

Think
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V4 Think-Tank Platform

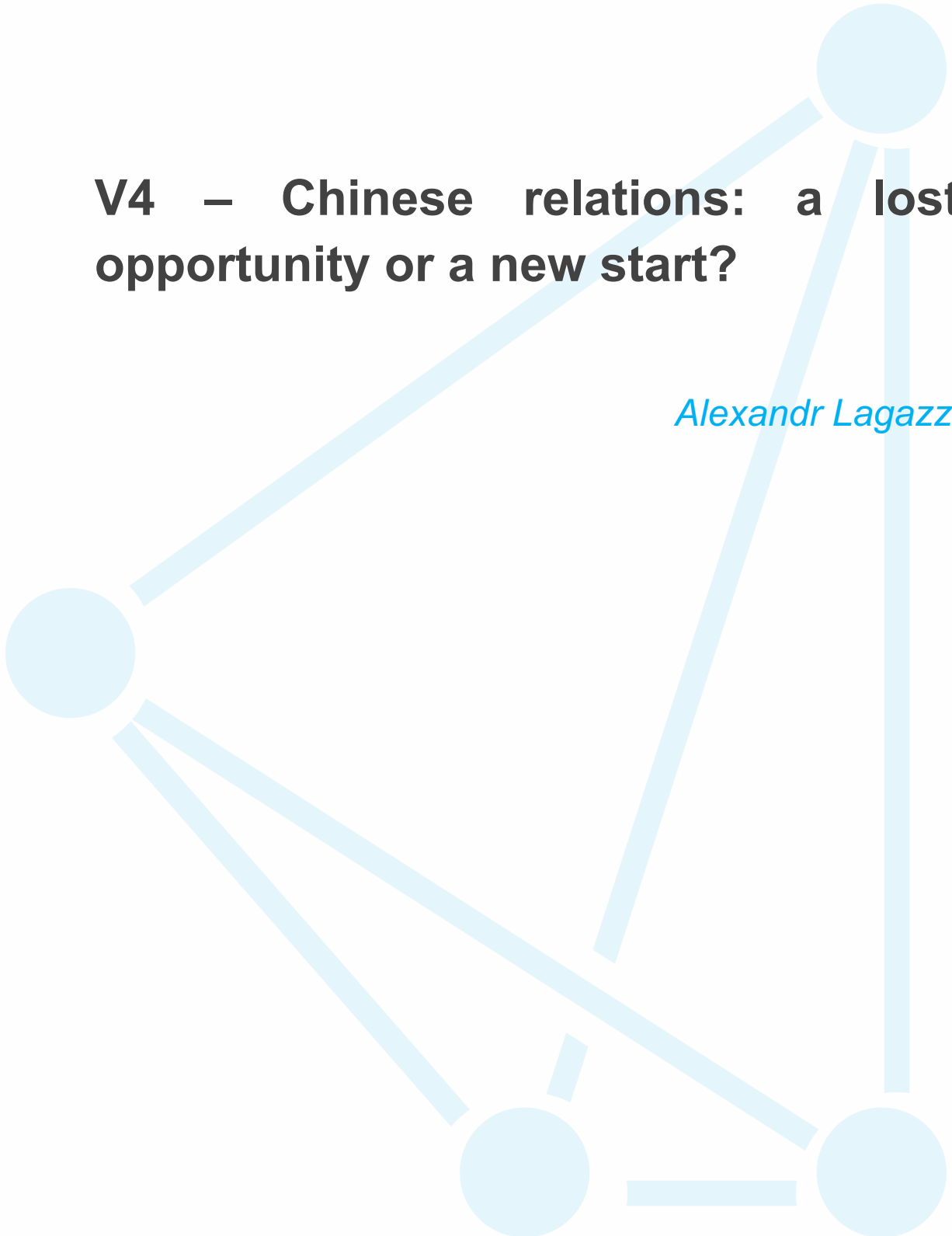
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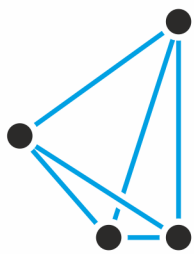
2018/February

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V4 – Chinese relations: a lost opportunity or a new start?

