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# **The Pragmatic Cooperation between China and CEE: Characteristics, Problems and Policy Suggestions**

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# **The Pragmatic Cooperation between China and CEE: Characteristics, Problems and Policy Suggestions**

Liu Zuokui

**Abstract:**The article summarizes the basic characteristics of China-CEE cooperation: pragmatism; the combination of “European Perspective” and “Regional Approach” towards CEE; the cooperation facing with “window of opportunity”; the asymmetric nature between China-CEE cooperation. China still faces many problems and challenges when pushing the bilateral pragmatic cooperation which mainly includes: CEE is a non-homogeneous region and hard to form a strategic entity; CEECs’ demands for China are diversified; EU shows its suspicion of China-CEE cooperation; and there exist some risks in CEECs’ market. Based on the above analysis, the author gives some policy suggestions.

**Key Words:** China and CEE Pragmatic Cooperation, Characteristics, Problems, Policy Suggestions

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China-EU relationship has experienced a rapid development in recent decades, however, the relations between China and Central and East European countries (CEECs) are relatively underestimated and less developed under the framework of China-EU relations. Following the outbreak of global financial crisis and European sovereign debt crisis, the willing from both parties to seek cooperation was increasing. In 2011, China held the economic and trade forum for the first time with CEECs in Budapest, the capital of Hungary. In April 2012, Chinese Prime Minister Wen Jiabao paid a visit to Poland and put forward 12 measures between China and Central and Eastern Europe(CEE) pragmatic cooperation under the framework of China-CEE Economic and Trade Forum, and these measures greatly promote the bilateral relations. Currently, a 10 billion U.S. dollar special credit line established by Chinese government has kicked start. Many cooperative agreements between China and CEECs’ enterprises have been reached. China has sent over 30 trade promotion delegations to CEE countries. The Special Tourism Product Promotion Meeting between China and CEE was held successfully. The Cultural Cooperation Forum, the Education Policy Dialogue and Local Leaders Meeting were held successively in May and July of 2013 as well. China and CEE countries have broadened the scope of cooperation and improved the cooperation level.

# 1. The characteristics of China-CEE pragmatic cooperation

(1) Pragmatism is one of the characteristics of this cooperation.

China highlights its pragmatic policy by focusing on enhancing the economic cooperation and seeking economic partners, at the same time, insists on market-oriented, win-win cooperative model. Political and strategic cooperation is secondary. Hungary once asked for “strategic alliance” with China at a formal occasion, however, the incumbent Foreign Minister Yang Jiechi stressed that the bilateral cooperation is practical, and made clear that China will not make alliance with CEECs. <sup>①</sup>

Among four Visegrad countries, Hungary has always led the China-CEE cooperation. From 2003 to 2009, Poland and Czech kept criticizing China on human rights and Tibet issues; while Hungary and Slovakia refrained from criticism, kept their distance with Poland and Czech Republic and took every opportunity to promote the bilateral trade and economic relations with China. Since 2003, Hungary maintained rapprochement policies towards China. Even in May 2010, when Viktor Orbán, a centre-right, formerly pro-Tibet and anti-China politician, was elected Prime Minister of Hungary, still made it clear that Hungary will be built into “the center of China-CEE cooperation”. Other CEE countries such as Poland also began to accelerate development of the relations with China in recent years, but Hungary walked faster than others. From 2010 to 2012, the pro-China policy of Orbán government led two complicated results: on the one hand, the relationship between both parties has been improved; on the other hand, China started to estrange Hungary to shun possible risks. <sup>②</sup> At the same time, China and Poland interacted with each other frequently and established the strategic partnership in 2011. In 2012, Chinese Prime Minister Wen Jiabao paid his visit to Warsaw and proposed 12 measures to advance the pragmatic cooperation between China and CEE countries. He showed that China had confidence in Poland’s stability of politics and economy and good outlook of the country’s market. Dariusz Kalan from the Polish Institute of International Affairs discloses the characteristics of China’s CEE policy, “China wants to establish a stable foothold in CEE to serve as a gateway to China-EU cooperation. At the same time, the perceived volatility of Orbán government and not good relations with EU may be considered by Chinese as disadvantageous.” <sup>③</sup>

