

International Round Table

# DRAGON DIPLOMACY IN EUROPE: AMBITIONS UNMATCHED?

How China Wins Over Europe  
with Economic Tools



STUDY ON

**CHINA'S ECONOMIC INFLUENCE IN EASTERN  
EUROPEAN COUNTRIES:**

***UKRAINE, THE BALTICS, POLAND, WESTERN  
BALKANS***

EESI (ed) – October 2022

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## **PREFACE**

This study was supposed to be released in late February 2022, but the invasion of Ukraine by Russia has shifted the focus of our needs to more acute issues of survival. The first three months of the war were particularly marked with uncertainty. By the summer of 2022, after two phases of the war had passed, it became clear that Ukraine would be fighting a fierce war with the aggressor, but would at least survive. This has made it possible to complete the research and to present its results at the International Round Table, which was held on 10<sup>th</sup> of August 2022.

Meanwhile, the war that Russia waged in Ukraine, has significantly impacted bilateral commercial relations of the Peoples' Republic of China (PRC) with European countries, especially Ukraine. It has also forced China to reconsider and modify its strategy for Europe, while its ambiguous position with respect to Russian aggression has alienated many European countries, especially in Central and Eastern Europe. These developments are still to be defined and fixed as the war is not over yet. But some observations are already in place, which will be revealed further in respective parts of the research.

The high profile experts, who contributed to this study, are- Jerzy NOVAKOWSKI (President of the Euro-Atlantic Association of Poland, former Ambassador of Poland to Armenia and Latvia, Professor at the University of Warsaw), Professor Adam W. JELONEK (Director of the Middle East Institute at the Jagiellonian University, former Ambassador of Poland to Malaysia, Brunei and the Philippines), Antun DUJMOVIĆ, (Senior Associate, Institute for Development and International Relations of Croatia), Marius LAURINAVIČUS (independent expert on security and international relations, former analyst at the Center for Eastern European Studies, the European Center for Political Analysis and the Vilnius Institute for Political Analysis of Lithuania), Darren SPINCK (Research Fellow, Henry Jackson Society/USA) and Iuliia OSMOLOVSKA (Executive Director, Eastern Europe Security Institute of Ukraine) - presented their parts of the research and discussed the differences and similarities of China's approach to their respective countries and regions.

A summary of their findings and conclusions are laid out here, together with their original pieces of research. These constitute an integral part of this project on developing cooperation networks among European think tanks, implemented with the support of the [European Union](#) and the [International Renaissance Foundation](#) within the framework of the [EU4USociety project](#). Its contents are the sole responsibility of the authors and do not necessarily reflect the views of the European Union and the International Renaissance Foundation.

## INTRODUCTION

2022 marks the 10th anniversary of the '17+1 initiative', a mechanism of China-CEEC Cooperation, which was set up to promote China's relations with CEE countries. Yet, no major celebrations have been held. Moreover, no summits or other landmark events have been planned, as no single CEE country expressed any enthusiasm to host an event of this type. There is evident fatigue with respect to the format in Europe. This was metaphorically described by one Eastern European diplomat as taking the approach of the Cheshire Cat in Alice's Adventures in Wonderland: to smile and then to disappear. "We are not going to be loud about it", - he said. "But we are ignoring all 16+1 invitations."

In February 2019, the analytical report of the Munich Security Conference devoted a significant part of its review to Chinese economic policy towards the countries of Central and Eastern Europe and the Western Balkans in particular. The report pointed, among other things, to a worrying trend in the increasing dependence of Western Balkan countries on Chinese government loans and the debt resulting from this relationship. The report defined this phenomenon as "debt-trap diplomacy" and warned against the effect of using economic leverage in exchange for political gains. It described the non-compliance of the conditions for granting such loans to those requirements of transparency and economic capacity that operate in the EU. Since then, a number of studies have appeared that confirm the ambiguous economic effects of China's growing presence in Europe.

In February 2021, Lithuania officially [announced](#) its withdrawal from the 17+1 cooperation format, motivated by the fact that this regional initiative destroyed the unity of the EU whilst not demonstrating a significant economic effect. In summer 2022 Estonia and Latvia have followed suit.

The crisis in China-CEE relations started long before the war in Ukraine, but it has been severely aggravated by it. Concerning Russian aggression, the PRC has always preferred to hide itself behind notions of "[constructive ambiguity](#)" and to stick to diplomatic cliches of [peaceful resolution through negotiations](#), whilst disregarding [Western](#) critics of China's support of Russia in the war in Ukraine and the attempts of the [US](#), [EU](#), [NATO](#) and [G7](#) to make China more critically vocal about Russia's actions. To Russia's delight China has been sticking to its line of [abstaining](#) or [voting against](#) UN resolutions condemning Russian aggression in Ukraine. It is no wonder that Ukraine-China relations have been the most severely affected because of this. However, both sides prefer not to be too critical about each other, at least in public.

Western sanctions on Russia have also played their part. However, China has managed to sit on the fence with regard to sanctions imposed on Russia, by [disrupting](#) some activities of Chinese [companies](#) in Russia, while [increasing the import](#) of Russian fossil fuels. As Chinese customs data suggests, China's bilateral trade with Moscow grew 31% in the first eight months of 2022, with about 48.3 percent of total Russian exports to China being that of crude petroleum (already sanctioned by the EU). It is noteworthy that since 2014 (the year Russia illegally annexed Crimea and occupied parts of Eastern Ukraine), China has maintained its leading role as Russia's largest trading partner.

But the war makes its own corrections. With disrupted logistics and freight via Russia and Belarus, China can no longer (at least, for the time being) develop its ambitious infrastructure projects linking Asia and Europe through these countries. This has already resulted in the fact that zero investments under the Belt and Road Initiative have been made into Russia in the first half of 2022. China's investment activity in CEE region and Europe as a whole also has been reduced.

With the crystal-clear European stance of condemning Russian aggression in Ukraine, the ambiguous

China's position has not been understood by most CEE countries. The Chinese side complains that its pragmatic cooperation with CEEC has been affected by geopolitics and emotions fanned by the US. But to what extent is this true?

As findings in this research show, China's ambitious grand strategy of winning over Europe by economic means was failing long before the war. Russia's invasion in Ukraine has only become an accelerator of policy changes, which aim to correct previously made mistakes with regard to the growing dependency of European countries on China. It is the right time to do so.

*Darren Spinck*

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## **BEIJING'S GEOPOLITICAL INFLUENCE THROUGHOUT CENTRAL AND EASTERN EUROPE (CEE) AND WASHINGTON'S OPTIONS FOR COUNTERING PRC POLICIES**

**September 2022**

**Introduction:** [“The week that changed the world.”](#) US President Richard Nixon’s prescient words during his February 1972 visit to the People’s Republic of China (PRC) aptly describe the challenges American diplomats have faced in the ensuing five decades since Beijing’s opening to the West. Fifty years after the [“Nixon in China”](#) trip normalized relations between America and China, Washington-Beijing diplomacy has largely stalled, there is targeted decoupling of China’s economy from the West, and geopolitical competition between the United States and China has intensified across the globe. China is not recognized by Washington as a “responsible stakeholder,” as Bush Administration Deputy Secretary State Robert Zoellick had hoped. Nor are the United States and China in what one could categorize as “competitive coexistence,” as US President Joe Biden’s national security officials Jake Sullivan and Kurt Campbell forecast. Instead, Washington and Beijing are amid a great power competition collision, as the Washington-led unipolar world comes to a screeching halt and China’s economic, political, and military ambitions accelerate.

Fifty years after [“Nixon goes to China,”](#) the United States and China face another potential diplomatic flareup following Moscow’s invasion of Ukraine. Moscow and Beijing ties have strengthened into a friendship with “no limits,” declared Xi Jinping, General Secretary of the Chinese Communist Party (CCP). According to [The Economist](#), “Both China’s president, Xi Jinping, and Mr. Putin want to carve up the world into spheres of influence dominated by a few big countries. China would run East Asia, Russia would have a veto over European security, and America would be forced back home.” To aid the Kremlin’s war effort in Ukraine as Beijing’s and Moscow’s friendship evolves, China has increased exports of dual-use products and materials for use by Russia’s military, including microchips, aluminum oxide, and other raw materials.

In a failed attempt to drive a wedge between Beijing and the Kremlin, the Biden White House reportedly sought China’s assistance to dissuade Russia’s war plans in the months leading up to the invasion of Ukraine, by sharing intelligence of the Russian military buildup with Chinese officials. Beijing not only rebuffed Washington’s entreaties to intervene with Russia, but, in a humiliation for the Biden Administration, shared the US intelligence with Kremlin officials.

Kyiv and the rest of Central and Eastern Europe are questioning whether Beijing can still be trusted as an economic partner when Chinese officials could not even be relied upon for diplomatic efforts to avert war in the region. As the United States and parts of Europe have begun a “containment” strategy vis-à-vis the Kremlin, the burgeoning Beijing-Moscow alliance will likely give Central and Eastern European (CEE) leaders pause when considering increased economic cooperation with the Chinese Communist Party (CCP). Following Moscow’s invasion, German Foreign Minister Annalena Baerbock indicated to China’s top diplomat Wang Yi that

China has a “special responsibility” as a permanent United Nations Security Council member to deter Russia’s aspirations to seize additional Ukrainian territory. However, when considering the CCP’s track record on ending Hong Kong’s one country, two systems policy; disrupting a peaceful status quo in the Taiwan Strait; non-cooperation on the origins of the COVID-19 crisis; or not trading, fairly, within the international rule-based system, it is clear the word of the Chinese Communist Party has not been its bond.

The recent, ongoing fissure in U.S.-Sino relations began during the Trump Administration, when the United States publicly designated the PRC a “strategic competitor” in the 2017 National Security Strategy, declaring Beijing pursues “economic aggression” and “want(s) to shape a world antithetical to U.S. values and interests.” In response to the Trump Administration’s hardline stance toward Beijing, Xi Jinping warned CCP leaders in 2019 that China faces a

long-term, “resolute struggle,” including increasing confrontation with the United States. Hudson Institute Research Fellow Michael Auslin writes “[China’s] struggle is the project of a rising power: to make America’s economy dependent on China’s; to supplant America’s technological lead and political influence; to overmatch America’s military strength; [and] to detach or neutralize its allies...” Outside of the “Great Game” between the United States and the

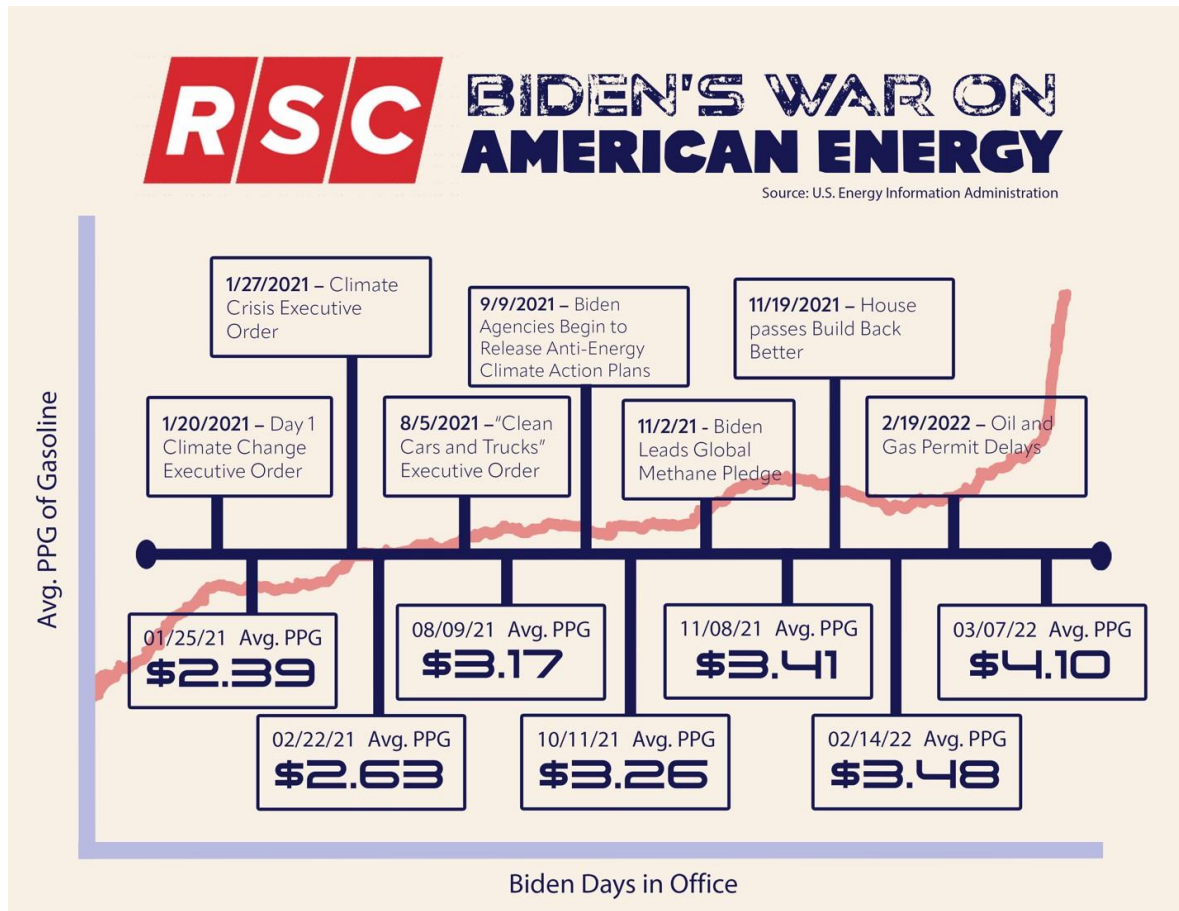
PRC in the Indo-Pacific region, nowhere has China intensified efforts to displace US influence as much as it has in the CEE region.

Throughout the CEE, ongoing soft-power competition between Washington and Beijing has ranged from international infrastructure development to the development of next generation mobile networks (5G) to vaccine diplomacy to acquisition of regional military industrial sectors. As Beijing has solidified its foothold in the region through investment, trade, and diplomacy, America’s global leadership has waned. Washington’s soft power diplomacy strategy is disjointed at best, with the White House instead focusing considerable efforts on furthering a “woke,” progressive domestic agenda which impacts CEE. Beijing has attempted to drive wedges between the United States and CEE, using inconsistent American policy to sow divide. An example of using “whataboutism” to raise concerns about existing US policy is highlighting the White House’s climate czar John Kerry lobbying for less restrictions on goods exported from Xinjiang, despite the Biden Administration castigating the CCP for genocide against Uyghur Muslims from this region.

Energy policy is another issue which has led to confused US policy in CEE and Asia. On the very first day of the Biden Administration, the White House revoked permits to the Keystone XL pipeline, effectively ending America’s status as a net energy exporter and potential energy security guarantor for the CEE region. With the stroke of a pen, President Biden ceased any further US-funded fossil fuel infrastructure development in CEE when he directed all US agencies to “immediately review and take appropriate action to address federal regulations and other executive actions that were... damaging to the environment.” The mentality of the Biden Administration on climate and infrastructure development is typified by climate czar John Kerry saying Russia’s invasion of Ukraine would be a distraction from climate policy and the Secretary of Transportation Pete Buttigieg stating he wants to focus US infrastructure to combat “racist highway design.”

CEE’s hopes for government-funded US and/or European investment infrastructure to counter China in the region will also likely falter unless the private sector is better engaged to finance such projects. While the Group of Seven’s (G7) announced \$600 billion infrastructure development plan initially seemed a realistic alternative to China’s Belt and Road Initiative (BRI), the devil is

in the details as always. The G7's newest proposal is likely nothing more than a Build Back Better World (B3W) retread, remaining heavily reliant on government funding and focused on infrastructure which may not appeal to governments throughout the CEE, such as advancing gender equity and clean energy transition.





The B3W initiative discussed at the 2021 G7 had hoped to build upon the Blue Dot Network (BDN) established during the previous U.S. presidential administration, as a partnership between the United States, Japan, and Australia, to certify public infrastructure projects. However, BDN is not a funding mechanism on its own, but a certification and advisory platform. Funding for international infrastructure development should a B3W platform of G7 initiative follow the BDN model, would come through private sector financing and regional development finance organizations such as the Three Seas Initiative Investment Fund (TSIIF), which had an initial \$1 billion investment commitment from Washington. However, if B3W, or another infrastructure development platform does receive additional funding from the United States government, any parallels to the White House's failed domestic infrastructure bill – Build Back Better (BBB) – would likely lead to roadblocks in the US Congress, which may become Republican-led after the November 2022 mid-term election. The Biden Administration's BBB bill had shifted its focus to non-infrastructure policies such as providing tax credits to illegal immigrant children and child-care reform. Initial input to the Biden bill from the Democrat-led House Natural Resources Committee included measures which hurt the energy sector, restricting coal, oil, and gas exploration and production, as well as discouraging mining of rare earths, which America and Europe require plentiful supplies of, should the West decouple economic ties with China.

With China's infrastructure development financing and investments totaling an estimated \$59.5 billion through its Belt and Road Initiative (BRI) in 2021, the United States and Europe are not able to match Beijing's capabilities dollar-for-dollar. Investments through the US Development Finance Corporation (DFC), the US government's closest approximation to Beijing's BRI, committed a paltry \$6.7 billion for private sector infrastructure development in 2021. There is also a reported \$1.9 billion in funds available through the TSIIF for regional infrastructure development, which could attract additional private sector financing should BDN certification processes increase.

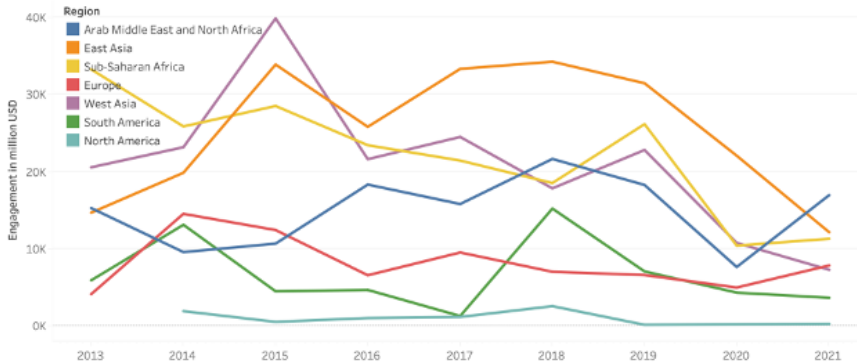
With its Global Gateway infrastructure strategy, Europe is moving faster than the United States in providing an alternative to BRI for regional infrastructure development, but even this effort appears to be one step forward, two steps back, as relates to lessening the region's dependency on China. The European Commission established its ambitious funding platform in late 2021, with a goal of funding up to 300 billion euros (60 billion euros annually through 2027, from the private sector and Europe's 27 members, which would closely match BRI's 2021 spending).

As noted by Jonathan Holsag in the [EU Observer](#), the BRI's success is due in large part to the West's 540 billion euro trade deficit in China's favor. Therefore, is the West attempting to match funding of global infrastructure financing through public funding the right answer? This will lead to further debt, mostly financed through China, of course, which will lead to continued regional dependence on Beijing. Instead, prudent policies would include lessening the trade deficit through targeted decoupling and engaging the private sector and public pension funds for financing if the United States and Europe expect to match BRI's capabilities.

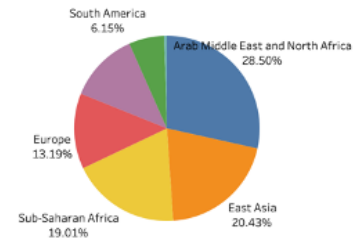
The other option, "printing" money to finance the infrastructure development, would increase inflation which, at 9.1 percent in the United States, is at a four-decade high. Through the Global Gateway and the Western Balkans Investment Fund, Europe recently funded 3.2 billion euros for

sustainable connectivity projects in the West Balkans. However, if Europe hopes to establish a counter to China's BRI region, France's [decision](#) to finance and build \$1.9 billion in infrastructure in Eastern Europe and elsewhere, in cooperation with China, sets Europe's strategy for countering China back to square one.

Chinese BRI engagement across different regions 2013 - 2021



Chinese BRI investment and cooperation 2021 by region



Growth/decline of BRI engagement in different regions

		2015	2016	2017	2018	2019	2020	2021
Sub-Saharan Africa	Construction	15%	-10%	-2%	-33%	32%	-49%	-21%
	Investment	-2%	-43%	-41%	150%	63%	-81%	156%
Arab Middle East and North Africa	Construction	9%	59%	-23%	43%	-28%	-44%	116%
	Investment		742%	85%	11%	52%	-96%	361%
West Asia	Construction	84%	-46%	41%	-45%	20%	-56%	-3%
	Investment	51%	-46%	-49%	84%	42%	-48%	-70%
South America	Construction	-4%	-28%	-76%	84%	-67%	-33%	643%
	Investment	-94%	242%	-66%	2,187%	-52%	-39%	-61%
East Asia	Construction	17%	31%	-14%	24%	-13%	-15%	-33%
	Investment	114%	-49%	78%	-9%	-4%	-40%	-56%
Europe	Construction	-85%	560%	22%	12%	46%	-11%	106%
	Investment	-3%	-62%	55%	-39%	-38%	-44%	-56%
North America	Construction	17%	0%	119%	119%	-94%	44%	22%
	Investment		-100%	-100%				

(c) Copyright 2022 Green Finance & Development Center, FISF Fudan (Sources: based on AEI and others)

Besides America's inability or unwillingness to provide adequate supplies of energy to Europe prior to the region's greatest destabilization threat since the 1990s, and a confused international infrastructure development strategy, it is not certain if the United States can maintain its

long-standing role as Europe's main regional security guarantor. With the United States facing challenges to its ability to lead in the CEE, in the Taiwan Strait, and elsewhere, from both China and Russia simultaneously, Beijing has capitalized on US weakness and, prior to the war in Ukraine, cemented economic ties throughout Europe, focusing influence campaigns in the Balkans, Baltics, Ukraine, and amongst the Visegrad Group.

Washington had long maintained its geopolitical influence in CEE primarily as a regional security guarantor through its leadership within the North Atlantic Treaty Organization (NATO). However, America's short-lived net energy exporter status during the Trump presidency strengthened CEE's energy security status as well, and allowed Washington to use soft power as a tool to urge Central and Eastern European leaders to reconsider increased economic cooperation with Beijing. Diversification of regional energy supplies during the Trump Administration, through US liquified natural gas (LNG) exports to CEE and development of LNG infrastructure, helped counterbalance not only China, but Russia as well.

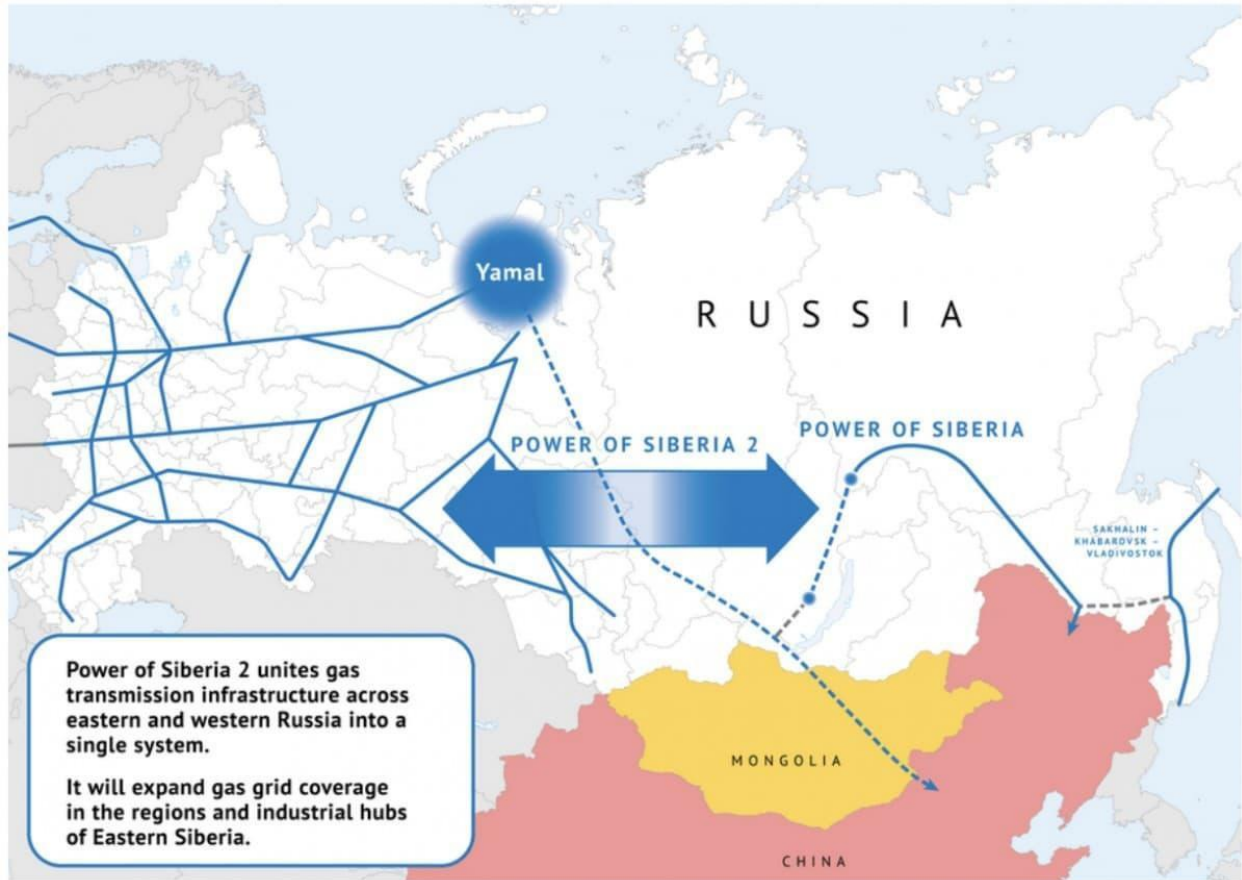
The potential of America as an energy security guarantor in CEE as it relates to China, allows Washington to: 1) engage the private sector to finance certified energy infrastructure, thus limiting Beijing's BRI influence for similar projects, 2) lessen America's need to maintain partnerships in

CEE solely through defense commitments, 3) decrease the likelihood of China and/or Russia driving a wedge through existing U.S. partnerships in the region, as America and CEE would become more closely aligned through economic and energy cooperation, 4) potentially lessen Russia and China bilateral cooperation, through transatlantic sanctions aimed at the Power of Siberia II pipeline (financed largely through China), and 5) flood the region with cheaper fossil fuels, thereby lowering the cost of oil and gas for consumers and allowing the region to redirect energy budgeting to regional defense. However, the White House is determined to proceed in a completely different direction, focusing instead on green climate policy and allowing Russia, and by extension China, to maintain leverage over the region through energy policy including America's own energy dependence on Russia. As noted by US House Energy and Commerce Committee Republican Leader Cathy McMorris Rodgers, "President Biden has slashed American energy production and made [America] increasingly reliant on foreign oil, including from Russia."

Throughout the Trump presidency, the United States limited global military entanglements, with White House officials believing Washington could best act as a regional balancer in Asia, thus limiting Beijing's influence in CEE, by "[maintaining] U.S. strategic primacy in the Indo-Pacific," while countering China's "strategic foothold" in Europe. This strategy is exemplified by former Deputy Assistant Secretary of Defense Elbridge Colby who stated, "The United States should accordingly focus its policy toward Europe on where European interests are most directly implicated vis-à-vis China, and otherwise encourage the Europeans to handle the bulk of their own defense and consume less American diplomatic capital that can then be allocated to Asia."

For the first year of the Biden Administration, officials apparently believed a Kissinger-esque triangular diplomacy strategy was possible, in which Washington would drive a wedge between the growing Beijing-Moscow alliance. This has failed after the Ukraine war and should have been viewed as the folly expected from an undergraduate international relations survey group discussion. The naivete of the White House, in which Administration officials had lectured both Moscow and Beijing on autocratic governance models versus a rules-based, international system, provided both strategic competitors with ample opportunities to base their policies on the merits of "whataboutism" directed toward US inconsistencies. This has led to closer ties between the Russians and Chinese.

Most concerning for CEE is Moscow and Beijing recently agreeing to a 30-year natural gas distribution deal, which will circumvent US scrutiny by settling payments in euros. This will allow Moscow to maintain some energy leverage over Europe, having the capability to shut off gas to parts of the continent on a whim, while receiving a steady flow of payments from Beijing for the exports to China. To establish US energy dominance in CEE and allow Washington to counter both Moscow and Beijing in the region, Washington would have to sanction the Power of Siberia 2 project which will provide China with 10 billion cubic meters (bcm) annually. This punitive US economic measure would require strong support from Washington's European partners for blocking settlement of the natural gas sales in euros, as gas will originate from Russia's Yuzhno-Kirinskoye field which is already under US sanctions.

