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Table of Contents

Articles

Feng Ping

“16+1” challenge or opportunity of EU *p. 7*

Marcin Sokołowski

New Silk Road on the Balkans. Case of Macedonia and Serbia *p. 29*

Adrian Brona

One Belt, One Road: new framework for international relations? *p. 57*

Katarzyna Skiert-Andrzejuk

The New Edition of the New Silk Road – the South Caucasus Case *p. 79*

Jarosław Szczepański

OBOR and Chinese Soft Power *p. 97*

Feng Ping

“16+1” challenge or opportunity of EU

Abstract

“16+1” forum was proposed by China for the implementation of “Belt and Road” initiative. Since the establishment of 16+1, the trade between China and CEE countries increased significantly. It aroused warm response of CEE countries which actively supported the cooperation with China. However, the cooperation between China and CEE countries aroused doubts of EU, which considered that “16+1” is a challenge of unity of EU.

Based on the theory of neoliberalism, and use the method of case studies, the thesis is to analyze China’s motivation towards cooperation with CEE countries and find out “16+1” is an opportunity rather than a challenge of EU.

Keywords: 16+1, EU, CEE countries, China, motivation, opportunity, challenge.

Introduction

Belt and Road initiative was proposed in 2013 when president Xi visited Kazakhstan. He gave a speech entitling “Promote friendship between Our People and Work Together to Build a Bright Future” (Ministry of foreign affairs of People’s Republic of China WWW) There are many reasons for China’s initiate this foreign policy towards CEE countries, such as geographic location of CEE countries such as on the location of Belt and Road main rail routines; traditional ties, various economic reasons, and political aims of cooperation. China’s cooperation with CEE countries can be analyzed in neoliberal perspective. The cooperation between China and CEE countries are rather pragmatic. Neoliberalism acknowledged the anarchic nature of international system, cooperation is possible through building the mutual trust, and building of norms, regimes, and institutions. The cooperation between China and central eastern European countries and China and EU is possible, because of mutual interests, and Reciprocal. China and CEE countries have mutual interests. CEE countries hope to attract China’s investment in the region and develop its economy, improve its infrastructure, and increase the job opportunities. China has granted 10 billion loans to CEE countries, and invest in 4 billion, which is very attractive especially after the economic crisis since 2008. (Valbona Zeneli, 2017) 16+1 provides the mechanism for the cooperation. The Belt and Road initiative benefits China and CEE countries both, which is the common ground of cooperation. EU can take advantage of the opportunity and cooperate China in the Belt and Road initiative. 16+1 will be an opportunity, rather than a challenge to EU.

Since the establishment of “16+1” forum, the relations between China and Central eastern European countries have attracted attentions around the Europe. The trade relations between China and central eastern European countries increased very fast. It almost doubled from 2009 to 2012, from \$32 billion to \$52 billion before the first summit, and reached \$58 billion in 2016. (Valbona Zeneli, 2017) Since the establishment of 16+1, China and CEE countries will meet annually, and the cooperation deepened in political, economic, and culture areas. This aroused a heated discuss within EU, and other countries, which doubted China’s motivation towards CEE countries. Germany is uneasy about China’s growing clout in eastern, and southern Europe. Germany’s ambassador to China expressed his concern at Bei Jing’s growing influence in Europe. EU concerns that China will have more political influence among EU countries.

Most CEE countries are EU members. CEE countries are considered as bridge head of EU. There are some suspicious within the EU that China wants to divide and rule Europe, especially after EU has many internal problems. While there are also some voices that EU should cooperate with China on Belt and Road initiative. This is an opportunity rather than a challenge towards EU.

The research is a qualitative research to analyze China’s motivation towards CEE countries by analyzing China’s foreign policy towards CEE countries. I will also provide the concerns of other countries towards Chinese motivation by reviewing literature, and the cases of failed project due to these concerns. I will analyze the data of trade between China and EU, China and CEE countries, and draw my conclusion.

The presented paper is structured as follows. It will first introduce the 16+1 forum, and Belt and Road initiative. Then

through reviewing literature, the paper will present the responses of central eastern European countries, and EU towards 16+1. It will analyze China's motivation towards investing in CEE countries, and then make a conclusion that EU should take 16+1 as an opportunity.