Some CEE think tanks describe that China chooses partners intentionally in CEE region, however, it is not the case, risk avoidance and respecting the rule of the market are the important considerations from China. Chinese Deputy Foreign Minister Song Tao, once stated in public that “it is always preferable for China to have a partner who is predictable and stable”. <sup>④</sup> The former Hungary ambassador in China Juhász Ottó put it in a more straightforward way that, like other international investors, Chinese investors have conducted the risk evaluation seriously before they invested abroad. The partners are

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<sup>①</sup>Juhász Ottó, “Principles and Frameworks for Cooperation between Central and Eastern Europe and China,” paper delivered to the meeting of China and Central and Eastern European Countries: Economic Cooperation and Outlook, Beijing, May 23, 2013.

<sup>②</sup> China is worried about the potential instability of Hungary’s right-wing government, especially, Orbán’s confrontational policy towards EU, his distrust in market economy. In 2012, China’s reluctance to save the bankrupt Hungarian state airline Malév and construct a high-speed link from Budapest airport to the city are the illustration.

<sup>③</sup>Dariusz Kalan, “Relationship of a Special Significance: A Chinese Direction in Hungary’s Foreign Policy under Viktor Orbán,” *Croatian International Relations Review*, Vol.18, No. 66, August, 2012.

<sup>④</sup>Dariusz Kalan, “Is China picking off individual EU members?” euobserver.com, July 10, 2012, available at: <http://www.euobserver.com/china/116926>

expected to meet strict criteria and requirements and China especially appreciates the partner's stability in political and economic terms.<sup>①</sup>

(2) The combination of "European Perspective" and "Regional Approach" towards CEE.

During the cold war, CEECs belonged to Soviet Union's sphere of influence. Chinese scholars used to choose the words "Eurasian countries" or "the camp of Soviet Union and East Europe" to identify the geopolitical character of CEE countries. As the CEECs' transformation and Europeanization, their identity has shifted from "Eurasian countries" to "European countries". However, Chinese perception of the status and identity of CEE countries is ambiguous. Many Chinese institutions such as Ministry of Culture, International Department of the CPC Central Committee, Ministry of Commerce as well as some research institutions still put CEE countries into the Eurasian countries list partially or wholly. China develops the relations with CEECs as a group and makes clear that, this activity is aimed at pushing the comprehensive, balanced development of China-EU relations, with which clarifies that Chinese foreign strategic layout towards CEE is not "Russia oriented" but "European oriented".

China also tries to use "regional approach" to develop the relations with CEECs. The connotation of "regional approach" is clearly defined in the process of China's pushing the pragmatic cooperation with CEECs. Through nearly 40 years of China-Europe relations' development, regardless of the Great Powers' dimension (such as Great Britain, France and Germany), EU's institutions' dimension (such as European Council, European Commission, European Parliament), and regional dimension (Western Europe, Northern Europe, Southern Europe), the CEE region is always relatively neglected. China has achieved some results in regard to those dimensions above-mentioned, only CEE region has not adequately developed. It is a new measure for China's foreign policy to develop the relations with CEECs, and China clearly defines the CEE as a region which includes five Central European countries (Poland, Hungary, Czech, Slovakia and Slovenia), three Baltic States (Estonia, Latvia and Lithuania) and eight Southeast European countries (Bulgaria, Rumania, Serbia, Montenegro, Croatia, Macedonia, Bosnia and Herzegovina and Albania).

The pragmatic cooperation between China and CEECs is the combination of "European perspective" and "regional approach" toward CEE, which reflects the new thinking and practice of China's policies to the EU.

(3) Not "strategic opportunity" but "window of opportunity".

There exist two different kinds of debates regarding to China-CEE cooperative opportunity—"window of opportunity" and "strategic opportunity". Despite some overlapping elements can be found on these two, their definite meanings are different. From the perspective of strategic implications, "strategic opportunity" is more important than "window of opportunity".