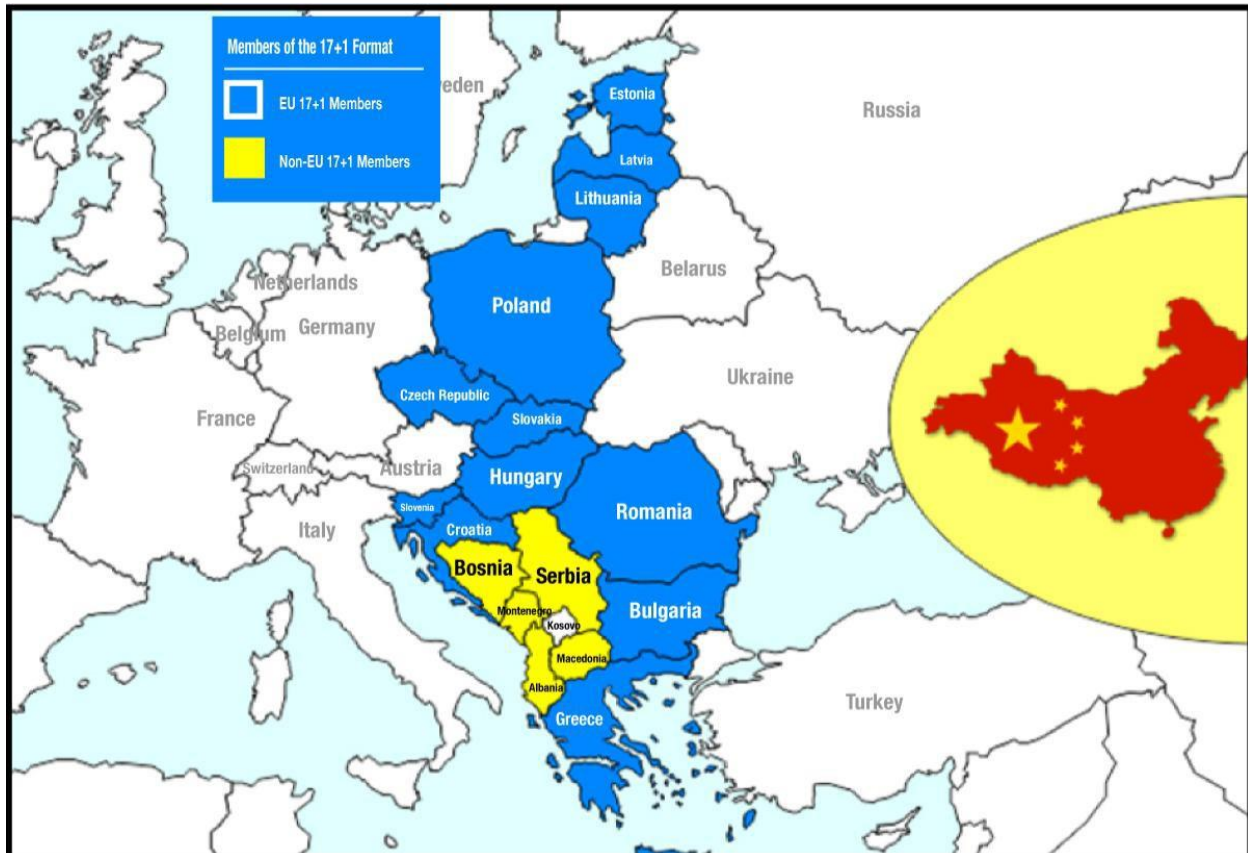


Further complicating any efforts by Central and Eastern Europe to limit Beijing’s influence is regional “strategic uncertainty” from Washington due to a growing political divide in the United States and the Covid-19 pandemic, both of which have led to an accelerated decline in America’s geopolitical influence and prevented the US government from shaping a coherent, bipartisan approach to countering China. The Biden Administration’s continued focus on identity politics and furthering the political left’s climate-policy driven agenda will hinder Washington’s ability to enact policies which counterbalance China’s influence in CEE by worsening relations with conservative, economic nationalist European governments which disagree with the White House’s progressive politics.

As noted by Anne-Marie Slaughter, chief executive of the New America think tank, the Biden Administration “swinging from one framework and set of goals to another without a set of clear principles and priorities risks falling radically short of the progress that the world needs on existential issues.” The Biden White House rapidly pivots from idealism to liberal internationalism to realism to America first pragmatism. Prior to Russia’s invasion of Ukraine, China had capitalized on this lack of strategic clarity in CEE, building upon progress in diplomatic efforts between Beijing and the region which have intensified in the last two decades, primarily through investment and financing via the Belt and Road Initiative (BRI).

**Beijing’s Geopolitical Influence in CEE:** China began its initial influence foray in CEE around 2008, when, as researchers Agnieszka McCaleb and Agnes Szunomar noted, “the economic and financial crisis... drew them [Hungary, Poland, Romania, Bulgaria, Slovakia, and Czechia] more

than ever to the potential of Chinese economic relations.” Beijing formalized its economic cooperation with Central and Eastern European Countries with the 16+1 format in 2012, expanding cooperation to include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia. The 16+1 format further expanded to 17+1 when Greece joined the economic cooperation arrangement in 2019, but the initiative was once again reduced to the original 16+1 size again in May 2021 when Vilnius ended Lithuania’s participation.

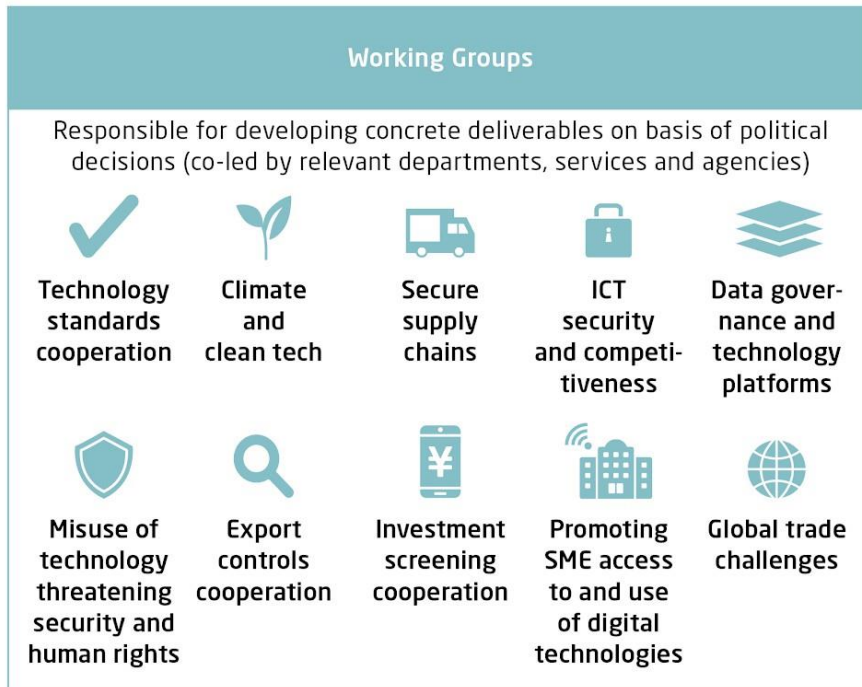
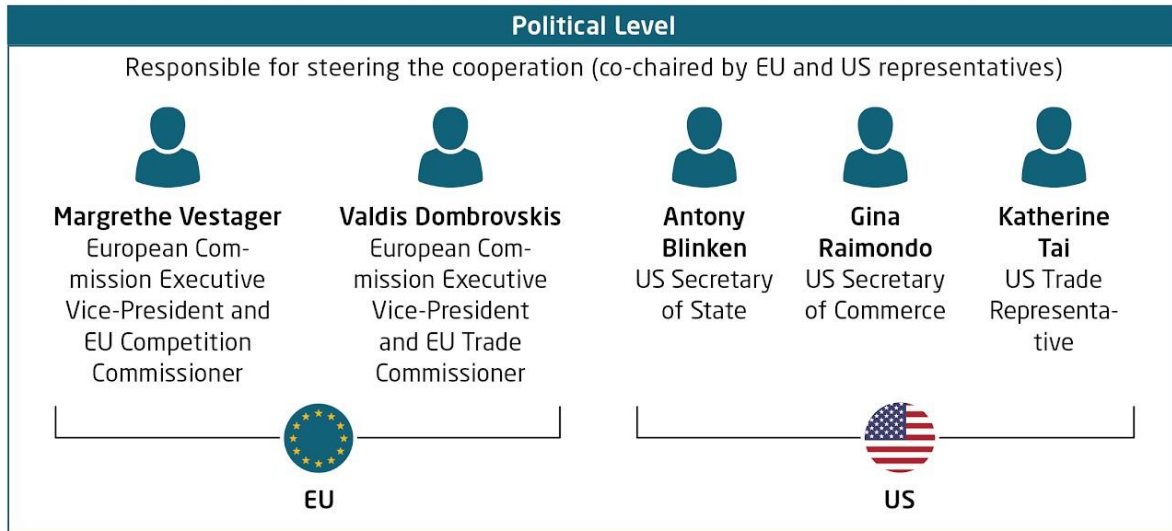


The other option, “printing” money to finance the infrastructure development, would increase inflation which, at 9.1 percent in the United States, is at a four-decade high. Through the Global Gateway and the Western Balkans Investment Fund, Europe recently funded 3.2 billion euros for sustainable connectivity projects in the West Balkans. However, if Europe hopes to establish a counter to China’s BRI region, France’s [decision](#) to finance and build \$1.9 billion in infrastructure in Eastern Europe and elsewhere, in cooperation with China, sets Europe’s strategy for countering China back to square one. When leaders from Bulgaria, Romania, Slovenia, Latvia, and Estonia opted to not participate in a video teleconference with other CEE leaders and Chinese president Xi Jinping. This deterioration in relations was followed by European Union (EU) bloc-wide sanctions on Chinese officials for human rights abuses and a retaliatory response by Beijing, targeting European policymakers and entities. This sharp decline in relations between Brussels and Beijing has stalled finalization of the EU-China Comprehensive Agreement in Investment (CAI). In a likely bid to further delay ratification of the CAI and help accelerate decoupling China’s economy from the West, Washington and Brussels jointly established a Trade and Technology Council (TTC) in June 2021, to “coordinate approaches to key global trade, economic, and technology

issues.”

## Designed to coordinate practical cooperation on specific issue areas

### Structure of the EU-US Trade and Technology Council



Source: European Commission

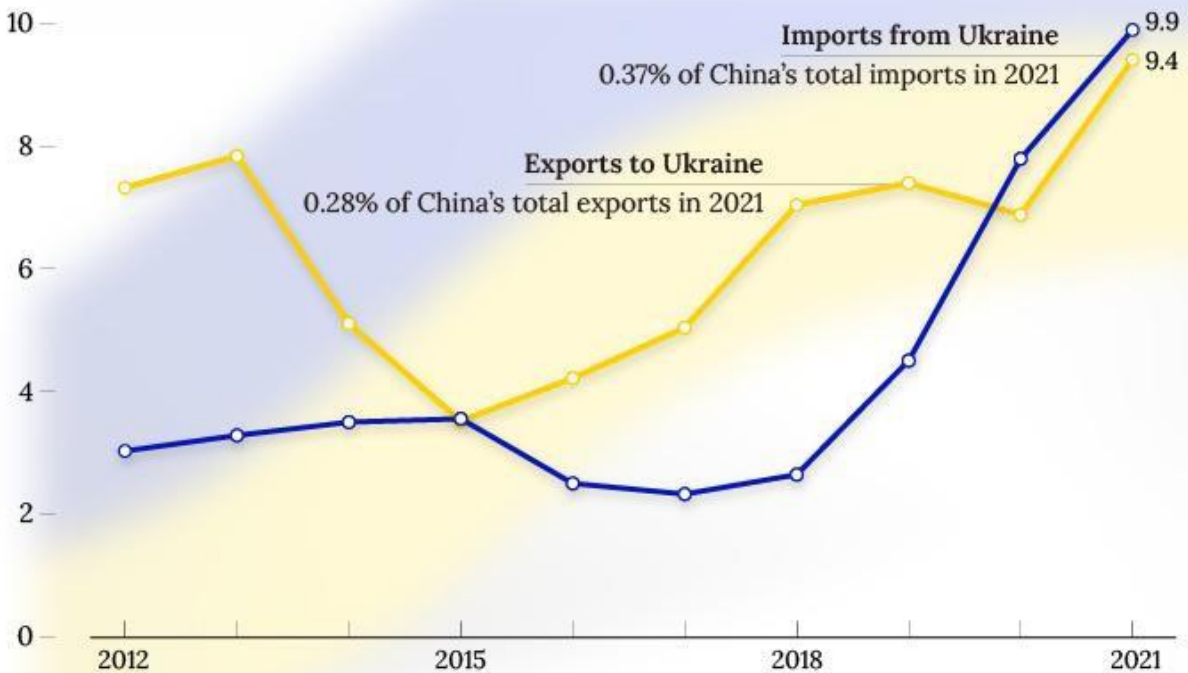
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PRC Investment:

With no EU bloc approach to investment screening, concerns over Chinese foreign direct investment (FDI) often focus on Beijing’s attempts to acquire CEE military industrial technologies or entities with national security implications. China’s cooperation on other investment or development finance may lull CEE country regulators tasked with investment screening into complacency. Promises from Beijing may also lead to pressure on government officials to approve such investments in sensitive sectors to satisfy an unspoken quid pro quo for continuing other economic cooperation. An example of Beijing tempting a country with offers of economic cooperation, then targeting its critical sectors for acquisition, is Ukraine, which officially joined Beijing’s BRI in 2017. Beijing’s and Kyiv’s “action plan on jointly building the Silk Road Economic Belt and their 21<sup>st</sup> Century Maritime Silk Road” unquestionably bolstered trade between the two countries, with China becoming Ukraine’s single largest trading partner in 2019 and 2020, with total trade of \$12.4 and \$15.4 billion, respectively. China also was Ukraine’s top trade partner in the first half of 2021, with \$10.5 billion total in traded goods.

### China-Ukraine Trade Grows

Unit: billion U.S. dollars



Sources: China’s General Administration of Customs, Bloomberg



However, as noted by Ukraine’s Centre for Economic Strategy, “Chinese FDI to Ukraine is scarce. As of early 2021, only \$47 million came from mainland China.” US foreign direct investment to Ukraine totaled \$761 million in 2020, according to the US Bureau of Economic Analysis. Economic ties between China and Ukraine have strengthened, sometimes to the

detriment of Kyiv's relations with Washington. Unsurprisingly, US government concerns over Chinese investment in Ukraine have long centered on Beijing's attempted acquisition of Ukrainian national security and agricultural sectors. The former, as Washington is concerned with China's geopolitical ambitions in Europe, while the latter has focused on China's ability to purchase large quantities of agricultural goods aside from the United States.

Successive U.S. presidential administrations aimed to block China's acquisition of Motor Sich, an airplane and helicopter engine manufacturer. Trump White House national security adviser John Bolton traveled to Kyiv to meet with Ukraine's President Volodymyr Zelensky in 2019, warning Ukrainian officials about "debt traps" and "unfair trade practices [and] threats to national security we've seen in the United States." A former deputy general director of Ukroboronprom warned that Motor Sich's sale to Chinese investors would negatively impact Ukraine's hopes for integration into western defense platforms.

Washington was so concerned over China's near acquisition of Motor Sich that the US Department of Commerce sanctioned Skyrizon Aviation in January 2021, stating in an announcement that "Skyrizon is actively seeking to acquire intellectual property and technology to advance key military capabilities that threaten U.S. national security, including the capability to develop, produce, or maintain military items, such as aircraft engines, satellites, and cruise missiles." In an apparent attempt to curry favor with the new Biden Administration, Ukraine President Volodymyr Zelensky also sanctioned Skyrizon, nine days after Biden succeeded President Trump.

Washington's concerns over Chinese acquisition of Ukrainian military capabilities began after Beijing purchased a decommissioned Soviet aircraft hulk from Kyiv during the Leonid Kuchma presidency. Ukraine inherited the Varyag aircraft carrier following the dissolution of the Soviet Union. Beijing then refurbished and reverse engineered the remaining ship parts, resulting in China's first commissioned aircraft carrier, the Liaoning.

In addition to acquisition attempts within Ukraine's defense sector, Beijing has also diversified its agricultural purchases following China's trade war with the United States. Ukrainian agricultural exports to China grew 84 percent year-to-year in mid-2021, accounting for 45 percent of Ukraine's outbound trade with the PRC. Meanwhile from January 2020-November 2021, China only reached 76 percent of its committed purchases of American agricultural products, as agreed upon in the US-China phase one trade deal. US-China competition in Ukraine has even extended into the railway sector, with Beijing likely aiming to use a 2020 agreement between Ukrainian Railway and the China Railway Construction Corporation (CRCC) to block the impact of a 2018 framework agreement between General Electric and Kyiv for \$1 billion in sales of locomotives for transporting agriculture.

With China's increasing interest in Ukraine's key sectors, Washington has encouraged Kyiv to adopt an investment screening mechanism resembling the Committee on Foreign Investment in the United States (CFIUS). In a September 2021 statement on the US-Ukraine Strategic Partnership, the White House said "Ukraine is also committed to passing legislation establishing a robust investment screening process." The proposed law, "On Foreign Investments in Economic Entities of Strategic Importance for the National Security of Ukraine" would regulate foreign investment in 38 key Ukrainian sectors. Beijing's solidarity with the Kremlin prior to Russia's invasion of Ukraine, with the PRC stating it has expressed "understanding and support" for Russia's national security concerns, may lead Ukrainian officials to reconsider Kyiv's warm



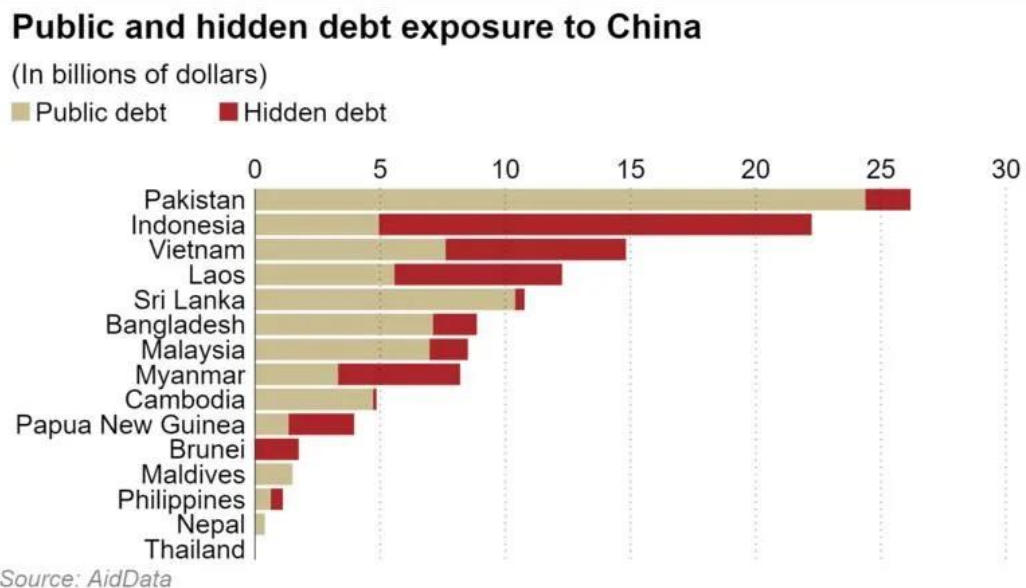
economic ties with China.

### Development Finance:

Besides Beijing’s geopolitical interests in Ukraine, the 16+1 format has served as an extension of China’s ambitious BRI, which has aimed to link East Asia to Europe through various infrastructure projects, along with routes to Africa and Latin America. These initiatives range from hard infrastructure such as bridges, roads, and ports, to digital efforts such as the “Digital Silk Road” and expansion of Huawei operated 5G systems and the “Health Silk Road” and associated Covid-related vaccine diplomacy. With BRI’s economic expansion throughout CEE has come political implications as well. BRI investment recipients face the risk of debt trap diplomacy, with contract terms stipulating payment default can result in a debt swap, in which China may forgive repayment owed in exchange for Beijing then possessing the infrastructure project and surrounding land. Montenegro nearly defaulted on the first \$1 billion loan repayment to China’s Exim Bank for financing of highway development, but was rescued through Germany’s Deutsche Bank, France’s Société Générale, Merrill Lynch, and Goldman Sachs. In Central Asia, Kyrgyzstan is facing a severe debt crisis associated with BRI loans, with Akylbek Japarov, chairman of Kyrgyzstan’s cabinet of ministers warning in June 2022, “... if we do not pay this debt, [China’s] Export-Import Bank can take over [projects]... we all need to unite in order to maintain our independence.”

While debtors are ultimately responsible for risks associated with such large loans, the actual level of debt held by China may be far larger than what Beijing’s BRI partners have reported to the World Bank, with the average underreported debt total up to \$385 billion according to a study conducted by Aid Data. Other risks associated with BRI lending include transparency issues, such as uncompetitive pricing and cost overruns; environmental concerns; and wage discrepancies between Chinese workers and local labor. According to *Foreign Affairs*, 270 out of 1,841 BRI projects since 2013 “have encountered governance difficulties.” An estimated \$52 billion in BRI debt was renegotiated in 2020-2021, mostly in Asia, Africa, and Latin America.

The alarming potential debt crisis has not gone unnoticed in Europe, with German Chancellor Olaf Scholz stating, “There is a really serious danger that the next major debt crisis in the global south will stem from loans that China has granted worldwide.”



With BRI debt crises emerging, China's economy appearing to weaken, Central and Eastern European countries pivoting away from economic cooperation with the PRC, and geopolitical flashpoints worsening in Ukraine and the Taiwan Strait, Beijing's future investment in CEE is uncertain. China did not invest in any BRI-related projects in Russia in the first half of 2022. Infrastructure development in CEE cannot rely on government solutions for financing. Instead, CEE policymakers should learn from the debt traps and other risks associated with BRI and favor public-private initiatives instead, which seek investment from sources other than government funding.

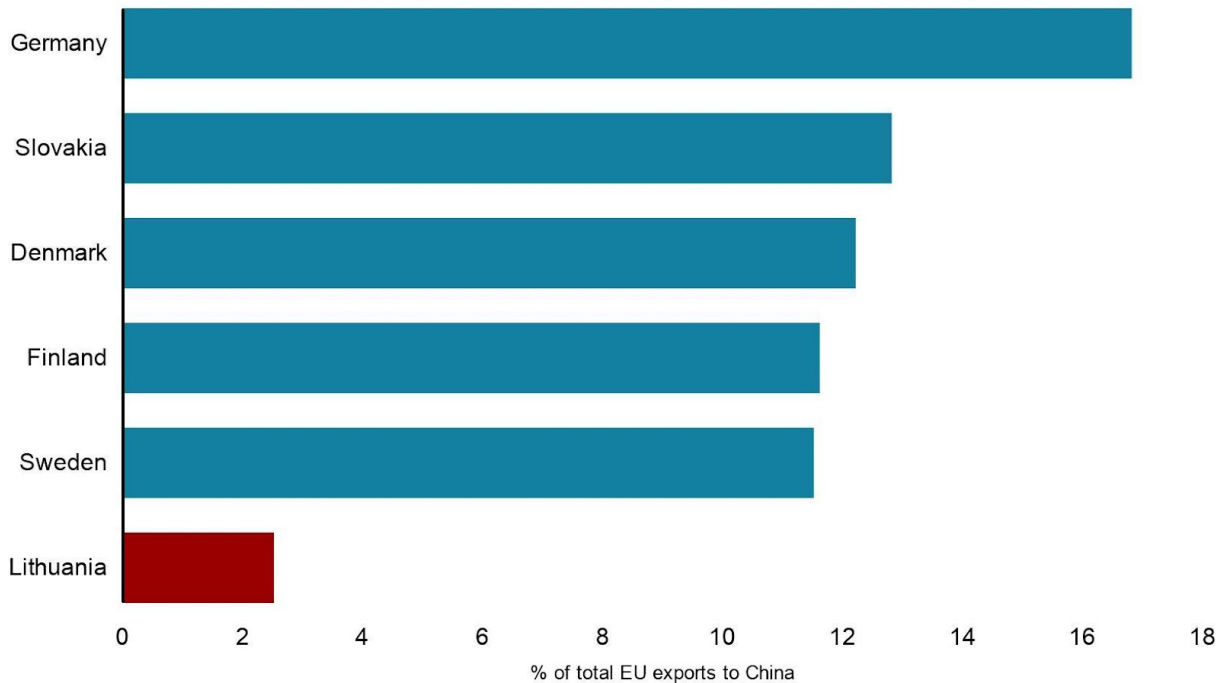
#### Beijing's Technology Influence:

The risks for the CEE's region's participation in "Digital Silk Road" and "Health Silk Road" initiatives are significant as well, with expansion of Huawei's 5G network infrastructure throughout Europe presenting national security concerns to US officials. US Senator Marco Rubio (R-FL) stated Huawei has a single goal, to "undermine foreign competition by stealing trade secrets and intellectual property." To counter Huawei's influence, the US government launched a "Clean Network Program" during the Trump Administration to "ensure that PRC carriers are not connected with US telecommunications networks" and encouraged US partners to allow only "trusted vendors" for their 5G networks. CEE countries including Czech Republic, Poland, Estonia, Romania, and Latvia subsequently ended their agreements with Huawei after security concerns were raised by Washington. While the Biden Administration discontinued the "Clean Network Program," efforts to end Huawei's influence throughout Europe and the rest of the world continue, with the Biden Administration set to soon launch the "Alliance for the Future of the Internet." This initiative aims to present "an alternative vision of the Internet as a tool of state control promoted by authoritarian powers such as Russia and China."

Rejecting Huawei has come at a price for some countries. Lithuania barred Huawei infrastructure from its 5G network development in 2020. This decision was followed by the Lithuanian Seimas recognition of Uyghur human rights concerns as genocide and a call for Beijing to revoke its Hong Kong national security law. Beijing retaliated by sanctioning Lithuanian MP Dovile Sakaliene, which then led to Vilnius authorizing Taiwan to open a diplomatic facility named the Taiwanese Representative Office, instead of using the word Taipei, which Beijing argues is a violation of protocol regarding its "One China" principle. Economic ties between China and Lithuania have been subsequently impacted, with Beijing launching a trade war with restrictions of imported Lithuanian food and goods.

Beijing appears selective in its response to those countries which have chosen to sever ties with China. While Lithuania was punished for its anti-Beijing policies, Warsaw, which had sided closely with Washington on barring Huawei from developing Poland's 5G network, is still viewed as "China's focal point in its 16+1 strategy with Central and Eastern Europe" according to a Politico report. Following a meeting between Chinese President Xi and Poland's president Andrzej Duda, Beijing stated "President Xi expressed readiness to work together with him to lead the sound, stable and sustained development of China-Poland relations to the benefits of the two peoples." And, in an apparent acknowledgement of Warsaw's economic nationalism, the statement noted "President Xi stressed that both China and Poland are countries that pride themselves on national independence and are committed to creating a better life for the people."

## EU goods exports to China in 2020



Source: Eurostat

BBC

This appears to be an attempt by Beijing to demonstrate the risks of Poland’s economic cooperation with Washington, should US Democrats continue to criticize Warsaw’s economic populism and social conservatism. However, ties between Washington and Warsaw have strengthened considerably since Russia invaded Ukraine, with less criticism directed toward the Polish government’s socially conservative policies. Poland has moved “from the fringes of US foreign policy into the spotlight.”

### Covid Diplomacy:

China has also long established a foothold in the Balkans, particularly through the BRI, but more recently through Beijing’s vaccine diplomacy initiatives. In addition to economic cooperation and Health Silk Road initiatives, three Serbian universities – University of Belgrade, University of Novi Sad, and University of Nis – have signed cooperation agreements with Shanghai-based Jiao Tong University. Total Chinese investment in Serbia is estimated at 7 billion euros including major infrastructure projects such as segments of the Budapest-Belgrade railway. Serbia had embraced a multi-vector foreign policy aimed at European integration, with warm economic ties toward both China and the United States. However, as reports circulate that Serbia’s EU aspirations have stalled and the Biden Administration has not committed as much time and resources on peace resolutions in the region, Beijing has accelerated its soft power diplomacy in the region. At the 2022 Bratislava Forum, Serbia’s president Aleksandar Vucic defended his country’s close ties with China, stating Beijing has always supported Belgrade’s territorial integrity concerns and that Serbia would lose this support if the relationship with the PRC lessened.

## China-Serbia Bilateral Trade, 2017 to 2021



Source: China General Administration of Customs<sup>1</sup>

Graphic © Asia Briefing Ltd.

The Biden Administration restricted the export of vaccines initially, allowing China (and Russia) to quickly fill the needs of countries unable to secure U.S. or European vaccines. Belgrade also signed a memorandum of understanding to produce China's Sinopharm vaccine in Serbia. This is in addition to Beijing's "mask diplomacy" in the Balkans early on in the pandemic, when China delivered masks, face shields, and Covid detection kits to Serbia. As Ana Juncos noted in a Carnegie Endowment for International Peace report, "a perceived lack of solidarity from the EU and its member states – both in the early stages of the crisis and in the later vaccine rollout – has provided new impetus for Beijing's and Moscow's geopolitical games [in the Western Balkans]."

The Trump Administration had previously countered China's influence campaign in the Balkans by establishing a US Development and Finance Corporation (DFC) office in Belgrade, Serbia, the first overseas US development finance office. DFC, formerly the Overseas Private Investment Corporation (OPIC), provides insurance and consulting for private capital seeking investment opportunities outside the United States. Established through the Better Utilization of Investments Leading to Development Act of 2018 ([BUILD Act](#)), the Trump-era infrastructure legislation doubled OPIC's previous spending cap for investments to \$60 billion. The BUILD Act was deemed "the most important piece of U.S. soft power legislation in more than a decade."