16+1 and Belt and Road initiative

In 2011, at the first China-central and Eastern Europe Trade and investment Forum in Budapest, China first announced the idea of establishing 16+1 forum to cooperate with central eastern European countries. In 2012, premier Wen Jia Bao proposed “twelve measures strategy” to cooperate with central eastern European countries during his visit to Warsaw. Annual meeting between China and CEE countries is set up, and special secretariat for 16+1 forum is created, as a part of ministry of foreign affairs. 16+1 is a forum for China to cooperate with 16 central eastern European countries, Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, in the area of investments, finance, science, transport, education and culture. Among them eleven are EU countries, and five are Balkan states. In 2013, when President Xi Jingping visited Kazakhstan, he proposed “Belt and Road “initiative, which has become a major foreign and economic policy of China.

The 16+1 forum is a very important mechanism for contributing the realization of “Belt and Road” Initiatives. It was held in Bucharest in 2013, Belgrade in 2014, Suzhou in 2015 and in Riga 2016, Budapest 2017. There are many export meetings, and think tank meeting regarding to the 16+1 forum. The second summit meeting was held in Bucharest.

During the summit, China proposes to further promote trade, and investment in the region. With the guideline of summit, there followed a number of events on infrastructure, investment, and trade. China has achieved an agreement to construct a railroad between Hungary, and Serbia.

During the third summit in Belgrade, with a theme “New Driving Force, New Platform and New Engine”. All parties involved seeks to deepen the cooperation. The highlight of cooperation is still infrastructure. China has joint declaration with CEE countries in infrastructure, communication, science, and other various aspects (Marsela Musabelliu, 2017).

During the fourth summit in Su Zhou, China and CEE countries made a “Su Zhou guideline for the cooperation”. During this meeting, 16+1 was included into the framework of OBOR. China seeks to cooperate with CEE countries in economic, culture, and politic in both government and local level.

The fifth summit was held in Riga. The three Seas Interconnectivity” is the theme during the summit, strengthen Adriatic-Baltic-Black Sea Seaport Cooperation, in line with the geographical distribution of ports and their future development needs. During this summit, China has launched 10 billion dollar loans to CEE countries, 3 billion dollar investment found and invested in the area of infrastructure, finance, Greenfield industries, and culture areas. (Valbona Zeneli, 2017)

During the Budapest summit meeting between China and CEE countries, they reach agreement to invigorate and expand their cooperation on a wide range of areas, including but not limited to trade and investment, connectivity, finance, agriculture, science and technology, health, education, culture, people-to- people relations and local connections. (CEEC WWW)

In 2017, China has established several institutions, several associations and organizations for the cooperation with central eastern European countries. 16+1 has become a new diplomacy of China. In 2017, China held the “OBOR” summit in Bei Jing, and prime minister of Poland Beata Szydlo have attended the OBOR summit. President Xi emphasized the importance of CEE countries to China’s foreign policy.

Current cooperation between China and CEE countries mainly focus on economic aspects. Trade between China and CEE countries has increased significantly over the past few years, reached 58 billion dollars in 2016, (Valbona Zeneli, 2017) Trade between China and central eastern European countries has doubled from 32 billion dollars to 52 billion dollars from 2009 to 2012. Among the 16 CEE countries, Hungary, Poland, Bulgaria, the Czech Republic, and Slovakia has attracted 95 percent of investment. The most important form of investment is infrastructure project and acquisition. (Jakub, Marcin, 2017) The share of China-CEE trade in China’s overall trade with Europe expanded to 9.8% in 2016 (Xin Hua news).

China’s investment in CEE countries has accumulated to more than 8 billion dollars, covering machinery, chemical, telecom, new energy and other industries.