Due to the Eurozone's debt crisis, CEE becomes more dependent on external resources in order to sustain their economic growth and continue their catch-up strategy, CEE countries have generally adopted the policy of "Open to the East", actively absorbing the investment from the countries outside Eurozone countries. Since China holds plenty of foreign reserves, and "Going Global" strategy keeps through, which

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<sup>①</sup> The material is from the author's interview with Juhász Ottó in May 23, 2013.

makes the mutual cooperation from both sides become possible. One think tank from Central and Eastern European country, argued that, CEECs opened the window to eastern investors and this openness should be regarded as “window of opportunity”, that is to say, CEECs will not change the development path easily and would keep their Europeanization process. Therefore, CEE only offered a short opportunity to China because of CEECs’policy’s interim adjustment on condition that core Europe fall into troubles, and it should not be considered as a strategic opportunity offered to China. The CEE’s structural dependency upon EU has remained intact and the demands for China from CEECs are temporary. <sup>①</sup>

The Chinese policymakers are fully aware of the characteristic of “window of opportunity”. If Eurozone’s turbulence ends and its economy keeps stable and growing, CEE’s dependence on Eurozone will come back and China will be difficult to find better investment opportunity. So, China has the sense of urgency to invest in CEE, considering the “window of opportunity” will last for not long time. <sup>②</sup>

If China can gain foothold in CEE during the “window of opportunity”, it can be better to push the mutual cooperation. Therefore, “window of opportunity” can be transformed into “strategic opportunity”.

#### (4) The asymmetric nature of China and CEE pragmatic cooperation.

The Ministry of Foreign Affairs of People’s Republic of China has established the coordinator mechanism with 16 CEE countries separately and built a China-CEE cooperative mechanism led by Foreign Ministry and participated by 18 national ministries and relevant institutions. <sup>③</sup>

For China, the coordination mechanism means the integration of relevant agencies, institutions and instruments, and China also hopes that 16 CEECs could be organized to a unified framework towards China which can better serve the bilateral cooperation. However, from the beginning, the asymmetric nature of China-CEE cooperation mechanism is hard to wipe out.

Given their complicated national conditions, 16 CEECs seem unlikely to form a strategic entity (about the detailed explanation, please see the following text) and it is impossible to let CEECs form a unified coordination mechanism towards China. As argued by CEE policymaker, it is impossible for CEE countries to develop relations with China under a unified political framework. <sup>④</sup> The basic cooperation pattern between China and CEE will be “one country versus multiple sides”, which would be an unfavorable factor to advance the cooperative scope and level.

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<sup>①</sup>Sarmiza Pencea, “Windows of Opportunity in China-CEE Economic Relations,” paper delivered to the meeting of China and Central and Eastern European Countries: Economic Cooperation and Outlook, Beijing, May 23, 2013.

<sup>②</sup>This judgment is based on the author’s interview with MFA officer from China.

<sup>③</sup> 18 cooperation agencies include: Ministry of Commerce, the International Liaison Department of the Central Committee of the CPC, National Development and Reform Commission, Ministry of Education, Ministry of Culture, Ministry of Science and Technology, Ministry of Agriculture, Ministry of Transport, Ministry of Railways, The Export-Import Bank of China, National Development Bank of China, National Tourism Administration of PRC, Ministry of Finance, The People’s Bank of China, The State Administration of Radio Film and Television of China, The Civil Aviation Administration of China, the Central Committee of the Communist Youth League, the China Council for the Promotion of International Trade. After the China’s institutions and agencies adjustment in 2013, some cooperative institutions has changed (for example, the Ministry of Railways has been integrated into Ministry of Transport. However, the general framework does not change.

<sup>④</sup>In May 2013, the author took part in activity held by Poland Embassy in China. The Poland ambassador in China made such statement.

## 2. Problems of China's advancing China-CEE pragmatic cooperation

(1) CEE is a non-homogeneous region and hard to form a strategic entity.

