country
Albania								
Bih		70						70
Bulgaria	747	165	219	14	133	9	66	1353
Czechia	2071	1099	3371	1627	1148	797	421	10 534
Croatia	289	21	2	10	37		615	974
Estonia	9		8	7				24
Greece	140	158	147	7	9	85	126	672
Hungary	615	311	45	317	325	148	131	1892
Latvia			2		10		4	16
Lithuania		8		22	1554	2372	20	3976
Montenegro								
North Macedonia								
Romania	456	135	21		204	711	272	1799
Poland	357	155	219	8227	585	289	247	10 079
Serbia						7	12	19
Slovakia	429	847	360	1071	66	44	2877	5694
Slovenia	269	86	6	3	55	37	421	877
Total FDI in year	5382	3055	4400	11 305	4126	4499	5212	37 979

*Source:* Chinese Statistical Yearbook, 2013–2019.

Liu notes that Chinese FDI has been increasing in the Balkans in recent years, observing that ‘China expects the Balkan countries to join the EU as soon as possible to ensure that investments in the Balkans become “potential stocks.” Whether it is doing business with the candidate countries or doing business with the EU, China benefits from the stability and prosperity of the EU’s single market’ [Liu, 2019].

### ***3. Investment projects financed by loans in different fields***

Many Chinese authors note that key areas of Chinese interest in the CEECs are infrastructure and energy, with China providing much-needed finance for projects that have remained unbuilt for a variety of reasons. As stated above, most CEECs joined the EU relatively close to the 2009 outbreak of the global financial crisis, which meant many infrastructure projects were placed on hold. Also, many Balkan countries outside the EU lacked the funds for new cycles of infrastructural development that could boost their economies.

As in earlier cases, China saw this as an opportunity to launch perhaps the most important part of its co-operation with the CEECs: ensuring its state banks extended development loans to finance these projects. The loans are offered under favourable conditions, with low interest rates, attractive grace periods, and at reasonable prices that the CEECs find attractive. In choosing this approach, China opted for the same financing model it had previously deployed in Africa, whereby it financed projects that at the same time employed Chinese state companies and their workers. China achieved this by bilaterally negotiating with interested countries and making sure that those conditions were non-negotiable. It proved a successful model for China as it was not only able to employ its surplus capital, but also generated work for the country’s state companies and workers and helped them gain international experience and earn profits.

Yet whilst this approach may have been justified in Africa, where providing machinery and experienced workers was one solution to these countries’ absence of expertise in infrastructure construction, the CEECs were a different matter. These countries lacked neither the knowledge nor the technology to undertake and complete these projects, and this was one of the reasons why China’s policy was received negatively in Europe from the outset. It ought to be noted, however, that no better offers were forthcoming from any other side.

To the best of the author's knowledge, there is no official Chinese English-language register of loans, grants, or concessionary loans that could reveal information about 17+1 or BRI projects in the CEECs. For that reason, we can only give information that is available on the key infrastructure and energy projects financed by Chinese loans, concessionary loans, and grants.

Bosnia and Herzegovina may have entered into the largest number of agreements with China, but not all these projects were actually completed. Currently ongoing is construction of Unit 7 at Tuzla thermal power plant (worth EUR 722mn)<sup>1</sup> [Đugum]. Montenegro is building the Bar — Boljare motorway (EUR 689mn), and two motorway sections in North Macedonia, in progress Kicevo — Ohrid (EUR 580mn), and Miladinovci — Štip (EUR 306mn) [Dimohlea]. The greatest number of development projects are probably concentrated in Serbia. Firstly, the country is building Unit B at the Kostolac thermal power plant and expanding the nearby Drmno mine (EUR 715mn) [Ralev]. Serbia has also started construction on its section of the Belgrade to Budapest railway line, of which two segments will be built by Chinese companies and financed by loans (EUR 1.5bn), and one by Russian firms backed by Russian funding [Martinovic]. In addition, Chinese companies are participating in the construction of two sections of roads on Pan-European Corridor XI in Serbia (EUR 567mn) [Kinesko čudo...]. In January 2020, Serbia also signed a contract with China for the construction of a hot water pipeline to connect the Obrenovac thermal power plant and the New Belgrade heating plant (valued at EUR 193mn) [Kinezi će graditi...].