### **Conclusion:**

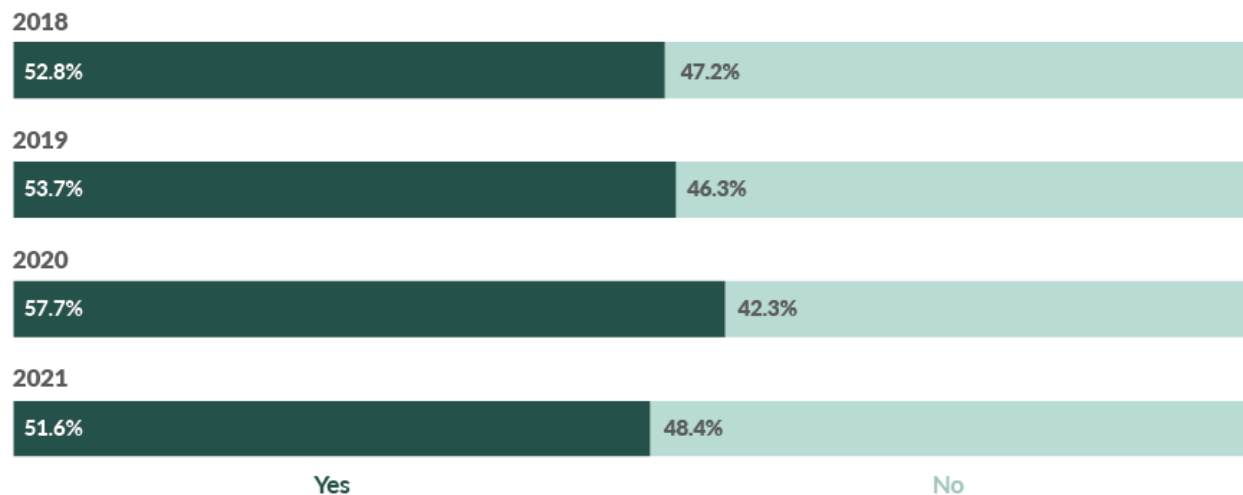
Washington can no longer solely rely on its policymaking toolbox from the Pax Americana era for countering China in CEE. For example, any Washington threat of military action or notions of US military superiority are no longer sufficient as a deterrent against US competitors in key global regions, such as Central and Eastern Europe. The United States is no longer the undisputed security guarantor throughout Europe. After twenty years of war in the Middle East, Americans are rightfully war wary.

With the undeniable decline of the US-led unipolar world following America's embarrassing withdrawal from its "Forever War" in Afghanistan, Washington faces two simultaneous challenges to American leadership capabilities in the Indo-Pacific with Taiwan and in Central

and Eastern Europe with the Ukraine war. In addition, following two decades of non-stop war throughout the Middle East, Americans' views on foreign policies have shifted toward

non-interventionism, prior to Russia's invasion of Ukraine. A plurality (42 percent) had supported a decrease in U.S. troops stationed in Europe, Asia, and the Middle East, according to a September 2001 Eurasia Group Foundation poll. The same public opinion survey found 47.9 percent of those polled (a plurality), support a Jeffersonian worldview, "less concerned about spreading democracy abroad and more about protecting it at home." While most of those polled support expelling troops from invading a NATO ally in the Baltics (51.6 percent), support for this policy dropped 6.1 percent from the previous year, while a majority support increasing troops in Asia (50.9 percent), a rise in support of one percent from the previous year.

### Should America initiate a military operation to expel Russian troops from invading a NATO ally in the Baltics?



Source: EGF

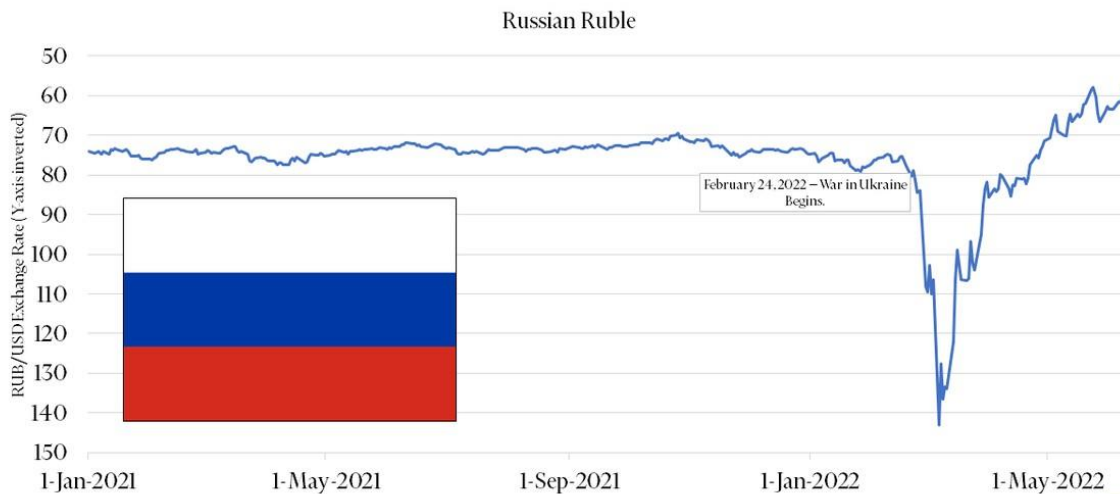
The threat of US punitive economic actions are also no longer sufficient, as even a senior Biden Administration official acknowledged Washington's sanctions against Russia have had no deterrent effect on Moscow's actions toward Ukraine. Following Moscow's invasion of Ukraine, President Biden even acknowledged "no one expected the sanctions to prevent anything from happening." The question of the effectiveness of sanctions as a deterrent is increasingly under question, yet Vice President Kamala Harris insisted on assuring Washington's European partners that "the deterrence of these sanctions is an effective one."

The days of the "King Dollar" as the world's currency may be coming to a slow end as well, limiting America's options for effective sanctions measures in the future. As reported in *Newsweek*, "the continual use of sanctions to pressure countries and companies may also be weakening the dollar's global position." With US sanction use increasing a staggering 933 percent since 2000, European countries, no doubt to the delight of China and Russia, devised a workaround to counter U.S. sanctions and avoid transaction clearances through SWIFT. The Instrument in Support of Trade Exchanges ([INSTEX](#)), a special purpose vehicle (SPV) developed by Belgium, Denmark, Netherlands, Finland, and Sweden, was originally created as a sanctions

workaround for European trade with Iran. However, as noted by [PISCES](#) research fellow Keith Preble, “Russia and China are likely to use [INSTEX] as a model to distance their economies from the U.S. dollar.” President Biden had hoped sanctions would turn the ruble to “rubble” with the might of US sanctions, but the Russian currency rebounded, becoming the strongest currency in the world as of June 2022.

## Despite **War** and **Sanctions**, Ruble **Strengthens** Against USD

On June 11<sup>th</sup>, the Russian ruble strengthened to **58.25** rubles per U.S. dollar.



Source: The Wall Street Journal

Prepared by Professor Steve H. Hanke, The Johns Hopkins University

Note: For the purpose of illustrating the increasing average value of the Russian ruble relative to the U.S. dollar, the y-axis is inverted.



Washington also should avoid overuse of export controls to counter Chinese economic cooperation with Europe, except when there is a grave threat to national security of the United States and its partners. Export controls lose impact when there is not a coordinated effort between Washington and its European allies, particularly when such measures are under the guise of human rights concerns which may appear to contradict other previous US policies. An example is the Uyghur human rights issue in Xinjiang.

The United States government has recently launched an Export Control and Human Rights Initiative, along with Australia, Denmark, and Norway, which aims to restrict export controls of technology which may further human rights abuses. In and of itself, this is a noble cause.

However, perhaps in an effort to maintain Beijing’s cooperation on joint climate control policies, US Climate Czar John Kerry did not forcefully condemn allegations of forced Uyghur labor to produce solar panels in Xinjiang. Between 2010-2020, China’s market share of global polysilicon production, essential for the manufacturing of solar panels, increased from 26 percent to 82 percent. Kerry, former U.S. Secretary of State during the Obama Administration, has also been accused of actively lobbying against US legislation prohibiting the import of any goods linked to forced labor from Xinjiang due, perhaps, to reports that the US Climate Czar and his wife Teresa Heinz have financial interests with links to a company involved in “the surveillance, detention, and repression of Uyghurs,” according to U.S. Senator Marco Rubio.

Washington’s inconsistent Uyghur policy must certainly baffle Washington’s European partners. For example, then candidate Joe Biden labeled Poland and Hungary “totalitarian regimes” just

weeks prior to the U.S. November 2020 election. This must still raise concerns in Warsaw and Budapest, as to whether broadly formed human rights export controls initiatives like Washington's, could one day get applied against Poland and Hungary if the US government wished to exert economic policy leverage over Central and Eastern Europe. If the aim of the West's export controls is to decouple supply chains with China, then Europe should determine its policies in conjunction with Washington. However, policies which may appear arbitrary to Central and Eastern Europe, and elsewhere within the Europe Union, will only lead to a lack of unity in countering China. Mere months after the Export Control and Human Rights Initiative was launched at the White House's December 2021 "[Summit for Democracy](#)," Politico reported "two European airports – Belgium's Liege and Hungary's Budapest – added new direct cargo flights with Kashgar, the second biggest city in Xinjiang." Further muddling non-aligned US-EU policies regarding economic ties with Xinjiang was Germany's Chancellor Olaf Scholz not supporting a diplomatic boycott of the Beijing Winter Olympics due to concerns over human rights issues.

Also complicating a coordinated Transatlantic response to human rights related export controls is Washington's role as global arbiter on this issue. At a time when the United States is experiencing its own domestic challenges related to democracy, the rule of law, and religious freedom, Beijing may attempt to exploit any perceived double standards and drive a wedge between Washington and various western partners. With inflation in America reaching a 40-year high, record numbers of Americans exiting the labor force (47 million Americans quit during the "Great Resignation" of 2021), and supply chain disruptions "more persistent than expected" according to the [Financial Times](#), the global economy cannot withstand further market distortions which could be subjected to Beijing "[whataboutism](#)" and used to split existing Washington relationships with European partners. If the objective of human rights related export control is to sever certain supply chains with China without drawing the ire of corporate America, then "rip off the band-aid." However, corporate America is too eager to maintain strong economic ties with China because of inexpensive labor, with some leading American business executives eager to restart back-channel diplomacy and increase trade between the two countries. Western policymakers must have gumption and redirect supply chains without fanfare, so the damage to the global economy is short-lived. Otherwise, selective decoupling will result in unfavorable market distortions, including persistent supply chain disruptions and continued inflation.

If neither military threats nor punitive economic measures are the "end all be all" policies to counter Beijing's influence in Central and Eastern Europe, then how can the US government best assist Washington's partners in the region? The simplest way is to present a contrast to Beijing's state-owned enterprise (SOE) dominated socialist market economy: a US economic populist model based on fair competition, innovation, energy security, and engaging the private sector to invest in public infrastructure. Policymakers also must maintain flexibility in their ability to stray from free market orthodoxy if needed to compete with Beijing. Subsidies may be required in key strategic sectors, an example being America's recent CHIPS act, designed to boost US semiconductor manufacturing. Within this economic populist model, Washington and its CEE partners can further key objectives through various platforms.

#### Energy Security:

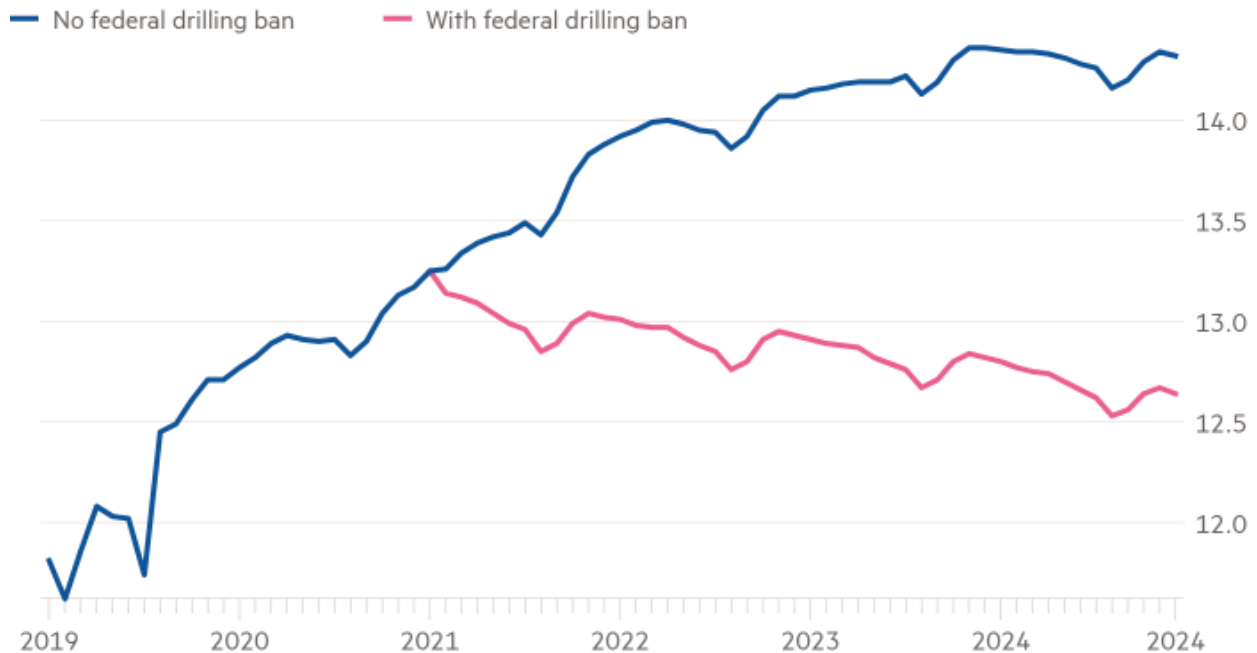
Former U.S. Secretary of Energy Rick Perry stated the Biden Administration "vilifies the fossil fuel industry one day, then pleads for its help the next. It begs OPEC to pump more oil while restricting our domestic supply at home. It green lights pipelines to benefit Vladimir Putin while blocking pipelines that would benefit the United States and our allies... This administration

continues to be silent about the American LNG industry, which the International Energy Administration director recently described as a ‘lifesaver’ for Europe.” The White House, in its fevered approach from day one of the Biden presidency to pursuing the progressive left’s “[Green New Deal](#),” fails to grasp the realities of energy policy in CEE. When Europe’s dependency on Russia and China for energy and associated infrastructure deepen, then America’s strategic competitors can then dictate policy.

The Biden Administration’s insistence on pursuing zero carbon emissions and alternative energy sources has led to a reversal of America’s short-lived status as a net energy exporter. Ending Trump Administration policies aimed at shale gas exploration has resulted in no LNG development projects having gained final approval in 2021, despite demand for liquified natural gas rising 40 percent over the past five years. With global LNG demand rising and the world’s supply falling due to the Biden Administration’s restrictive energy exploration policies, the White House’s contradictory policies also directly impacted CEE countries. Any hopes for energy independence in the CEE region were dashed when Washington initially waived sanctions on Nord Stream 2, ending the White House’s and Kyiv’s best hopes for using the pipeline as leverage to pressure the Kremlin into direct talks with Ukrainian President Volodymyr Zelensky for negotiating a lasting peace settlement in the Donbass.

## US oil production under a Biden government

Million barrels a day



Source: S&P Global Platts

© FT



Instead of Washington offering fossil fuel producers significant tax credits or helping subsidize the difference in costs between Russian energy and imported LNG while the Ukraine war was a “frozen conflict,” the quantity of US LNG exports to China tripled in 2021 from the previous year, reaching 51 billion cubic feet. As noted by the Center for Strategic & International Studies (CSIS), “after years of avoiding a commitment to buy US LNG, Chinese companies have finally made their move.” Perhaps these increased energy purchases by Beijing are strictly to meet increased Chinese energy demand. But there is also a possibility that the LNG purchases were agreed to so China meets its purchase commitments under the Phase One trade deal between Washington and Beijing. With commitments met, Beijing and US corporate interests could then advocate for the removal of tariffs on Chinese imports to the United States. CSIS stated, “US LNG started going to China again” when the Chinese government issued a waiver on US energy tariffs to de-escalate the US-PRC trade war.

During President Biden’s January 19, 2022 press conference, a journalist asked “Do you think the time has come to begin lifting some of the tariffs on Chinese imports? Or is there a need for China to make do on some of its commitments in the Phase One agreement? Some business groups would like you to begin raising — lifting up those tariffs on China.” This begs the question whether US corporate interests have lobbied Washington to encourage exporting LNG to China, to meet Beijing’s purchase commitments and ultimately lower tariffs, rather than exporting the liquified natural gas to CEE and improving the region’s energy security. It also raises concerns over what the true motivation was behind the Biden Administration’s initial decision to waive sanctions on the Nord Stream 2 pipeline. Did the White House believe it was in the CEE region’s best interest to waive sanctions on German interests behind the pipeline construction, to gain Berlin cooperation on Washington climate initiatives, all the while increasing Europe’s dependence on Russian fossil fuels? As RealClearPolitics commentator Frank Miele stated, the Biden Administration “resembles a real life version of ‘The Wrecking Crew’.”

The Biden Administration’s policies are anti-energy and directly opposed to CEE national security interests. Besides shutting down US pipelines, while keeping Moscow’s energy sector operating prior to Russia’s invasion of Ukraine, and increasing LNG exports to China, the White House has taken a whole-of-government approach to destroying America’s energy sector. This strategy aimed at ending US fossil fuel production includes attempts to cut off capital to fund new and existing oil, gas, and coal projects. Sarah Bloom Raskin, Biden’s former nominee for Vice Chair of Supervision at the Federal Reserve, voiced support for the Federal Reserve influencing US banks to end investments in fossil energy. As US Senator John Barrasso (R-WY) wrote to the US Senate Committee tasked with Raskin’s nomination process, “we are already seeing signs of underinvestment in US oil and natural gas projects, which is affecting the ability of US energy producers to keep pace with post-COVID demand growth.”

While energy security for CEE may have served a clear strategy vis-à-vis countering Moscow’s energy dominance for the region, Europe’s energy policies related to limiting China’s influence may not seem as obviously apparent. US objectives should be two-fold as it relates to energy policy as a counter to Chinese influence: first to maximize US LNG exports to CEE and exceed those currently being sent to China and second to privately finance energy infrastructure for LNG deliveries, regasification, etc., and subsequently offer an alternative to Chinese infrastructure development through the state-financed BRI. A first step is to revitalize the Partnership for Transatlantic Energy Cooperation ([P-TEC](#)), which was launched in 2018 by the US Department

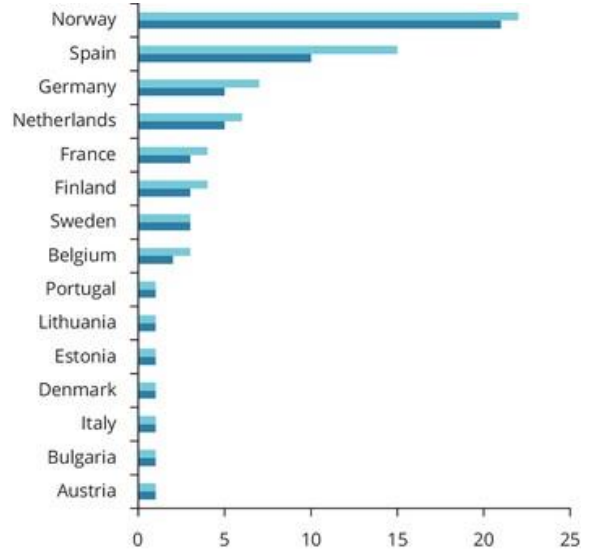
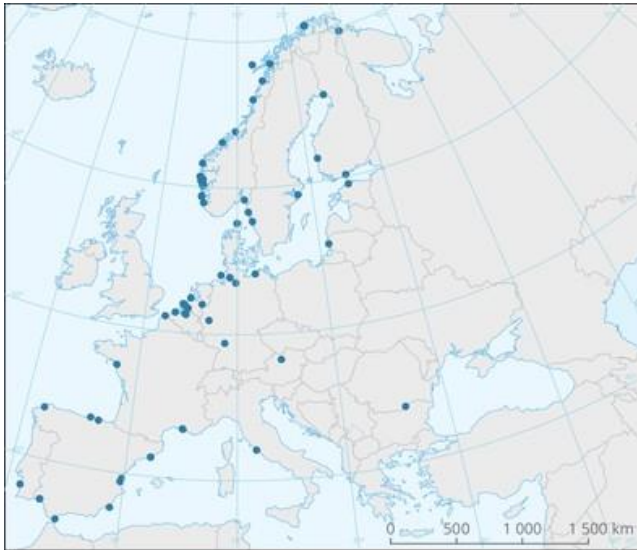
of Energy, as a complementary effort to the Three Seas Initiative to “[enhance] energy security and resilience through an essential transatlantic cooperation.” Not surprisingly, another “C” for “climate” was added to the original P-TEC acronym after Biden’s election and the program’s focus is building climate-conscious energy systems. A ministerial-level meeting between the US Department of Energy and its European partners had not been held since 2021. With the third P-TECC ministerial organized by Poland in 2021, Polish officials should now pivot the platform away from the Biden Administration’s planned course of action, centering on a long-term objective of “setting climate action.” Instead, P-TECC’s focus should center on short-term fixes such as infrastructure development through the Three Seas Initiative (TSI), which can counter Chinese financing influence throughout the region and provide CEE with energy security.

*Recommendation: Attract private sector investment for energy infrastructure development (regasification for LNG), increase US LNG exports to CEE, and pivot toward pragmatic energy policies which allow the Central and Eastern European region to end dependency on both Russian fossil fuels and Chinese-funded infrastructure.*

Infrastructure Development: America’s International Development Finance Corporation (DFC), along with Japan’s Bank for International Cooperation (JBIC) and Australia’s Department of Foreign Affairs and Trade (DFAT) formed the Blue Dot Network (BDN) in November 2019.

[BDN](#) was developed as a “mechanism to certify infrastructure projects that meet robust international quality standards” and to “help attract private capital to infrastructure projects in developing and emerging economies.” Ideally BDN and the Three Seas Initiative Investment Fund (TSIIF) would have worked collaboratively to attract foreign direct investment for energy infrastructure projects. TSIIF was founded by Poland’s Bank Gospodarstwa Krajowego (BGK) and Romania’s EXIM Bank, with commitments of 500 million euros, with the other TSI state national development platforms investing between 3-5 billion euros total. At the February 2020 Munich Security Conference, the US government pledged \$1 billion from DFC funding for TSIIF. The TSI investment fund is managed by [Amber Infrastructure Group](#), which invests billions of euros in “pension fund, insurance, private wealth, and retail investor capital.” With an estimated \$20 trillion held in US pension funds alone, even a small percentage invested into BDN-certified infrastructure projects would challenge the funding capabilities of Beijing’s BRI.

In February 2020, former US Energy Secretary Dan Brouillette remarked that as much as 40 percent of the European Union’s regasification capacity is unavailable to neighboring member states. BDN and TSIIF should have been focusing on expanding the availability of CEE regasification capabilities and storage with regional U.S. partners, including Ukraine which has 12 underground storage facilities with a total capacity of approximately 31 billion cubic meters (bcm), of which nearly two-thirds of capacity remained unfilled. Instead of centering on critical infrastructure development which may have staved off Chinese investments and subsequently enhanced regional energy security, the Blue Dot Network and Organisation for Economic Cooperation and Development last discussed infrastructure development in October 2021, with an emphasis on the environment and promoting “social inclusion.”



Reference data: ©ESRI



*Recommendation: Minimize government solutions for infrastructure development finance and focus on maximizing private sector and pension fund investment to fund projects, using the United States and key partners to certify sound investment projects.*

**Investment Restrictions:**

America’s CFIUS is an effective measure at restricting Chinese investment into the US market if there is a clear national security risk. As of December 2021, 18 of the 27 EU member states have adopted individual foreign direct investment screening mechanisms. Brussels does not coordinate bloc-wide investment restrictions, as it is the responsibility of each individual member. Most of CEE has some restrictions in place, with Poland having one of the strictest within the region, covering reviews of foreign investment in the defense, healthcare, energy, telecom, agricultural, transportation, and real estate sectors. However, as most investment controls are decided upon and enforced at the national level, full participation of all EU members is needed to ensure a coordinated, Transatlantic response to preventing China’s investment into sensitive European sectors.

*Recommendation: Ensure investment restriction policies in strategic sectors are uniform between the United States, United Kingdom, European Union, and non-EU CEE countries to counter attempts by the PRC to acquire key industries. Develop outbound investment restriction policies for any CEE industrial sectors receiving government subsidies, to prevent China from gaining any strategic advantage in key technologies.*

**Rare Earths:** Finally, while energy security is an issue of utmost importance for CEE, the United States and its European partners face a similar challenge with rare-earth elements. In 2017, the White House issued a strategy on rare earths, stating US dependency on imports of these critical minerals is a “strategic vulnerability for both [the US] economy military to adverse foreign government action.” The European Union has relied on China for as much as 98.5 percent of its total rare earth metals imports, while the United States imported over 95 percent from China.

Rare-earth minerals are used for manufacturing electric and hybrid cars, semiconductors, military equipment, and satellites. Washington and Europe seem aligned on the importance of redirecting supply chains away from China for these critical minerals, with Europe estimating \$2 billion of investment is needed for various projects through the European Union. The Biden Administration has identified the need to have domestic supply chains for critical rare earths such as cobalt and lithium. There are bauxite deposits in Croatia, Serbia, Hungary, and Bosnia and Herzegovina, which may have sufficient supplies of cobalt, lithium, and other rare earth minerals to reduce dependency on China for imports. In addition to potential mining in CEE, the European Raw Materials Alliance (ERMA) has identified opportunities for magnet making and separation of rare earths, which, of course, would accelerate through certification by BDN and funding available through the TSIF. However, as control of rare earths requires significant mining, the United States and Europe cannot allow climate change activists and advocates to block processing precious minerals due to environmental policy restrictions.

*Recommendation: Deregulate prohibitions/restrictions for mining and processing rare earths and re-shore supply chains for these metals, helping end US and Europe’s dependency on China for exports of these elements.*



Fig. 9. ERMA investment cases in the rare earth value chain identified so far are located in various European locations

## CHINA'S ECONOMIC INFLUENCE IN UKRAINE

### I. Unprovoked Russian war in Ukraine – a game changer for Ukraine-China relations?

Russia's unprovoked war in Ukraine, begun on 24<sup>th</sup> February 2022, has significantly altered the geopolitical landscape in Europe. It has distorted not only political ties and communication lines, but also severely impacted established commercial links<sup>1</sup> and prospects of investment activities in the region. Naturally, full scale fighting in the East and South of Ukraine has made international commercial operations in the region close to impossible. International players, China included, have had to recalculate their prospects for further business activity in Ukraine. Chinese investment projects in Ukraine have been stalled or damaged. More than [6.6 bn USD contracts](#) for construction work in Ukraine, that China obtained in 2021, had been also severely affected.

However, the most important stumbling block to Ukraine-PRC relations has been China's position towards the Russian invasion. In its numerous statements since the outbreak of the war China has always preferred to hide itself under "[constructive ambiguity](#)" and to stick to diplomatic clichés such as [peaceful resolution through negotiations](#). However, the [first official statements](#) of China on the war strikingly resembled Russia's arguments. To Russia's delight China has also been holding to the line of [abstaining](#) or [voting against](#) UN resolutions condemning Russian aggression in Ukraine. This position has been evolving against the background of intense Chinese [dialogue](#) with [Russia](#), [European countries](#) and the [US](#), which has been happening throughout 2022, a clear contrast with no communication at leaders' level with [Ukraine](#). Apparently, Ukrainian officials were equally annoyed with Chinese language used to describe the war as "[Ukraine's issue](#)", "[Ukraine's crisis](#)", "[Ukraine as a bridge](#)". This was explicitly offset by the [response](#) of the top Ukrainian diplomat Dmytro Kuleba, saying that *'the Ukrainian people ...would not agree to play the role of a buffer between East and West. Ukraine is indeed on the border between East and West, but Ukraine is not a bridge that anyone can cross at will.'*

Another important political development with respect to China is the position of Taiwan towards the war, which, in turn, has altered the dynamics of bilateral ties between Kyiv and Taipei. Taiwan's explicit support of Ukraine and [condemnation](#) of Russia's actions has been very prompt with a parliamentary resolution and strict sanctions on Russia, meanwhile sending tons of humanitarian assistance to Ukraine. It is no wonder, that these actions of Taiwanese authorities received a warm welcome in Ukraine. In autumn 2022 a cross-parliamentary group to promote closer friendship, trade, and cultural ties with Taiwan has been established in the Verkhovna Rada of Ukraine and Ukrainian MPs paid visits to Taiwan.

There is no doubt that given such a political background, even economic relations with China, which

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<sup>1</sup> Foremost, Eurasian Land Bridge of Belt and Road Initiative has been severely affected. The China-Europe Railway Express' primary route westward has been through Russia, Belarus, Poland, or the Baltic coast. The route through Ukraine has been cut off by the war. It also no longer stops in Lithuania. The [China-Europe Railway Express](#) via Ukraine had been suspended. Due to EU sanctions against Russia, many European operators have decided to completely withdraw from transportation through Russia and Belarus, which also affected China, since all routes of Chinese CEB trains pass through Russia. However, China-EU trade has not been greatly affected by the conflict, as railway transportation makes only 5%, this still has forced China to develop alternative routes to replace or enhance maritime transport and to re-account logistics costs in order to optimize China-Europe logistics routes.

have already been affected by the war, will be very difficult to resume and activate as ‘business as usual’ once the war is over. Whereas the war has not ended yet, we do not know exactly how China’s position will be transformed in due course and how that might impact Ukraine-China relations further. However, China’s geo-economic strategy of getting deeper into Europe suggests that this country will be actively seeking opportunities to be an active actor in a post-war reconstruction of Ukraine, offering its cheap and fast state loans, promising investments in infrastructure and construction services etc. However, being a ‘pro-Russia neutral’ will not help China to become an attractive partner for Ukraine for reasons of national security, as Ukraine will be cautious to buy, for example, China-made sensors for traffic management or CCTVs as a potential means of gathering information, which could- for example - reveal the location of Ukrainian troops and weaponry. On top of the other factors of concern about China’s investment activities in Ukraine, which are laid out below, this particular consideration significantly limits China’s economic prospects in Ukraine, at least, for the nearest future.