Alexandr Lagazzi





Introduction

Despite the V4's marketed warm relations with China, the focus of the 16+1 platform has shifted towards the Western Balkans. If the symbol of the latest meetings being hosted further east was not sufficient, the Visegrad group seems to be currently lagging behind the other members of the platform – especially those in the WB – in terms of engagement in the narrative of economic cooperation and political talks with China, both as part of the 16+1 platform and the Belt and Road initiative (BRI). This paper will explore the current state of relations between the V4 countries and China, trying to establish whether this current stagnation is caused by V4 stances within the EU or a Beijing-led shift towards the WB region. More importantly, this paper will then discuss whether there is the need for a V4 'joint strategy' that would reconquer Beijing's attention. Finally, it shall suggest whether such attention, causing concerns in Brussels, should be strategically exploited at the Visegrad or even European level in order to better approach and shape a common China policy.

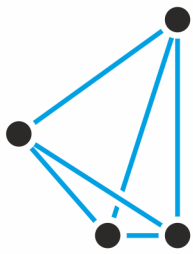
The current state of V4-Chinese relations, and the reason of the stagnation of investments

Judging from a macroeconomic standpoint, China has been able to overcome and survive the economic crisis fairly undamaged¹, especially compared to the rest of the world. In the last decade, the decline of the economy's growth rate was gradually halted until its lowest point in 25 years – 6.9 %², only to gain few decimal points in 2017³. As the original driving force of its diplomatic activities, the economic growth from 2008 to 2011-2012 has given China a rather fertile ground for establishing political relations with many countries worldwide. As China seeks to present itself as a player of global importance in a Beijing-dominated multipolar world, it used its economic power to gain political advantages whilst trying to fulfil such role. Recently however, Chinese

¹ Li, Liang-Xin: *Chinese Economy after Global Crisis*. [online]. In: International Journal of Business and Social Science Vol. 2 No. 2; February 2011. Available at: <http://www.ijbssnet.com/journals/Vol.2%20No.2%3BFebruary2011/7.pdf>, and Arias, Maria A., Wen, Yi: *Recovery from the Great Recession Has Varied around the World*. [online]. In: Global Growth, Federal Reserve Bank of St. Louis; October 2015. Available at: <https://www.stlouisfed.org/publications/regional-economist/october-2015/recovery-from-the-great-recession-has-varied-around-the-world>

² BBC: *China economic growth slowest in 25 years*. [online]. In: BBC Business; January 2016. Available at: <http://www.bbc.com/news/business-35349576>, and Magnier, Mark: *China's Economic Growth in 2015 Is Slowest in 25 Years*. [online]. In: The Wall Street Journal; 19 January 2016. Available at: <https://www.wsj.com/articles/china-economic-growth-slows-to-6-9-on-year-in-2015-1453169398>

³ Hornby, Lucy and Wildau, Gabriel: *China's 2017 economic growth fastest in two years*. [online]. In: Financial Times; 18 January 2018. Available at: <https://www.ft.com/content/9bf532a8-66de-37bf-b515-03589957ada4>



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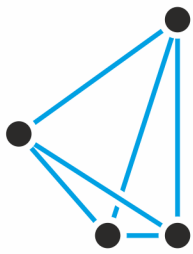
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economic growth has witnessed a minor slowdown, which was expected to be match by diminished political activities globally, which has turned out to be wrong. Beijing embraced the opportunity of taking over the leadership of free trade that the Trump presidency gave away and eagerly continued in previously proposed frameworks of political cooperation as vast as the BRI project. It seems therefore that Beijing's approach might be that of balancing its political activity (especially foreign policy) in order to compensate its stagnating economic development, instead of the previous model of diplomacy which merely followed the positive course of its economy. Boosting the Chinese economy, in part via foreign investments, will continue to be a key element for the current regime to sustain its power and foreign political and economic activity might become a standalone tool to achieve it.

After shaking off the economic crisis, China's political activities and presence in CEE was thrust through the 16+1 platform. However, despite being originally dubbed as the "Warsaw initiative", little Chinese investment has materialized in the Visegrad Group since the onset of the platform's creation. Two assumptions seem to drive the dynamics of 16+1: first of all, that China remains the driving force beneath the platform, and secondly that the engagement of V4 countries primarily concerns furthering their economic interest. From this standpoint, the outcome is clear: China has shifted its preference from the V4 to the Western Balkans, despite the V4's political courting of Chinese investment opportunities after being approached via the 16+1 platform. The rather friendly political approaches of individual Visegrad countries towards China have been heterogeneous, starting with early optimistic agreements from Poland, passing through hopeful Czech and Hungarian rhetoric and ending with status quo in Slovakia. However, despite their mutual competitiveness with one another, none of the rather friendly political approaches seemed to work in terms of economic rewards (namely, investments). A possible shift back towards the region can be interpreted by Hungary's hosting of the Summit of the Heads of Government in 2017 (after Warsaw in 2012, Bucharest in 2013, Belgrade in 2014, Suzhou in 2015, Riga in 2016) and before Bulgaria's hosting of the 2018 Summit. However, the role of Hungary's PM Orban is to be accounted – as his rhetoric and personal China policy called for a 'turning to China'.⁴ Nonetheless, as shown in [AL&MV PP], Beijing's preference for investing in countries that are not (yet) part of the Union is mainly rooted in being able to bypass European regulations and political oversight, making WB countries more fertile ground for investment projects under Chinese terms. However, as the fields of possible V4-Chinese cooperation and Chinese investments are targeting mostly EU-regulated sectors, the role of the Visegrad countries in the 16+1 platform might seem as one of *training* for future EU market access. Given the proximity of the V4 countries to Germany and other Western European countries, topped by the rather favourable macroeconomic indicators and government favouring FDIs, such a role could indeed

