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China's Engagement with Central and Eastern Europe



An exploration of the People's Republic of China (PRC) engagement with the countries of Central and Eastern Europe (CEE) including Albania, Bulgaria, Croatia, Czechia, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovakia, and Slovenia, by Professor R Evan Ellis. See next page

In economic terms, PRC trade with the CEE countries has expanded exponentially since the PRC entered the World Trade Organization in 2001. By 2022, it had grown 22-fold to \$124.4 billion.

PRC-based companies have purchased mostly commodities, while pursuing markets for their higher value-added goods and services. The Cold War era industrial legacy of the CEE countries has highlighted the competitive nature of trad with the PRC there.

While each country is different, overall, the CEE has run an enormous trade deficit, importing \$95 billion from the PRC in 2022 while exporting only \$29 billion to it.

What extractive-sector opportunities exist in the CEE have been a focus of PRC interest, including an attempt by the Chinese firm GeoJade to acquire Patos Marinza in Albania, the region's biggest petroleum complex.

PRC-based companies have sought to build or acquire a presence in the region's strategic infrastructure. The CEE countries, which were historically not on China's "Silk Road" have joined the PRC Belt and Road Initiative relatively early, beginning with Hungary in 2015. PRC-based companies have pursued multiple major transportation projects in the CEE, including the Budapest-Belgrade railroad, the Peljesac bridge in Croatia, and a massive tunnel connecting Estonia to Finland. Chinese companies have also pursued a role in operating and/or expanding the ports of Burgas (Bulgaria), Varna, and Koper, among others, as well as Albania's international airport.

PRC-based companies have also pursued electricity infrastructure projects from the Senj windfarm in Croatia to nuclear facilities such as Belene in Bulgaria, and Cernavodă in Romania, although with little success. China has also marketed its electric buses and other vehicles in the CEE countries, including BYD in Hungary, and Dok-Ing electric vehicles in Croatia. China has actively pursued markets in digital sectors. PRC-based companies like Huawei, XTE and Xiaomi are present throughout the CEE. Huawei cloud services are not available in any of the CEE countries, although Huawei is establishing a telecommunications and artificial intelligence research centre in Bulgaria, as well as "Smart Cities" initiatives in Osijek and Pula, Croatia. Multiple CEE states including Romania, Albania and Poland, have responded to data security concerns by excluding PRC-based companies from their 5G telecommunications architectures.

The Chinese scanner company Nuctec has a presence in the CEE, including a regional office in Poland, and its equipment operates in multiple CEE countries including Lithuania, Latvia, Estonia, Albania, and Poland.

In finance, PRC-based banks have numerous offices in the CEE. Bank of China, for example, operates in Czecia, Poland, Hungary, and Romania. In Poland in 2016, the government offered RNB-denominated "panda" bonds, although CEE states have been reluctant to implement currency swap arrangements or commit to conducting major transactions in RNB rather than dollars.

PRC-based companies have gravitated to more "populist" countries. Hungarian President Viktor Orban's "Eastern Opening" has made the PRC the country's biggest investor—and made it the site of some of the region's most controversial Chinese projects, including a massive battery plant, and the economically questionable Belgrade-Budapest railroad. Major Chinese companies such as Huawei, ZTE, BYD, Wanhua, and PRC-based financial institutions China Development Bank, Bank of China, and China Construction Bank. and the PRC trade promotion organization CCPIT have located their regional headquarters there. China's Fudan University plans to locate its only campus in the region in Budapest, at a site controversially paid for by Hungarian government money. With respect to political relations, Hungary's membership in the European Union has made the pro-PRC stance of the Orban government problematic at times, including in 2016 when Hungary blocked European Union resolution to condemn the PRC for the militarization of disputed reefs and shoals in the South and East China Seas.

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China has leveraged "people to people" diplomacy to pursue its interests, including 27 Confucius Institutes, and regular trips to the PRC for the region's academics, consultants, journalists, and government officials, including a visit to the PRC by a delegation of the Bulgarian parliament. The PRC has partnered with universities in multiple CEE countries in the region to establish China studies centres including the Bulgaria-China Center at the University of National and World Economy in Sophia and the previously mentioned Fudan University campus in Budapest.

Chinese "police stations" operate in the CEE, including in Croatia and Romania. They are believed to leverage relatives in China to influence the behaviour of ethnic Chinese in the countries where they operate.

The PRC courts media outlets and journalists, including a content-sharing agreement between Bulgarian TV and CCTV, plus regular cooperation between Xinhua and Slovenia's main press outlet STA. PRC interests also acquired a television station in Czechia.

In the military domain, cooperation with the PRC appears more limited although persons interviewed for this piece noted occasional institutional visits between PRC and CEE military institutions.

In political terms governments have sought to balance principle and profit in dealing with the PRC. The Polish government of Andrzej Duda, for example, has sought to address concerns over PRC support for Russian aggression against Ukraine by expressing to Xi Poland's special perspective, yet has refrained from actions that might offend China, an important market for Polish agriculture.

On the other hand, select CEE governments have made symbolic gestures in support of Taiwan. These include a call by Czechia's President Peter Pavel to Taiwan's President Tsai Ing-Wen upon assuming office in 2023, visits to Taipei by a Czech, parliamentary delegations, and Lithuania's opening a Taiwan representative office in Vilnius in 2022.

All three Baltic CEE states have withdrawn from the European forum 17+1 (now 14+1), while others, such as Poland, have shown hesitancy toward continuing use of the forum.

The balance between profit and principle has shifted with changes in government, most notably, from the more China-friendly government of Miloš Zeman in Czechia, to the more critical posture of Peter Pavel. While CEE countries are vulnerable to China's advances, the positive impact of the region's occasional insistence on principle, transparency, and good government, merit greater attention in other places in which the PRC and its companies are engaging.

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Adapted from an original article by Professor R Evan Ellis, with permission, by Robin Ashby.

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