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La Cina è vicina...

Pierre Borgoltz

“BRI Eurasian Rail Land Bridge: Rapid development multiplier effects in Kazakhstan and Uzbekistan. A short review of current developments on rail transport traffic and trade 2017/18”

Johanna Dirlewanger-Lücke

“China’s 16+1 Policy towards CEEC and Western Balkan States. Understanding Sino-European Relations and Their Future Implications”

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Presentation of the 2 papers by Johanna Dirlewanger-Lücke

The main purpose of this new issue of DIAC is to contrast the impacts of Chinese economic initiatives under the Belt and Road Initiative (BRI) in two distinct regions of the world on national economies and policies.

“BRI Eurasian Rail Land Bridge: Rapid development multiplier effects in Kazakhstan and Uzbekistan. A short review of current developments on rail transport traffic and trade-2017/18” by Pierre Borgoltz reviews the rapid development multiplier effect in Kazakhstan and Uzbekistan and its impacts on sustainable development in Central Asia. Through the use of comprehensive data collected on Central Asian states, the author implies that the transcontinental land bridge is unleashing unprecedented new trade and investment opportunities for Central Asia.

“China’s 16+1 Policy Towards CEEC and Western Balkan States. Understanding Sino-European Relations and Their Future Implications” by Johanna Dirlewanger-Lücke analyses Chinese economic implication in Central and Eastern European and Western Balkan states through a political lens. The author argues that the Sino “16+1” strategy offers an alternative to EU economic aid, while political ties with China are predicted to be strengthening on the long-term, creating an environment of uncertainty regarding EU unity and stability in the Western Balkans.

The achievements on the new Belt and Road Initiative “BRI” transcontinental Eurasian rapid rail link have been startling: in four years’ time, the transit China-EU-China cargo has reached above 2 % of containerisable (TEU) volume and about 6 % in value. Startling progress on the performance of the transcontinental rail link was rather unexpected on EU side , i.e. container shipment cost lowered by half-(now less than double of maritime transport for a month gain), transit time for rail cargo also practically cut in half from one end to the other of the corridor with modernisation of border crossing , customs clearance and inspection procedures, international harmonisation and digitalisation of transport /trade process, speed on rail tracks, container transfer. Multiples destination routes EU-CHINA-EU are now regularly scheduled, bringing a balance of east -west convoys within reach.

Recent developments suggest that the transport network put in place in context of the BRI Eurasian Land Bridge is already generating a consequent multiplier effect on local economies in Central Asia. Furthermore, the integration of the Eurasian Land Bridge in national development strategies has seemingly also served to accelerate national policy reform agenda on economic, investment and trade policies and encouraged further cooperation among Central Asia states. The high connectivity with local economies along the Eurasian rail route, served by new multi-modal logistics platforms connected to special economic and industrial zones is multiplying economic and employment impact, boosting implementation of industrial diversification and employment policies in Central Asia. Kazakhstan and Uzbekistan have strengthened this approach in the recent period, with such solid manufacturing platforms established in each region. The countries have enhanced their cooperation, laying out plans for oil, electrical, engineering, pharmaceutical and agro-industrial products.

The prospective overall impact of the BRI Eurasian transcontinental Land Bridge was clearly highlighted by EBRD President EBRD Suma Chakrabarti at the recent BRI-Central Asia Investment Forum in Beijing (14 Nov. 2018): “Countries along the Eurasian Landbridge could increase GDP growth prospect by 4 to 6 % in adopting corresponding facilitating legal and economic reforms. The corridor was not only a transport line infrastructure but a powerful vector of economic and social development”. As the Land Bridge is just taking off, preliminary observation suggest that the countries have clearly heard the message. The new proximity to huge affluent markets and the proven performance of the transcontinental land bridge are unleashing unprecedented new trade and investment opportunities not only for Kazakhstan but also for the neighbouring economies of Central Asia as they gradually also effectively connect to the Eurasian space and embark on major economic and legal reforms attracting investments and trade, as in Uzbekistan and Kyrgyzstan. This paper reviews the rapid development multiplier effect in Kazakhstan and Uzbekistan and its impacts on sustainable development in Central Asia.

In the last decade, China has been growing in presence in Central and Eastern European Countries (CEEC) as well as the Western Balkans. This is in line with China’s continuing internationalisation and quest for stronger position on the global scene. China has achieved this goal mostly through opening and accession to foreign markets, including the revival of the Silk Road. Xi Jinping, driven by remarkable ambitions to hoist China to become the future top economy and eventual regional

hegemon, has officialised in 2012 in Warsaw (Poland) a new forum comprising 16 CEEC and Western Balkan states and China, known as the “16+1”. In the broader sense this cooperation is a fraction of the BRI strategy, aiming at promoting an uninterrupted Eurasian transportation network, connecting the Far East with Europe, passing through Central Asia, the Middle East, the Caucasus and Russia.

