

Central and Eastern Europe in the Belt and Road Initiative and Other EU-Asia Connectivity Strategies

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INTRODUCTION

The Belt and Road Initiative (BRI) is an economic and developmental project that has become the focal point of Chinese foreign policy. Its aim is to create various kinds of connections, especially infrastructural ones, between Asia, Africa and Europe. Therefore, it is an instrument to create favourable conditions for China's economic growth, to deal with internal challenges, for example, by exporting overproduction, and to strengthen relations with countries engaged in the initiative. Nevertheless, the BRI is also a political project, one of China's tools to enhance its influence in Eurasia and to change the balance of power in the region if it is implemented. Thus, it is a key instrument to fulfil China's vision of the international order, described by Xi Jinping as a "community of common destiny"¹ in which China plays an important role, for example, through the promotion of its socio-economic model of state capitalism (in contrast to liberal democracy and market economy).

The Chinese initiative is mostly connected with physical infrastructure by land and sea routes. In addition, it is a still-evolving idea that also embraces policy coordination, reduction of barriers for trade, financial integration and people-to-people contacts, together forming the so-called "five connectivities". Also, other dimensions, such as digital connections, could be added. Therefore, many projects can be placed under the BRI "umbrella", which makes it flexible and supports its expansion. Nevertheless, this also contributes to the perception of the BRI as a vague idea that can confuse its partners about the initiative's goals.

The BRI is mostly directed towards countries in China's neighbourhood, especially in Southeast, South and Central Asia. In these areas, most of the BRI projects

¹ J. Mardell, "The 'Community of Common Destiny' in Xi Jinping's New Era", *The Diplomat*, 25 October 2017, <https://thediplomat.com/2017/10/the-community-of-common-destiny-in-xi-jinping-s-new-era/>.

are being implemented so as to create favourable economic conditions, mainly for Chinese enterprises, as well as to ensure stability close to China's borders. Nevertheless, Central and Eastern Europe (CEE) is an important region for the creation of land connections within the BRI, mainly rail cargo links between the EU and Asia. Thus, China's interest in the region has increased in recent years, which resulted in the creation of the 16+1 format in 2012² (currently 17+1 after Greece joined the grouping in 2019). However, thus far, expectations connected to the BRI in CEE, mainly regarding economic cooperation, have not been fulfilled. Moreover, in recent years, the BRI has raised concerns in the EU as it was perceived as one of the instruments (along with, for example, Chinese investments) designed to shape globalisation,³ reduce the EU's economic position and undermine the coherence of the Union's policy towards China. Therefore, the EU has also developed its own initiative regarding connectivity between Europe and Asia.⁴ Although some synergies between China's and the European Union's strategies can be pointed out, the EU's proposal is perceived mainly as a counterbalance to the BRI. Moreover, CEE has become one of the contested areas in the intensifying rivalry between China and the US. This creates a situation in which it is harder for the CEE countries, such as Poland, to balance relations between the United States and China. It means that stronger ties with the US can be realised only at the cost of easing relations with China.

In this article I analyse the importance of Central and Eastern Europe to the BRI's realisation as well as if and how the initiative affected CEE countries' economic and strategic relations with China. First, I will assess the potential of rail cargo links, the most visible BRI element in CEE. Second, the political framework of cooperation between China and CEE countries, namely the 16+1/17+1 format, will come under scrutiny. Third, infrastructural projects other than those under the BRI will be described, including how they affect projects under the Chinese initiative. Fourth, the US's influence on the cooperation with China will be assessed. Finally, some conclusions will be made regarding, for example, the future of projects within the BRI framework in CEE.

² The 16+1 format was, therefore, initiated before the BRI was officially announced in 2013.

³ E. D'Ambrogio, "Prospects for EU-Asia connectivity", European Parliamentary Research Service, October 2018, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/628265/EPRI_BRI\(2018\)628265_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/628265/EPRI_BRI(2018)628265_EN.pdf).

⁴ "Connecting Europe & Asia: The EU Strategy", European Union External Action Service, 26 September 2019, https://eeas.europa.eu/headquarters/headquarters-homepage/50699/connecting-europe-asia-eu-strategy_en.

RAIL CARGO LINKS – A FLAGSHIP INITIATIVE IN THE CEE

Given the land connections within the BRI, currently, the most tangible results are rail cargo routes.⁵ CEE is important in this matter because a transport corridor through Kazakhstan, Russia, Belarus and Poland is the fastest and relatively most well-developed route for rail cargo shipments between East Asia and Europe. The geographical location poses a chance for CEE to be a potential beneficiary of BRI development. From the Chinese point of view, the rail cargo connections' goals are to create business opportunities for Chinese companies (not only in manufacturing, but also, for example, in logistics), to export overproduction and to develop the western regions of China, which are far from the ports on the eastern coast of the country.