## II. Pre-War Times: Political Limits for Strategic Cooperation between Ukraine and China

In the summer of 2021, a number of resonant statements from President V. Zelensky’s team brought about speculations over possible changes in Ukraine’s geopolitical vectors (app from the West to the East. In particular, Oleksiy Arestovych, advisor to the Office of the President, in an [interview](#) from July 17, 2021, stated that *“if the West wants to make friends with Russia at the cost of surrendering Ukrainian interests..., then we will turn to the East.”* A bit earlier, the head of the pro-presidential parliamentary faction Servants of the People, David Arakhamia, in an [interview](#) to Chinese media said that his party wanted to apply some Chinese Communist Party (CCP) practices towards managing the economy and developing the state.

This gave the expert and media environment reason to interpret such statements as a “cautious test of the ground” regarding a potential strategic rapprochement between Ukraine and China. This was against the backdrop of the lack of a clear reaction from the EU and NATO countries regarding the prospect of Ukraine’s realignment. However, the heated debates quickly subsided due to the official response of the Ukrainian Foreign Ministry, which confirmed the irreversibility of the Euro-Atlantic course of Ukraine, fixed in the relevant provisions of the Ukrainian Constitution. The [statement](#) of the Minister of Foreign Affairs of Ukraine D.I. Kuleba at the Open Zakarpattia Forum on November 5, 2021 clarified the situation *“Ukraine will develop relations with China as part of the Western political world. As a Western state based on Western values and principles. This is fundamental. Of course, we will trade with China quite actively, we will attract Chinese investments. But as far as the hard security sector is concerned, we will be primarily with our Western allies on this issue. We will try to attract investments in the field of sensitive military technologies from our Western partners and from countries that, as they say, are not in rigid antagonism with our Western partners.”*

In fact, the minister’s statement reveals the general approach that Ukraine is laying down in its cooperation with China for the coming years: “we are related by values to the West and we will build relations with the PRC as part of Western civilization; sensitive issues of investments in the sphere of security and military technologies of Ukraine remain a priority for cooperation with pro-Western countries; we will develop pragmatic relations of economic cooperation with China.”

These pragmatic relations, in accordance with [Ukraine's Foreign Policy Strategy](#), are related to areas such as infrastructure, energy, transport and industrial production. Meanwhile, for the medium-term concerning the perspective of cooperation with Asian countries, Ukraine sets the goal of *“gaining wider support ... in matters of countering the aggression of the Russian Federation and restoring the territorial integrity of Ukraine within its internationally recognized state border.”* Within the

framework of this paragraph, we see certain limitations for the political-strategic dialogue between Ukraine and China, given the rather cautious position that China takes in relation to Russian aggression in Ukraine. The Chinese political leadership adheres to the formula about the desirability of "resolving the conflict between Ukraine and the Russian Federation through political and diplomatic efforts". And history of all previous China's voting at the UN on resolutions regarding Russian aggression in Ukraine illustrates China reluctance to support Ukraine directly and prefers to abstain (as in the case of UN General Assembly resolution No. 68/262 of 03/27/2014 on the territorial integrity of Ukraine) or to vote against (for example, the UN General Assembly resolution on the militarization of Crimea of 07.12.2020). In pre-war years official China explained its position as an unwillingness to increase confrontation.

However, the Ukrainian political leadership was trying to embed certain elements of strategic structures in its dialogue with China and declared Ukraine's interest in participating ("*to a scale that does not hamper European and Euro-Atlantic integration of Ukraine*") in ambitious Chinese economic projects, such as the "16+1" initiative for CEE countries. On top of that, since 2018 Ukraine's proposal to conclude a bilateral free trade agreement with China has been periodically raised. However, no significant progress had been achieved on either.

### **III. What do the numbers and facts say?**

While there is a cautious dance between Ukraine and China in the political and security realm, within the sphere of trade and economic cooperation the analogy might be that of a tango, where China obviously leads.

Despite a striking decrease in trade turnover between Ukraine and China in 2022, which has fallen by 70% according to [OEC figures](#), China still remains the largest trade partner for Ukraine among other countries. In 2019, China confidently took first place in terms of trade volume with Ukraine and has continued to hold the lead for 3 years. In 2021, trade with China [equaled](#) 10.9% of Ukraine's GDP (increased from 2% of GDP in 2001) and 15.1% of the total foreign trade turnover. However, for China itself, the share of Ukraine in the total volume of trade with other countries in 2021 amounted only for 0.6%. Between October 2021 and October 2022 the exports of China have decreased by \$-640M (-79.9%) from \$801M to \$161M, while imports decreased by \$-395M (-69.8%) from \$566M to \$171M.

At the same time, the structure of export-import transactions between Ukraine and China remains unbalanced. More than 80% of Ukrainian exports to China consist of four raw material groups (ores, slag and ash, cereals, fats and oils of animal or vegetable origin, residues and waste from the food industry). Chinese imports are more diversified and consist of products with high added value: electric machines, nuclear reactors, boilers, machines, transport and various chemical products. Moreover, according to some positions, PRC imports are [irreplaceable](#) for Ukraine (for example, more than 90% of Ukrainian imports of semiconductors come from the PRC).

#### Investment cooperation

In contrast to the high growth rates of trade and economic cooperation between the two countries in 2018-2021, the level of investment cooperation between the two countries remained at a low level. With the current volume of Chinese foreign direct investment (FDI) globally exceeding \$2 trillion, as of the beginning of 2021, [only](#) \$47 million of FDI came to Ukraine directly from China, another \$60

million from Hong Kong, although some of the Chinese investments were sent to Ukraine through Singapore, the Netherlands and other offshore companies. This is just 0.3% of the total FDI in Ukraine. Of the 150 largest foreign companies in Ukraine, the ultimate beneficiaries of which are Chinese citizens, the lion's share of capital (68% of assets) and income (84%) is [accounted for](#) by only three state-owned Chinese companies - CNBM, CCEC and COFCO.

#### **Case Box 1: Some successful projects of Chinese investment projects in Ukraine (pre-2022)**

An example of successful Chinese investment projects in Ukraine is the activity of the Chinese agro-trader China National Cereals, Oils and Foodstuffs Corporation (COFCO), which accounts for more than 50% of all Ukrainian grain exports to China. The corporation was one of the largest employers in the field of agriculture in Ukraine and one of the largest investors in agricultural infrastructure in Ukraine (including logistics complexes in Mykolaiv and Mariupol, Dnipropetrovsk and Kherson regions). Since 2008, COFCO has invested over \$200 million in the Ukrainian economy, including within the framework of the "Belt and Road" project. For example, the grain terminal in Mykolaiv port was considered by the management of COFCO Trading as a promising logistics node for the transportation of agricultural products to Eastern Europe. Prior to the war, COFCO was also considering the possibility of investing in the river infrastructure of Ukraine to increase grain storage capacity.

Chinese companies also act as contractors for state agencies of Ukraine. A successful example of such cooperation was the implementation of the contract for the deepening of the water basin of the seaport "South" (Odesa region), when the Chinese subcontractors (China Harbor Engineering Company Ltd.) completed the order 3 months ahead of schedule and saved 10% of the contract value of \$15 million. This project was considered one of the most successful cases in the field of port infrastructure.

If we analyze the structure, areas and volumes of investment projects in Ukraine for the period 2011-2021, it can be seen that the total amount of declared intentions of Chinese investments in Ukraine reaches more than [12 billion](#) US dollars. Moreover, a significant part of the amount for these projects was promised in 2011 (about 7 billion US dollars) and related to investments in energy and transport. However, 50% of the announced projects were never implemented. The next wave of the Chinese "investment boom" in the economy of Ukraine fell during the period 2017-2019 (contracts worth USD 545 million, USD 1,660 million and USD 550 million, respectively, with investments in such areas as energy, transport and infrastructure and agriculture), although some of these contracts have been terminated or suspended. The real figures of investment activity of Chinese investors in Ukraine are more than modest. According to the Embassy of the People's Republic of China in Ukraine, Ukraine has received only \$300 million in Chinese investments between 2015-2020.

A significant part of the investment agreements concluded between Ukraine and the People's Republic of China is based on the use of the *Chinese mechanism of preferential state lending and insurance*. Compared to other foreign investors, China had the highest share of debt instruments in the overall structure of FDI in Ukraine (56% of all FDI). During the period 2011-2020, such credit agreements and memoranda between Ukraine and the People's Republic of China were concluded in the [amount](#) of 24 billion 457 million US dollars with an average term of up to 15 years. At the same time, most of these agreements had been identified as problematic and those subject to resolution of mutual



claims. Nevertheless, despite such a high rate of non-execution of concluded deals, the practice of using this instrument continued. In June 2021 Ukraine and China signed another [framework intergovernmental agreement](#) on investment cooperation, which provides for the use of concessional loans from the State Export-Import Bank of China for the implementation of joint projects in the field of infrastructure construction (at 2 % per annum for a period of 15 years). Railway transit, airports, ports, communications and municipal engineering construction were among the priorities of cooperation. But, as in the case of other similar investment loan agreements, the content of the agreements looked more of a set of intentions than a road map of cooperation, since no specific projects were defined under it.

This rather high rate of non-implementation of investment projects should be placed under careful scrutiny. However, meaningful analysis of such agreements is somewhat complicated due to confidentiality clauses (ie, non-disclosure of contractual terms), which is an intrinsic feature for all credit contracts concluded by the PRC with foreign counterparts. In some cases, even the amount of credit obligations was not disclosed (as, for example, in the agreement on the purchase by Ukrainian Polytechmed of medical ambulance equipment from the Chinese manufacturer JAC), not to mention the terms of credit or the exact share of the assets of the Chinese Eximbank or DBR. Individual contracts (for example, between the Ukrainian State Grain Corporation and Eximbank of the People's Republic of China) did not even go through the public procurement system and, accordingly, did not fall under the requirements of monitoring the use of credit loans.

Such a mechanism is common to Chinese business practice and is driven by the requirements of the overall investment policy of the PRC. Investments are made not so much out of commercial considerations, but rather seen as an opportunity to gain access to the resources of the recipient country or for other non-commercial purposes. According to those Ukrainian officials, who are familiar with investment negotiations with China, Chinese counterparts have always offered favorable conditions for potential deals in pursuit of political goals. Examples included promoting its “Belt and Road” initiative, strengthening its presence in Ukraine, expanding the range of cooperation with the state sector of Ukraine, etc.

#### *Particularities of investment cooperation - is there a different case for Ukraine?*

Analysis of Chinese investment projects in Ukraine shows that China has used similar approaches that were applied to other CEE countries, including within the framework of the implementation of the Belt and Road project. Such approaches included the use of credit instruments with a low interest rate and the mechanism of state guarantees, dumping when participating in state tenders, closed "special" conditions, the presence of a significant (over 50%) of a "Chinese component" in agreements and low added value of the project for a recipient country.

### Case Box 2: Problem projects and projects that were not implemented

Among the most "significant" promising projects that were not implemented by the parties, the following can be noted:

- 1) *Memorandum from 2012 on cooperation between the Ministry of Agrarian Policy of Ukraine and the Chinese Eximbank* (attracting Chinese funds to the industry in exchange for annual supplies of 2-2.5 million tons of com (to pay off a \$3 billion loan). The contract was not fulfilled due to non-fulfillment of obligations by the Ukrainian side. As of 2021, the project was at the stage of "discussion of mutual claims of the parties".
- 2) *Memorandum from 2015 between the Ministry of Regional Development, Construction and Housing of Ukraine and the Chinese company CITIC Construction Co. Ltd* about attracting up to \$15 billion in projects for modernization and transformation of the housing and communal services system. As of 2021 the project was not implemented.
- 3) *A contract from 2011 for the construction of a railway line between Kyiv and Boryspil* airport (a Chinese credit line for \$372 million under the state guarantees of Ukraine; the Chinese contractor is China National Machinery Industry Corporation). The contract was not fulfilled due to non-fulfillment of obligations by the Ukrainian side. The first 52 million were received. With this money, the project was developed and the land was bought. Later, the Ukrainian side decided to redistribute the funds to other infrastructure projects. In 2015, it became clear that part of the funds (in the period 2012-2013) had been stolen. The railway branch was built with other funds. The parties are in a state of dispute regarding payments for the first tranche.
- 4) *Contract from 2011 with the Chinese company Sinomash for \$1.5 billion* for the construction of a gas power plant in Crimea. The project was not developed due to the temporary occupation of Crimea by Russia.
- 5) *Contract from 2011 with the Chinese company Sinohydro for \$1.44 billion* for infrastructure projects in Crimea (including within the framework of the Chinese "Belt and Road" initiative). The project was not developed due to the temporary occupation of Crimea by Russia.
- 6) *Memorandum from 2017 for \$300 million between DK "Ukravtodor" and the Chinese China Road Bridge Corporation for the construction of a bridge in Kremenchug*. The contract was not implemented due to the inability of the Chinese side to fulfill the terms of the contract (underestimation of the actual costs, inaccurate project documentation, revision of the terms of the contract).
- 7) *Contract from 2017 for \$42 million between Ukravtodor and the Chinese Sinohydro Corporation* for the construction of 22 km of the M-06 highway near Zhytomyr. In 2020, the contract was terminated at the initiative of the Ukrainian side due to the failure of the Chinese partner to fulfill its obligations (violation of construction deadlines and low quality of work).
- 8) *Contract from 2017 for \$38.5 million between "Ukravtodor" and China's Xinjiang Communications construction Group Co., Ltd.* for carrying out repair work on the M-03 and M-12 highways. In 2019, the contract was terminated at the initiative of the Ukrainian side due to the failure of the Chinese partner to fulfill its obligations (violation of construction deadlines).
- 9) Project on replacing natural gas with the production of synthetic gas from coal. *Protocol between the Ministry of Energy and Coal of Ukraine and the State Development Bank of the People's Republic of China dated 2012 on the replacement of natural gas with coal* (state guarantees under the loan of the State Development Bank of the People's Republic of China in the amount of \$3.656 billion). Since 2015 JSC "Naftogaz" is conducting negotiations with the Chinese side regarding the replacement of the previous list of projects with others in the field of oil and gas.

However, there is a certain difference between the "Ukrainian case" and other countries of the "16+1" format – which is a relatively low degree of implementation of the declared projects. Many previously announced projects and agreements have never been implemented. Up to 2022 there was a fairly high percentage of unfulfilled contracts (about 50%) due to factors of both objective (temporary occupation

of Crimea) and subjective nature. Such factors included the deliberate underestimation of value of contracts and their subsequent revision after conclusion of framework agreements and unrealistic deadlines for the completion of works. Some of these contracts were not implemented due to non-fulfillment of their obligations by the Ukrainian side, and some because of the Chinese partners.

Most of the investment projects became problematic at the second contractual stage, after the signing of protocols/MOUs. At a stage where agreement terms are to be defined, systematic differences in approaches arise. Thus, in accordance with established practice and the requirements of Chinese legislation, the partner party must first conclude relevant agreements for the performance of works with Chinese contractors (while more than 50% of the contract value must be provided by Chinese components), and then calculate and conclude an agreement on financing terms with a Chinese lender. European (and Ukrainian) practice is the opposite: first, an agreement on general financial terms is concluded, and then a call for contractors is opened. In addition, it is very common for the Chinese side to demand so-called "special" conditions clauses (for example, non-compliance with legislation requirements on public procurement or a transfer of intellectual property rights), which Ukrainian partners are not always ready to provide.

Governmental officials from Ukraine, who have participated in negotiations with Chinese partners, confessed that significant numbers of "problematic investment agreements" are responsible for an overall reluctance to work with Chinese companies. Paradoxically, similar feelings had been confidentially shared by the Chinese side after their experience of cooperation with Ukrainian partners.

#### **IV. Ukraine in the "Belt and Road" system - New Eurasia Land Bridge Economic Corridor**

Considering pre-war years, Ukraine's convenient geographical location and access to the sea should have made it an attractive territory for China to implement part of its ambitious "Belt and Road" project from Asia to Europe. Formally, Ukraine joined this initiative in 2017, and by 2018, an official representative office of the Belt and Road project had opened in Kyiv.

However, by the nature of investment projects in Ukraine, it cannot be said that China had strategically "embedded" Ukraine into this system: projects in the transport and infrastructure sectors were rather local, and most land transit communications with Europe -the New Eurasia Land Bridge Economic Corridor- were carried out by China through Belarus. The Asian "China-Balkans-EU" route was laid through Turkey, Bulgaria, Hungary and countries of the Balkan region. In fact, even before the war Ukraine remained outside the key areas of the "Belt and Road" project. In addition, Ukraine, despite its reiterated wish to participate in the 16+1 format, had not even received observer status within this initiative, as Belarus did in 2019.

This phenomenon can be explained by a number of factors. Partially it is due to the cumulative effect of the controversial nature of investment cooperation between Ukraine and China. Among objective factors there are: (1) availability of an alternative route through Belarus; (2) the factor of the Russian-Ukrainian conflict and subsequent full-scale war (which disrupted transport connections between Ukraine and Russia); (3) temporary occupation of Crimea and part of Ukrainian territories in the East and South and respective international sanctions for conducting activities in Crimea under Russian jurisdiction (and later more comprehensive sanctions on Russia); (4) Ukraine did not belong to the EurAsEC customs area (common customs territory of the Russian Federation, Kazakhstan and Belarus), which implied additional costs on administrative procedures for the movement of goods.

Nowadays, with the full-scale war of Russia on Ukraine's territory, China has been forced to invent completely new alternative routes for the BRI, bypassing Ukraine, Belarus and Russia. These developments have firmly put on hold any possible prospects for Ukraine to become an active BRI player, at least, in the immediate future.

## **V. The controversial issue of economic dividends in exchange for political concessions**

Probably, in the complex history of Ukraine's economic partnership with the People's Republic of China, the most controversial issue is a political loyalty in exchange for economic and other practical cooperation. Formally, China denies the existence of such a 'tit for tat'. On the contrary, the PRC always pretends to be very distant and politically neutral with regard to commercial deals it has with a foreign partner. In its rhetoric China always emphasizes pure pragmatism and mutual measurable benefits of cooperation.

However, in summer 2021, the question of voting in the UN Human Rights Council for the Canadian draft resolution on the oppression of Uyghur rights in China gave rise to [speculations](#) about possible indirect pressure from the Chinese side on the position of Ukraine. Both the Ukrainian and Chinese sides officially denied the existence of such pressure. But Ukraine's withdrawal of its signature under the resolution the day after it signed the Framework Intergovernmental Agreement on Investment Cooperation on Implementation of Joint Projects in Infrastructure construction, signed by Ukraine and the PRC on June 30, 2021. Hong Kong's South China Morning Post [reported](#) on July 5 that the agreement was signed a few days after Kyiv withdrew its signature on a statement on the human rights situation in China's Xinjiang province. The Associated Press, citing its own sources in diplomatic circles, wrote that China blackmailed Ukraine at a meeting of the UN Human Rights Council, threatening to stop the supply of 500,000 doses of the coronavirus vaccine if Kyiv was not to withdraw its signature on the statement on the situation in Xinjiang.

Commenting on the situation, the Minister of Foreign Affairs of Ukraine, D. Kuleba, in an [interview](#) with LIGA.net on July 1, 2021, noted: "This is a topic that is not just the tip of the iceberg, but the end of the tip of the iceberg. The story is not over yet." Mr Kuleba's words, actually, did little to bring any clarity to the matter. On the contrary, they gave extra grounds for further speculation, although the issue has been off the public domain since then.

### Case Box 3: "Separate part of the table" - case "Motor Sich"

"As for, in general, our relations with China, there is a table,... a bunch of everything is dumped there, and 'Motor Sich' issue lies on a separate place of this table. And around it there are no traces of life. It exists, but it is given a separate track" - this is how the Minister of Foreign Affairs of Ukraine D.I.Kuleba explained the situation around a well-known Ukrainian enterprise in an interview with LIGA.net (07/01/2021). Indeed, if we continue this metaphorical range of Mr. Kuleba, the Motor Sich affair has already acquired signs of an endless saga in which "good" and "bad" characters are readily confused .

If we try to explain the complex story in simple terms, then the Chinese side (Skyrizon group of companies) intended to invest \$100 million in Motor Sich (according to other sources, \$250 million) and subsequently received a controlling stake in the enterprise. The delicacy of the situation was that Motor Sich products were of dual-use nature (aircraft engines) and military technologies were used in their production. Although the first activity of Chinese investors on the project began in 2016, the turning point came in 2018-2020, when the American side persistently "advised" Ukraine to cancel this agreement with China precisely because of the risks of the uncontrolled transfer of military technologies for the production of aircraft engines. Allegedly, among the final beneficiaries beyond the Skyrizon Group were some Russian businessmen connected to Russia's government.

In April 2018 the Shevchenkivsky District Court of Kiev seized 56% of the shares of Motor Sich owned by foreign investors and banned any actions with the seized assets that could lead to a change in owners. The shares have been under arrest to this day. In 2019 the former shareholder of the company, Vyacheslav Boguslaev, claimed that he had sold the enterprise to a Chinese company, which committed to invest [\\$250 million](#) in 'Motor Sich' development within two years. And already in 2021 Mr. Boguslaev puts forward a different version of events, saying that he simply took a [\\$100 million](#) loan from the Chinese company Skyrizon, which he had actually already repaid by then. After several refusals by the Antimonopoly Committee of Ukraine to sell 'Motor Sich' to Chinese investor Skyrizon, the latter filed a claim in international arbitration in the amount of \$3.5 billion due to lost investment in 'Motor Sich'. The parties went into the process of judicial review of the case. However, according to unofficial data, after the conclusion of the interstate Ukrainian-Chinese framework agreement on investment cooperation in infrastructure projects (July 26, 2021), the Chinese side no longer pushed the case in arbitration so persistently, and the dispute itself was "put on hold". Yet, November 29, 2021 a [new claim](#) was brought by Skyrizon against Ukraine to the Permanent Court of Arbitration in the Hague in the amount of 4.5 billion US dollars.

Formally, Ukraine has never admitted that the United States put pressure on it to terminate the agreement with the PRC regarding 'Motor Sich', but since 2018 various problems began to arise in cooperation with Chinese partners and the agreement significantly slowed down. January 2021 under the pretext of declassifying strategic industrial facilities into the category of "national inviolable", the National Security and Defense Council of Ukraine decided to prohibit the transfer of a controlling stake in 'Motor Sich' to Chinese investors. This decision was cemented by President V. Zelensky, [speaking](#) to the Axios program of the American NVO channel (February 1, 2021), that the transfer of shares of the strategic enterprise 'Motor Sich' would never take place while he was in power. Later in the interview, the president of Ukraine tried to distance himself from the idea that the United States exerted substantial pressure on Ukraine, and added that unlike Washington, he did "*not consider China a serious geopolitical threat*". Already on January 28, 2021 President V. Zelensky signed a decree imposing sanctions against Chinese investors of 'Motor Sich' - Skyrizon Aircraft Holdings Limited, Hong Kong Skyrizon Holdings Limited, Beijing Skyrizon Aviation Industry Investment, Beijing Xinwei Technology Group - which surprisingly coincided with the decision of the Bureau of Industry and Security of the Ministry of Commerce USA dated 15.01.2021 on the inclusion of the Skyrizon company in the list of companies under a "special cooperation regime").

Naturally, such actions of the Ukrainian authorities caused a negative reaction from the Chinese side, which asserted the sanctions against Skyrizon to be "false and senseless actions" and "barbaric robbery", and also directly pointed to the "strange" coincidence in the decisions of the American and Ukrainian sides.

On October 22, 2022 the Security Service of Ukraine detained the president of 'Motor Sich' V.Boguslaev under charges on collaboration and assistance to an aggressor state (Russia). Currently he is in custody for a state betrayal. Mr Boguslaev has had a Russian citizenship since 2000.

## **VI. So is there a cause for concern?**

The above clearly demonstrates that Ukraine has a clear political orientation towards Western civilization and intends to develop cooperation with China within limits that do not contradict its course towards integration into European and Euro-Atlantic structures. With this regard, the position of the US, which perceives China as a strategic adversary, is clearly taken into account by Ukraine. However, Ukraine was not in a hurry openly to join the “anti-China” camp, especially given the position of European countries, which is by no means united.

Paradoxically, the complex and changing business climate in Ukraine has so far served as an effective safeguard against the negative side effects of China's offensive economic strategy in Europe. Given the relatively low level of investment cooperation and a significant percentage of unfulfilled contracts it is not really possible to talk about China's offensive economic expansion in Ukraine. China's investment projects in the strategic spheres of telecommunications and military-technical cooperation do not demonstrate the "success story" of Chinese investors, and, accordingly, cannot be considered as constituting Ukraine's strategic vulnerability on a significant scale. On top of that, China remains a leading trade partner for Ukraine, and is still is a strategically important country. This strategic dependence places Ukraine in an unfavorable imbalance, cementing the role of a raw material exporter for our state.

Ukraine neither became an indispensable player in China's global "Belt and Road" project, nor joined the ‘(16-2)+1’ format. With the prospects of the war with Russia remaining unclear for the time being, it is difficult to foresee when the circumstances become favorable to resume commercial activity with China at a pre-war level. However, one thing is already eminently clear: the philosophy and principles of Ukraine-China commercial relations will be reconsidered, not least, depending on the position China will develop with regard to its stance on the war.

## **DECOUPLING IN ACTION: CHINA-LITHUANIA RELATIONS AS A CASE STUDY OF BEIJING'S COERCIVE DIPLOMACY FAILURE**

### **Introduction**

A diplomatic and trade war started by the People's Republic of China against Lithuania has been making headlines all around the world since August 2021<sup>2</sup>.

One might have expected that an economic and political giant like China would find it easy to punish a small country like Lithuania. Having in mind previous examples of China's aggressiveness towards different countries in the world it might have been expected that Lithuania would be pushed to bow to Beijing's pressure sooner rather than later.

However in a year it has become crystal clear that Beijing's strategy of diplomatic war and an unofficial block on Lithuanian exports to China (it plunged by 90 percent in January-May 2022 to compare to the same period of 2021)<sup>3</sup>, has been totally ineffective not only in terms of changing Vilnius's position, but in terms of any punishment as well.

Furthermore, China's attempts to economically coerce Lithuania have backfired substantially.

At the same time a hybrid war, which has been unleashed against Lithuania by China in addition to "coercive diplomacy", can serve as an example what Beijing is up to in order to make a "wolf warrior" approach to the international relations working.

It's worth mentioning that Beijing not only managed to change public opinion in Lithuania in order to question its government's position on the policy towards China, but safeguarded a pro-China policy from all main political forces in the opposition. That leaves a question, if Lithuanian policy towards China will be sustainable, wide open.

Therefore, a case study of Lithuania can give a clue what other countries should expect from China not only in terms of economic pressure, but in hybrid warfare as well.

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<sup>2</sup> <https://www.theguardian.com/world/2021/aug/26/chinas-trade-halt-with-lithuania-over-taiwan-ties-sends-warning-to-europe>

<https://www.reuters.com/world/china/lithuanian-lawmakers-visit-taiwan-deepening-china-spat-2021-11-24/>  
<https://www.wsj.com/articles/china-takes-lithuania-as-economic-hostage-taiwan-global-supply-chain-trade-gods-beijing-11641506297>

<https://www.bbc.com/news/world-europe-60140561>

<https://www.irishtimes.com/world/europe/2022/08/03/why-lithuania-is-willing-to-risk-chinas-fury/>

<https://www.wsj.com/articles/lessons-from-lithuanias-david-goliath-clash-with-china-11657633482>

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<https://www.reuters.com/world/china/china-tells-lithuania-withdraw-envoy-row-over-taiwan-2021-08-10/>

<sup>3</sup> <https://www.lrt.lt/naujienos/verslas/4/1739811/ekonomistas-su-taivanu-auginame-prekybos-deficita-o-importas-is-kinijos-siomet-jau-pastebimai-paauges>

More so, the last decade of Lithuanian-China relations can make a story about how an attempt to build mutually beneficial economic relations without simply bowing to Beijing's demands turn into a full-scale trouble for a small country.

At the same time European Union as well first has been exposed being powerless<sup>4</sup> and vulnerable to such Chinese coercion. However, "a Lithuanian case" made the EU take action to reduce such a vulnerability.

China's assault against Lithuania should be considered a watershed moment for Beijing's coercive diplomacy as such, rather than just a new step on the same path China has chosen in international relations before.

According to the Australian Strategic Policy Institute, more than 150 times in a decade<sup>5</sup> different countries and companies around the globe experienced China's "coercive diplomacy".

However, attack against Lithuania represents that first time Chinese government has tried to take aim at global supply chains<sup>6</sup> in order to push a country concerned to bow to Beijing's pressure.

China is the second-largest economy and the most populous country in the world. Therefore, its engagement in a conflict of such a scale with the tiny European country of Lithuania has been named a Battle of David and Goliath not only by journalists, but by think-tank analysts as well<sup>7</sup>.

However, China-Lithuania standoff has a good reason to draw attention not only because of the disproportionate balance of power between the conflicting parties. Lithuanian relations with China can serve as an example and a case study at the same time in many aspects.

Thus, a main goal of this paper is not only to expose how China's coercive diplomacy failed in Lithuania, but to discuss forms and methods of Chinese geopolitical and economic expansion in Europe using the case of Lithuania as an example.

### **Partnership, which never thrived**

To start with it should be mentioned that 2021 was full of significant events in Lithuanian-China relations even before Beijing unleashed its anger against Vilnius.