The “16+1” is a high-level forum, characterized by bilateral cooperation to foster economic development of the “16”, in transport infrastructure, energy, maritime cooperation, culture, agriculture and tourism. While economic cooperation between China and the CEEC and the Western Balkans has up to now been limited with relatively few projects carried out, the 16+1 forum is becoming an increasingly important political instrument for CEE and Western Balkan countries, ensuring annual meetings with Beijing. However, where CEE and Western Balkan countries see a life-time opportunity to catch up in regard to their economic backwardness by responding to alternative funding and business opportunities, the European Union sees China’s growing presence in Europe as a threat to European influence in the region. Brussels has raised concerns on multiple occasions about China’s policy to implement its power in CEE and the Western Balkans on the long-term, and Chancellor Merkel has formally addressed this issue to PRC’s Prime Minister Li Keqiang during her visit to Beijing in May 2018. Nevertheless, criticism about China’s intentions in Europe, notably in most recently accessed EU-member states and aspiring EU are perceived by the “16” as unjustified. This is especially obvious when one takes into account that so far Chinese investment in CEEC represent only 2% of total investment in the EU, whereas Europe and the United States represent 90% of total investment in CEE.

In order to assess Chinese implication in CEE and Western Balkan countries under the 16+1 policy, this paper will argue that the strategy offers an alternative to EU economic aid, while political ties with China are predicted to be strengthening on the long-term, creating an environment of uncertainty regarding EU unity and stability in the Western Balkans. Questions addressed in this paper include: What are the future implications of China’s presence in Europe for EU- unity and development and stability in the Western Balkans? Is Chinese funding a substitute to EU funds? What are the future implications of China’s presence in Europe, considering the fact that the 16+1 forum is increasingly becoming a political instrument, and is the European Union under threat?

BRI Eurasian Rail Land Bridge:

Rapid development multiplier effects in Kazakhstan and Uzbekistan

A short review of current developments on rail transport traffic and trade-2017/18

Pierre Borgoltz- 25 February 2019

EU LOGOS-Athena- Bruxelles

1. Kazakhstan turning rapidly the BRI Eurasian Land Bridge into a new lifeline for Central Asia sustainable development

The achievements on the new Belt and Road Initiative “BRI” transcontinental Eurasian rapid rail link have been startling: in four years’ time, the transit China-EU-China cargo has reached above 2 % of containerisable (TEU) volume and about 6 % in value.

Startling progress on the performance of the transcontinental rail link was rather unexpected on EU side , i.e. container shipment cost lowered by half-(now less than double of maritime transport for a month gain), transit time for rail cargo also practically cut in half from one end to the other of the corridor with modernisation of border crossing , customs clearance and inspection procedures, international harmonisation and digitalisation of transport /trade process, speed on rail tracks, container transfer. Multiples destination routes EU-CHINA-EU are now regularly scheduled, bringing a balance of East - West convoys within reach. With about 400 000 TEU across Kazakh/Chinese borders in 2018 and expected to reach 1 million TEU by 2020, the challenge now is for infrastructure and logistics to keep up with yearly trend of doubling rail container flows, notably on Polish EU end.

What is the added Value of the transcontinental Eurasian rail Land Bridge for Central Asia?

While its overall remarkable operational performance has created a high value and unique role for the Eurasian Rail Land Bridge in the EU-EAEU-China trade, a key question arises:

Whether the new rapid transcontinental rail liaison is to remain only a transit line in the Heartland of Eurasia, or whether this core transport link would also turn into an engine for the sustainable growth and prosperity of the Central Asia region itself?

Recent developments, as summarised below, suggest that the transport network put in place in context of the BRI Eurasian Land Bridge is already generating a consequent multiplier effect on

local economies in Central Asia. Furthermore, the integration of the Eurasian Land Bridge in national development strategies has seemingly also served to accelerate national policy reform agenda on economic, investment and trade policies and encouraged further cooperation among Central Asia states.

A pioneer role of Kazakhstan

It is useful to recall that Kazakhstan has been an early promoter of the Eurasian perspective and embarked decisively on the BRI Eurasian Land Bridge project from its start, with the aim to become the connectivity hub at the heart of Eurasian space and use fully its potential for the economic and social development of the country and of its neighbours.

Considerable investments, notably through the “Nurly Zhol” since 2015 with over \$ 8.4 bio Investment Plan (including rolling stocks and 4000 km modern rail tracks to 2020) have been dedicated to upgrade the national transport network, linking macro regions between them and with neighboring states.