Poland

China has great interest on cooperation with Poland. Poland is regarded by China as an important transportation hub. There are many express trains that are opened between Poland and China, which boosts the trade between China and Poland. Poland is China’s largest trading partner in CEE. In 2016, the total trade value between China and CEE countries

is nearly 26 billion dollars, with the increase of 4.8% of year 2015. Poland has trade deficit with China with the scale of 12.5 to 1. (Merry A. Kuo, 2017) The FDI from China to Poland is rather limited. According to official data from Poland's central bank NBP, the influx of Chinese foreign direct investment (FDI) to Poland amounted to only USD 66.4 m in 2014 (other data provide a figure of approx. USD 72.4 m), and only USD 3.7 m in 2015. According to the NBP report, in 2014 there was no Chinese FDI, thus China is not even included in this summary (Bogdan Góralczyk, 2017). Chinese investment in Poland is mainly in manufacturing, finance, transportation, telecommunications, and small infrastructure projects.

Hungary

Chinese investment in Hungary started to increase since Hungary joined the EU. Hungary attracted the largest amount of Chinese investment in the CEE region. Chinese investment in Hungary by 2015 was about USD 3–3.5 billion or more, which represents around 2–2.5 per cent of Hungary's total FDI stock (Agnieszka, Ágnes 2017: P121-140). The investment in Hungary covers the manufacturing, chemicals, telecommunications, trade, wholesale, or retail, banking, hotels, and catering, logistics, real estate and consultancy. Hungary imported 7901.8 million euros of goods from China in 2015, which is largest source of Hungary imports out of EU, followed by Russia. (Tamás Rózsás, 2017)

Czech

China's investment in Czech is neglectable until 2012, when China proposed twelve measures of dealing relations with

CEEE countries. China's investment in Czech increased significantly in recent years. Though Czech has not seen China's investment in energy sector and other infrastructure, however, the main project that China invested is manufacturing. The major investor are ZTE, Hua Wei, Changhong, Noark, Shanxi Yuncheng Plating group, Shandong Linyi Yuli Food-nuts, and Bei Jing Fight company. (Czech position, 2012)

Romania

China's FDI towards Romania was the highest among all central and eastern European countries until 2005. The national bank of Romania (2016) evaluated the stock of Chinese investment in Romania at EUR 209 million as of December 2015. (0.3 percent of total FDI) and placed China 24th in the hierarchy of the foreign investors. (Notational Bank of Romania, 2016) At the end of December 2016, there were approximately 12,000 companies with Chinese capital in Romina – most of them are small Chinese business- which represented 5.8 percent of total number of companies with foreign capital (National Trade register office, 2016)

CEE countries are very important corridor for Belt and Road initiative. OBOR has six corridors. China-Mongolia-Russia Economic Corridor (CMREC), new Eurasia Land Bridge, China- Central Asia- west Asia economic corridor, China- Indochina Peninsula Economic Corridor, China- Pakistan Economic Corridor,, BCIM economic corridor, and 21st century Maritime silk road. CEE countries is involved in three of Europe Bond corridor. The China-Mongolia-Russia economic corridor, which connects China and far east region Russia with Poland and western Europe by trans-Siberian railway. The Central-Asia Western-Asia Economic Corridor which

connects eastern coast of China with EU via Xin Jiang province, Central Asia, Iran, Turkey, the Balkan and Hungary and new Eurasia Land Bridge which will pass central eastern Europe region. These corridors are not only geographically determined routes for transport and travel, which is connected by opening of new railway routines, but also channeled some investment, and political cooperation along the routine. CEE countries could also make a contribution in the construction of 21 st Maritime silk road, which China proposed one of the maritime silk road goes from Guang Dong to Greece, and reaches the heartland of Europe via the Balkan Peninsula. (ETNC Report,2016) China has opened four freight train routines and further construction projects of power transmission lines, highways, and ports along the Eurasian bridge corridor, In the China- Mongolia-Russia economic corridor, there is an improvement in connectivity along the corridor; in the central Asia western Asia economic corridor, there are investment project in energy.

China’s motivation of investing in Central eastern European countries

China invest in CEE countries both have political, and economic, and cultural reasons. It starts from economic perspective. China’s economy slows down since 2012, especially the manufacturing factor was slowed down from 12.1% in 2010 to 6% in 2016. (Statistics WWW) Moreover, there is an inequality growth between western regions and eastern regions in China. According to National Bureau of Statistics, in 2014, the rate of salary increases for employees in the “non-private” sector in the eastern region was 9.7%, and averaged RMB 64,239 (HK\$81,296) per year.