⁴ MTI – Econews: *Orbán: if EU doesn't pay, Hungary will turn to China*. [online]. In: Budapest Business Journal; 11 January 2018. Available at: https://bbj.hu/economy/orban-if-eu-doesnt-pay-hungary-will-turn-to-china_143836



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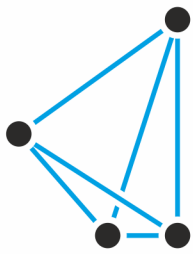
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be easily fulfilled. From a political perspective, China clearly does not want to attract unnecessary international attention in its approaching of CEE (a fact compounded by excluding countries too close to Russia from the 16+1 platform – Belarus, Moldova and Ukraine). Rather, it understands the nature of the Visegrad group together with the political benefits it provides – the Czech Republic, Hungary, Poland and Slovakia are, if united, a major political power (and a fairly powerful potential Chinese ally) sitting at the European table. Exploiting such feature of the V4 countries – most probably following the backlash over migration quotas that is mostly attributed to the Visegrad ‘troublemakers’ – would suggest diplomatic agility from Beijing.

Currently however, the political environment of the V4 countries and their stances towards China are scrambling the signals sent to both Beijing and Brussels. The candidate with the most complex relationship is certainly the Czech Republic, which seems to have operated a full U-turn after two rather critical decades of the Chinese regime and its violations of human rights. After the 2013 elections, in which social democrats gained power in the Parliament, credit is to be given primarily to the President, Miloš Zeman, who established very warm relations with Beijing by both visiting and hosting top Chinese political representatives. Even if Zeman’s stance towards China and his preference of diplomatic and economic pragmatism has been very divisive in domestic politics, he is not expected to change course after his re-election – at the contrary. However, despite the President’s personal efforts, his vision of the Czech Republic’s foreign policy was not reciprocated by the government. Now, with Andrej Babiš’ ANO party winning the fall 2017 general elections and Martin Stropnický being appointed as Foreign Minister, their respective programme of deeper integration in the EU and focus on human rights in foreign policy might again affect Chinese-Czech relations and perhaps create further opposition towards Zeman’s stances.

Hungary and Poland, originally regarded as the main beneficiaries of the 16+1, are now lagging behind the Czech Republic in terms of appeal within the platform. In both countries, much of the original optimism vanished after little of the original expectations came to reality. Poland appeared as the prime candidate for reaping benefits of engagement with China due to the size of economy and population, even kicking off the 16+1 process in Warsaw in 2011. However, Polish expectations, which consisted primarily in relying on the development of a strong relationship, were not met. Similarly to Warsaw, Hungary and its Prime Minister Viktor Orbán maintained very warm political relations, but apart from being key stakeholders in the 16+1 flagship project – the building of a Budapest to Belgrade railway, the cooperation was preceded and followed by a certain number of agreements that came short of implementation. Most importantly, the European Commission’s decision to initiate preliminary infringement proceedings against Hungary, given the fact that the project planned for implementation via an intergovernmental agreement while bypassing tender procedures, halted the construction and symbolized the structural shortcomings of Chinese-Hungarian bilateral relations. Lastly, Slovakia was originally positively inclined