In mid-2019, there were links between about 60 Chinese and 53 European cities in 16 countries.⁶ In 2018, around 6,300 cargo trains operated between China and Europe,⁷ most of which passed through the Polish city of Małaszewicze, on the border with Belarus, which is one of the largest dry ports in Europe. However, in 2018 only 3% of the total value of goods (and only 1% of the volume) shipped between China and Europe were transported by rail. In comparison, air freight accounted for 27% by value (2% by volume) and maritime shipping 60% by value (90% by volume).⁸ This is because transporting by railway is more expensive than by sea and not as fast as the more expensive air transport. Therefore, particular sectors in which just-in-time deliveries and cost of storage are crucial can benefit from rail cargo. This group includes, for example, electronics, car parts, processed foods and toys. In the case of food, the potential of rail freight is limited due to Russia's embargo imposed on agricultural products from the EU. Therefore, a big chunk of one of the main groups of products that can be shipped from Europe is banned from

⁵ Having said that, it is worthwhile to mention that some connections currently within the BRI were operational before the initiative was announced in Autumn 2013. The company China Railways Express (CRE) began shipping goods by rail from China to Europe in 2011 and a regular rail cargo link between Łódź (Poland) and Chengdu started in May 2013. After the BRI's establishment, these connections gained political support.

⁶ "China cuts subsidies on rail freight shipments to Europe", Bank of Finland, BOFIT WEEKLY, 2019/35, https://www.bofit.fi/en/monitoring/weekly/2019/vw201935_5/.

⁷ C. Devonshire-Ellis, "Free Trade Zones on China's Belt & Road Initiative: The Eurasian Land Bridge", Silk Road Briefing, 19 September 2019, <https://www.silkroadbriefing.com/news/2019/09/19/key-free-trade-zones-along-chinas-belt-road-initiative-eurasian-land-bridge/>.

⁸ "China cuts subsidies on rail freight shipments to Europe", Bank of Finland, BOFIT WEEKLY, 2019/35, https://www.bofit.fi/en/monitoring/weekly/2019/vw201935_5/.

reaching China. Nevertheless, some companies in the CEE active in the logistics and spedition sector can benefit from the BRI expansion as they can service distribution networks in the region. However, a substantial share of benefits in this area belongs to Chinese logistical companies and the biggest companies from Western Europe.

Importantly, rail transport is subsidised by the Chinese central government as well as by provinces and cities which compete to be at the centre of EU-China trade. This policy is also aimed at promoting among the business community the railroad connection in its initial stage of functioning. The scheme of subsidies for rail transport is not transparent and can differ from one train to another. It is estimated that the overall subsidies of provinces are worth around 200-300 million USD a year.⁹ Subsidies should be gradually phased out – they reached 50% of transport costs in 2018 and should be reduced to 40% in 2019 and 30% in 2020. Ultimately, subsidies are planned to be abolished by 2022.¹⁰ This will further undermine the competitiveness of rail freight relative to shipping by sea or air.

Despite more transport connections, almost all CEE countries record significant deficits in trade with China. This makes it harder to see the benefits from enhanced connectivity and suggests that the real problems are somewhere else, such as not enough competitive offers by CEE businesses or obstacles in entering the Chinese market. There is also disappointment among some CEE states because there are relatively not as many Chinese investments in the region as the main focus is on Western Europe. Moreover, investments in the CEE mostly take the form of acquisitions and greenfield investments¹¹ are scarce. The above-mentioned issues are not only economic but also political challenges for the governments of the CEE states as they invested in developing relations with China in recent years.

⁹ J. Jakóbowski, K. Popławski, M. Kaczmarski, "The Silk Railroad. The EU-China Rail Connections: Background, Actors, Interests", Centre for Eastern Studies, OSW Studies, Number 72, Warsaw, February 2018, https://www.osw.waw.pl/sites/default/files/studies_72_silk-railroad_net.pdf.

¹⁰ "China cuts subsidies on rail freight shipments to Europe", Bank of Finland, BOFIT WEEKLY, 2019/35, https://www.bofit.fi/en/monitoring/weekly/2019/vw201935_5/.