Lithuania forbade Huawei's participation in 5G development<sup>8</sup>. It became the first country to pull out from the so-called 17+1 format of cooperation between China and Central and Eastern European states<sup>9</sup>. Lithuania's parliament officially called China's treatment of its Uyghur minority as "genocide"<sup>10</sup>. And not long after Vilnius let Taiwan to open a de-facto embassy in the name of Taiwanese representative office<sup>11</sup> instead of Chinese Taipei, which is used by many foreign nations

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<sup>4</sup> <https://www.politico.eu/article/china-trade-attack-on-lithuania-exposes-eu-powerlessness/>

<sup>5</sup> <https://www.aspi.org.au/report/chinese-communist-partys-coercive-diplomacy>

<sup>6</sup> <https://www.reuters.com/world/china/exclusive-china-asks-germanys-continental-cut-out-lithuania-sources-2021-12-17/>

<sup>7</sup> <https://www.synergiafoundation.org/insights/analyses-assessments/david-versus-goliath>

<sup>8</sup> <https://www.synergiafoundation.org/insights/analyses-assessments/david-versus-goliath>

<sup>9</sup> <https://www.euractiv.com/section/china/news/lithuania-quits-divisive-china-171-group/>

<sup>10</sup> <https://www.lrt.lt/en/news-in-english/19/1413940/lithuanian-parliament-passes-resolution-condemning-uyghur-genocide-in-china>

<sup>11</sup> <https://www.theguardian.com/world/2021/nov/19/china-condemns-opening-of-taiwan-office-in-lithuania-as-egregious-act>



to avoid offending China.

In addition to all that Lithuania published a report stating that Chinese smartphone manufacturers may illegally collect data and pose Cybersecurity risks<sup>12</sup>.

China, referring to self-proclaimed violation of “one China policy”<sup>13</sup>, because of the opening of Taiwanese representative office, downgraded diplomatic ties with Lithuania, expelled Lithuanian representatives from Beijing<sup>14</sup>, permanently recalled its own representatives from Vilnius, and waged what can be described not only as a full-scale, but unprecedented economic warfare against the Baltic country.

However, to show the previously mentioned conflict in a context it is essential to look at Lithuania-China relations before Beijing unleashed its full-scale attack against the Baltic country.

The fact is that EU-China trade and investment dynamics has never been reflected at any of the Baltic States level. Although a number of European Union member states have developed bilateral relations with China of enormous intensity, Lithuanian engagement with the second biggest world economy has remained rather limited through the years. Trade volumes have remained insignificant, and a progress in exploring new export opportunities has appeared to be limited.

At a time when China became EU’s biggest trade partner<sup>15</sup>, the second largest world economy remained just 13<sup>th</sup> trade partner for Lithuania in 2020<sup>16</sup>. Taking into account a tremendous trade deficit, Lithuanian exports to China stood at less than 1 percent of total exports<sup>17</sup>. To be more precise, based on the January-September of 2021 data, Lithuania’s trade with China accounted for 0.7 percent of the country’s total exports and 3.7 percent of total imports<sup>18</sup>.

Though political relations between Lithuania and China could have been considered as stable for several years before 2021, they were marred by several political disagreements in the past.

In September, 2000, Chinese Parliamentary Chairman Li Peng's planned two-day visit to Lithuania was unexpectedly cut to a mere three hours, when he refused to enter the Lithuanian parliament building where International Congress on the Evaluation of Crimes of Communism, also known as Nuremberg 2, was held<sup>19</sup>.

Since the restoration of independence in 1990, the spiritual leader of the Tibetan people the Dalai Lama visited Lithuania 4 times: in 1991, 2001, 2013 and 2018. Though China considers such visits as hostile acts, in 2001 and 2013 the Dalai Lama met with then Lithuanian presidents Valdas Adamkus and Dalia Grybauskaitė.

To put these meetings into the long-time context and comprehensive Lithuanian awareness of the

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<sup>12</sup> <https://www.reuters.com/business/media-telecom/lithuania-says-throw-away-chinese-phones-due-censorship-concerns-2021-09-21/>

<sup>13</sup> <https://www.taipetimes.com/News/front/archives/2021/11/23/2003768347>

<sup>14</sup> <https://www.economist.com/china/lithuania-evacuates-its-embassy-in-china/21806843>

<sup>14</sup> <https://www.bbc.com/news/business-56093378>

<sup>15</sup> <https://www.bbc.com/news/business-56093378>

<sup>16</sup> <https://urm.lt/default/lt/lietuva-kinija>

<sup>17</sup> <https://www.lrt.lt/en/news-in-english/19/1610466/lithuanian-growth-prospects-unfazed-by-china-row-for-now>

<sup>18</sup> <https://www.lrt.lt/en/news-in-english/19/1593215/china-sanctions-vs-taiwan-investments-lithuania-s-central-bank-weighs-economic-impact>

<sup>19</sup> <https://www.baltictimes.com/news/articles/2529/>

risk of such meetings for bilateral relations, it is worth mentioning just a small detail. Back in 2001 the Dalai Lama met not only with President Adamkus, but with Vilnius Mayor Arturas Zuokas as well. However, a meeting with Kaunas Mayor Erikas Tamasauskas was canceled because of fear that it could harm the sister city relationship between Kaunas and the Chinese city of Xiamen<sup>20</sup>.

Despite all that, no one was surprised when the Dalai Lama met with Lithuanian President Dalia Grybauskaitė for “a private conversation” in 2013. Because such a meeting was in line with the value-based principles of Lithuanian foreign policy, which have been maintained all years since the restoration of Lithuanian independence. These principles include Lithuanian staunch support for democracy, freedom, and human rights.

However, in 2013 was the first time when China made Lithuania pay a price for keeping to these principles. The Lithuanian ambassador was summoned to the Chinese Ministry of Foreign Affairs, visits of several Chinese officials to Lithuania were canceled and anticipated trade development, especially opening of the access for Lithuanian agriculture products into China’s market, was put on a freeze. In other words, the fallout of Grybauskaites’s meeting with the Dalai Lama was a complete stagnation in the relationship between Lithuania and China, which lasted for nearly two years.

### **“Take it or leave it” approach to bilateral relations**

Lithuanian-Chinese “nuclear winter” in bilateral relations taught Vilnius a lesson: “political compliance is a precondition for any relations with China”. And Lithuania learned the lesson.

Two consecutive Lithuanian governments and President Grybauskaitė, who took a risk meeting with the Dalai Lama in 2013, put all the efforts to achieve a breakthrough in Lithuanian-China relations after it took the hit.

Not only Grybauskaitė refused to meet with the Dalai Lama one more time, when he visited Lithuania again in 2018, but the same year she personally met with Chinese President Xi Jinping “to outline new guidelines for bilateral economic cooperation at the highest political level”<sup>21</sup>.

A belief among Lithuanian politicians that Chinese wealth could spill over into the Lithuanian economy via transit of China’s goods through a Baltic country, opening opportunities for Lithuanian export to “the billion-strong Chinese market”<sup>22</sup> and hopes for China’s investment in Lithuania suddenly prevailed.

However, in a few years it became crystal clear that political compliance is not enough to achieve any meaningful results in relations with China for such a country like Lithuania.

Nevertheless, it is worth mentioning that Butkevicius’ and Skvernelis’ led governments had done everything they could to encourage Lithuanian businesses to enter the Chinese market and to convince Beijing they had no more appetite for any conflict with China. It was emphasized that it was China that should have made into a partner in a context of deteriorating economic relations with Russia, especially after 2014, when Russia banned imports of many EU agriculture products in response to Western sanctions.

Skvernelis’ government went much further declaring a goal to make Lithuania into China’s fintech

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<sup>20</sup> <https://www.baltictimes.com/news/articles/5133/>

<sup>21</sup> <https://www.lrp.lt/en/media-center/news/lithuanian-exports-to-china-have-the-highest-political-support/31285>

<sup>22</sup> <https://www.lrp.lt/en/media-center/news/expanding-avenues-for-lithuanian-goods-to-the-billion-strong-chinese-market/31269>

gateway to Europe.<sup>23</sup>

Several years before that, it was a general idea in Vilnius that China launched the “Belt and Road” initiative with the purpose to enhance Northern European transport links among others. Thus, the “Belt and Road” initiative has grasped the imagination of decision-makers as well as some business community leaders in the country.

More so, the belief was fed by China’s interest shown before the stagnation of the relations caused by The Dalai Lama visit in 2013. By the end of 2011, the first freight train from China arrived, and in 2012 an increase in the frequency of China’s business delegations to Lithuania was noted.

The port of Klaipėda attracted Chinese business interest from the very beginning. The Chinese proposed a joint venture with the Lithuanian government, which would have had to issue a state guarantee for the project. Then the joint company would have gotten financing from China Export Import Bank. But Rimantas Žylius, the Minister of Economy at the time, was unconvinced<sup>24</sup>.

After 2015 any hesitation was buried. For at least 6 years Lithuanian political leaders have consistently sought Beijing's favor. Vilnius emphasized Lithuania's favorable geographical location on the Baltic Sea coast trying to convince Beijing that Baltic country makes it an ideal transit point for connecting China with Western and Northern Europe.

Initial agreements between China’s state-owned CMG (China Merchants Group) and Lithuanian government led by Butkevičius<sup>25</sup> supported hopes that the strategy which had been chosen by the decision-makers at that time will pay off.

Chinese officials publicly talking about a great potential and bright prospect for cooperation between China and Lithuania in the fields of trade, transportation and logistics as well as calling The Baltic Sea Region one of the important regions in “the Belt and Road”<sup>26</sup> made these hopes thrive.

More so, plans for economic cooperation went beyond just transport and logistics from the very beginning of the new-born partnership between Lithuania and China. In the same 2015 the Bank of Lithuania signed a Memorandum of Understanding with Asia’s largest cross-border payment settlement operator<sup>27</sup>.

Luo Feng, the CEO of International Business Settlement Limited in an interview with business daily Verslo Žinios in 2016 promised that Lithuania would become a center for Fintech in Europe<sup>28</sup>.

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<sup>23</sup> <https://investlithuania.com/news/lithuania-seeks-to-become-chinas-fintech-gateway-to-europe/>

<sup>24</sup> <https://www.lrt.lt/en/news-in-english/19/1098009/china-s-belt-and-road-grip-reaches-the-baltics-investigation>

<sup>25</sup> <https://sumin.lrv.lt/en/news/lithuania-and-china-seal-accord-to-set-up-a-joint-venture-providing-forwarding-and-logistics-services>

<https://lithuaniantribune.com/agreements-between-chinas-cmg-and-lithuanian-companies-to-consolidate-partnership-pm-butkevicius-says/>

<https://ministraspirmininkas.lrv.lt/en/news/china-s-giant-china-merchants-group-confirms-its-plans-to-invest-in-lithuania>

<sup>26</sup> [http://lt.china-embassy.org/eng/en/201609/t20160912\\_2676539.htm](http://lt.china-embassy.org/eng/en/201609/t20160912_2676539.htm)

<sup>27</sup> <https://www.lb.lt/en/news/the-bank-of-lithuania-signs-a-memorandum-of-understanding-with-asias-largest-cross-border-payment-settlement-operator>

<sup>28</sup> <https://investlithuania.com/news/the-chinese-settling-in-lithuania-you-will-be-the-european-centre-of-fintech/>

“Huawei” was looking for a cooperation with Lithuanian universities<sup>29</sup>

However, it took a couple more years for Lithuania to realize that anticipated breakthrough in bilateral relations with China is not a task easy to achieve.

Skvernelis’ government, which came to power in 2016 decided to double their efforts.

In mid-2018 it was publicly announced that Lithuania expects to see a breakthrough in investments from China in the next couple of years, with the port of Klaipeda as the central axis<sup>30</sup>.

However, the central axis for the investment turned into the main obstacle for the cooperation, as it appeared that Chinese intentions might pose a threat to Lithuanian national security.

Lithuanian president Gitanas Nausėda shed a light on the issue in his interview for “Politico” in 2021<sup>31</sup>:

*“China was interested in investing more in our infrastructure and other sectors, which are sensitive to national security. But we have a national screening system for such strategic investments”.*

It was put even more bluntly back in 2019<sup>32</sup>: *“China wants to purchase a controlling interest in Lithuania’s port of Klaipeda, stoking suspicions that Beijing seeks political leverage that could be used to hamper NATO military operations in a crisis”.*

*“We can’t afford China to control Klaipeda port”*, - then Lithuanian Defense Minister Raimundas Karoblis told “The Washington Examiner.

A case in focus was the deep-water port of Klaipėda, where Lithuania has been holding off investment by the above-mentioned state-owned CMG over security concerns. Chinese authorities on their side have refused not to invest into the port unless they receive a majority ownership stake there.

Only in 2021 Lithuania finally announced<sup>33</sup> that it put off the deep-water port project eyed by China “for at least a decade”. However, much earlier it became crystal clear that any substantial development of Lithuanian-Chinese economic relations without bowing to Beijing’s demands to give it control over Lithuanian infrastructure is not realistic.

Therefore, an attitude of the Lithuania decision-makers towards cooperation with China started to transform from very optimistic towards much more realistic.

At the same time other factors started to contribute to a growing appreciation that the balance of challenges and opportunities presented by China has shifted. Threat perception in Lithuania concerning China started to change because of the international environment as well. Lithuanian intelligence contributed to an addition of threat dimension to the bilateral relations with China publicizing Beijing’s intentions, which could threaten Lithuanian national interests<sup>34</sup>.

The trade results on their side triggered certain doubts as to whether it would be possible to achieve

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<sup>29</sup> <https://lithuaniantribune.com/huawei-to-cooperate-with-lithuanian-universities/>

<sup>30</sup> [https://www.baltictimes.com/lithuania\\_expects\\_more\\_investment\\_from\\_china\\_though\\_political\\_concerns\\_re\\_main/](https://www.baltictimes.com/lithuania_expects_more_investment_from_china_though_political_concerns_re_main/)

<sup>31</sup> <https://www.politico.eu/article/lithuania-china-showdown-eu-impact/>

<sup>32</sup> <https://www.washingtonexaminer.com/policy/defense-national-security/we-need-to-control-it-lithuania-resist-s-chinese-efforts-to-poach-key-shipping-port>

<sup>33</sup> <https://www.lrt.lt/en/news-in-english/19/1380360/lithuania-puts-off-deepwater-port-project-eyed-by-china-for-at-least-a-decade>

<sup>34</sup> <https://jamestown.org/program/lithuania-adds-china-to-list-of-foreign-intelligence-threats/>

a more balanced trade exchange between Lithuania and China.

However, China made no efforts to find any mutually beneficial solutions. On the contrary – Beijing took an approach of “take it or leave it” making it clear that an economic compliance in addition to a political compliance is crucial for any meaningful development of bilateral relations.

Understanding of all that culminated in decisions of the new Lithuanian government that came to power in late 2020. The review of the

Lithuanian-China policy was launched and a decision to diversify markets in Asia was taken<sup>35</sup>.

### **A geopolitical chessboard and conflicting interests in the region: China (with Russia) against Lithuania, USA, and EU?**

However, in order to fully understand the reasons behind Lithuanian-Chinese conflict, a fresh look at conflicting interests of different world powers in the region is needed.

Before the launch of the “Belt and Road” initiative China’s interest in the Baltic states was hardly noticeable. Lithuania was not an exception in that regard.

However, after the launch of the “Belt and Road” the situation has changed substantially.

As it was put by the Hong Kong Trade Development Council (HKTDC) analysis in 2016, *“home to the region’s largest container port and its largest retail chain, Lithuania provides an important maritime and distribution link not only to the Western markets of the EU and Scandinavia, but also the Eastern markets of Russia and other former Soviet states. The recent decision by China Merchants Group (CMG) to invest in the Klaipeda Container Terminal and the Kaunas Free Economic Zone, as well as a joint venture to develop the Klaipeda-Minsk rail corridor and a “One Belt, One Road Cooperation Centre” in the country, are notable examples of how Lithuania is becoming a crucial link between East and West under the Belt and Road Initiative”*<sup>36</sup>.

The above-mentioned history of just a few years of relations between Lithuania and China proves that Beijing had strategic intentions to make Lithuania into an important part of the “Belt and Road” project. On the other hand, there has been a good reason to think about much more complex and strategic China’s goals towards the Baltic states than just economy and trade.

As the “Belt and Road” initiative make some analyst to conclude that it could have been designed as a Trojan horse for China-led regional development and military expansion<sup>37</sup>, in the same way it proved to be not just economic interests driven initiative in Lithuania.

Quite a telling analysis of Chinese strategic goals in Lithuania, which could have had a military dimension as well, was offered by one anonymous Lithuanian official, quoted by “Deutsche Welle” in March 2021<sup>38</sup>:

*“The fact that Chinese corporations are trying to gain control over key infrastructure - such as the port in Klaipeda - or facilitate the massive collection of sensitive information is, for us, the most*

<sup>35</sup> <https://focustaiwan.tw/politics/202108200018>

<sup>36</sup> <https://beltandroad.hktdc.com/en/insights/lithuania-maritime-link-between-east-and-west>

<sup>37</sup> <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>

<https://thediplomat.com/2018/06/chinas-debtbook-diplomacy-how-china-is-turning-bad-loans-into-strategic-investments/>

<sup>38</sup> <https://www.dw.com/ru/pochemu-litva-prekrashhaet-dialog-s-kitaem-v-formate-171/a-57015337>

*important reason to reject even the most lucrative deals the Chinese are offering. Lithuania is a member of NATO. Our number one priority is to prevent any damage to the alliance. And the attempts of China to get access to those infrastructure objects which can have both civil and military purposes is evident. As, for example, in the case of the supply of luggage scanners to the state-owned Chinese company Nuctech for our three international airports. Unfortunately, at one time Lithuanian customs pioneered the purchase of their scanners from them. But this time the government acted quickly and prevented the airport deal from taking place”.*

On the other hand, Lithuania and other Baltic states from the very beginning participated in the “17+1” format of cooperation between China and Eastern and Central Europe. That particular cooperation has been viewed as a tool of Beijing attempts to “divide and conquer” the European Union<sup>39</sup>. Therefore, it is plausible that Baltic states, including Lithuania, had their place in such a China’s power projections well<sup>40</sup>.

Konstantinas Andrijauskas, Lithuanian expert on China, in his study titled “The Dragon and the Knight: China’s growing presence in Lithuania”<sup>41</sup>, published before China's assault against Lithuania started in February 2020, tried to identify China’s goals in Lithuania in far less dramatic manner. He listed four main Beijing’s goals in the Baltic country:

- **search for diplomatic partners and valuable political knowledge;**
- **search for access to regional markets and breaches in multilateral arrangements;**
- **search for resources, products and technologies;**
- **influence on normative agenda and soft power projection.**

Even if these goals may sound relatively “peaceful” they include parts of China’s strategy across the globe, which could be considered as confrontational and envision malign influence and “divide and rule” tactics.

On the other side, EU goals towards China in the Baltic region are clearly defined by EU documents.

As it is stated in the Joint Communication “EU-China – A strategic outlook”<sup>42</sup>, the EU goal is to make European policy “more realistic, assertive, and

multi-faceted” and to ensure that relations with China are set on “a fair, balanced and mutually beneficial course”. The Joint Communication also emphasizes that “neither the EU nor any of its Member States can effectively achieve their aims vis-a-vis China without full unity”. In addition to that the document emphasizes that “all Member States, individually and within sub-regional cooperation frameworks, such as the 17+1 format, have a responsibility to ensure consistency with EU law, rules and policies.”

That EU interest should be taken into account when evaluating Lithuania's review of China policy. The more so, that after failing to achieve any significant breakthrough in bilateral relations and using 17+1 format, Vilnius publicly turned into supporting a united EU policy towards China under the format 27+1<sup>43</sup>.

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<sup>39</sup> <https://www.ft.com/content/16abbbf2a-cf9b-11e7-9dbb-291a884dd8c6>

<sup>40</sup> <https://www.politico.eu/article/china-and-the-troika-portugal-foreign-investment-screening-takeovers-europe>

<sup>41</sup> [https://www.eesc.lt/uploads/news/id1137/v07\\_Dragon-and-Knight\\_leidinys\\_A4.pdf](https://www.eesc.lt/uploads/news/id1137/v07_Dragon-and-Knight_leidinys_A4.pdf)

<sup>42</sup> <https://ec.europa.eu/info/sites/default/files/communication-eu-china-a-strategic-outlook.pdf>

<sup>43</sup> <https://www.lrt.lt/en/news-in-english/19/1486031/lithuanian-fm-calls-for-27plus1-format-in-eu-s-relations-with-china>

At the same time, the intensification of U.S.-China competition and a strategy of decoupling<sup>44</sup> makes Washington to look for reliable allies all around the world. Not only it puts Chinese strategy in the Baltic Sea region into the United States radar but makes Washington consider a real push-back. The more so, when countries concerned are members of the European Union, which could at least try to influence common EU position on the relations with China.

Therefore, it should be no surprise that Lithuanian foreign policy priorities and orientation are determined by the interplay between the U.S., China, the EU, and Russia.

All mentioned above makes it essential for Lithuania to pay close attention to broader geopolitical developments, when adopting its own strategy towards China.

Thus, the strategy should aim to protect national interests, maintaining a global rules-based order<sup>45</sup>, which for a small nation is of crucial interest.

In the time when a challenge to an above-mentioned global rules based order comes not only from a “usual suspect” Russia, but from China as well, Beijing started to be considered as posing a more general security threat to Lithuania as well.

And the goal to contain that threat becomes a more and more articulated Lithuanian priority.

No less alienating from a Lithuanian point of view, is growing China’s military and political cooperation with Russia, the Baltic number one security threat.

That risk was publicly acknowledged by Lithuanian intelligence<sup>46</sup> even before Lithuanian-Chinese relations ended up in an open conflict.

The Russian dimension in the Chinese playbook of influence in the region became even more evident after Beijing launched a full-scale attack against Lithuania in late 2021.

A Chinese English language tabloid “Global Times”, which is considered to be Beijing’s policy and propaganda herald in the world, made it crystal clear what should be “the new content and guidance for China-Russia strategic cooperation”:

*“In addition, China should join hands with Russia and Belarus, the two countries that border Lithuania, and punish it. China and Russia are necessary to jointly deal a heavy blow to one or two running dogs of the US to warn other countries. China should not allow a few US allies to provoke China and Russia by breaking the bottom line of the principle of international relations.*

*The China-Russia strategic partnership should show its deterrence to US allies, preventing them from doing anything they want against China and Russia simply with US support. China and Russia should take proper opportunities to strike against a country that has lost its mind”<sup>47</sup>.*

Though that new China’s strategy was not fully disclosed before the conflict with Lithuania started, having in mind growing China’s cooperation with Russia and previous attempts to coordinate malign activities against the West, including during the global pandemic<sup>48</sup>, it was easily predictable.

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<sup>44</sup> <https://foreignpolicy.com/2022/01/11/us-china-economic-decoupling-trump-biden/>

<sup>45</sup> <https://www.voanews.com/a/australia-lithuania-to-unite-in-counteracting-china-pressures-/6433752.html>

<sup>46</sup> <https://www.lrt.lt/en/news-in-english/19/1183965/china-s-cooperation-with-russia-and-belarus-a-risk-factor-for-lithuania>

<sup>47</sup> <https://www.globaltimes.cn/page/202108/1231251.shtml>

<sup>48</sup> <https://www.rferl.org/a/eu-monitors-sees-coordinated-covid-19-disinformation-effort-by-iran-russia-china/30570938.html>

All that should be taken into account when considering the thinking behind Lithuanian China policy review which came into force late 2020 with the new Šimonyte's government.

However, in addition to that approach which was rightly described by Nikolas

K. Gvosdev in his report "Reconceptualizing Lithuania's Importance for U.S. Foreign Policy"<sup>49</sup>, should be taken into account as well:

*"For the United States, Russia will remain an important but diminishing priority in the coming decades. Given the new agenda that is emerging for U.S. foreign policy, Vilnius' importance to the United States will increasingly rest less on its eastward focus and much more on its westward relationships, where Lithuania can help develop and sustain the emerging democratic community of the 21st century.*

*Lithuania, on its own, will not be a major partner of the United States, but it can gain greater influence in terms of how it shapes the overall European Union agenda. A quiet but nevertheless real concern in the United States is that the push for European "strategic autonomy" and the possibility of European "equidistance" between China and the United States will undermine the effort to deepen the connectivity among the "democratic community."*

*The challenge now is to position Central-Eastern Europe, including the Baltic littoral and Lithuania specifically, as a vital region which can support the U.S.*

*"China and climate" focus, rather than wrapping up a legacy agenda dealing with the aftermath of the Cold War. This creates an imperative for Lithuania to be the mobilizer of regional partners able to demonstrate continued relevance to overall U.S. global strategy, which, in turn, cements U.S. support for Lithuanian interests" – having in mind the importance Lithuania puts on the USA building its own security environment these arguments".*

Taking all that into account not only Lithuanian thinking behind a review of its China's policy becomes much more evident.

The scale of China's attack against Lithuania is a sign of a clear attempt to ensure other countries do not take the same route.

"It's China training everyone to be afraid of upsetting China," said Theresa Fallon, director of the Brussels-based Center for Russia Europe Asia Studies. "But I think they've really gone ballistic with Lithuania."<sup>50</sup>

However, China concerns are much broader than the Taiwan issue<sup>51</sup> which is used as a pretext. Using an example of Lithuania, China wants to deter any other EU countries from adopting a policy toward China which would be much closer to an American one.

And Beijing does not hide such intentions.

"The small European country will be hoisted by its own petard by acting as a 'chess piece' of the US strategy against China once the latter cuts trade exchanges with the Baltic country," Wang Yiwei, director of the Institute of International Affairs at Renmin University of China in Beijing, told the

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<sup>49</sup> <https://www.fpri.org/wp-content/uploads/2021/07/reconceptualizing-lithuanias-importance-for-us-foreign-policy.pdf>

<sup>50</sup> <https://rollcall.com/2022/02/03/lithuanias-resistance-to-chinese-pressure-a-test-for-us-strategy/>

<sup>51</sup> <https://www.lrt.lt/naujienos/nuomones/3/1587088/marius-laurinavicius-prieso-primestos-diskusijos-spastuos-e-trys-svarbiausi-mitai-apie-taivanieciu-atstovybes-atidaryma>



Global Times back in August 2020<sup>52</sup>.

Since then, Chinese strategy towards Lithuania has been consistent with Beijing's anti-American rhetoric<sup>53</sup>.

On the other hand, the review of Lithuania–China relations initiated by the current Lithuanian government has meant a significant decoupling on both the political–diplomatic and the economic–technological levels<sup>54</sup>.

And it seems Beijing is eager to do everything in its power to prevent any European government from not just taking sides with the USA politically, but not following in Washington footsteps economically.

"We need to be wary of this kind of voice that seems to aim at creating public opinion for the economic 'decoupling' between China and Europe and shaking the usual judgment that economic and trade cooperation is the ballast of China-EU relations," Cui Hongjian, director of the Department of European Studies at the China Institute of International Studies told the Global Times<sup>55</sup>.

### **An overview of applied Chinese tactics**

Above mentioned factors are crucial to explain the unprecedented Chinese assault against the EU country. Especially when it becomes obvious such an attack hurts China's credibility as reliable trade partner and leads to further deterioration in its relationship not only with the EU and the U.S., but with such countries as Japan, Australia, Canada, the UK<sup>56</sup>.

However, not less important is to analyze Chinese tactics applied against Lithuania. More so, these tactics encompass the whole range of hybrid warfare means, rather than just economic coercion.

Focusing on economic coercion, China imposed restrictions both on Lithuanian exports to China and Lithuanian imports from China.

In addition to that "conventional" Chinese coercion, Beijing turned to China's business partners in Europe and around the world to apply pressure on the Lithuanian economy<sup>57</sup>.

However, to get a real picture of the episode in international relations, a much more complex Chinese attitude should be reviewed.

Inside Lithuania China managed to get support from broad range of Lithuanian politicians, businessmen, and even experts, who bombarded the public opinion of their country by Chinese narrative<sup>58</sup> that Lithuania can't cope with the "costly price for its China policy".

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<sup>52</sup> <https://www.globaltimes.cn/page/202108/1232070.shtml>

<sup>53</sup> <https://www.newsweek.com/china-targets-lithuania-says-us-incited-them-supporting-taiwan-1667471>

<https://www.globaltimes.cn/page/202201/1245895.shtml>

<https://www.globaltimes.cn/page/202108/1231084.shtml>

[http://www.news.cn/english/2021-12/22/c\\_1310388303.htm](http://www.news.cn/english/2021-12/22/c_1310388303.htm)

<sup>54</sup> [https://www.eesc.lt/wp-content/uploads/2020/07/RESC.-Lithuanias-decoupling-from-China\\_2021\\_EN.pdf](https://www.eesc.lt/wp-content/uploads/2020/07/RESC.-Lithuanias-decoupling-from-China_2021_EN.pdf)

<sup>55</sup> <https://www.globaltimes.cn/page/202112/1242836.shtml>

<sup>56</sup> <https://www.taipeitimes.com/News/front/archives/2022/02/13/2003773030>

<sup>57</sup> <https://www.osw.waw.pl/en/publikacje/analyses/2021-12-22/a-new-phase-chinas-pressure-lithuania-weaponisation-european-value>

<sup>58</sup> <https://www.globaltimes.cn/page/202201/1245895.shtml>

Economic data already in December 2021 showed that Lithuanian growth prospects were unfazed by China row<sup>59</sup>. And Lithuanian national bank estimated that in the worst-case scenario, with not only direct, but also secondary sanctions of China applied, the conflict with latter would cost Lithuania no more than 0,5 percent of GDP growth in 2022 and no more than

1.3 percent of GDP growth in 2023<sup>60</sup>. Part of that loss, Lithuanian national bank estimated, can be compensated by Taiwan, which announced several initiatives for cooperation with Lithuania<sup>61</sup>.

Nevertheless, psychological warfare launched by China against Lithuania resembled the one, which was already tested in Australia<sup>62</sup>.