Many projects are still being negotiated and it remains unclear whether they will actually be accomplished, but Chinese firms are actively pursuing these contracts. For example, in early 2020 China was at some stage of negotiating no fewer than five energy projects in Bosnia and Herzegovina.<sup>2</sup>

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<sup>1</sup> Construction work did start but was halted due to objections from the European Commission. Bosnia and Herzegovina is currently negotiating to resume the project.

<sup>2</sup> Banovići thermal power plant, Gacko 2 thermal power plant, Dabar hydropower plant, hydropower plants on the Drina River (Buk Bijela, Foča, and Paunci), and four small-scale hydropower plants (three on the Bistrica River and one on the Janjina).

Lin says of China's development finance: 'The development finance in transport and energy is therefore considered as a toolkit to improve the trade and ODI relationship with China (...) In other words, Sino-CEE type South-South cooperation should not be subject to the same set of expectations as Western aid. Correspondently, evaluation standards should take into account mutual benefits' [Lin, p. 23].

Liu's view is that, China pays more attention to the Balkans, because its main interest now is to connect the Greek port of Piraeus with the EU by building more infrastructure [Liu. Europe and the "Belt and Road" Initiative ..., p. 104].

Both authors agree that China has been insisting on the mutual benefits of both parties, and that Chinese projects are offered under commercial terms and nominated by the CEECs rather than by the Chinese government.

## Conclusion

China may be satisfied with the state of the 17+1 co-operation platform, but nonetheless believes there is still room for improvement. From the point of view of trade, the results are more than favourable for China as the platform has allowed it to improve its balance of trade, diversify its exports into the CEECs, and increase its volume of outward trade. At the same time, China is aware that the CEECs are dissatisfied with this situation, and that voices from those countries are increasingly calling for urgent changes. This is why China is exploring different ways to reduce the huge imbalance of this trade, but there is no easy solution, at least not in the short term.

Chinese foreign direct investments are slowly increasing, but still mainly come from Chinese state companies that primarily invest in traditional economic sectors. Chinese private investors remain hesitant to invest the CEECs for a variety of factors, with political and financial risk seen as leading issues. China is certainly dissatisfied with this aspect of its co-operation with this group of countries, one of the reasons being strict EU policy measures regarding Chinese investments in CEECs that are EU member states, which have been limiting Chinese efforts to invest there.



Apart from trade, China has achieved very good results with its development investment projects in the CEECs, especially in infrastructure and energy. These projects are financed by loans from Chinese state banks and constructed by Chinese state companies with the involvement of a Chinese workforce. China is pursuing these initiatives bilaterally with Balkan states without having to undergo complicated procurement procedures required by the EU of its member states. By doing so, China has amassed an impressive portfolio of investments in Europe, which would have been difficult to achieve had the projects been located within the EU.

From the Chinese point of view, economic results of the 17+1 platform could be improved further and there is enough room and opportunity for that. China is willing to discuss future co-operation, which can be improved whilst respecting the boundaries inherent to the CEECs' current environment. As discussed in the introduction, China's narrative has always been 'win-win' co-operation, together with the promotion of mutual respect and injection of a new vitality into Sino-European relations.

Is this the best China can do regarding economic co-operation with the CEECs? The answer is no. Is it enough at the moment? The answer is yes. Will it help in the future? Certainly, especially judging by current events, such as the Covid-19 pandemic and changes to international relations and international economics, with countries becoming increasingly exposed to risk at all levels and economic risks coming to the fore.

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