Some CEECs' leaders once claimed that despite their differences, CEE countries share certain similarities. However, these similarities are far from China's strategic demands and the development value should be further investigated. These similarities can be arranged in a descending order of importance: First is "EU Accession First" strategy in domestic affairs and foreign policies. Second is strikingly depending on great powers geopolitically. Third is that they are all former socialist countries and are undergoing the transformation from socialist regime to democratic system, from planned economy to market economy, from socialist law to EU law and from being controlled by the Soviet Union to return to the West. Fourth is that they attempt to form various regional identity communities, such as "Visegrad Group", "Western Balkan" and "Central European Free Trade Area".

There are more differences than commonalities among CEECs. The different names such as Central Europe, Eastern Europe, Southeast Europe, Western Balkan, Eurozone and non-Eurozone countries, EU and non-EU members, EU potential candidate and non-EU potential candidate, show the heterogeneity of CEECs. International research, investigate and statistics agencies have different classifications for those CEECs. European Bank of Reconstruction and Development, OECD, International Monetary Fund and etc., describe the CEECs in different ways as well. Even the EU, adopts different policies and instruments to develop the relations with different CEECs. After the "big bang" enlargement in 2004, EU has realized that the differences between Central and Eastern member states have a serious impact on European integration process. In summary, the differences within CEECs are the following: language, culture, religion, social traditions, economic scale and etc. Even some CEECs have taboo to the name of "Central and Eastern Europe". Therefore, so many Central and Eastern European countries, although situated in one region, until now could hardly form an integral strategic power.

Taking into account of the above differences, China may come across great hindrance while developing relationship with these CEE countries by "regional approach". In 2012 when China met CEE countries at the economic and trade cooperation forum held in Warsaw, some CEECs thought Poland was incapable of leading CEE, and even could not represent CEE. At the same time, Poland indicated that it still did not make preparations to be the "leading wild goose", and only sought to develop its own relationship with China. Hungary also made it clear that while promoting cooperation with CEE countries, China should not deliberately create a "core state" and demanded China should not put its emphasis on one or several major powers but treat each country equally whether it is small or not. <sup>①</sup> Czech Republic, leading by a Eurosceptic ruling party, can hardly become the mainstream of CEE countries or the representative cooperative partner of China in this region. What's more, to some extent, Czech has shown no explicit interests in the cooperation proposals suggested by China so far. Apart from these three, other countries are too small in size, less influential to others, or

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<sup>①</sup>The above opinion was stated by Hungary ambassador in China at the occasion of "Ambassador Forum" held by the Institute of European Studies, Chinese Academy of Social Sciences on 29 May, 2013.

struggling with its domestic troubles. Under such context, it is difficult to harvest unanimous support from these 16 countries, and may encounter unexpected problems if approaching CEE as an integrated part.

(2) CEECs' demands for China are diversified.

The cooperative demands for CEECs to China may be divided into three categories:

The first category is represented by Hungary and Serbia which are willing to deepen the pragmatic cooperation with China. Hungary is wishing to play the forerunner role and acts as the "bridgehead" of China-CEE cooperation. Meanwhile, considering the deteriorating ties between the Orbán government and EU, Hungary is always ready to take China as a main partner to mitigate the lash caused by its uncomfortable ties with EU. Some scholars argued that Hungary had developed an advanced and comprehensive strategy towards China from some strategic considerations. The Hungary government has established a special committee in charge of China affairs, which shows its diplomatic policies styles. The Serbian government has maintained a close cooperation with China on regional and global affairs. Serbia government's "two-door policy" is aimed at enhancing the relations with China. Among the four pillars of Serbia foreign policies (EU, Russia, USA and China), China gained some weight. The bilateral cooperation begins to shift from the political dimension to economic and trade dimensions in a more comprehensive and balanced way. <sup>①</sup>Romania also shows its inclination to develop ties with China. Estonia disclosed its Asia policy in 2002 with the emphasis placed on China. However, among CEECs, the number of the countries who strongly wish to enhance ties with China is not so big.

The second category is represented by Poland, Czech and most of EU members from CEE which are keen to become the "free riders" of China's economic development. Relying on EU's influences, together with their own better resource endowment and market scale, these categorized countries have the abilities and advantages to develop the relations with China at the regional level. In recent years, CEECs' EU members such as Poland obviously increased the cooperative efforts towards China. The bilateral cooperation, however, is only confined to economic and trade and both parties share no common grounds in politics, societies and diplomatic affairs. Less regime identities, striking strategic differences and few mutual dialogues made this cooperation tedious.