*"The whole objective is to create fear and paranoia about exporters,"* Perth USAsia center trade expert Jeffrey Wilson said, explaining the model of Chinese psychological warfare in Australia. *"You can wind up the entire industry and get them to do that political screaming on your behalf."*

Chinese political influence in Lithuania is still under researched, thus no allegations can be proved or verified. However, some facts can be put into a broader Chinese influence operations context.

Lithuanian intelligence back in 2019 publicly warned that "Chinese intelligence looks for suitable targets – decision-makers, other individuals sympathizing with China and able to exert political leverage. They seek to influence such individuals by giving gifts, paying for trips to China, covering expenses of training and courses organized there. Chinese intelligence officers treat those gifts as a commitment to support political decisions favorable to China. Chinese intelligence-funded trips to China are used to recruit Lithuanian citizens"<sup>63</sup>.

Long term China's preparation for an influence campaign in Lithuania can also be proved by the fact made public in 2020. It appeared that information on around 500 Lithuanians was included in the database compiled by the open-source intelligence company Zhenhua Data Information Technology linked to the Chinese government and armed forces<sup>64</sup>.

Having in mind that Chinese government had above-mentioned long-term plan to take over Klaipėda port and other Lithuanian infrastructure and "Huawei" has sought to guarantee access to Baltic states' 5G infrastructure, it cannot be excluded that Lithuania was not immune to the influence China tried to project over neighboring Estonia, the UK, Australia, or other countries.

As it was revealed by investigative journalism consortium "ReBaltica", push through the project of building the approximately 100-kilometer

Tallinn-Helsinki tunnel in the Gulf of Finland, the Chinese investors sought to hire the former Estonian Prime Minister Taavi Rõivas as an advisory board member<sup>65</sup>.

Leslie Leino, a leading China expert in Estonia, said it would be worrisome to see this common

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<sup>59</sup> <https://www.euractiv.com/section/economy-jobs/news/Lithuanian-growth-prospects-unfazed-by-china-row-f-or-now/>

<sup>60</sup> <https://www.lrt.lt/naujienos/verslas/4/1592776/lrt-trumpai-lietuvos-bankas-suskaiciavo-praradimus-del-kinijo-s-nuostoliai-nebutu-dideli-galima-gauti-ir-naudos>

<sup>61</sup> <https://qz.com/2115028/the-diplomatic-strategy-of-taiwans-1-billion-lithuania-fund/>

<sup>62</sup> <https://www.smh.com.au/world/asia/china-s-trade-threats-hit-australia-with-psychological-warfare-20201105-p56bz6.html>

<sup>63</sup> <https://www.vsd.lt/wp-content/uploads/2019/02/2019-Gresmes-internetui-EN.pdf>

<sup>64</sup> <https://www.lrt.lt/en/news-in-english/19/1254751/chinese-company-collected-data-on-lithuanian-officials-and-their-families-lrt-investigation>

<sup>65</sup> <https://en.rebaltica.lv/2019/09/the-golden-handcuffs-of-chinese-investment/>

Chinese tactic employed in Estonia. “Chinese always hire well-connected locals in their large investment projects. They need someone who can call the decision-makers on their mobile phones,” he said. “In China’s case, we need to be aware that all such contacts eventually lead to the Communist party.”

In Australia it was revealed that Chinese-Australian political donor Chau Chak Wing is the a middleman behind a thwarted foreign interference plot to back political candidates in the next election<sup>66</sup>.

Dr Chau is an Australian citizen originally from China, who has donated millions of dollars to Australia’s major political parties, universities and charities that help veterans.

In 2018, Liberal MP Andrew Hastie also named Dr Chau in parliament as being closely associated with the Chinese Communist Party’s lobbying arm, the United Front Work Department, and alleged he was a co-conspirator in an FBI bribery case.

UK intelligence service MI5 in January 2022 issued a rare warning that an alleged Chinese agent has infiltrated Parliament to interfere in UK politics.

An alert from the security service said Christine Ching Kui Lee "established links" for the Chinese Communist Party with current and aspiring MPs.

She then gave donations to politicians, with funding coming from foreign nationals in China and Hong Kong<sup>67</sup>.

Though it cannot be proved if such kind of Chinese “lobbying” took place in Lithuania, a combined result of Beijing’s hybrid warfare against Šimonytė’ government policy towards China turned into a dramatic drop of the public support<sup>68</sup>. The drop of 20 percent occurred just in a month<sup>69</sup>.

At the same time China put all efforts to isolate Lithuania in its push against Beijing.

Though Latvia and Estonia share the idea that 17+1 (now 16+1) initiative, lack of economic benefits and security concerns associated with

Russian-Chinese cooperation are well justified, despite support for the human rights in their foreign policies, neither Riga or Tallinn followed Vilnius footsteps challenging Beijing.

In return Chinese State Councilor and Foreign Minister Wang Yi called on Estonia to expand cooperation in agriculture and food products, e-commerce, and the digital economy during the meeting with Estonian Foreign Minister Eva-Maria Liimets via video link in January, 2022<sup>70</sup>.

And China’s communist party mouthpiece “Global Times” put Estonia as a positive example of the importance of diplomatic autonomy and mutual benefits, which could help “to wane negative influence from Lithuania”<sup>71</sup>.

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<sup>66</sup> <https://www.abc.net.au/news/2022-02-15/labor-senator-names-chau-chak-wing-interference-plot/100830078>

<sup>67</sup> <https://www.bbc.com/news/uk-politics-59984380>

<sup>68</sup> <https://www.lrt.lt/en/news-in-english/19/1586875/most-lithuanians-critical-of-vilnius-china-policy-survey>

<sup>69</sup> <https://www.lrt.lt/en/news-in-english/19/1553744/lithuanians-sceptical-about-confrontation-with-china-but-su>

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<sup>70</sup> [http://www.china-ceec.org/eng/jmh/202201/t20220121\\_10631565.htm](http://www.china-ceec.org/eng/jmh/202201/t20220121_10631565.htm)

<sup>71</sup> <https://www.globaltimes.cn/page/202201/1246244.shtml>

When Slovenian prime minister Janez Janša in January 2022 said Beijing's 'ridiculous' response to Lithuania won't deter his own country from establishing an exchange of representatives with Taiwan<sup>72</sup>, it took no time for China to apply a coercive diplomacy<sup>73</sup> as well as to get outspoken Slovenians to speak on its behalf<sup>74</sup>.

Therefore, it is plausible to mention a "divide and rule" tactic as attempted to apply by China as well.

How China failed in Lithuania?

With that said, the major news from Lithuania is that in a year of the conflict it has become crystal clear that China not only completely failed, but Vilnius offered the world the second example after Australia<sup>75</sup> how Beijing's economic coercion backfires.

The economic impact of the unprecedented trade war China launched against Lithuania has been negligible. The export of Lithuanian-origin goods grew by over 30% in the first quarter of 2022, Lithuania's department of statistics reported<sup>76</sup>.

Though, as it was mentioned previously, exports to China plunged by 90 percent, the same pattern of the growth of the total export was confirmed by the data from January to May 2022. More so, in comparison to neighboring Baltic countries Latvia and Estonia, which have had no conflict with China, Lithuanian export growth seems to be at the same level. According to Eurostat data, Latvia showed 32 percent export growth in January-May 2022 to compare with the same period of 2021, Lithuania – 29 percent, Estonia – 25 percent<sup>77</sup>. Lithuanian GDP growth data does not show any significant difference from neighbors, which have no conflict with China, either<sup>78</sup>.

Though even German big business piled pressure on Lithuania in China row to de-escalate the dispute or risk a corporate exodus<sup>79</sup> Vilnius didn't bow to any pressure and faced no consequences. No major company left Lithuania because of China's pressure. More so, some Lithuanian businesses have found new ways to export to China, avoiding labeling their products "made in Lithuania," while others have hidden from China's sanctions by moving company branches to other EU countries<sup>80</sup>.

On the other hand the Lithuania–China conflict, as it had to be expected, has transformed into a clash between China and the European Union. Lithuania's position made an entire EU to seek solutions to protect itself from third-party economic sanctions against EU countries.

In October 2021, at middle of China's attack against Lithuania, the European Parliament for the first time formulated recommendations to the European Commission on strengthening relations with

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<sup>72</sup> <https://www.politico.eu/article/jansa-slovenia-to-follow-lithuania-for-new-office-in-taiwan/>

<sup>73</sup> <https://www.voanews.com/a/slovenian-trade-group-reports-chinese-backlash-after-pm-praises-taiwan-/6411328.html>

<sup>74</sup> <https://sloveniatimes.com/pundits-critical-of-jansas-statements-about-taiwan-china/>

<sup>75</sup> <https://www.news.com.au/finance/economy/australian-economy/how-chinas-trade-war-with-australia-backfired/news-story/45175246c2cf0111fb6bfd4e3af690fe>

<sup>76</sup> [https://www.euractiv.com/section/politics/short\\_news/export-of-lithuanian-goods-sees-huge-surge/](https://www.euractiv.com/section/politics/short_news/export-of-lithuanian-goods-sees-huge-surge/)

<sup>77</sup> <https://klaipeda.diena.lt/naujienos/verslas/ekonomika/eurostatas-eksportas-siemet-augo-visose-baltijos-salyse-1087271>

<sup>78</sup> <https://ec.europa.eu/eurostat/documents/2995521/14644653/2-29072022-BP-EN.pdf/76432e7c-62cf-653b-6998-195b19b897ee>

<sup>79</sup> <https://www.reuters.com/world/europe/german-big-business-piles-pressure-lithuania-china-row-2022-01-21/>

<sup>80</sup> <https://globaltaiwan.org/2022/07/vol-7-issue-15/#TomasJaneliunas&RaigirdasBoruta07272022>

Taiwan<sup>81</sup>.

In December 2021, the European Commission made public its initiative for an EU Anti-Coercion Instrument<sup>82</sup>.

In January 2022, EU sued China in WTO over Lithuania blockade<sup>83</sup>. United States, Canada, United Kingdom, Australia, Japan and Taiwan joined the WTO case just some time later<sup>84</sup>.

It is plausible to think that the EU's quick reaction at least slowed down China's aggressive actions, and there have been no further reports of EU companies being openly discriminated against in China due to supply-chain connections with Lithuanian businesses.

At the same time it is worth to mention that process of countries abandoning China's led format 17+1, which was started by Lithuania in 2021, got the new impetus by Latvia and Estonia, which exited the format in August 2022<sup>85</sup>.

Czech Republic also is expected to exit in a near future<sup>86</sup>.

## Conclusions

A simplistic explanation of China's motivation behind the attack against Lithuania still prevails. According to it, the name of Taiwanese representative office, opened in Vilnius in November 2021, was a trigger for the

Lithuanian-China conflict. And Beijing aggressiveness is mainly based on Beijing's internal policy and self-proclaimed "red lines" on the international arena.

However, much broader Chinese interests and a watershed moment for Beijing's coercive policy and diplomacy should be seen behind the Lithuanian-China conflict. That should lead to the evaluation of the threat of Beijing's power projection over the whole international arena.

The main conclusions are as follows.

- China's economic coercion pursues strategic rather than pure economic goals, therefore the challenge should be considered from the strategic perspective as well;
- In case of the attack against Lithuania, China's target is not just the Baltic country, but the world. This is the precedent that China is trying to set for its dominance around the globe. In the first place China seeks "leverage" in which Beijing is ready to impose its own agenda over the others;

"The Chinese government's disregard for global leadership norms, ruthless hunger for economic superiority, and desire to influence American politics make it a threat to U.S. national security", FBI

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<sup>81</sup> [https://www.europarl.europa.eu/doceo/document/TA-9-2021-0431\\_EN.html](https://www.europarl.europa.eu/doceo/document/TA-9-2021-0431_EN.html)

<sup>82</sup> <https://www.ejiltalk.org/the-eus-anti-coercion-instrument-a-big-stick-for-big-targets/https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0775>

<sup>83</sup> <https://www.politico.eu/article/eu-sues-china-wto-lithuania-blockade/>

<sup>84</sup> <https://www.lrt.lt/en/news-in-english/19/1613169/taiwan-canada-japan-to-join-eu-s-wto-case-over-china-s-sanctions-on-lithuania>

<sup>85</sup> <https://foreignpolicy.com/2022/08/17/china-diplomacy-europe-estonia-latvia-russia/>

<sup>86</sup> <https://www.aljazeera.com/features/2022/6/8/czech-republic-eyes-exit-from-chinas-161-investment-club>

Director Christopher Wray said on January 31<sup>87</sup>.

However, these words should be applied to Lithuanian-China conflict as well. The only correction should be that China demonstrated that it poses a threat not just to one or the other country, but to the established world order.

As it was put by Anders Fogh Rasmussen, former NATO secretary general, “China is bullying a NATO Ally and EU Member to affect its sovereign economic and political decisions. This is a test for the free world. If we leave Lithuania alone to fend for itself against Beijing, this super weapon of economic coercion will be directed at others to force democracies to submit to Beijing's will<sup>88</sup>;

- not only weaponization of trade becomes China’s “trademark”, but it is elevated to the new level of global blackmail in order to achieve its goals. That makes any country vulnerable to Beijing’s blackmail. Even the one which carefully avoids being dragged into any conflict with China is not immune anymore;
- Beijing’s political and strategic interests already prevail over economy, which makes any cooperation with China even more complicated without a simple bowing to Chinese dictate;
- deliberate targeting global supply chains have become a new instrument in China’s geo-economic arsenal;
- though at the moment Beijing is still mostly targeting smaller countries, however at the same time China mostly aims at economic dependence on Beijing, which make big countries with close economic cooperation with China even more vulnerable;
- China’s attempts of trying to take control of foreign states’ critical infrastructure is driven by strategic rather than economic interests;
- the German formula of change through trade "*Wandel durch Handel*<sup>89</sup> doesn't work with China, as it has been once more proven by Lithuanian example.
- as it was rightly put by Lithuanian experts Tomas Janeliunas and Raigirdas Boruta in their assessment of China-Lithuania conflict<sup>90</sup>, sooner or later, uncomfortable decisions regarding economic dependence on China will have to be made. Lithuania’s decision to stand against China and its growing ambitions in the region was possible due to its insignificant bilateral trade volumes. However, Lithuanian example shows that even attempts to increase these volumes can end in a conflict if one refuses to bow to Chinese political pressure. And the example of Australia shows that even a huge dependence on China can be overcome by a strong political will and determination<sup>91</sup>.
- China-Lithuania conflict sheds light on one feature of Chinese economic coercion which is still under researched: its frequent ineffectiveness.

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<sup>87</sup> <https://www.fbi.gov/news/stories/director-wray-addresses-threats-posed-to-the-us-by-china-020122>

<sup>88</sup> <https://www.newsweek.com/china-using-economic-coercion-blackmail-us-eu-must-fight-back-opinion-16679>

<sup>89</sup> <https://internationalepolitik.de/de/wandel-durch-handel-0>

<sup>90</sup> <https://globaltaiwan.org/2022/07/vol-7-issue-15/#TomasJaneliunas&RaigirdasBoruta07272022>

<sup>91</sup> <https://foreignpolicy.com/2021/11/09/australia-china-decoupling-trade-sanctions-coronavirus-geopolitics/>

## Recommendations

It is not only the common interest, but the responsibility of the democratic community of market economies around the globe to ensure that China's behavior of economic coercion and blackmail will not prevail. Therefore, proactive strategy, not only reactive countermeasures should be taken:

- when China threatens the world order using a weaponization of trade, decoupling strategy and efforts to diversify supply chains should become both a tool for deterrence and defense, as such a strategy can reduce Western exposure to Beijing's coercion.
- despite the fact that weaponization of trade has been used by China for some time already, different countries' responses have remained largely short-sighted and unilateral. Coordination among allies, unity in actions and speaking in one voice is a key to China's deterrence from the economic blackmail;
- Beijing uses its economic might to blackmail different countries because it is effective. Therefore, the aim of Western countries and their allies is to put all efforts together to make Chinese strategy backfire and by that to show that it will not be effective anymore. That include both a common push-back and a common salvage of a country attacked or, in other words, common measures that absorb the effects of coercion against the country attacked;
- not only a determination to push-back, but real instruments are crucial. Therefore, a proposal to establish an EU Resilience Office laid out by ECFR<sup>92</sup> should be carefully analyzed and evaluated;
- The EU and the U.S. should counter China's "Belt and Road" and other investment initiatives, which pose not only economic, but strategic threats, by delivering a convincing alternative. EU launch of 300-billion-euro fund<sup>93</sup> to challenge Chinese influence as well as President Biden's infrastructure plan<sup>94</sup> should be considered a step to the right direction. However, only implementation of the projects and their scope will show if it is efficient as sufficient. Convincing alternatives should be offered not only to the U.S. and EU, but at least to the regions of the strategic competition as well. This is the task for the whole democracy and market economy community around the globe.
- Western alliance should pay much more attention to China's hybrid warfare, which has been proven to become a more and more important supplement to Beijing's economic coercion. Developing countermeasures against China's hybrid warfare should be considered not less important task than to counter Russian hybrid warfare.
- The West should aim for adopting a common Indo-Pacific strategy and strengthening united strategic, military, and economic presence in the region. That should be not only a push back to China's bullying tactics in other parts of the world but would strengthen a security zone around China. Any failure in stopping Beijing's aggression in the Indo-Pacific area will lead to further deterioration of the security situation in the parts of the world.

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<sup>92</sup> <https://ecfr.eu/article/coercion-with-chinese-characteristics-how-europe-should-respond-to-interference-in-its-internal-trade/>

<sup>93</sup> <https://www.theguardian.com/business/2021/dec/01/eu-infrastructure-fund-challenge-china-global-influence-asia-africa-eastern-europe-gateway>

<sup>94</sup> <https://www.nytimes.com/2021/11/16/us/politics/biden-infrastructure-china.html>

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## **THE UNFULFILLED HOPES**

### **POLAND AND EASTERN EUROPE IN THE CONTEXT OF PRC INITIATIVES**

In 2017, the economy of the People's Republic of China overtook that of the United States after accounting for PPP. According to the UK's Centre for Economics and Business Research (CEBR), China will emerge strengthened from the crisis caused by the global Covid-19 pandemic and will eventually become the world's largest economy as early as 2028- earlier than expected<sup>95</sup>. Consequently, Beijing is also becoming a key player in international politics. This is a statement that stands out as a truism. However, although most of the world's experts acknowledge this state of affairs, they do not fully accept it and, what is worse, do not always understand it.

In Chinese foreign policy since the imperial era, the relationships between economy and diplomacy have been inseparable and complementary<sup>96</sup>. Communist China has continued this classic doctrine of understanding international reality for years, and Beijing has imposed one of the most rational, and therefore dangerous, orders on the world. It is difficult to find actions in the international policy of the Middle Kingdom that do not directly serve economic goals<sup>97</sup>. The exception, of course, is the immediate geographic area, which China sees as its exclusive domain<sup>98</sup>. The ultimate goal of many of China's ambitious social, humanitarian, political and cultural projects is primarily to protect imperial economic interests, trade routes and global supply chains. Beijing rarely, if ever, engages in the active promotion of any ideas or ideologies on the international stage. Nor is China building, as some sometimes naively claim, any authoritarian "internationalism" per se. Beijing's strategic partners include European democracies and African authoritarian regimes, states that support terrorism as well as their victims, aggressors and conquerors. The transactional policy practiced by Beijing, in which money supports political goals while politics is guided by profit maximization, works perfectly well even today, especially with regard to the world's distant neighbors, including the countries of Central and Eastern Europe. Central and Eastern Europe was and is in Beijing's understanding nothing more than a transit area in its expansion of capital and, above all, trade with Western Europe. It was not and is not a politically important area. It plays no significant role in terms of Chinese security policy. One could even risk a thesis that this is the case even in relation to a much closer area in its understanding, which is Russia. Although in this case many experts seem to question this thesis. I think that

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<sup>95</sup>Centre for Economics and Business Research (CEBR), *Sky News- COVID response to help China become world's biggest five years early*, <https://cebr.com/reports/sky-news-covid-response-to-help-china-become-worlds-biggest-economy-five-years-early/>[10.05.2021]

<sup>96</sup>Mark Edward Lewis, *The Early Chinese Empires: Qin and Han*, Harvard University Press, Cambridge MA, 2007

<sup>97</sup>Dmitry Shlapentokh, *China's Quest for Global Predominance*. Perspectives on Political Science, No.49(1): 1-15; Sempa, Francis P. (2019). China and the World-Island. The Diplomat, 26 January 2019 <https://web.archive.org/web/20190126023844/https://thediplomat.com/2019/01/china-and-the-world-island/> [15.05.2021]

<sup>98</sup> The One China Principle and the Taiwan Issue, <http://www.china.org.cn/english/taiwan/7956.htm>, [10.05.2021]



fundamentally wrong. But this is not the subject of the present analysis and requires much more elaboration. This area was and is treated by Beijing politicians as an imperial territorial development of the "barbaric" part of the world. Distant from the political interest of "Greater China". Instrumental from the point of view of their interests. Securing the economic interests of the Middle Kingdom. The existence of which in the geopolitical psyche of Beijing counts as far as it secures its economic ties, or as others prefer, economic expansion to the West. Just as alternatively Iran may be an area of expansion into the Middle East. In the same way, Iran can be an area of expansion into the Middle East, or the Middle East itself an important transit area with the commodity-rich countries of Africa, while Southeast Asia is China's commercial frontier on the way to Australia, New Zealand and further to the Americas.

In the policy of the People's Republic of China, Central Europe was to play the role of a "Trojan horse" for the PRC inside the European Union, or in a milder version, a gateway to Europe. At the beginning of the second decade of the 21st century, Beijing worked very intensively on the "Belt and Road" project, i.e. parallel sea and land connections between China and Europe. On the one hand, investments have been made in seaport infrastructure from Sri Lanka to Piraeus and Anaklia on the Black Sea, while on the other hand, the railroad and road network has been expanded to create an alternative land transportation route. The authorities in Beijing considered the Central and Eastern European region as well as Iran and the South Caucasus countries to be the key elements of the overland New Silk Road. Politically, the Belt and Road project was to create an alternative to the sea routes controlled by the United States and to create parallel land routes through Russia, and Russia bypassing through Iran and the Caucasus to the Black Sea ports of Georgia. By strengthening cooperation in the Central and Eastern European region, the PRC also hoped to find a gateway to enter European Union markets. China was presented as a country with real investment opportunities. For countries in the region that were trying to catch up with the level of economic development, China's investment activity and huge market was supposed to be an attractive proposition, prompting the creation of favourable conditions for Chinese economic expansion. As Polish analysts wrote:

"Even at the beginning of the 2010-2020 decade, very strong hopes were attached to China in the CEE countries. After the global financial crisis and the Eurozone debt problems, an increasing number of countries began to see China as an alternative to the West. A partial reappraisal of policy was motivated by a desire for independence from one economic partner, in the case of Poland and CEE - Germany and the European Union. Diversification of export directions and sources of investment was in this perspective a natural way to increase the level of economic security of the country. Poland was not spared from this phenomenon, as the potential benefits of economic cooperation with China were perceived mainly in its huge market and infrastructural potential. Polish-Chinese relations soon gained intensity with the announcement of the Belt and Road Initiative in 2013 and the launch of the 16+1 format in 2012"<sup>99</sup>.

It is likely that the 16+1 (later 17+1) format was intended by Beijing to provide not only a path of relatively easy access to European Union markets, but also, and perhaps above all, to become a model for balancing American influence in the region. Central Europe, treating the alliance with the U.S. as the primary guarantee of security in the face of the highly assertive policy of the Russian Federation, was to receive in return deepened cooperation with China (implicitly also as a deterrent to Russia, but using economic rather than military methods). A similar attempt was also made to create a central (trans-Caucasus) transport corridor and increase Chinese influence in Georgia. The authors of an insightful Carnegie Endowment report noted: "China's position was extremely helpful for Georgia in

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<sup>99</sup>Paweł Paszak, Stosunki Polska-Chiny w 2021 roku: stan i perspektywy, (Poland-China relations in 2021: state and prospects) <https://warsawinstitute.org/pl/stosunki-polska-chiny-w-2021-roku-stan-perspektywy/>; [14.02.2021]

August 2008, following the five-day Georgia-Russia war and Moscow's subsequent unilateral recognition of the breakaway territories of Abkhazia and South Ossetia as independent states. At a summit of the Shanghai Cooperation Organization on August 28, 2008, Russia lobbied other members to follow suit and recognize the two regions as independent states. China declined, making it easier for the five Central Asian states to back Georgia, not Russia, on this issue. That, in turn, gave cover to other post-Soviet states, such as Armenia and Belarus, to not support Russia's maneuvers. While visiting Georgia in 2019, Chinese Foreign Minister Wang Yi pledged support for the country's territorial integrity with regard to Abkhazia and South Ossetia, while Georgian officials reaffirmed their adherence to the One China policy. In recent times, however, China has stayed quiet about Abkhazia and South Ossetia. At the UN, Beijing did not support votes calling for the return of internally displaced persons to these regions. Maintaining relations with Russia appears to have taken precedence<sup>100</sup>.

Hopes that Beijing would permanently balance Russian influence without compromising the pro-Western orientation of its Central and Eastern European partners also failed in 2014, when the presence of Chinese investors failed to stop Russia from occupying Crimea. And the PRC politically failed to engage in defending Ukrainian interests in the face of its neighbor's partitionist actions. The obvious priority for relations with the Kremlin evident in Chinese policy in the second and third decades of the 21st century significantly reduced the attractiveness of the 17+1 project and the Belt and Road Initiative (BRI) for Central European countries, including members of the Visegrad Group (V4). The deteriorating relations between the U.S. and China further decreased the attractiveness of cooperation with China. It seems that for China itself, cooperation with the Central European region also had a primarily political dimension. "Consequently, Chinese investments in the 12 EU member states participating in 17+1 remain modest, amounting to EUR 8.6 billion between 2010 and 2019. In comparison, over this same period China invested more in Finland (EUR 12 billion) or the Netherlands (EUR 10.2 billion)"<sup>101</sup>.

In the Central European region, the PRC has focused its attention (apart from the economically insignificant Western Balkan states) on the Visegrad Group countries. Poland still remains the main export route to Europe for the railroad branch of the New Silk Road, but as a partner or a target for investment it is in the background for political reasons. This is discussed in more detail later in our article. The Czech Republic, thanks to the efforts of President Zeman, was initially open to deeper cooperation with China. In the case of the Czech Republic, relations with China have become a matter of domestic politics. The recent visit to Taiwan by the President of the Czech Senate Miloš Vystrčil came just a month before the regional and Senate elections in the country and has helped his opposition party to build political capital on a values-based approach to foreign policy, in contrast to President Zeman's pro-Beijing stance.

As a result, Chinese investment in the Czech Republic has been negligible (less than \$1 billion). After the change of government in late 2021 Czech Republic became one of the European Union countries most critical of China. „The message came in the form of Fiala's choice for foreign minister, Jan Lipavsky, a 36-year-old China hawk, Russian critic and vocal defender of the EU and

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<sup>100</sup> Erik Brattberg, Philippe Le Corre, Paul Stronski, Thomas De Waal, China's Influence in Southeastern, Central, and Eastern Europe: Vulnerabilities and Resilience in Four Countries- Carnegie Endowment for International Peace, <https://carnegieendowment.org/2021/10/13/china-s-influence-in-southeastern-central-and-eastern-europe-vulnerabilities-and-resilience-in-four-countries-pub-85415>[9.02.2022]

<sup>101</sup> Stec Grzegorz, Central and Eastern Europe and Joint European China Policy: Threat or Opportunity? <https://merics.org/en/analysis/central-and-eastern-europe-and-joint-european-china-policy-threat-or-opportunity> [11.02.2022]

NATO. During the election campaign, Lipavsky had specifically described both China and Russia as *a threat to the Czech Republic*, arguing that his country had surrendered some of its principles in recent dealings with Beijing and Moscow. Months earlier, Lipavsky was one of the politicians responsible for excluding China and Russia from bidding for contracts to build reactors at a Czech nuclear power station. He also favours deepening ties with Taiwan, calling it *an important economic partner of the Czech Republic many times more important than the People's Republic of China*. A statement unlikely to endear him to Beijing".<sup>102</sup>

The cooldown of relations between Brussels and Beijing and the consistently anti-Chinese policies of the U.S. administrations under both Trump and Biden have caused hopes of a multi-vector policy in the Central European region to begin to dissipate. Romania abandoned its cooperation with China in the construction of nuclear energy. Bucharest, along with Poland and the United States, was also a co-author of the concept of the "Three Seas Initiative", a political format that to a large extent overlapped with the 16+1 group, but was oriented toward cooperation with the United States. The 'Three Seas Initiative' turned out to be a much more active format, and with the inclusion of Germany as an observer state, it also lost the focus of intra-EU opposition. Cooperation with China is increasingly perceived in the region as a security threat. Also in the modernization dimension. It is notable that every one of the EU countries that signed the 5G memorandum targeting Huawei with the US, is from the CEE (Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovenia).

The CEPA report clearly states that China's policy toward the Central European region has failed. "Other Central European countries are signaling an appetite for alternatives. At the 17+1 meeting held in February 2021, six countries (Bulgaria, Romania, Slovenia, Estonia, Latvia, and Lithuania) delegated lower-ranking representatives. A few months later, Lithuania officially declared that it would no longer be participating. The incoming Czech government has signaled that it wants to ban both Russia and China from building a new nuclear power plant in its country".

There are signs that this is having an effect. Overall, China's BRI investment fell 32% to \$19.3bn in the first half of 2021, no doubt partly because of the pandemic. But investments in Europe plummeted by 84%, a huge decline. Plans like a proposed multi-billion dollar investment in the Croatian port of Rijeka were halted after EU and US objections, and a European-led consortium took over the project. The West is also starting its own infrastructure investment programs, with a heavy emphasis on environmental factors.