¹¹ Greenfield Investments are a type of foreign direct investment in which a parent company creates a subsidiary in a different country, building its operations from the ground up. It can include production facilities, distribution hubs, offices, etc. See: J. Chen, "Green-Field Investment", Investopedia, 2 September 2019, <https://www.investopedia.com/terms/g/greenfield.asp>.

16+1/17+1 – CHINA'S MAIN COOPERATION FRAMEWORK IN THE CEE

The 16+1 format (currently 17+1) was inaugurated in 2012 during then-Prime Minister Wen Jiabao's visit to Warsaw, Poland. Its aim is to enhance cooperation between 17 CEE states and China. It is also a tool to promote the BRI. At the summit with the CEE countries' leaders in Suzhou in November 2015, President Xi Jinping announced that the 16+1 concept would be integrated with the BRI. As of now, most of its members have signed a memorandum of understanding on BRI implementation.

However, obstacles have emerged that hamper effective cooperation within the group. The most crucial one is that twelve of the countries are EU members and five are not. This makes it more difficult to coordinate activities. For example, the Belgrade-Budapest rail line, which is supposed to be the biggest China-financed project in the region within the BRI, is delayed due to the European Commission's objections regarding a tender procedure concerning Hungary's part of the investment. The differences between the 17+1 members are visible in the structure of the Chinese investments. Balkan non-EU states are in the limelight. It concerns such initiatives as building a power plant in Serbia or a highway in Montenegro. In the EU members, one of the biggest investors has been the China Ocean Shipping Company Limited (COSCO), which took over the port in Piraeus, Greece in 2016. An important step in China's activity in the EU market is the winning of the tender to build the Peljesac Bridge in Croatia by a Chinese entity. It is worth noting because financing of the project comes from EU funds. That shows an improvement in Chinese companies' preparation and the growing competition for European companies involved in public procurements. Nevertheless, the above-mentioned investments were discussed on a bilateral basis rather than in the framework of the 17+1. Therefore, the 17+1 is more a platform for enhancing bilateral relations between CEE states and China rather than an intra-regional coordinating body of BRI implementation. What is more, among the 17+1 members, perceptions of the BRI and China's policy are diversified. Hungary, Croatia and Greece support stronger relations, while Poland and the Baltic states are more cautious because of the possibility of China using its

economic clout and the BRI as a political tool.¹² In the near future, some countries' (such as Poland's) disappointment regarding the 17+1 as well as China's willingness to attract the EU to its side in its rivalry with the US will keep collaboration within this format at a low profile.¹³

CEE AMONG DIFFERENT CONNECTIVITY STRATEGIES

Central and Eastern European states are open to initiatives aimed at developing infrastructure between Europe and Asia. Potentially, they can reap the benefits of enhanced opportunities for transport of goods and provision of services (mainly in transport and logistics) and streamlining of the flow of people and information. Although the BRI gained much attention in recent years, there are also other concepts regarding Europe-Asia connectivity.

The EU's Strategy on Connecting Europe and Asia,¹⁴ adopted in 2018, should be perceived as a response and a counterbalance to the BRI. The aim is to keep its influence on the direction of the development of physical infrastructure, for example, transport and energy, as well as other types of connections (for example, digital) between Europe and Asia. It can also enable the promotion of the EU's norms regarding infrastructural projects vis-à-vis the BRI, which is accused, for example, of a lack of transparency and of not fulfilling international standards regarding labour rights, environmental protection or project financing. The EU also uses other instruments to foster connectivity development, such as the Investment Facility for Central Asia, the Asian Investment Facility and the European Fund for Sustainable Development.

The EU's strategy and openness towards combining its projects, for example, the extension of Trans-European Transport Networks (TEN-T), with investments initiated within the BRI creates an opportunity for collaboration. It can embrace

¹² As is visible in the case of forging the EU's stance on the South China Sea or treating human rights activists in China. See: A. Denková, E. Zgut, K. Zbytniewska, L. Hendrych, M. Koreň, "The Belt and Road Initiative: Visegrad Four's Chinese dilemma", Euractive, 22 March 2018, <https://www.euractiv.com/section/eu-china/news/the-belt-and-road-initiative-visegrad-fours-chinese-dilemma/>.

¹³ J. Szczudlik, "Prospects for CEE-China Relations after the Sofia Summit", PISM Bulletin, Nr 91 (1664), 13 July 2018, https://www.pism.pl/publications/Prospects_for_CEEChina_Relations_after_the_Sofia_Summit_.

