



# BULLETIN

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## China's Charm Offensive in Central and Eastern Europe: The Implementation of Its "12 Measures" Strategy

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*One-and-a-half years after Prime Minister Wen Jiabao announced China's strategy towards Central and Eastern Europe, its implementation proves that the CEE is an important Chinese foreign policy direction. The strategy consists of 12 proposals for enhancing cooperation with the region. Supposedly, short-term non-economic pledges will be accomplished this year. But, there are also problems with fulfilment of the strategy as some measures have not been properly discussed with the CEE states, and some are not even favourable to European states. Poland should initiate discussion about China's beneficial offers for the CEE. Simultaneously, Poland should cautiously analyze the PRC's proposals and clearly communicate its priorities, putting particular stress on Poland's own economic goals.*

**The "12 Measures" Strategy.** In April 2012, China's Prime Minister Wen Jiabao announced in Warsaw "China's 12 Measures for Promoting Friendly Cooperation with Central and Eastern European Countries," a document perceived as China's new engagement strategy in the region (to China, the CEE consists of 16 states: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Macedonia, Montenegro, Latvia, Lithuania, Romania, Poland, Serbia, Slovakia and Slovenia). It is a list of steps that will be taken by the Chinese government to enhance cooperation with the region.

The document consists of short and medium-term goals. Most of them are economic pledges, such as establishing a \$10 billion credit line or dispatching Chinese trade and investment missions to Europe to boost Chinese imports and inject new investments into the region. The anticipated goal is to increase total China-CEE trade to \$100 billion by 2015. What is more, China proposed establishing an investment cooperation fund worth—at the initial stage—\$500 million. In the next five years, the PRC intends to set up economic and technological zones in each country and strengthen financial cooperation through swap agreements and by opening Chinese bank branches. There is also a plan to establish an expert advisory committee on the construction of a transportation network between China and the CEE.

China is paying attention to non-economic cooperation as well. The strategy mentions holding a forum on cultural cooperation, closer educational relations by providing scholarships (including Chinese language courses) for CEE students and for Chinese scholars interested in doing research in the CEE. The PRC also intends to expand tourism through cooperation between the China Tourism Administration and similar institutions in Europe. Moreover, China pledged to establish a CEE-PRC research fund, providing RMB 2 million (about \$327,000) annually and strengthening cooperation between young political leaders from both sides.

**The State of Implementation.** The first step in the implementation of China's "12 Measures" was the decision to establish (in September 2012) a special Secretariat for Cooperation between China and the CEE in the Chinese MFA. Vice Minister of Foreign Affairs Song Tao was appointed Secretary General. The secretariat was charged with the responsibility for coordination among various Chinese institutions involved in the "12 Measures" implementation. Among them are the MFA, the International Department of the CPC Central Committee, the National Development

and Reform Commission, and the ministries of Finance, Commerce, Transport, Agriculture, Education, Culture, and others. Its second purpose is to maintain regular contact with partners from the 16 countries.

Among the “12 Measures,” the most visible is the decision to launch the credit line. China Exim Bank and China Development Bank (the main institutions responsible for granting concessional and export loans) have signed agreements with Serbia, Macedonia, Bosnia and Herzegovina, and Montenegro. Talks with Bulgaria and Romania are underway. China admits that the CEE countries have not exploited the full potential of this line of credit. The main reason for this are it’s the conditions attached to it, which are not favourable to especially EU members. The biggest problems concern sovereignty guarantees by the country that receives the credit and China’s request to complete its investments in CEE states (e.g., after winning public procurements) using Chinese companies and labour.

China is also implementing other short- and medium-term economic pledges. Through July the PRC had sent to the region more than 30 trade and investment promotion missions. What is more, new branches of Chinese banks were opened in the CEE last year. The Bank of China opened a second branch in Hungary and its first office in Warsaw, while the Industrial and Commercial Bank of China has set up its first CEE division, in Poland. Moreover, in September, the central banks of China and Hungary signed a three-year currency swap agreement worth RMB10 billion (\$1.62 billion). A similar three-year RMB2 billion (\$324.8 million) agreement was concluded with Albania. These accords are the first swap settlements that China has signed with CEE countries.