The third category is represented by Western Balkan countries except Serbia. These countries which are heavily dependent on the EU, have poor independent development abilities, limited market capacities, at the same time, they are short of resources and their industries lack of competitiveness. Most of them are sustained by small, traditional or special industries. The European debt crisis plunges these countries into development predicaments and they need investment support from China. But as soon as the crisis gets relieved, they will renew the dependence on EU and terminate the speculative psychology to China. The bilateral relationship between them and China may step into an uninteresting period.

(3) EU keeps consistent pressures on China-CEE cooperation.

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<sup>①</sup>Both Serbia and Hungary government stated that, they would act as "the partner of understanding China" in the EU, and push actively the development of China-EU relations. However, due to the not good ties between Hungary and EU, no definite date of Serbia's accession to the EU, what impact of these two countries will have is still out of the question.



China's enhancing ties with CEE has aroused serious attention of EU institutions and core member states like Germany, which suspected that China tried to "split EU" and built another "CEE group". German Chancellor Angela Merkel once questioned China's intention of holding bilateral talks with CEE separately and indicated that the trouble-ridden EU "had to" tolerate China's behavior. In 2012, when CEE submitted the joint communique for China-CEE meeting to EU institutions, EU objected to the proposal of "institutionalizing the China-CEE relationship for a long term". As the cooperation deepens, EU institutions and relevant EU members may "make troubles" to China. Therefore, what is the future of such long-term cooperation mechanism? It requires further contemplation and design. How to eradicate EU's suspicion of China's existing strategy will be a long standing issue.

(4) There exist some risks in CEECs' market.

Some attractive and qualified assets in CEECs were digested by western strategic investors during transformation period. Chinese investors have to seek new opportunities to broaden the scope of cooperation when they stepped into CEE in 21<sup>st</sup> century. EU is the CEECs' major target market, and the structural dependence of CEE countries upon EU will not change easily. Even worse, for Chinese investment actors, they will have to follow the EU rules because most of the CEECs have adopted the EU law. The convergence of CEECs' market rules to the EU increased the difficulties of Chinese enterprises' engagement. Taking the example of infrastructure constructions which China is interested in, it is still far from getting profit so far. Even more, China has the failure lesson of investing in infrastructure construction in Poland. What's more, in some CEE countries, especially Southeastern European countries, grey economy is rife, corruption is rampant, and laws or regulations are often out of the place. All these factors bring risks for China's investment in CEE.

### **3. Policy suggestions to China-CEE pragmatic cooperation**

In general, to develop the China-CEE relationship should be regarded as an important part of China's foreign policy towards EU. Despite many troubles was faced with, China can overcome these difficulties through positive and effective measures.

(1) Amending partly the asymmetric problems between China-CEE cooperation. Some CEE thinktanks insist that, it is necessary for CEE countries to coordinate with each other when they develop ties with China. If it cannot be realized at the political level, they can try it at economic and trade level. Given their small sizes, most CEE countries can hardly conduct reciprocal trade cooperation with China. However, if CEECs can coordinate their convergent or similar industries, thus facilitate the investment as a whole at the regional level from China, China-CEE cooperation is easy to gain the momentum, and can more easily be successful than one country deal with China solely. In addition, if there is no coordination among CEECs, it will lead to the unhealthy competitions among them when they attract China's investment.<sup>①</sup>

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<sup>①</sup>On May 23, 2013, the author took part in the Forum "China and Central and Eastern European Countries: Economic Cooperation and Outlook" held by Institute of World Economics and Politics, Chinese Academy of Social Sciences, and interacted with Romanian Academy of Sciences scholar Sarmiza Pencea on this regard, she made such suggestions.