¹⁴ "Connecting Europe & Asia: The EU Strategy", European Union External Action Service, 26 September 2019, https://eeas.europa.eu/headquarters/headquarters-homepage/50699/connecting-europe-asia-eu-strategy_en.

cooperation with the Eastern Partnership countries, Central Asia or the Balkans. It can ensure better utilisation of the potential of both initiatives and increase the efficiency of projects, among others, in terms of planning and spending of financial resources. Both initiatives can be complementary and create value added for hosting countries as well as for the business communities from the EU and China by streamlining transportation of goods between East and West. The EU's engagement can also support regional integration and provide an alternative to developing countries in Eurasia to China's or Russia's financing. To achieve these goals, platforms of cooperation should be established or invigorated, such as the EU-China Connectivity Platform, where projects in the interest of both sides, including in Central and Eastern Europe, can be discussed. For example, in April 2019, the EU and China decided to work within the Connectivity Platform on sustainable rail-based corridors,¹⁵ which is important for the CEE.

The European Union's strategy has recently gained support from an important external actor, namely, Japan. In 2015, Japan coined the "Partnership for Quality Infrastructure" initiative, which foresees investments of around 110 billion USD in projects in Asia. This was followed by another connectivity strategy, the "Free and Open Indo-Pacific", which aims to create links inside Asia and with Africa. At the end of September 2019, the EU and Japan established a partnership on connectivity "based on sustainability as a shared value, quality infrastructure and their belief in the benefits of a level playing field".¹⁶ Their aim is to cooperate on connectivity projects in various parts of the world, including, among others, the Balkans and Eastern Europe. Japan, as an important investor in CEE, a country with a significant record on infrastructural and development projects, and with large financial assets, can be perceived as a valuable partner for the EU. What makes cooperation between the two parties easier is that Japan shares with the EU a vision of rules and standards that should apply to infrastructural projects, including, for example, transparency, sustainability (in various aspects) and inclusiveness.

More financing sources for infrastructural projects on the table provide room for manoeuvre for CEE and the EU's neighbouring countries. They can make use of

¹⁵ M. Sefcovic, "Connecting Europe and Asia: seeking synergies with China's Belt and Road", Beijing, 25 April 2019, https://eeas.europa.eu/delegations/china/61412/connecting-europe-and-asia-seeking-synergies-china%280%99s-belt-and-road_en.

¹⁶ "The Partnership on Sustainable Connectivity and Quality Infrastructure between the European Union and Japan", European External Action Service, Brussels, 27 September 2019, https://eeas.europa.eu/headquarters/headquarters-homepage/68018/partnership-sustainable-connectivity-and-quality-infrastructure-between-european-union-and_en.

different connectivity strategies put in place to receive more favourable conditions for the projects. Different connectivity strategies in Eurasia, if managed effectively and with mutual understanding, can be a tool for enhancing a rules-based multi-lateral order. The threat, however, connected with multiple connectivity strategies and manifold projects in their frameworks is a lack of cohesion between them, which can cause a waste of funds and create infrastructural gaps. To a large extent it is a matter of consultation and forging of common rules to enhance connectivity. Without that, concurrently, rivalry in Eurasia and tensions between major players, especially the EU, China, Russia and the US, can intensify. It would mean that countries in the BRI will have to make a choice of either leaning towards one of those powers or balancing relations between them, which could make them an area of competition.

There are several factors determining engagement in projects under different connectivity initiatives. One of them is financing. When it comes to the EU member states, conditions offered, for example, by China, can be not as beneficial as EU structural funds or loans from the European Investment Bank. In that case, the CEE states that are not EU members, such as the Balkans, can be more prone to getting funds from outside partners, including China. The other issue is the cohesion of the potential BRI projects with the development strategies of the countries in the CEE. This concerns, for example, roads, railways or the energy sector. Connectivity strategies should also be in line with intra-regional initiatives, such as Via Carpatia, which aims to create transport links in countries between the Baltic states and the Balkans. There are also political challenges for some CEE countries to tap the potential of rail connections. This concerns relations between Ukraine and Russia that negatively affects transportation of goods through Ukraine. It hits other countries, especially Slovakia, which is unable to operate cargo links on its eastern border.¹⁷

THE US FACTOR

When it comes to connectivity in the CEE, the United States' activity is also visible in recent years. After the Cold War, especially due to the expansion of NATO and the EU to the east, US influence in CEE has increased. The United States has been a counterbalance to Russia, which has been a contestor of the regional order (as, for

¹⁷ "No Belt No Road – Slovakia on the margins of China's BRI initiative", Central European Institute of Asian Studies, CEIAS Insights, 3 April 2019, <https://ceias.eu/no-belt-no-road-slovakia-on-the-margins-of-chinas-bri-initiative/>.

example, Russia's illegal annexation of Crimea in 2014 and its military involvement in conflict in Donbas have shown). However, because of BRI development as well as growing investment and trade activities, China has emerged as another significant actor in the region, which has thus attracted the attention of the US. Therefore, CEE has become one of the areas of the US-China competition.