China has fulfilled its extra-economy measures as well. Last year, European countries took part in a special promotion to showcase tourism products during a huge tourist fair in Shanghai. This year, the PRC has organised the China-CEE Cultural Cooperation Forum, China-CEE Education Policy Dialogue and a meeting of Chinese and CEE local leaders. Currently, the International Department of the CPC Central Committee is preparing its first young political leaders forum, which will be held in October in Beijing.

**Main Challenges and Problems.** One-and-a-half years later, the implementation of the strategy indicates that the CEE has become an important foreign policy direction for China. Supposedly, short-term and non-economic plans will be implemented by the end of this year. But, there are also problems with fulfilment. China acknowledges that the “measures” were not properly consulted with the CEE states and some of them are not appropriate for EU states. One example is the credit line. China is considering modifying the conditions of the credit line to make it more acceptable to those members. Hence, Beijing plans to revise other “measures” or even add new ones.

Another problem concerns China’s perception of the CEE. The PRC claims that the 16 states are former socialist countries with which China has long had diplomatic relations. Nevertheless, the 16 states are different from one another in terms of their size, scope of economic development, and even geographical location. What is more, five of them are not EU members. Apparently, it is difficult to find common ground for the 16 countries in terms of their overall relations with China. Each country is focused on bilateral relations with China and emphasizes similar benefits that China may derive through stronger relations with each of them (e.g., as a hub for Chinese economic presence in Europe, as a gateway to other EU and non-EU markets, presenting a cheap but well-educated labour force, etc.). In this sense, the 16 states are competitors. A recent example of this was in the rivalry among Romania, Serbia and Bulgaria to host the second China-CEE16 summit. Eventually, the summit was scheduled for late November in Romania. Furthermore, the region’s EU members are reluctant to create a common platform for cooperation with the Chinese CEE secretariat. The reason is that this step may be perceived by Brussels as undermining the coherence of EU China policy. Supposedly, this is the rationale for the EU’s CEE states’ reluctance to appoint high-ranking coordinators for cooperation with the secretariat, despite China’s pressure on the issue.

**Conclusions and Recommendations.** Presumably, China’s involvement in the CEE is a result of an analysis of the EU in crisis. The economic problems on the EU’s periphery (e.g., Greece, Portugal, Spain) have paved the way for China to pay more attention to central and southern Europe. Taking into account China’s inclination to cooperate with large counterparts, the PRC has “created” the CEE16 region. Perceiving these states as one entity and embarking on a common strategy towards them is meant to facilitate China-CEE cooperation. The PRC also places an accent on cooperation with the region as less politicised and more pragmatic than EU-China relations.

The differences in perceptions of the CEE between China and the states in the region, problems with recognising individual countries’ needs, and the existing legal framework (e.g., EU law) are the primary reasons for most misunderstandings between China and the CEE states. Poland is China’s largest economic partner in the region and a crucial “component” of the CEE16. Under these circumstances and given its relations with Beijing are better than ever before, Poland should initiate a discussion about how to better utilise China’s proposal in a way that would fit with the CEE countries’ economic interests. The states should take advantage of China’s greater attention to the region and be frank in their discussions with Beijing about their needs and conditions for cooperation. Before the second summit, it would be worth holding a discussion with brainstorming about common demands for credit conditions and methods for increasing Chinese imports—the most important topics for the EU states in their relations with China. The participants in the debate should include high-level officials and decision-makers as well as key business leaders. It might help to shift the discussion to a more practical level. Simultaneously, Poland should also focus on bilateral relations. Despite the EU’s one China policy rhetoric, most EU members concentrate on bilateral cooperation with the PRC—the best example being Germany. Poland should cautiously analyse China’s proposals, focusing on Polish interests, and clearly communicate its priorities, putting particular stress on its own economic goals—increasing exports to China and bilateral investments.