The income of the western region increased by 9%, with an average of 51,204 yuan.

The gap between them is 13035 yuan, an increase of 11,595 yuan over 2013. (South China morning post) In order to develop the economy, and narrow the gap between the east and west, China initiate “Go out” strategy, In China’s 11th five-year plan, government encouraged companies to “go further outwards” and helped the Chinese companies to explore the market overseas, and boost the west area in China. CEE countries is regarded as a good place for such investment, because most CEE countries are EU countries, and five are partially integrated into EU market. CEE countries are considered as the factory of EU products, with low labor costs, and good quality of labor. Investing in CEE countries is targeted to the EU market, as China is the second largest trading partner of EU. CEE countries is considered as a good place for investment, and adjust EU laws at low costs. (Marcin Kaczmarski, 2015)

Secondly, CEE countries have relatively stable investment environment. The economy in CEE countries developed very fast. It is not too much influenced by economic crisis. The CEE countries has a population over 120 million, with rising per capital income level, which is very attractive to China’s investment. It is a place for location for manufacturing “made in Europe” Goods for Chines investors.

Political reason is also a very important as to China’s investment in CEE countries. Most CEE countries are EU member states, and every EU member state has a veto in the European parliament. By cooperating with CEE countries, China wants to shape China –EU countries and have more voice in the European Union such as in the issue of Chinese market economic status, and other issues. Moreover, China wants

to have good political relations with CEE countries and get support from CEE countries in the issues of Tibet, Tai Wan, and other issues.

For the culture reasons, China wants to have more culture exchanges with CEE countries and increase its soft power influence. 16+1 boosts tourism, education exchange, and people to people exchange. Many Confucius institute was set up which will spread Chinese culture, and make more people understand China. It will create a better image of China in CEE countries. At the end of 2015, there are 25 Confucius institutes, and 58 confusions classrooms established in 12 of CEE countries. This will help people from CEE countries understand China and Chinese culture. Chinese government also hold several culture events with CEE countries. For example, in 2013, the Chinese embassy in Bulgaria held the large Chinese culture series exhibition of “happy spring” in the newest Bulgarian mall. Consequently, the celebration of Chinese new year has become a hot topic among the Bulgarians. (Lilei Song, 2017)

Responses from Central Eastern European countries

The Belt and Road initiative is welcomed by Central eastern European countries. Most CEE countries actively support the promotion and comprehensive development of China- CEE relations, because they regard it as an opportunity to develop their own economy and get rid of impact of Euro crisis. CEE countries also actively supported to improve the connectivity in CEE region, and CEE countries have a high expectation on 16+1 forum. CEE countries have important geographic location, and improving the connectivity can help develop the economy. The former president of Slovenia Danilo urk

commented that connectivity is one of the characteristic of multi region cooperation, and “16+1” cooperation that CEE felt accustomed to. (Liu Zuokui, 2017) Blagoje S. Babic, the former director and senior researcher of the Institute of International Politics and Economics, Serbia, said that China’s infrastructure project in Europe provided the rare opportunities for EU memberships of central eastern European countries and therefore received warm welcome in central eastern Europe. (Liu Zuokui, 2017) Most countries including Poland, Hungary, Croatia, Estonia and Latvia have great interests in China’s project in improving connectivity between Asia and Europe. The construction of economic belt have gained support from CEE countries. For example, Poland strongly supported to the express train from Cheng Du to Lodz. During Polish foreign minister’s visit to China in 2015, Polish PKP signed agreements with Zhengzhou International Hub Development and Construction Co. Ltd to establish freight and logistic center in the border of Poland and Belarus. Poland viewed it as an opportunity to improve connectivity, as many trains goes from China to Europe will pass Poland.