Among notable improvements on the Eurasian rail route, to mention:

- The East -West high-speed rail route comprises from 2018 two branches running from the Chinese border up to Russia: North (through Dostyk/Astana) and South (through Khorgos/Almaty/ Atyrau-Aktube- Kostanai).
- Further southwards, the Eurasian route links to Bishkek/ Kyrgyzstan, Tashkent/ Uzbekistan and Turkmenistan/Teheran – Bandar Abbas/Iran, and through Caspian and South Causasus to Turkey via new multimodal facilities at ports of Aktau/Kurkik.
- A new large high technology Logistics Center, at Khorgos , has been operating since mid-2016 at the border crossing with China which started operations in October 2016, with container handling capacity of 5 000 TEU/day, compared to only 760 TEU /day at the older Dostyk border crossing .
- A new modern rail track is about to link both rail lines diagonally from Astana to West Kazakhstan- In addition, due to the Sino-Kazakh transit logistics base in Lianyungang, the Kazakh side for the first time gained access to the Pacific Ocean, Korea and Japan in 2017.

To summarise: Through the tremendous improvement on the Eurasian rail route, freight containers at Kazakh rail border crossings with China, Khorgos and Dostyk, are now only 5 days away from the several hundreds of millions of customers in Central China, and less than ten days to the huge affluent markets of the European Union.

See below map of the newly rail connections activated through Kazakh transport infrastructure investments (From: Embassy of Kazakhstan to the EU : presentation at FERRMED Conference, November 2018, Bruxelles) .

Development of Railroad Transport in Kazakhstan



2. The new Eurasian rail transport multiplier effect in Central Asia

By establishing effective connections of neighbour states with the core Eurasian Land Bridge, Kazakhstan has effectively unlocked a considerable potential for economic development and exports, not only of raw material and commodities, but of high value diversified manufactured and agricultural products that rail containers now accommodate easily.

The high connectivity with local economies along the Eurasian rail route, served by new multi-modal logistics platforms connected to special economic and industrial zones is multiplying economic and employment impact, boosting implementation of industrial diversification and employment policies in Central Asia. Kazakhstan and Uzbekistan have strengthened this approach in the recent period, with such solid manufacturing platforms established in each region.

In Kazakhstan, investments in processing industries grew by 42 percent during the year (2018) reported Energyprom. The share of the manufacturing industry reached almost 20 percent. In the first eight months 2018, processing industries have already received 745.9 billion tenge (US\$2 billion) in investments. The positive dynamic is unfolding also in the regions: at the Kostanai Invest Forum 2018, the regional press service reported Oct. 12 , 2018 that nineteen agreements worth 251 billion tenge (US\$680 million) were inked. Kostanai Region Akim (Governor) Arkhimed Mukhambetov noted the volume of foreign investments has almost doubled. Last year, in 2017, 28 agreements worth more than 200 billion tenge (US\$542 million) were signed.

In Uzbekistan equally, a \$ 250 million project was just signed in November 2018 between Uzbekistan and ADB to establish two large agro-logistics centers in Samarkand and Andijan (Ferghana) that would install respectively 15 and 12 processing lines for agricultural and horticulture products: total output of 1, 45 tons, 85% of which destined to exports. Storage facilities, quality certification and safety, on-line market information, banking, logistics and customs services would be made available (ADB press release, 16 nov 2018).

In sum, Kazakhstan and Uzbekistan , countries so far the most directly linked to the Eurasian transcontinental rail Land Bridge have in the last couple of years accelerated their economic, investment and trade, enabling new economic activities to develop in a favourable business climate, as reflected in their last rankings on World Bank Doing Business Report 2019, where Kazakhstan jumped to 28th place worldwide while Uzbekistan far-reaching reforms made the country's marks advance significantly on a number of previous problematic points. Similarly, their marks on the Logistics Index are gradually improving.

Finally, Kazakhstan and Uzbekistan have also brought their bilateral cooperation to a new higher level, enabling them to draw best mutual benefits from the new arising connectivity opportunities. (see below)

They both have also concluded agreements to facilitate trade growth with key partners, or engaged negotiations, such as Kyrgyzstan and Uzbekistan with the EU for an Enhanced Partnership and Cooperation Agreement (already signed with Kazakhstan) , or to benefit from EU GSP plus schemes.

With their major potential export markets, special agreements on phytosanitary and sanitary standards were concluded on a series of processed agriculture and food products with China, Iran, Gulf States or EAEU (2017). Results have been quickly forthcoming, with strong growth of exports of agricultural products in 2017 and 2018.

Kyrgyzstan itself has put agriculture sector modernization and quality production for exports as a top priority in its new National Development Strategy (2018). Further progress on its connections to the Eurasian rapid container rail routes still need to be achieved to be able exploit all potential in the sector. i.e. through Ferghana valley in the South or linking to Eurasian Almaty – Shymkent section in the North. But the opportunities are clearly already at hand.