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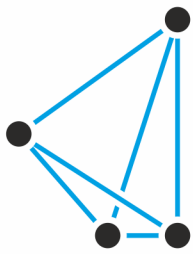
towards the initiative but sobered up during the second Fico government – abandoning high expectations despite having a sound economic environment for possible investments and having hosted a presidential visit from Beijing in 2009. Overall, arguably, the Czech Republic nowadays holds the most favourable position towards 16+1 cooperation, as the political representation is inclined towards cooperation and the economic indicators of the country show favourable conditions (the Czech Republic benefits now from the lowest unemployment rate in the Union: 2.3 % in 2017⁵ and 3.9 % at the time of writing⁶). Moreover, in terms of political stances, it differs from Poland due to its rather positive relations towards Russia, and due to the fact that it is not perceived as being in the crosshairs of Brussels, contrary to Warsaw and Budapest. On top of that, the Czech Republic has possibly suitable companies, such as Skoda auto, that seem ready to offer goods to export to China. Nonetheless, the trade imbalance between the V4 countries and China remains considerable, and despite the rather favourable conditions in the Czech Republic and also Slovakia, the case of Poland and Hungary shows that positive initial political expectations can be disappointed.

Conclusion and recommendations

There is still a path for the Visegrad region, despite currently lagging behind the Western Balkans within the 16+1 platform, to live up to its potential within the platform: after being reapproached by Beijing in the aftermath of the financial crisis, it has been established that the 16+1 platform can be utilized only as part of the context of EU-China relations – that is, without forging a Chinese-led (lite) alternative to EU. However, as the focus of China shifted towards the WB countries in order to exploit the lack of EU regulation while taking advantage of future prospects of EU membership (and thus warm relations with future EU members), the Visegrad countries had unrealistic expectations from Chinese investors and competed for attention that was not reciprocated. Rather, the Visegrad countries should implement a strategy to ‘win back’ their role within the 16+1 platform and attract Chinese investments. The most viable path to do so will be to unify their political stances and provide measures of economic reassurance (primarily legal frameworks and transparency), all together creating a sound environment for investments. As has been the case for Poland and Hungary, political expectations and numerous bilateral agreements do not necessarily result in a higher investment activity from China, but rather in attempts that show substantial structural shortcomings. As the 16+1 platform is mutually seen and marketed as part of the EU-China context, fear towards Chinese activity and possible political influence

⁵ The complete statistics of the unemployment rate in member states of the EU in December 2017 was retrieved from Statista. The full dataset is available here: <https://www.statista.com/statistics/268830/unemployment-rate-in-eu-countries/>

⁶ Reuters staff: *Czech Republic – Factors To Watch on Feb 9*. [online]. In: Reuters; 9 February 2018. Available at: <https://www.reuters.com/article/czech-factors/czech-republic-factors-to-watch-on-feb-9-idU8L8N1PZ1F7>



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in the CEE – V4 region is not entirely on point. China clearly fancies the idea of establishing a stable political relation towards countries that have decision making power within the EU – be it with current members or with candidate states – but the existing framework of EU regulation, given the rather modest Chinese economic activity in the Visegrad group – is already effectively halting further influential claims from Beijing. As the V4 countries already benefit from investments from other Asian economies (i.e. Korea, Japan and Taiwan), and most importantly are firmly connected to other EU member states' markets (mainly Germany), and given the low level of Chinese investment in the regional economies, the conditions are currently not in place to believe that China has political goals over the V4 countries. Rather, somewhat paradoxically, the 16+1 platform can be interpreted by the V4 countries as an opportunity to unify their political and economic environments towards (Western) European standards. Visegrad plays a special role of attractiveness for China within the 16+1 due to numerous reasons. First, it offers favourable conditions for investments, rather low costs of labour and great proximity to the Western European markets. Second, it has mostly favourable China policies topped by holding an important decision-making power (of the V4 states combined) at the European level. Therefore, Beijing's attraction and strategy of market access resulting in a 'training ground' for further European investments can be understood and analyzed as standard diplomatic and economic practice. Hence, the 16+1 participants' claims of the economic nature of motivation that fuels the initiative are quite trustworthy. Thinking about the opposite scenario, in which China would seek to establish political relations through the Visegrad states to influence the EU, its approach towards Visegrad would probably not result in achieving such an objective. Lastly, as the 16+1 platform is considered part of the BRI initiative, the European Union would benefit from an existing 'bridge' (even if one of many) to China in the V4 countries, as both the 21st Century Maritime Silk Road and the Silk Road Economic Belt are also aimed at Western Europe. As compliance to European standards and existing legal frameworks is yet a stumbling block for the V4 countries within 16+1 project, the EU could benefit from the Visegrad countries being members of the 16+1 platform to shape and implement its EU-China 2020 Strategic Agenda for Cooperation – in which the V4 should play the role of active partners with an already advanced relationship with China.

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