Even China's most vociferous Central European fan, Hungary, is on the defensive. Although Hungary hosts Huawei's biggest supply center outside China, as well as its research and development center, international telecommunication companies operating in Hungary have started to withdraw from Huawei's telecommunications infrastructure. Criticism is rising of Chinese funding of a Hungarian university, and of poor-quality Chinese masks and other medical equipment during the Covid pandemic.

Despite this anti-Huawei trend, China will continue efforts to establish a European foothold in Central and Eastern Europe. 5G may have been the primary focus, but represents only the starting point. China presents similar threats in sectors such as transportation, communications, and energy. No other country has yet followed Lithuania's lead and withdrawn from the Belt & Road 17+1 group.

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<sup>102</sup>Czechia leads EU's anti-China group; will Germany join? <https://www.sundayguardianlive.com/world/czechia-leads-eus-anti-china-group-will-germany-join/>; [12.02.2022]

The situation was changed by the Russian aggression against Ukraine in February 2022. The issues of economic cooperation have definitely receded into the background of the security problem. As Piotr Kaczynski noted on [balkaninsight.com](https://balkaninsight.com): Yet today, pragmatism and the economy have been replaced by security and values - and the new reality is forcing a rethink of the old policy. (...) MEP Reinhard Butikofer, who chairs the China delegation in the European Parliament, told BIRN recently: "China, in their support for the Russian war of aggression, have shown their true colors. They tried to pretend at the beginning they are neutral. But they were not neutral in any meaningful way. Traditionally, China has always preached the gospel of national sovereignty and territorial integrity. When it came to the national sovereignty of Ukraine, all of a sudden that principle went down the drain."<sup>103</sup>

Central Europe was in the vanguard of EU and NATO policy, which significantly changed its policy toward China after February. It is noteworthy that the North Atlantic Alliance's new strategic concept identified China as a "systemic challenge" to NATO. And the European Union has announced the possibility of imposing sanctions on China if it helps Russia wage war. The EU is focused on implementing mechanisms to protect the common market from threats, including from the PRC. In turn, on August 11, other countries in the region: Estonia and Latvia came out of the 17+1 initiative. Their decision may be a harbinger of a broader trend - the Czech and Romanian governments, among others, are considering a similar step. This also shows that Vilnius' policy of sanctions and intimidation has not become an effective tool for maintaining Chinese influence in the region. Beijing has also failed in recent months and years to propose a positive economic agenda likely to increase interest in the 17+1 format. Diplomacy there, wanting to keep it going for prestige reasons, may seek to change its formula (e.g., downgrading the rank of state representatives to foreign ministers and reducing the frequency of meetings).

The EU and the international community must protect critical infrastructure and provide alternatives to Hungary and other countries that are tempted to accept Chinese investment"<sup>104</sup>.

Indeed, the only outpost of Chinese influence in the region today remains Hungary. Viktor Orban's government is the last to try to implement a multi-vector policy, drawing closer to both Russia and China. This is partly due to the model of illiberal democracy promoted by Hungary's ruling Fidesz, and partly due to the hope for an influx of Chinese capital. Flagship projects, such as the Budapest-Belgrade high-speed railroad or the Chinese Central European University in Budapest, have been delayed for years. As the authors of the already cited Carnegie Center report noted: „Yet for all the hype about Beijing's economic ambitions in Central and Eastern Europe, China does not seem all that interested in Hungary itself. Apart from pandemic-related mask or vaccine diplomacy, Hungary rarely is a prominent topic in Chinese media, which pays greater attention to Europe's more geopolitically important countries. China clearly sees its engagement with Hungary as a stepping-stone into the EU. This approach does little to win the hearts and minds of average Hungarians, who remain skeptical of the benefits of partnership with China and disappointed by Beijing's engagement—at least for now"<sup>105</sup>. Early August 2022 Hungary's Deputy Foreign Minister Levente Magyar announced that after

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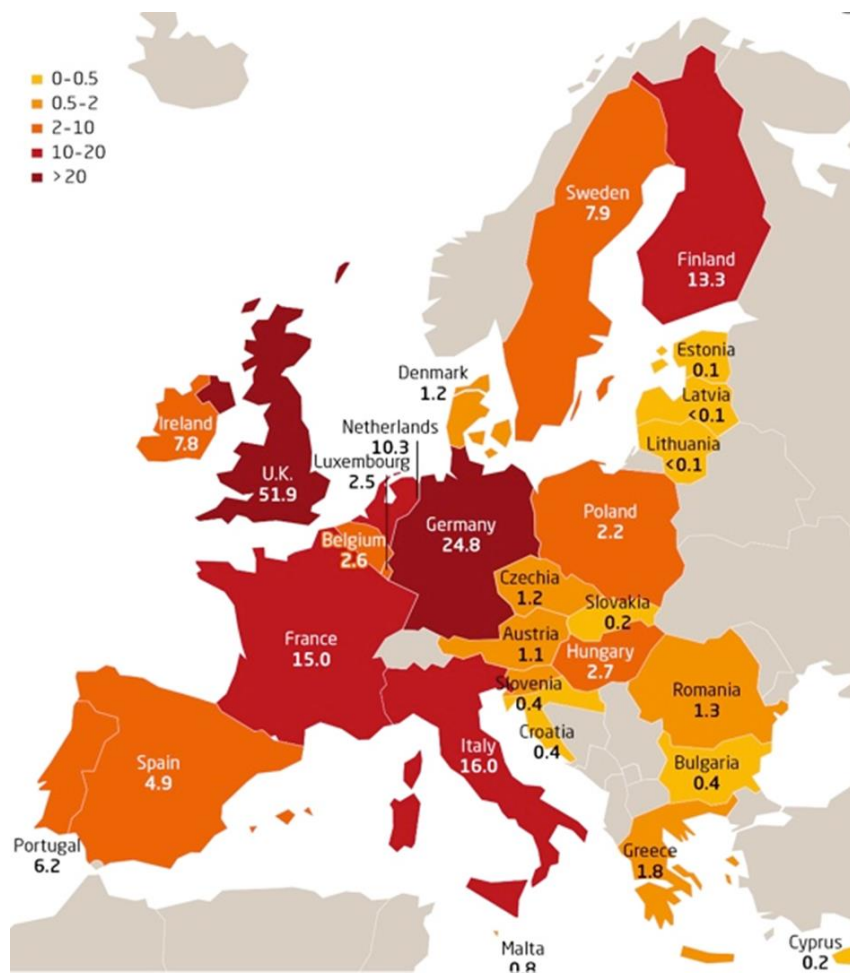
<sup>103</sup> Piotr Maciej Kaczynski., *How China lost Central Europe*, <https://balkaninsight.com/2022/08/15/how-china-lost-central-europe/> [12.08.2022]

<sup>104</sup> Agne Rakstyte, Jason Israel, *China is Losing Ground in Central Europe*, <https://www.sundayguardianlive.com/world/czechia-leads-eus-anti-china-group-will-germany-join> [12.02.2022]

<sup>105</sup> Erik Brattberg, Philippe Le Corre, Paul Stronski, Thomas De Waal, *China's Influence in Southeastern, Central, and Eastern Europe: Vulnerabilities and Resilience in Four Countries-* Carnegie Endowment for International Peace, <https://carnegieendowment.org/2021/10/13/china-s-influence-in-southeastern-central-and-eastern-europe-vulnerabilities-and-resilience-in-four-countries-pub-85415> [9.02.2022]

two years of negotiations, Chinese electric car battery manufacturer CATL will build a factory in Debrecen that will employ nearly 9,000 people. The investment is valued at €7.5 billion. - In the near future, one can expect a gradual downgrading of the initiative by the Chinese, until it is equated with standard PRC cooperation with interested parties, without the propaganda cover and emphasis on its multilateral character.

Public scepticism towards deeper cooperation with China, combined with the key (and growing during the Ukraine-Russia crisis) role of the United States in shaping the security architecture



of Central Europe, do not create favourable conditions for the economic, political or soft power expansion of the People's Republic of China in the region. All the more so, as the Chinese side also seems to attach less and less importance to the 16+1 format. Although Xi Jinping took part in the group's leaders' last online debate, he did not offer any concrete proposals. Analysts of the Polish Institute of International Affairs predicted that the 16+1 project will lose its importance as a result of the tightening international situation. "BRI and "17 +1" will lose importance in the context of the economic and political impact of the COVID-19 pandemic. Thus, the role of Central Europe in Chinese policy will be smaller. On the other hand, China's rivalry with the U.S. will increase, including through cooperation with Russia.<sup>106</sup>

**Cumulative value of the Chinese FDI in Europe 2000-2020 (EUR bln)**

Source: Mercator Institute for Chinese Studies, <https://merics.org/en/report/chinese-fdi-europe-2020-update>

<sup>106</sup> Marcin Przychodniak, Strategiczny partner Chin czy wspólnik USA? Polska w retoryce władz i środowisk eksperckich ChRL, (China's strategic partner or US associate? Poland in the rhetoric of PRC authorities and expert circles) PISM Policy Paper no2. (188) [https://www.pism.pl/publikacje/Strategiczny\\_partner\\_Chin\\_czy\\_wspolnik\\_USA\\_Polska\\_w\\_retoryce\\_wladz\\_i\\_srodowisk\\_eksperckich\\_ChRL](https://www.pism.pl/publikacje/Strategiczny_partner_Chin_czy_wspolnik_USA_Polska_w_retoryce_wladz_i_srodowisk_eksperckich_ChRL) [14.02.2022]

Beijing's initiatives in Central and Eastern Europe have from the outset been subordinated to traditional (imperial, though not necessarily imperialist) Chinese foreign policy objectives: facilitating access for Chinese goods to the receptive markets of Western Europe, as well as the search for modern technology and raw material sources.

The starting point for building friendly relations with the countries of the region was difficult for many reasons. Seemingly, cooperation should be supported by the "traditional bonds of friendship", which have their foundations in recent history, when Central Europe and China were part of a common camp of socialist states. However, it should not be forgotten that this camp was never homogeneous, and in the 1950s most of the Soviet Union's satellite states found themselves in a group fighting against China, as part of the rivalry between Moscow and Beijing for dominance in the global socialist movement. Until the mid-1970s, relations between the capitals of Central and Eastern Europe and the Far Eastern partner were practically non-existent, and even then they were filled with far-reaching distrust and prejudice. A temporary warming did not occur until after the 1983 exposé by PRC Premier Zhao Ziyang, in which he stressed that: "the Chinese people have friendly feelings toward the peoples of Eastern Europe, appreciate their achievements and experience in socialist construction and the progress made in various fields in the development of our bilateral relations." However, the collapse of the Soviet Union and the systemic change that occurred in the region once again resulted in a cooling of mutual relations. China viewed the transformations taking place in this part of Europe with reserve. The prospect of exporting the East European revolt was a cause for concern. It was difficult to accept the admittedly not numerous comments by politicians from the region concerning respect for human rights, Taiwan's sovereignty or Tibet's right to self-determination. All this contributed to Central and Eastern Europe disappearing from Beijing's strategic foreign policy horizon for a long time.

Poland was an adequate example of the stagnation in mutual relations. Although in the declining years of socialism there were a few significant visits, including those of the then Chairman of the State Council General Wojciech Jaruzelski to Beijing in 1986 and Prime Minister Zhao Ziyang to Poland a year later, the initiated attempts to revive economic, trade, scientific and technical cooperation between the PRL and the PRC were interrupted by the second Solidarity revolution and the seizure of power by the democratic opposition in Poland. While political gestures may have indicated that the two countries were looking for some common ground, in practice both sides did not attach high priority to strengthening bilateral relations. In 1991, after the exchange of visits by foreign ministers QianQichen and Krzysztof Skubiszewski, a return to the policy of political dialogue was declared and bilateral political consultations at the level of undersecretaries of state were resumed. Poland has been unsuccessfully seeking a return to trade revival after the ill-considered trade liberalization measures with China in the late 1980s and early 1990s, including Prime Minister Waldemar Pawlak's official visit in 1994 and his meetings with PRC Chairman Jiang Zemin and Premier Li Peng. For many Chinese politicians, the state visit of Polish President Aleksander Kwasniewski to China in 1997 was a disappointment. Although the media in both countries emphasized its symbolic nature as the first visit on that level after 38 years, it failed to break down the remaining barriers in mutual relations. It was difficult to expect a breakthrough in a situation where both partners completely misunderstood the scale, nature and significance of the changes taking place in both countries. Poland's foreign policy at the time was focused on Euro-Atlantic integration issues, while Beijing's foreign policy was only slowly adapting to the economic significance of the country as a global superpower. However, Poland was important from China's geopolitical point of view, and it was from China's initiative that further action was to be expected.

At that time, China was already beginning the gradual construction of so-called "strategic partnerships," the highest form of cooperation in China's diplomatic vocabulary, with many countries in the European region long before it gained formal treaty confirmation. Just as in imperial times, economic considerations were of key importance in establishing "strategic partnerships". The earliest was as early as 1996 in the Sino-Russian Joint Declaration. On June 20, 2011 the Joint Declaration on the Establishment and Development of Strategic Partnership was signed by the presidents of Ukraine Vladimir Yanukovich and China Hu Jintao. In the case of Poland, the strategic partnership with China can again be said to have been initiated earlier than it took legal and treaty form. This is evidenced by the Joint Statement signed in 2004 at the state level during the visit of the Chairman of the People's Republic of China Hu Jintao to Poland. The statement declared the revival of cooperation in foreign affairs, the development of economic and trade relations and scientific and technical cooperation. However, it also stressed the importance of "doing business together" and, above all, respecting the other party's chosen path of development. The text contained accents favored by Chinese diplomats on the so-called constructive dialogue without mutual interference, which directly referred to moderation in human rights rhetoric, as well as respect for the one-China policy, i.e. not recognizing Taiwan's statehood in any way. The document clearly indicated that Beijing sees Poland as a strong member of the European Union. The latter statement was mistakenly perceived by later Polish politicians as an expression of diplomatic courtesy, while it truly reflected the intentions of Chinese politicians and determined Warsaw's place and role in Beijing's political and economic calculations. A little later, during President Bronisław Komorowski's visit to China on December 20, 2011, a formal bilateral declaration of strategic partnership between China and Poland was signed. It was complemented by protocols on the mechanism of regular meetings of prime ministers and the intergovernmental commission for coordination of bilateral cooperation in various areas and formulating medium- and long-term economic engagement plans signed during Polish Prime Minister Donald Tusk's visit to China in April 2012. Thus, Warsaw found itself among the ten strategic partners among the European Union member states. This may indicate that Beijing has long sought to base its European expansion project on two countries - Ukraine and Poland. In its policy of building strategic partnerships, China has clearly focused on political and economic security of the route leading from China through Central Asia and Russia to Ukraine and Poland, and further to Western Europe. For a long time Poland was a key element in the strategy of building the Track and Road due to its market potential and its strong position in the European Union, which was repeatedly emphasised by Chinese politicians. Ukraine had traditionally friendly relations with its partners in Central Asia dating back to the times of the former Soviet Union, and in the longer term perspective an association agreement with the European Union and the possibility of Kyiv's inclusion in the Comprehensive Free Trade Area.<sup>107</sup>

The Russian aggression of February 2022 has changed attitudes toward cooperation with China. Beijing's efforts to retain footholds in Central Europe have been met with a cool response from the region. In April and May of this year, PRC Foreign Ministry Special Representative Huo Yuzhen visited eight countries in the region (including Poland, the Czech Republic, Slovakia, Croatia and

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<sup>107</sup>Olena Bordilovska, Victor Ugwu, *Chinese-Ukrainian cooperation under the framework of the Belt and Road Initiative*, Actual Problems of International Relations, No 138 (2019)

Hungary) in an effort to present a conciliatory approach and suggest China's disagreement with Russian hostilities, while not abandoning anti-NATO and anti-American rhetoric. The reception of the delegation varied, in some countries the conversation took place at the level of the deputy foreign minister, but in Poland, for example, Huo Yuzhen was not even received at the working level. Ukraine, too, by gaining EU candidate status and pinning its hopes for post-war reconstruction on Western support, has decisively distanced itself from China.

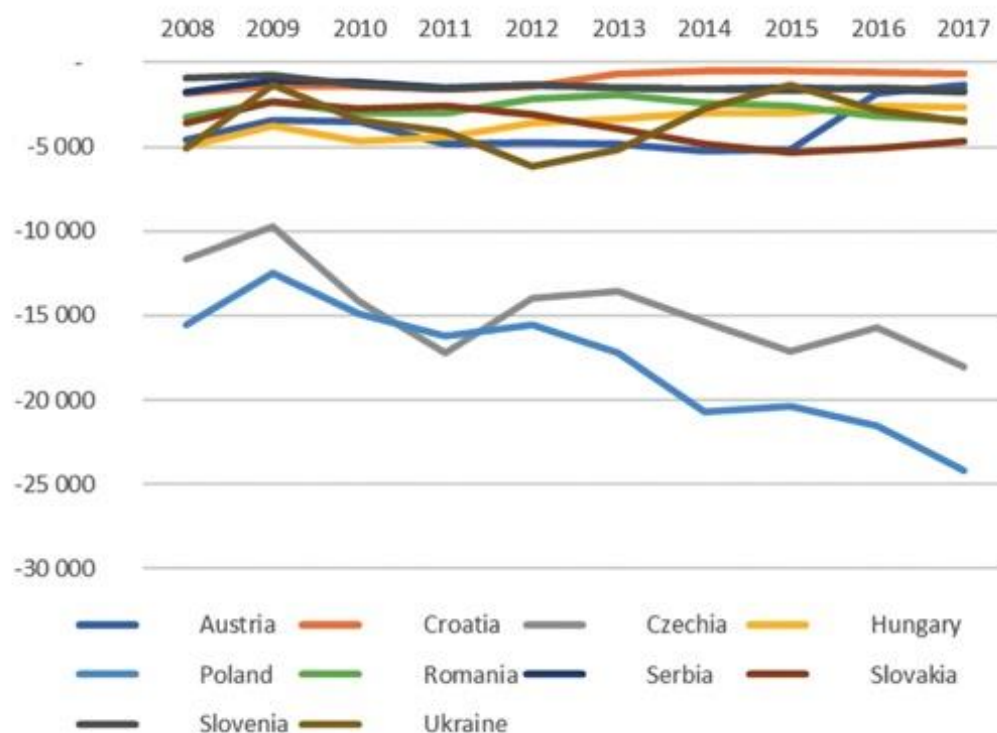
The Baltic states deliberately opted out of close relations with the People's Republic of China, joining the ranks of European countries sceptical of close relations with Beijing. With their hardline stance on human rights and protection of ethnic minority rights, they have never sought Beijing's favour. In geopolitical terms, the situation of Vilnius, Riga and Tallinn is similar to that of Minsk and Chinese diplomacy has never courted these states. Belarus and the Baltic states were not of key importance to China. Politically, the partners were insignificant. The less important they were, the less they could give China in economic terms. Although China has engaged in much less developed countries (for example in Africa or Asia), this has always been in pursuit of superior strategic goals. These could include access to unique resources. Some countries were important for Chinese foreign policy because of the possibility of securing an advantage of a political or military nature. Neither Belarus nor the Baltic States fulfilled any of these conditions<sup>108</sup>. In the end, the Baltic States, partly by their own choice and partly as a result of their geopolitical location, found themselves on the periphery of Chinese priorities. Minsk, on the other hand, as a result of an unfortunate coincidence for China, was finally given the privileged position of a strategic partner, long awaited from the point of view of its own policy.

Strategic partnerships with countries in the region eventually paved the way for an initiative known as the China-Central and Eastern Europe Cooperation Program or the 16+1 (later 17+1) initiative. The platform was formally established at a summit of Central and Eastern European and Chinese leaders in Budapest in 2012. In 2013, in Kazakhstan, PRC President Xi Jinping inaugurated another program of China's political-economic offensive known as the Belt and Road Initiative (One Belt One Road "Silk Road Economic Belt and 21st-Century Maritime Silk Road) with a declared investment of 60-100 bn. USD. The platform was to support cooperation in trade and investment, but primarily to focus on key infrastructure, transport and logistics projects for China. Both programmes were immediately hailed (somewhat rightly) as an expression of Beijing's expansionist plans in the region. They could certainly be understood in terms of building, acquiring, and where necessary buying the traditional Chinese network of friends, or *guanxi* as the Chinese themselves prefer to call it.

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<sup>108</sup>Andrea Éltető, SzunomárÁgnes, *Chinese Investment and Trade Strengthening Ties with Central and Eastern Europe*. International Journal of Business and Management, 4(1)/2016, 24–48.





*Trade deficit of CEE countries to China (USD million)*

Source: UNCTAD Stat 2018.

With some enthusiasm, Poland embarked on a program that carried with it hopes for increased trade cooperation and Chinese investment that were not necessarily justified even by Chinese declarations. In the case of both Warsaw and Beijing, the ambitious Belt and Road program as well as the 16+1 initiative ended in a series of failures and disappointments resulting from a number of mistakes and misunderstandings on both sides. A solid legal and treaty basis and political declarations were not followed by the expected results. In 2005, the Polish-Chinese Economic and Cultural Association was established on the back of warming mutual relations, which was to promote Polish-Chinese relations. A year later, the first Polish Confucius Institute was opened in Krakow. However, the economic situation was not optimistic from the beginning. The relative economic opening was accompanied by a widening trade deficit between the two countries. As part of the OBOR program, a railroad line between Chengdu and Lodz was inaugurated in 2014. In 2015, Poland already imported USD 14.34 billion while exports reached only USD 2.74 billion. Because we also had nothing to offer Chinese investments did not look impressive either. The Covec scandal in the implementation of the freeway program in Poland. In 2011 Guangxi LiuGongGroupa was the civilian part of HutaStalowaWola. The Chinese shopping center in WólkaKosowska was expanded. Polygraphic plants Yuncheng and Dong Yun in Łódź were opened, as well as LCD factories TPV Displays in Gorzów and Victory Technology in Łódź. However, Chinese investments were far behind the flow coming from the European Union or the United States. Among the various reasons for this state of affairs, one can mention the consequences of the so-called Covecu scandal and the withdrawal of the Polish authorities from the first major Chinese contract in Poland. The second reason is broader and concerns completely unjustified expectations for investments outside China and the region. China, with a cumulative FDI value of just over \$1 trillion, was located in a relatively distant place in the global ranking with a share of about 4% of Foreign Direct Investment (2016).

The seizure of power by the new ruling team in Poland was to bring about a significant dynamization of mutual relations. This was due to the concept of multilateralism in Polish foreign policy promoted by the office of the Polish president. Poland's foreign policy, so far focused on Brussels, was to be balanced by rapprochement with the U.S., Beijing and activity in the Balkan region. The new ruling administration has made a number of gestures to show a new opening to the Middle Kingdom. In November 2015, President Andrzej Duda attended the summit of the 16 plus 1 initiative in China, where he inaugurated the Polish-Chinese Economic Forum. June 2016 saw a spectacular visit to Poland by PRC President Xi Jinping. A record 11 bilateral agreements were signed, including the abolition of VAT on air travel, cooperation of space agencies, mutual recognition of diplomas and degrees, as well as protocols on cooperation in culture, logistics, free creation of industrial parks and agriculture. In China's foreign policy ranking, relations with Poland were elevated to the level of "comprehensive strategic partnership." Continuing its honeymoon with Beijing on June 5, 2016, Poland officially became the 39th founding member of the Asian Infrastructure Investment Bank. And in May 2017, during Prime Minister Beata Szydło's meetings in China-with President Xi Jinping and Premier Li Keqiang-more cooperation agreements were signed in the field of tourism in water resources management.

Bilateral relations under the multi-vector policy as quickly as they were dynamized by the Polish administration just as quickly fell into ruin. A symbolic event became the so-called Huawei affair in early 2019 when several people associated with the leadership of the company's Chinese branch in Warsaw were arrested in Poland on espionage charges. However, signs of the failure of Poland's multi-vector foreign policy were already emerging earlier. The authorities in Warsaw had begun to take notice of the growing cooperation between Beijing and Moscow. The Russian president's visit to the 2018 Shanghai Cooperation Organization summit in Qingdao grew into a symbol. Hosted by the Chinese president, Vladimir Putin was publicly called a "good old friend" and awarded a friendship medal. This stood in stark contrast to the naive calculations of the Polish government. The opening to the East had little effect on the Polish economy. On November 17, 2018, at the Future of Transatlantic Relations (FOTAR) summit, the head of the Polish government Mateusz Morawiecki stated with sarcasm: I very often hear complaints about US trade policy (...). The lack of tariff barriers is important for trade to grow and when I hear that the United States is against such trade and China is for such trade, I smile and I don't think that's the case until the end. The sharp change in the orientation of Polish policy toward China has undoubtedly also been influenced by pressure from American allies. The Chinese in the Polish case, as was the case with many of the countries included in the Central European offensive, underestimated the entanglement of their potential partners in a number of complex global, regional and sub-regional relationships. Poland, on the other hand, by pursuing its multi-vector plans, got rid of one of the important assets it had in its policy towards Beijing, which President Hu Jintao had mentioned a few years earlier.

The Chinese project of strengthening its position in Europe by establishing close ties with the CEE region appears to be collapsing. Beijing's interest in the region has definitely decreased. There is no idea for an investment offensive. Also, Poland and other countries in the region, despite declaring openness to cooperation with the PRC (for example during President Duda's visit to the opening of the Olympic Games in Beijing), do not have much to offer to China. In the light of the political crisis provoked by Russia over Ukraine, for almost all countries in the region (except Hungary and Serbia), the involvement of the United States on NATO's eastern flank is of vital importance. Cooperation with the US rules out any rapprochement with Beijing, who Washington treats as a global rival.

The prospects for China's political and economic presence in the Central Europe region in the short and medium term do not look bright. Firstly, they depend on the course of the rivalry between global powers. Secondly, following the pandemic the European Union, is much less enthusiastic about

deepening economic cooperation with Beijing. The cultural barrier that hinders cooperation is also of great importance. And finally, the recent decisions of the PRC authorities seem to indicate attention shift towards the Indo-Pacific region and decision to relatively limit global expansion.

China will, of course, remain an important economic and political player in the region. But their ambitions to gain a strong foothold in Central Europe will be postponed for a far more distant future.

## **CHINA'S PRESENCE IN THE BALKANS**

### **Introduction**

Countries in the Balkans have a significant importance for China for two reasons: the first reason is the position on the geopolitical map of the Balkans as the link between central Europe, and the Black Sea region and the Middle East on the other side. The other reason is the fact that the six Western Balkan countries (WB6) are still not members of the European Union. Out of the WB6 only 3 countries are members of NATO. After the Brexit referendum in 2016, the focus of the EU shifted into reflection on how to recompose the Union itself after the United Kingdom had left. In other words, the EU has effectively and temporarily abandoned its ambition to integrate the WB6 countries, removing the region from an imminent European membership prospective. The backlog in EU enlargement, has led the political elites of these countries to believe that membership of the EU should not be a priority and instead turn more to regional and global powers, which have their own ambitions in this region, and these include primarily, Russia and China.

This paper will focus on the Chinese influence in this region and how China uses the vacuum left by the EU to undermine the EU's position in the WB6<sup>109</sup>, on some occasions even with the cooperation of its new strategic partner, Russia.<sup>110</sup> In its attempt to enhance the importance of the Belt and Road Initiative (BRI) in Central and Eastern Europe, China has also formed the 16 + 1 format (until 2021 17+1 format) and the countries of the Western Balkans are all for participating in this format. The paper will investigate the two countries of the region, namely Montenegro and Serbia, where Chinese influence is strongest. Outside the WB6 this analysis will also look into the situation with Croatia, which is a neighbor of both Serbia and Montenegro and shares a large part of common history with these two countries within the former Yugoslavia. This also means that the patterns in political and economic life in the above-mentioned countries have a lot in common. Croatia is also a country located within the Balkans as well as in Central Europe and in the Mediterranean. The location of Croatia combined with its EU membership makes this country of particular interest to China.

This paper will investigate these three countries, the level of Chinese influence in them, the effect this influence has on these countries, the position of the West, the United States and the EU toward the growing Chinese presence in the region and give recommendations as to how to deal with this growing Chinese influence.

### **Overview of cooperation between China and Serbia**

Serbia is a country with a strong Chinese presence. The relations between the two countries are close and friendly. The president of Serbia, Alexander Vučić sees himself as the leader of the region and he is pursuing foreign policies similar to those of the former Yugoslav leadership or at least Vučić is trying to portray himself as such a leader. This means that the Serbian leader is trying to pursue a form

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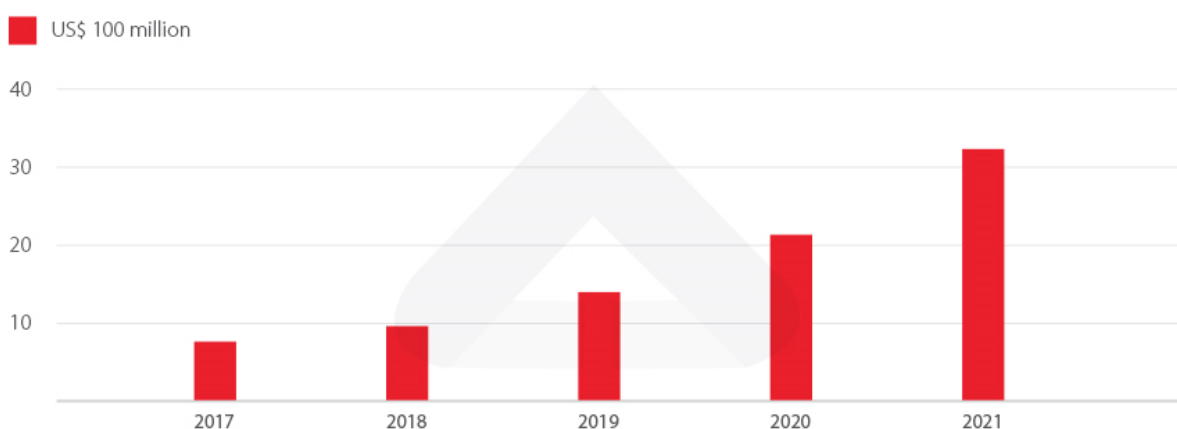
<sup>109</sup> <https://merics.org/en/short-analysis/beijing-fills-gaps-left-brussels-western-balkan>

<sup>110</sup> [https://eeas.europa.eu/delegations/china/76401/eu-hrvp-josep-borrell-coronavirus-pandemic-and-new-world-it-creating\\_en](https://eeas.europa.eu/delegations/china/76401/eu-hrvp-josep-borrell-coronavirus-pandemic-and-new-world-it-creating_en)

of none-alignment foreign policy, meaning that's Serbia should nourish close relations with both the West, by declaratively keeping up its EU negotiation process, and with the global and regional rivals of the West, Russia and China.