However, at the same time, CEE countries is strongly influenced by EU’s decisions. Since the political, and economic transformation, CEE countries have deep relations with other western European countries, in political, economic and culture. For CEE countries, the euro area is the most important trading partner. In the case of Czech, Hungary, Poland, Romania, Slovakia, and Slovenia, trade with EU amounts about 60% of their total trade in 2005. The CEE trade relations with EU member states is enlarging. (UniCredit news, 2015) CEE countries’ foreign policy is strongly influenced by EU. As 16 members of CEE countries, 11 are EU member states, four are candidate countries, and one is a potential candidate

country. EU's hard law, and soft law are binding power of CEE countries. The EU laws, and regulations make member states have to take similar action with the EU's authorization. EU's soft power influence member states to transfer national policies with supervision and peer views. (Lin Jing, 2017) The relations with EU is highlighted in the foreign policy of CEE countries. The concerns, and influence of EU on the 16+1 also influence China – CEE cooperation. In other aspects, Chinese loans is not so attractive to CEE countries compared with money from EU, as it will increase the debt risk of a country, and lack of transparency, (Jakub, Marcin 2017)

Reponses from EU

However, the cooperation between China and CEE countries met difficulty of implementation. EU is strongly suspicious of China's motivation to cooperate with central eastern European countries. They are concerned that China wants to divide and rule EU by using economic relations and cooperation of some CEE countries with China would undermine the relations with EU institutions. (Angela Stanzel, 2016) EU is concerned that China's cooperation with 16 EU periphery countries makes it hard for EU to reach a common policy towards China. China cooperate with CEE countries would bypass EU law, and might undermine EU policies, and endanger European values, and norms. Many CEE countries' attitude towards China has shifted. Czech republic has established good relations with China, and stopped accepting the visit from Dalai Lama. On the South China Sea issue, Hungary, and Greece held a different opinion from other EU member states. Germany, whose biggest external market is China, now pushes anti-dumping and investment screening

by the EU. Hungary strongly supported EU to grant China market economy status. EU is afraid that Chinese investment in the region will increase the influence of “Chinese way” in the region. Chinese companies will bypass EU law, and cooperate with CEE countries. One of China’s top state owned enterprises is building a high speed railway to connect Belgrade, and Budapest, but the project is difficult to implement, because Hungary is currently under investigation, because it is suspected of violation of EU law. EU told about breaking the competitions rules by Hungarians. The European commission is mainly doubt over some issues including inter-governmental agreement signed by China and Hungary, which directly authorized execution of project by a joint venture established by China and Hungary’s state owned railway companies. (Yi Cai, news)

There is an old question of division between western European countries, and eastern European countries inside EU for a long time, because of different level of economic growth, EU’s internal problems, such as migration crisis, and Euro crisis. China’s presence in central eastern European countries made cooperation with China very attractive to CEE countries. This has aroused unease in the EU. German foreign minister Sigmar Gabriel demanded China to follow one Europe policy. He said ““If we do not succeed for example in developing a single strategy towards China, then China will succeed in dividing Europe”, (Lucrezia Poggetti, 2017).

There are three main challenges for China- EU cooperation. Northern European countries wanted for their own access of Chinese market, while central eastern European countries look forward China’s investment in the region to over place the future lack of subsides from EU countries, as EU subsides to CEE countries will end till the year 2020.

CEE countries benefited greatly from the EU's structure, and cohesion found. And southern European countries have already received investment from China. China state-owned company Cosco purchased a controlling the port of Piraeus, near Athens near Athens. Montenegro signed a contract with China to construct high railway. These increased the risk of division of EU. China's OBOR efforts and cooperation with CEE countries will influence regional governance of Europe in economic, political, and security terms. This aroused EU'S concerns.

Opportunities for EU in the Belt and Road initiative

According to the EU- China 2020 strategic agenda for cooperation, there are stakes for EU in at least three areas: : trade and investment, peace and security, and people-to-people exchange [EU-China 2020 Strategic Agenda for Cooperation] According to this strategy, it is very important “strengthen coordination and cooperation, working for just, reasonable, and effective rules in key fields, such as international trade and investment, finance, environment and climate change, the Internet and a new generation of wireless communication technology” [EU-China 2020 Strategic Agenda for Cooperation].