The proposal of “a certain scope’s” but not comprehensive coordination made by CEE think tank is not only feasible but also precedent: the dialogue and cooperative mechanism between Visegrad Group (V4) and Japan is a good example.<sup>①</sup> While developing the sub-regional relationship with CEECs, Japan properly handled the relations with EU and relieved EU’s suspicion of Japan’s activities in CEE. Japanese experience is worthy of reference. China can also search for good basis and relatively mature sub-regional organizations such as V4 in the CEE region as a better partner.

(2) Imposing no “unified standard” upon CEECs and tap carefully the cooperative potential from these countries. China should better balance the country and region considering the commonalities and differences among them, and not only pay attention to the relations with key partners, but also do not give up the relations with the whole region. Be sure not to arouse dissatisfactions of the whole region when concentrating on key countries, and at the same time, not to lose the specific characteristics of the policy when paying attention to the region as a whole. In conclusion, China should create the “connected effect” in the region by developing relationship with individual states.

When choosing key partners, China should give priority to countries with prominent comprehensive indicators, such as Hungary, Poland, Romania and Serbia. Hungary has always pursued a China-friendly policy and enjoyed a favorable geological location and supporting environment. With qualified population and a lot of Chinese living in this country, it is considered as preferential partner (Of course, risk assessment will be the first work). Poland is a big and influential country in both CEE and EU. Its resource endowment, population quality, geological position and development potential are exceptional enough to be deemed as an important partner. With good location and outstanding resource endowment, Romania is also a big country that maintains traditional friendship with China in CEE. Serbia, an essential successor to the Socialist Federal Republic of Yugoslavia (SFRY), is also a valuable partner to China and worthy of developing further. From the perspective of the whole region, China can seek cooperation in special sectors such as agriculture, industries which China has first-mover advantage or catering to the real needs of CEE, like infrastructure construction, machinery manufacturing and clean energy.

(3) Taking considerations of the EU’s core concerns, and avoiding introducing antagonistic measures against the EU when developing China-CEE relations. CEE should be regarded as an integral part of EU and China should actively negotiate with EU in regard to the China-CEE cooperation. The bilateral cooperation between China and CEE should be pragmatic and keeping low profile. China should be cautious to mention “institutionalization of Sino-CEE relations” which may arouse EU’s suspicion, and emphasize to the EU that, cooperation with CEE countries was relatively neglected by China during the past years, it needs to move the CEE to a higher level in China’s foreign policy and make China’s ties with different regions within EU more balanced. At the same time, China should not subject itself to the EU; rather, it should actively create conditions to push the EU increase its institutional flexibility within EU framework, and make the CEE play a positive role on pushing the China-EU relations.

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<sup>①</sup>“Visegrad Group plus Japan” mechanism was formed in 2004. It is a dialogue and coordinated mechanism between four Central European countries (Poland, Hungary, Czech and Slovakia) and Japan. The bilateral cooperation involved politics, economy, military, culture, society, diplomacy and etc.

(4) Conducting ample investigations, understanding the specific situations in CEE, and attaching importance to extension of the soft power to this region. The pragmatic cooperation with CEECs will involve various works, and Chinese relevant executive institutions should make good preparations to cope with appeals from different countries properly. Support from local government and non-government institutions in CEE is required if China wants to broaden the economic and trade cooperation with and invest in CEE. Therefore, China should do some supporting works, and simple investigation and signing contracts are not enough. Chinese investors should take advantage of broadening the economic and trade opportunity to broadly contact local institutions, improve understanding, obey the market law and local regulations and choose the cooperative ways that suit local circumstances, thus avoid risks effectively.

As China's influence keeps ascending, many nations begin to judge its behavior with complicated sentiments mixed with awe and fear which if channeled inappropriately, would bring negative effects. The same question will be encountered by China when it strengthens the cooperation with CEE countries. Currently, China still needs soft power instruments to support its strategic layout. Therefore, it is urgent to construct and extend soft power. To tackle this challenge, it is better to establish official or non-government scholarship or funds and provide strategic assistance instruments<sup>①</sup> so as to win the sense of favorability from the elites and people in CEE countries.

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<sup>①</sup>The 12 measures of pragmatic cooperation include: scholarship, two million RMB research fund of China and Central and Eastern European relations. It is a good try which shows that China has realized the importance of soft power in the foreign strategy.