Serbia, under the leadership of President Vučić is seeking to upgrade its political, economic, and even military cooperation with China. Last year Serbia openly presented its ambitions to pursue this path, independent of the Euro –Atlantic ambitions, while hosting the summit and efficiently resuscitating alignment movement<sup>111</sup> which was thriving under the previous Yugoslav leadership, in the sixties and the seventies, at the peak of the Cold War. With the surging tensions between the West on one side, and Russia and China on the other side, president Vučić has an ambition to place Serbia in a similar position where Yugoslavia was, half a century ago. This includes the forging of a strong partnership with China, including in the field of military corporation. Serbia, alongside strong military corporation with Russia, has recently decided to procure Chinese unmanned aerial vehicles (combat drones) from China.

China-Serbia Bilateral Trade, 2017 to 2021



Source: China General Administration of Customs<sup>1</sup>

Graphic©Asia Briefing Ltd.

The Chinese are pursuing a policy of a strong and rapid military expansion, with a growing navy in the Indo-Pacific and the growing importance of Chinese development of modern, state of the art technologies, including artificial intelligence, hypersonic weapons and cyber warfare, Serbia by association is attempting to be a part of these developments.

Serbia is also developing closer political ties with the Chinese leadership. During the outbreak of the Covid-19 pandemic in Europe in March 2020, President Vučić was not hesitating to endorse the Chinese President XI Jinping as the world leader successful in the fight to curb the pandemic.<sup>112</sup> On their side, the Chinese were quick to deploy medical help to Serbia to deal with the pandemic. Chinese aircraft loaded with medical equipment including ventilators and personal protection equipment (PPE) including facial mask and gloves landed in Serbia and were delivered rapidly, equipping the country for the upcoming battle against the SARS-CoV-2 virus.<sup>113</sup>

<sup>111</sup> <https://www.euronews.com/my-europe/2021/10/15/belgrade-just-hosted-the-biggest-gathering-of-world-leaders-you-ve-never-heard-of>

<sup>112</sup> <https://euvsdisinfo.eu/eeas-special-report-update-short-assessment-of-narratives-and-disinformation-around-the-covid-19-pandemic-update-december-2020-april-2021/?highlight=china>

<sup>113</sup> <https://www.euractiv.com/section/china/news/serbia-sets-the-stage-for-beijings-mask-diplomacy/>

President Vučić used this opportunity to publicly manifest to the Serbian people the importance of the Sino-Serbian partnership and convince the public that their Chinese partner had the potential both technically and financially to cope with the pandemic, while rapidly helping Serbia and other European nations. China has used the slow reaction of the EU to face the challenge of the pandemic and the EU's inability to produce its own PPE, (production of which is mostly based in China), to portray itself as the most capable nation, willing to help Serbia and the other nations in need.



Source: Clingendael Report, August 2020

President Vučić has also benefited from this manifestation of his close relationship with the Chinese President Xi in a way that this gave him credit to step-up the level of cooperation with Chinese companies in Serbia. Chinese companies were already present in the country before 2020 and after the showcased solidarity between the two Nations in March 2020, the presence of Chinese companies in Serbia was further broadened. In 2022 the Chinese presence in Serbia is even bigger than ever and the Serbian leadership seeks to bring more Chinese companies into the country, using the model of direct contracting with Chinese corporations and thus debunking the rules of public procurement for tender procedures, required by the EU. This model of cooperation has opened the door for widespread corruption, be it on a high, regional, or local level, and it seemed that both countries are prone to pursue their economic collaboration in this way.



Hvala brate Ši! (Thank you brother Xi!) billboard in Belgrade. Source EurActiv EU info portal, March 2020, Serbia's emergence as China's new strategic hub

### **Model of economic cooperation with Chinese companies in Serbia**

China is adept at using the vacuum left in Serbia by the EU and in US. In September 2021 the European Commission has adopted a 14.2 billion euros Pre-accession assistance (IPA III) budget for the WB6 countries and Turkey within the new financial perspective of the EU between 2021 and 2027.<sup>114</sup> The allocation within this IPA program for Serbia, contains 2 billion euros and this financial envelope is far below the level needed for implementation of reforms and for infrastructure development of the country. Furthermore, the projects financed by the EU need to be financially transparent and the tender processes need to meet all the formalities of European public procurement, meaning the space for manipulation and embezzlement are reduced to a minimum. Another problem is that EU funded projects require an open international tendering process, and this opens the door to many companies that would not necessarily have interests in seeking the political protection from corrupt national and local authorities in Serbia in return for financial compensation. Instead, direct bargaining between the

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<sup>114</sup> Enlargement region: European Commission welcomes final adoption of EU's new €14 billion pre-accession assistance budget for 2021-2027 [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_4730](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_4730)

Serbian and Chinese political elite, which has a control over immense sector of public companies, opens the door to shape big infrastructure projects, in a model acceptable for both sides.



Source: UNDP Program Serbia, April 2022

To gain and control the political power in the country, President Vučić has established a model of governance that is constructed on two main pillars. The first pillar implies the need to have control over the Intelligence community, the police and the army as instruments of repression. Other more sophisticated tools including closing nexus with the Serbian Orthodox Church (SPC) leadership, and the crucially important influence over the media. President Vučić has gained full control over the major media outlets, and he is skillfully using these information channels to promote his rule, the successes of his government, and the benefits and success of the intergovernmental cooperation between Serbia and China. The second pillar of his rule includes control over the major public companies primarily in the infrastructure sector, which include railways, energy, mining, water supply, roads, and motorway sectors. These companies and the related ministries and government agencies are in control over the public tenders. President Vučić aptly uses the network of reliable officials and public employees who have been appointed by him in these public entities.

With the control of these two main pillars, president Vučić has a vast and free space to maneuver the corporation between Serbia and China in the way most suitable to serve his and the interests of his political party. Building upon this, another important element of collaboration between Serbia and Chinese corporations is the network of local officials in almost every municipality and local infrastructure companies that participate in the execution of the infrastructure projects as partners or subcontractors of Chinese corporations.

The nexus between the central authorities in Belgrade and the network of local official and local companies is crucial for the success of Chinese companies in Serbia. This nexus includes a model created by the government of cooperation between Chinese companies and local companies that benefit all the stakeholders involved. Chinese companies are granted opportunity to work abroad to expand their business, to export Chinese know-how and technology, engineers, workers, and material, and with the projects receiving financial support from the Chinese Exim bank. On the other hand, local construction companies execute a big part of work, which is facilitating the work of the Chinese corporations that would normally lack the ability to adapt on time to foreign markets and retain a part of the profit for themselves. In return, these companies that are granted the works on the projects, finance the network of local officials in Serbia in a closed circle of intertwined political and financial interests.

Loans and interest rates provided by Chinese banks are generally less favorable in comparison with the loans provided by the European banks, including the European bank for reconstruction and



development (EBRD) and European Investment Bank (EIB). European banks' interest rates range between 1% and 2%, while Chinese loans often exceed 5%. Nevertheless, the nexus that is beneficial for the political elite, both on national and local levels, and local companies, is too attractive to be abandoned, and it sometimes includes Turkish and Russian companies, but primarily Chinese companies in Serbia. This is obvious in several projects that they are being financed, designed and constructed by Chinese banks and companies.

Serbia Zijin Bor is its copper mine and smelting complex located in east Serbian city of Bor, formally known as RTB Bor. After years of looking for a strategic partner and due to the unprofitable model of exploitation of copper, Serbia decided in 2018 to select the Zijin mining company from China as its strategic partner. This mine and smelting complex, is a part of the complexes that China has established or taken over around the world, especially in Asia and Africa. Chinese immense industrial sector's growing demand for commodities means that Serbia now finds itself on the map of countries that satisfy the Chinese appetite for 40 different materials. The majority of the management and workers in this complex now come from China, while production of copper serves primarily the interests of Chinese industry and to a small extent the local community and that of Serbia. The complex has also had a negative impact on the environment surrounding the complex, following the pattern of environmental intervention seen both in China and in facilities owned by Chinese companies abroad.

The iron smelting facility in Smederevo is another example of a big Serbian producer that was taken over by a Chinese company. Chinese iron and steel manufacturer, the Hesteel Group took over the manufacturing conglomerate to create HBIS GROUP, Serbia Iron and Steel.<sup>115</sup> This set up is of immense importance for Serbia, both geopolitically and economically and for Chinese-Serbian relations as this is the flagship Chinese investment in the country. By taking over the steel manufacturer in Smederevo, the Chinese have also taken over an important harbor on the Danube, and own a steel plant, with hot and cold rolling mills, and two more facilities in other locations in Serbia. Steel production is the backbone for Serbian industry and with a Chinese company in control of the steel manufacturing in Smederevo, this steel production supports the growth of Chinese industry that largely depends upon such products. The ownership of the steel manufacturer also gives big leverage and strengthens the influence that China has in Serbia at this moment. It is important to note that the production of steel in Smederevo is run using Russian gas, in a clear example of Sino-Russian economic operations in taking over foreign markets.

Chinese companies are at this moment dispersed all around Serbia and in its many different sectors. Chinese railway companies are included in the construction of the railway corridor connecting Belgrade and Budapest, in a project that is financed by a Chinese loan. Chinese companies, including China Railway International (CRI) and China Communications Construction Company (CCCC) are also involved in other railway and road/motorway projects, while the further development of the transport system is getting more reliant on their involvement. Chinese company CRBC (China Road and Bridge Corporation) supported by a 3.2 billion euros loan by the Chinese Exim bank, was in 2021 granted the construction project for the wastewater and sewage network in a number of Serbian cities.<sup>116</sup> This is a deal that was negotiated directly between Serbia and China, and will allow local Serbian companies to participate, while benefiting local officials in municipalities around Serbia. The Chinese company, Shandong Linglonggas took over in 2018 the car tyre factory in the Serbian city of

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<sup>115</sup> <https://seenews.com/news/chinas-hesteel-officially-takes-over-full-ownership-of-serbias-smederevo-steel-mill-531315>

<sup>116</sup> <https://balkangreenenergynews.com/serbia-inks-eur-3-2-billion-deal-with-chinas-crbc-for-wastewater-projects-landfills/>

Zrenjanin and started production on a vast scale. Soon after, Serbian human rights NGOs and trade unions reported inhumane working conditions for workers imported to Serbia from China and Vietnam.

Chinese companies are also present in the energy sector of Serbia and with the use of Chinese loans the Chinese have completed the construction of Block III of the thermal power plant in Kostolac. Bloc 3 in Kostolac became operational as of 2020 but it lacks the desulfurization technology, that have not been developed sufficiently by Chinese technology. Due to the low environmental protection standards introduced by the Chinese, the pollution coming out of the TPP Kostolac is affecting the important nearby city of Požarevac and surrounding area.

### **Chinese influence in Montenegro**

Montenegro is a country that was, upon gaining its independence in 2006, inclined to utilise a wide set of economic tools in order to get its economy functioning, as this nation has been heavily dependent on trade, transport and all aspects of the economic and financial links with Serbia, prior to its independence. Due to the country's small size with only around 600 thousand inhabitants, unfavorable geographic configuration for most of its territory, and with sluggish economic and industrial development (in former Yugoslavia Montenegro was the least developed part all the country along with Kosovo), Montenegro has turned to foreign investors. In the past 15 years Montenegro has attracted a number of foreign investments, both greenfield and brownfield, primarily from Russia and China, followed by European countries, then Turkey and even countries like Azerbaijan and Malta, which are not otherwise present in this region. However, many of these investments have not been implemented transparently and have served primarily the interests of the ruling Democratic Party of Socialist of Montenegro (DPS) and the political elite on the national and local levels, as well as the interest of foreign companies.

Obscure privatization processes and connections with Russian oligarchs have for instance had a devastating effect on production of the steel manufacturer in Nikšić and of the aluminum smelter near the capital Podgorica. Along with developing strong political and economic ties with Russia, Montenegrin leadership were looking for connections with China at the time when the Chinese leadership was taken by president Xi Jinping and China was in the process of launching both the BRI and the 16 + 1 Format. Chinese companies are currently involved in two major projects in the country and so far, these projects have not been particularly beneficial for Montenegro and its citizens, and even more these projects could have a devastating effect on their well-being in several aspects.

The coal-fired power plant in Pljevlja (TE Pljevlja) in northern Montenegro is a clear example how cooperation with Chinese companies can collide with the European Union agenda, even more so in a country which is in the process of accession to the EU and has opened all of the negotiating chapters.<sup>117</sup> TE Pljevlja was commissioned in 1982 and after Montenegro's independence the government was looking for a strategic partner for the biggest producer of electricity in the country. In 2020 Montenegro's national electric utility company signed a contract with the Chinese state-owned company Dongfang Electric Company (DEC) for the construction of the block one power plant in order to meet the environmental protection requirements. However, this project did not yield any progress in lowering the level of pollution coming from the power plant as the Chinese company lacked the needed technology to modify Block 1 into an eco-friendly facility. The city of Pljevlja has an elevation of almost 1500 meters that means the pollution affects a huge swathe of Montenegro

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<sup>117</sup> [https://eeas.europa.eu/delegations/montenegro\\_en](https://eeas.europa.eu/delegations/montenegro_en)

reaching even parts of southern Serbia and Bosnia and Herzegovina. Along with the coal-fired power plant in Ugljevik in B&H, the power plant in Pljevlja is the biggest source of pollution in the region. This is another case of importing Chinese technology into Europe that conflicts with European norms with its green requirements. Coal-fired power plants are being phased out throughout Europe within the green agenda of the EU, and that is presenting Montenegro with hard challenges of how to provide energy security and phase-out dirty industries and the pollution that is coming from the main source of energy supply in the country.<sup>118</sup>

Motorway Bar-Boljare is another example, of a deal reached between Montenegro and a Chinese company. In 2014, a contract was signed with CRBC (also present in Serbian and Croatia) for the construction of this motorway in central Montenegro with a loan provided by the Chinese Exim bank. The deal was brokered in a way similar to those in Serbia allowing local construction companies to be subcontracted in the delivery of the project, the most significant one among them being the



BEMAX company, which is closely related to the ruling elite of Montenegro. For the first phase of this motorway, Montenegro has received a 700 million euros loan from China and by 2021 the debt was still ceiling to 640 million euros.

Montenegro is now facing a huge problem, as it is highly indebted to China, with CRBC poised to take the motorway into its ownership. While the first section of the road in rugged mountain terrain (with lot of tunnels and viaducts) was just completed in July 2022, Montenegro is seeking help from the EU to get relief from this unfavorable deal with China.<sup>119</sup> The case of Montenegro and the Bar-Boljare motorway has enticed some analysts to believe that Montenegro by being burdened by the Chinese loan, will become a China-dependent country similar to some other country facing similar problems like Pakistan and Sri Lanka in Asia, and Djibouti in Africa.

### *Future High Way in Montenegro*

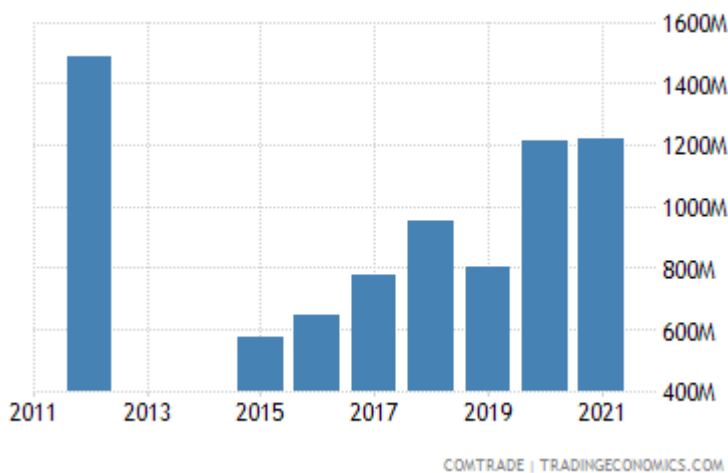
### **Chinese presence in Croatia**

Among countries in southeast Europe, Croatia seems to be of particular interest for Chinese companies. First, Croatia has a favorable location being situated between the Mediterranean, Central Europe and the Balkans countries. The Croatian port city of Rijeka, is along with two nearby ports in Koper in Slovenia and Trieste in Italy, is at the northernmost tip of the Mediterranean and the closest

<sup>118</sup> <https://www.resfoundation.org/res-foundation-conference-coal-phaseout-unavoidable-in-transition-to-net-zero-emissions-clean-air/>

<sup>119</sup> <https://www.reuters.com/world/exclusive-montenegro-counts-eu-aid-asset-sales-ease-burden-china-debt-officials-2021-06-11/>

access point to Central Europe and the biggest European economy of Germany. With the ongoing railway project to connect the Adriatic port of Rijeka via Zagreb to the Hungarian border along the Trans-European Transport Network (TEN-T) corridor connecting it to Budapest, Rijeka is even more important on the European map of key port. These ports with cargo terminals act as entry points for Chinese products, and Rijeka will be in time more attractive than the ports of Koper and Trieste. Another factor, that is of interest for Chinese companies in Croatia, is the fact that the country is undergoing the process of major reconstruction of various infrastructure sectors including roads, motorways, bridges, tunnels, railways, water supply and wastewater treatment, fiber telecom cables, electrical overhead power lines, hydro power plant and renewable energy (wind and solar farms). Among all EU member states and measured by per capita, Croatia is the biggest net receiver of funding within EU's multiannual financial framework 2021-2027.



Croatian imports from China. Source: Trading Economics

The fact that the bulk of EU financial assistance in Croatia will be spent on infrastructure projects is of particular importance for Chinese companies. China has used the BRI as a platform to export Chinese technology, know-how, materials, and manpower through Chinese infrastructure corporations, which are the biggest in the world. In the political sphere, the relations between China and Croatia are not closely shaped in the way manifested in Montenegro and especially in Serbia. Croatia and China do have friendly relations and in April 2019 Chinese Prime Minister Li Keqiang visited the Croatian city of Dubrovnik that was hosting a summit of the 17+ 1 Format and he visited the construction site of the nearby Pelješac Bridge which was constructed by CRBC. However, the relation between the two countries is conducted in a purely formal way and is less cordial than in the case of Serbia, where authorities engage in direct negotiations with China and its corporations, bypassing the rules of international tendering and transparent public procurement procedures. To the contrary, in Croatia all public procurement is conducted through open transparent international infrastructure tender procedure, conducted under the rules of European format of public procuring.



Chinese Prime Minister Li Keqiang at the 16+1 summit in Dubrovnik, April 2019

This means that the Chinese companies must go through the tender procedure in the Republic of Croatia facing harsh competition from European, Turkish, and other companies from around the world. Further to this, Croatia as a member of NATO and of the EU strictly follows the guidelines given by Brussels and is not willing to engage in a performance of open public alliance or even friendship between the leadership of the 2 countries. Nonetheless, even though Croatia is not in the position or has the need to enter into direct bargaining with Chinese companies, it is still attractive for Chinese entities as by the end of this decade, the EU will have allocated around 30 billion euros to Croatia – the level of resources far exceeding the allocations nominated for any other country in the region.

The above mentioned Pelješac Bridge is the flagship project of strategic importance for Croatia as it will connect the key Croatia tourist hub Dubrovnik and the surrounding area with the rest of the country.<sup>120</sup> The decision to grant the construction of this Bridge to a Chinese company CRBC was announced in 2017, and the fact that Croatia decided to select a Chinese company to build an EU founded Project in a tender procedure, in which the Chinese faced competition from other European companies, was met with skepticism.<sup>121</sup>

EU institutions, European officials, and other member states, as well as some opinion-makers in Croatia itself, have openly criticized the fact that the 440 million euros project, 85% co-financed by the EU was given to CRBC, which meant that almost 400 million euros of European money was consumed by a Chinese company. The performance of CRBC was professional and the delivery of

<sup>120</sup> [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_17\\_1519](https://ec.europa.eu/commission/presscorner/detail/en/IP_17_1519)

<sup>121</sup> <https://www.politico.eu/interactive/connecting-croatia-on-a-bridge-built-by-china/>

works was not delayed for too long, considering that fact that in 2020 the emergence of the Covid-19 pandemic caused delays or ground to a halt many projects worldwide. In 2021 CRBC managed to connect the two sides of the bridge creating the physical connection between the two parts of Croatia.



Croatia opens China-built bridge to bypass Bosnia to get to Dubrovnik. Source: South China Morning Post, 26 July 2022

However, the fact that during the construction of the bridge. the Covid-19 pandemic broke out, meant that Croatia would follow the new guidelines of the EU, that aims at diminishing the influence of Chinese corporations in Europe and at lowering the level of dependence upon imports of Chinese products into Europe. The occasion of the completion of the Pelješac Bridge project before the new tourist season in Croatia in July 2022, has served as a symbol of Sino-Croatian cooperation but at the same time it could end the short period of significant Chinese presence in Croatia. After the eruption of the Covid-19 pandemic the Croatian attitude towards Chinese companies has certainly altered. In 2021 in the case of Pelješac Bridge there were already claims that the Chinese used a low price to beat the competition during the tender procedure, and then CRBC subsequently asked for an additional 60 million euros in the months just before the completion of the project.

This Chinese requirement convinced the Croatian public that the money the Chinese saved for Croatia, while making the bid would be compensated afterwards during the completion of the project. The tactics of offering low and even dumping prices by Chinese companies was seen in 2021 in Croatia on another project. With requirements to invest up to 6 billion euros into the railway sector in the next 10 years Croatia has started announcing tenders which will be financed by the EU for up to 85%, and in some cases reaching the level of hundreds of millions of euros. This was the case with the Hrvatski Leskovac-Karlovac 44 km long railway tender, with the value of 272 million euros, in which the

Chinese company, China Railways, has made a bid with a price almost 30% lower than the project budget. After 9 months of consideration the client, the state-owned company Croatian Railways Infrastructure has decided to award the tender not to China Railways, but rather the second-listed but far more expensive, Austrian company Strabag. It seems that Croatia has changed its attitude toward Chinese companies and is not eager to nominate Chinese companies to build projects financed by EU money.

Furthermore, the client Croatian Railways infrastructure, estimated that the Chinese offer was with a dumping price and that the quality of works required by the tender project documents and design would not be met within the Chinese budget – where the client would face a case similar to the bridge project, where the Chinese lowered the price while submitting the bid, and subsequently required additional funding during the execution of the project. Adding to this is Croatia's determination to follow the EU regulation that implies that the competition on tenders should be transparent, that all actors should apply by the rules of free market competition, and that no foreign company should receive government subsidies, which is not the case with the vast majority of Chinese companies, which are state owned.

This scenario was also evident in another case of tender concession of a container terminal at the Zagreb coast in Rijeka, with the value of 2.7 billion euros for the 50-year concession. This cargo terminal is of great importance for Croatia as will upgrade the capacity of the Rijeka port and at the same time is of high interest for China, as this Port could serve Chinese companies as an ideal entry point for Chinese products into the EU. The concession tender was annulled because of the offer of the Chinese company CRBC, which was qualified as inadequate, even though it was the most competitive one in terms of the price.<sup>122</sup> The Port Authority of Rijeka opened a new tender procedure which was eventually won by a Consortium of two companies, Danish MAERSK and the Croatian PPD company. It seems that even though the Chinese companies won sympathy with the public end of the government 5 years ago when signing the contract to build the Pelješac Bridge, it now seems that the successful era of Chinese participation in big infrastructure project could come to an end, or at least be frozen for an indefinite time. The cases of the railway and the cargo terminal tenders clearly point to this conclusion.

### **Conclusion and policy recommendations in light of developments caused by the Russian aggression in Ukraine**

The EU is shaping its policies toward China on a European and global level and the EU started to change its approach toward China, even a year before the eruption of the Covid-19 pandemic. In March 2019 the EU has in its Global Strategy identified China as a trade partner but at the same time as a strategic rival.<sup>123</sup> This indication that the EU was becoming aware that the Chinese influence was growing globally and with its stronger presence in Europe, through the platforms including the BRI and 16+1 one format. The outbreak of the Covid-19 pandemic 2 years ago served as a catalyst to control further Chinese growth in Europe through export, investments, and acquisition of European companies. The attempts of the US administration on the other side to curb growing Chinese global importance has been transferred from the Trump presidency to the incumbent Biden administration. This has led to the formation of the EU-US Trade and Technology Council<sup>124</sup> as well as of the AUKUS Pact. All these initiatives, be it individual or combined EU-US efforts, aim to tackle China on a global

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<sup>122</sup> [https://www.euractiv.com/section/politics/short\\_news/new-tender-for-zagreb-deep-sea-container-terminal-in-rijeka/](https://www.euractiv.com/section/politics/short_news/new-tender-for-zagreb-deep-sea-container-terminal-in-rijeka/)

<sup>123</sup> [https://eeas.europa.eu/topics/eu-global-strategy\\_en](https://eeas.europa.eu/topics/eu-global-strategy_en)

<sup>124</sup> [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_5308](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5308)

level. The Russian aggression against Ukraine and the recent tension around Taiwan, will add to the rift between the EU and China to a certain extent. This new orientation toward China will affect Croatia as a member of the EU and NATO, but so far has proved to have little or no effect in Montenegro and Serbia.

No EU or American strategy have concrete tools to curb the growing Chinese influence in the Balkans. During the Trump administration in 2020, the US showed interest to resolve the dispute between Kosovo and Serbia, while the Biden administration strives to take control over the situation in B&H. The EU seems reluctant to get involved in the region and to indicate a clear path forward for accession, of the WV6 countries to the EU. This situation is still being used by China, whose overall influence in the region is still growing. This paper has concluded that there are three different scenarios for the three countries analyzed.

In the case of Serbia, Chinese influence is bound to grow as the government continues to further develop its ties with China and with new big infrastructure project granted directly to Chinese companies. Serbia officially aims to join the EU, but it seems that at the same time, the engagement of Chinese capital and the Chinese presence is growing in the country. It could be said that Serbia is one of the key allies of China in eastern Europe and its European perspective looks rather bleak at this moment. During the Russian war against Ukraine, there were some attempts to manifest that Serbia was distancing itself from Russia, but the country has still not introduced sanctions on Moscow, and the majority of the Serbian population supports more the Russia and Eurasian Union than EU integration. Furthermore, the war has had no effect on strong relations with China, and the business of Chinese companies and their expansion in Serbia goes as before 24 February.

In the case of Montenegro, it seems that the country has come to terms with the fact that the cooperation with China has brought in more damage than benefits. The coal-fired power plant in Pljevlja continue to pollute a vast area of the Balkans highlighting the failure of Chinese emissions eliminating technology. Even more perilous is the Chinese loan for the construction of Bar-Boljare motorway. This motorway still has not made any contribution for the growth of the Montenegro economy and at the same time the debt with the Chinese Exim bank has brought Montenegro to the conclusion that cooperation with China could have a negative impact on its economic development and its political status in Europe. With the fall of the Montenegrin government on August 19<sup>th</sup>, it is expected that the country will turn even more toward Russia and continue cooperation with Chinese companies, as the now already ex-Prime Minister Dritan Abazović was fully West-orientated, while his opponent is more prone to strengthen ties with China and Russia, despite the Russian aggression against Ukraine.

In the case of Croatia, it seems that this country was the last to introduce big Chinese corporations and the first to put to a halt to common projects with Chinese companies. Pelješac Bridg which was opened on 26 July 2022 will stand as lasting symbol of corporation between these two countries, but future prospect for the advancement of Chinese companies in this country does not seem realistic.

In order to curb Chinese growth in Serbia the EU needs to extend the hand of cooperation to this country with the promise of certain EU membership. The EU should also entice political options and the civil sector, which are pro-European, in order to give Serbia its lost European orientation, rather than the one which is looking for formal non-alignment, while in reality establishing stronger political and economic ties with China.

The EU should offer Montenegro a strong financial perspective with EU funding, which would not be a burden for the EU due to the size of the country, but could be crucial to convince Montenegrins to discontinue corporation with the Chinese and focus more on European integration. With Montenegro



being the country that has taken the longest path in the process of EU accession, the EU should invigorate this process, which would be beneficial for both the EU and for Montenegro.

In the case of Croatia, the country has proven its European orientation and society has already largely benefited from its EU membership in the past nine years. In the case of unfair competition of Chinese companies, which have used dumping prices, Croatia should use the tools of European legislation which prevent unfair competition and prevents bids of companies which receive state subsidies. It seems that the Pelješac Bridge is the first and the last big Chinese project in Croatia for years to come, as Croatia has openly supported Ukraine during the Russian aggression, as well as the EU and US policies on Ukraine and Russia. With the outbreak of the war on the 24<sup>th</sup> of February, Croatia will even more strive to distance itself from China, a process which started during the Covid-19 pandemic, and fully synchronize its' China policies with both the US and the EU.