Trade and commerce have been the core of China- EU relations. EU is China's second largest trading partner since 2004, (Shaohua Yan, 2015) and China is EU'S second largest trading partner. Two-way trade reached \$615.1 billion in 2014. In 2016, China had a share of 10% in extra-EU exports (EUR 170 billion) making it the second largest partner behind the United States (21%, EUR 362 billion). In extra-EU imports China was the largest partner with a share of 20% (EUR 344

billion) in front of the United States (15%, EUR 249 billion). (Eurostat statistics) The interdependence of trade between China and EU make it an opportunity for EU to engage in OBOR project.

Moreover, OBOR is China's vision for comprehensive connectivity, and economic cooperation, which mainly focused on Eurasia. China welcomes EU to engage in OBOR. In 2015, China and EU agreed in a summit to look for synergies between OBOR and the EU's Investment Plan for Europe. China's Belt and Road initiative can improve the infrastructure in CEE countries. China and EU signed "EU-China connectivity platform. China also pronounced its intention to contribute to the European Commission's €315 billion Investment Plan for Europe. Since 1993, the EU has had a programme to develop a transport corridor from Europe to China via the Black Sea, South Caucasus, Caspian Sea and Central Asia (TRACECA), and there is clearly a logic in China and the EU combining their efforts as far as they can. The two sides have agreed to create a so-called 'connectivity platform' to improve infrastructure links and digital networks between the EU and China and in the countries along the way. From the EU side, the platform is also a way to get China to accept the EU's way of doing business in areas such as public procurement, competition policy and technical standards. (Ian Bond, 2017) It has potential to enlarge and accelerate the movements of goods between China and Europe. European economic growth would be stimulated through the connections extending the EU single market into Eurasia. Europe could cooperate with China by taking advantage of its advanced technology, capital, and management experience (Shaohua Yan, 2015) OBOR can offers EU opportunity spanning from Europe to pacific and beyond. It can boost EU

economy growth through the two way communications and extend EU single market to Eurasia. The number of middle class consumers in OBOR regions is estimated to reach 3bn by 2050, while over the coming decade OBOR will create \$2.5 trillion in trade among 65 countries. (Wang Yiwei, 2015)

Not only EU can benefit from economic relations with China, but also OBOR can boost culture exchanges between China and Europe. Historically, more than two thousand years ago, representative of Han Dynasty visited central Asia, and Iran twice, and opened the old silk road, stretching from east to west, and ended up in Europe. Due to its pivotal role for trade, cultural exchanges and friendly cooperation, important missions were implemented by diplomats, businessmen, and scientists to meet the needs of the road in its entirety, (Xinhua news) The new silk road in the 21st century will bring culture exchanges between China and Europe. European art, music, film, and ideas will come to China, and Chinese art, traditions, culture will come to China, which will help develop both civilizations.

OBOR can enhance the EU's global influence. Most Belt and road routine countries are western European countries' former colonies, and OBOR can promote the green sustainable, and inclusive development, the high labor, and environment standard that has long been promoted by EU. EU can seek cooperation with China in the cooperation on Africa, Indian Ocean, and central Asia. (Wang Yiwei, 2015) It is a win-win cooperation.

As regard Belt and Road initiative, most western European countries hold a wait and see attitude. China welcomes investment and engagement of ‘EU’ into the OBOR initiative. China also make sure to EU that China’s foreign policy towards CEE countries is within the framework of EU.

EU should take advantage of the opportunity, and cooperate with China on the “OBOR”.

Conclusions

OBOR is an important foreign policy of China under Xi Jinping's area. China actively promote cooperation with CEE countries under the framework of 16+1. OBOR received different responses among CEE countries, and EU. However, there are difficulties to implement the 16+1 forum in CEE countries, either from the hesitation from CEE countries, and suspicion of EU. There is a discussion among EU countries whether OBOR is a challenge or opportunity to EU as whole? Public opinion is divided. In fact, it is based on an attitude. OBOR can improve the connectivity in Europe, and increase culture exchange between China and Europe. It is good for EU in the aspects of economy, security, and culture. EU can make use of the initiative, and seek win-win cooperation with China under the OBOR for the mutual benefit. It can shape the relations between China and EU at the same time. China will also need to make coherent policy towards 16+1 countries, and make concrete cooperation with CEE countries.

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