EU Centre in Singapore

Central European Responses towards Chinese Investment – the 16+1 Framework and the Belt & Road Initiative

A Lecture by Dr. Richard Q. Turcsányi

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Dr. Richard Q. Turcsányi gave a lecture on Chinese investment in Central and Eastern Europe (CEE), pointing out that China-CEE relations, under the so-called 16+1 framework, have become a "hot topic" in recent years because of concerns over Chinese influence. The network of cooperation between China and 16 CEE countries, including 11 EU member states: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia; and five non-EU countries from the Balkans: Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia, was initiated by China in 2011/2012. However, he lamented that – despite many think tanks and universities engaging with the topic - there are no theories available other than relatively minor methodological research on the 16+1 mechanism. The aim of this talk therefore was to elaborate on the theoretical background with the central questions being around China's foreign policy in the CEE region, the motivations behind China's 16+1 framework and how all these fit into the overall Chinese foreign policy.

In order to provide some background on the topic, Dr. Turcsányi briefly touched on the history of Chinese foreign policy, which oscillates between political and economic priorities. Currently there are discussions whether political goals are taking priority over economic considerations. Central Europe was a late comer when it comes to relations with East Asia due to its history and ties with the Soviet Union after WWII. For a long time, CEE countries had good relations with communist countries, but that changed significantly after 1989/1990 when they started to normalise relations with capitalist countries as well.

In the 2000s, trade started to take off between China and CEE countries, with the former becoming an important trading partner, but not yet an influential investor, for the latter. However, the global financial crisis in 2008 changed everything, with many arguing that there was great risk in Central Europe’s dependence on Western Europe, since CE’s exports to and received investment from Western Europe both plummeted during the crisis. Hence, a closer relation with China was a natural alternative, which generated high expectations of heightened economic exchange with China. Dr. Turcsányi stated that those high expectations, however, were not met. In fact, CEE's exports to China and Chinese investment in CEE have stagnated since then.

He then went on to speak in more detail about China's 16+1 framework which initially started in 2011/2012 as an “accident” (since China did not expect the 16 CEE countries to be so excited about the framework) which lacked clearly defined goals in the beginning. The framework aims to cover areas of investment, trade, but also culture and education. Since then, leaders’ summits are held on an annual basis, with many other (ministerial) meetings, exchanges and platforms. Since 2013 each summit concludes with guidelines, drafted by China. According to Dr. Turcsányi, the 16+1 framework is widely perceived as part of the Belt and Road Initiative (BRI) which serves as a bridge between China and (Western) Europe.

Dr. Turcsányi then turned to the rationales behind the 16+1. For CEE, economics was the decisive factor, as they expect more exports to China and more (green field) investment from China. However, they came to realise that the challenges in exporting to China could not be easily overcome, and at the same time, Chinese investments into CEE are mainly acquisitions or infrastructure projects. CEE also faced resistance from the EU, who has always been cautious towards the 16+1 framework, since it sees the 16+1 framework as a possible threat to European unity. The driving forces behind 16 +1 for China, according Dr. Turcsányi, remain quite unclear. Theoretically speaking, China is either pursuing economic goals by political means, or political goals by economic means. Dr. Turcsányi further suggested that the latter could be closer to reality. Nevertheless, Dr. Turcsányi noted China was able to establish its political goals through promised (and not actually delivered) economic benefits, resulting in a strong discrepancy between perception and reality.

Dr. Turcsányi then went on to draw connections between 16+1 and China’s BRI. He stressed that the common denominator was “connectivity”, with both platforms being long term initiatives by the Chinese in the face of no clearly defined goals and a lack of concrete numbers when it comes to achievements, investments and credit lines. He described the current situation as “hot politics and cold economics”, meaning that both sides have strengthened their diplomatic relations but without concrete economic achievements. However, people-to-people relations have also improved, primarily due to tourism and exchanges. The Czech Republic for instance received around half a million Chinese tourists every year, while trade between the two sides hardly saw an increase, contrary to the general perception and the portrayal in the media. However, he also cautioned about the figures highlighting the limited availability of (independent) data on Chinese investment. Dr. Turcsányi believed that the larger objective of Beijing's 16+1 and BRI is to counterbalance Russian influence (in CEE) but also to show its legitimacy in front of its own people. He highlighted the promise of economic goals, which were not met due to the structural gap between the two regions. He elaborated further on this, explaining that CEE is not that attractive for Chinese Foreign Direct Investment (FDI), since of the 16, 11 countries are EU member states and therefore have to comply with certain EU standards. Also the infrastructure in these countries is fairly well developed unlike in developing countries where China could play a crucial role as investor in infrastructure projects. Therefore, he opined that there are no prospects for major change when it comes to Chinese FDI into CEE.

Dr. Turcsányi's presentation was followed by an interesting exchange over how the EU standards could be an impediment for Chinese FDI. Dr. Turcsányi cited the example of a planned railway project from Budapest to Belgrade with Chinese funding. The project has been delayed as it was unclear in the first place whether this project was economically feasible and has been criticised for the lack of transparency since the official feasibility study was not made publicly available. Conveniently, Dr. Turcsányi argued that the EU was used as a scapegoat for the delay by the Hungarian government.

Another question raised by the audience was on the public perception of China in CEE and what he would do differently as a public advisor to Beijing. Dr. Turcsányi described the perception as overall polarised due to disappointment over the unrealised high economic expectations. For instance Beijing promised in 2015 to invest 10bn EUR in the Czech Republic, however until now only less than 1bn EUR has been invested, leading to disappointment. He closed his talk by highlighting the importance of lowering the economic expectations in order to avoid disappointment. However, at the same time Dr. Turcsányi sees it as crucial to continue the dialogue between CEE and China to get to know each other better.