The US tries to diminish China's influence in the region by, for example, cooperation with CEE countries in the security area, such as deployment of American troops on the eastern flank of NATO. It is directed towards Russia but also gives the US leverage in relations with their partners in the region. Moreover, the US administration supports the enhancement of connectivity links in Central and Eastern Europe with the involvement of American businesses. In that regard, the United States supports the Three Seas Initiative (TSI), as shown by the presence of President Donald Trump at the initiative's summit in Warsaw in 2017. The TSI focuses on infrastructural projects in CEE, such as transport, digital technologies and energy. The US can play an important part in this area, for example, as a provider of liquefied natural gas (LNG) to LNG terminals in the region. The US tries also to shape digital connectivity in Europe, for example, by exerting pressure on the CEE states to exclude Huawei from creating 5G networks in the region. Given the close links of the CEE states with the US and the latter's intensifying rivalry with China, some China-supported projects in the region, among others in the connectivity area, can be undermined or their scope can be limited.

CONCLUSIONS

The BRI has not significantly changed CEE states' economic and strategic relations with China. Nevertheless, some countries in the region, such as Hungary or Serbia, put emphasis on developing political and economic relations with China, counting on increased market access and investments. As enhanced connectivity between Asia and Europe is needed, it is only one of the crucial factors that affect CEE-China relations. There are more structural factors that matter, such as easing barriers on the Chinese market for companies from the CEE states, engagement in global value chains or preparing an attractive business offer for Chinese consumers.

China's economic situation is crucial for BRI development. If it deteriorates, more attention will be paid to internal issues, which will entail less financial assets to support BRI projects. In the longer run, subsidies for railway connections between China and Europe are unsustainable. Phasing them out can cause uncertainty for investors and a consolidation of railway connections – only the most efficient will prevail. The efficiency of the BRI rail cargo links will also depend on

the enhancement of infrastructure capacities and border crossings. As CEE is embedded in the EU and linked to the US in the security area through NATO, a shift of the region towards China is improbable. However, there can be exceptions, for example, acceptance of some Chinese investment in sensitive areas (for example, telecommunication and energy) that can undermine the common EU stance on China. However, such mechanisms as investment screening¹⁸ at the EU level can be used to prevent that.

The EU is willing to cooperate with China within the BRI on connectivity projects that would be beneficial, for example, for CEE countries and countries in the EU's neighbourhood. However, the modest results of the EU-China Connectivity Platform and the fact that some EU states have doubts about the BRI because of, for example, insufficient environmental and social standards, show that exchanges of information, sustainable and transparent projects as well as political will are crucial in bilateral cooperation on infrastructure. Respecting international standards by China, for example, on debt or transparency, can take place to some extent as China seeks to build a positive image of the BRI in the global arena (so-called "BRI 2.0", which should be more sustainable and environmentally friendly) and try to mitigate the perception of the threat posed by its expansion.

Amid rising tensions between the US and China and given the focus on relations with the US in many CEE countries (such as Poland), mainly because of security reasons and Russia being a potential threat, their relations with China could erode. Even after a possible change of the US administration in 2020, the US-China rivalry will prevail as it is of a structural nature. That will create divisions within the region as, for example, Hungary, less interested in US support, can continue its policy of being closer to Beijing. Moreover, an important factor for some of the CEE states is also the matter of close ties and cooperation between China and Russia, which can strengthen the latter.

Given the asymmetry of power and thus lack of partnership relations between China and CEE states, the latter should create their policy towards China mainly through the EU as it has more leverage than any single state or even a group of countries (17+1, Visegrad Group). Supporting the coherent and strong voice of the EU can also to some extent be an answer to challenges posed by the US-China rivalry, for example, in trade or the technology area.

¹⁸ J. Szczudlik, D. Wnukowski, "Investment Screening Reforms in the U.S. and EU: A Response to Chinese Activity", PISM Bulletin, (1749)/2019, 2 January 2019, https://www.pism.pl/publications/Investment_Screening_Reforms_in_the_U_S_and_EU_A_Response_to_Chinese_Activity.

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