The Eurasian Route multiplier effect: illustration of an ongoing virtuous process

A few illustrations of the virtuous transformation process triggered by the Eurasian Land Bridge in Central Asia, particularly Kazakhstan and Uzbekistan at this stage, during the period 2017-2018 are presented below:

2.1 Faster and more container trains through Kazakhstan this year - first six months 2018

(ref: RailFreight.com- Business, published on 02-08-2018, to be updated for full year)

The (rail) container volumes transported through Kazakhstan in the first half of 2018 has more than doubled on a year-to-year basis, the national railway company Kazakhstan Temir Zholy (KTZ) announced. During the first six months 2018, 1861 container trains travelled through the country, amounting to 180 thousand TEUs. This was 52 per cent more than in the same period of 2017.

The container traffic growth was mostly achieved in the direction to and from Uzbekistan, bordering Kazakhstan on the south. Traffic between China-Uzbekistan grew by 66 per cent, while Russia-Uzbekistan traffic increased by 86 per cent and Uzbekistan-Russia traffic by 63 per cent. Traffic between China and Europe, following the New Silk Road, accounted for 66 per cent of the total number of container trains. Eastbound movement of goods increased by 38 per cent, while westbound traffic grew at a faster pace by 55 per cent.

To note recent developments on Kazakhstan 's connectivity to the South (Middle route) via Turkmenistan to Iran: in 2018, from the Bolashak, a border station with Turkmenistan, in the Mangystau region, 400 trains were shipped which is two times more than in 2017. The goods including wheat, flour, barley, oats and lentils are exported to Afghanistan, Iran and Turkmenistan.

2.2 Enhanced Cooperation between Uzbekistan and Kazakhstan

Press release Meeting President Nazarbaev and Mirziyoyev 20 October 2018

The leaders had announced the year of 2018 as the “Year of Uzbekistan in Kazakhstan” and 2019 the “Year of Kazakhstan in Uzbekistan”. Their 2016 agreement laid out trade plans for oil, electrical, engineering, pharmaceutical and agro-industrial products.

Bilateral trade turnover was \$2 billion in 2017, 31.2 percent higher than in 2016, and turnover further increased by 52 percent from January-June 2018. **The figure was estimated at \$1.9 billion from January-August 2018** and this year the sides seek to bring it to \$3 billion. Further concerted efforts to ensure continued growth from the current \$3 billion to \$5 billion by 2020 will be undertaken in the near future.

Kazakhstan's main exports to Uzbekistan include wheat products, semi-finished products from unalloyed steel and iron, zinc concentrates and unprocessed aluminum. Exports were \$1.3 billion in 2017, a 35-percent increase compared to the previous year 2016.

Within eight months (2018), Uzbekistan imported food products worth more than \$400 million, which is 1.6 times more compared to the same period in 2017. Kazakh products account for 36 percent of this amount. Nearly 50 percent of food products exported by Uzbekistan were meant for Kazakhstan,”

Kazakhstan Temir Zholy and Uzbekiston Temir Yollari in May2018 agreed to increase freight transport, including the development of cooperation in the transport and logistics sector. Measures will be taken to ensure unimpeded transport of Kazakh grain and flour through the

Uzbek-Afghan border, the elimination of seasonal congestion and the timely return of railway rolling stock. The parties agreed to actively cooperate in the delivery of railway products. And it is planned to create a joint venture between “Format Match Company”, “Uzzheldorremmash” and Foundry and Mechanical Plant. In addition, a decision was made to organize bilateral working groups on the transport of goods in the export-import and transit traffic between the Kazakhstan and Uzbekistan, as well as on the development of the Transport Logistic Centers in the territory of Uzbekistan and Afghanistan.

From the beginning of 2018, the cargo transport **volume** by rail between Kazakhstan and Uzbekistan increased by 24% compared to the same period last year and amounted to 7,763 thousand tons of cargo. At the same time, exports (volume) from Kazakhstan to Uzbekistan increased by 36%, imports to Kazakhstan from Uzbekistan, by 17%. Transit traffic through Kazakhstan to / from / through Uzbekistan increased by 15% to 3 627 thousand tons.

In conclusion: The Presidents noted” There is a unique transport network that allows transporting goods in a very short period of time. This dense network of railroads and highways and their coordination will enable developing our ties and attract other partners in the region,” Agriculture is another important area for the two countries. Kazakhstan’s involvement in digitization is of interest to Uzbekistan. President Mirzioev- “Kazakhstan has vast experience in economic digitization and implementing the Digital Kazakhstan program. We are ready to cooperate in introducing advanced digital technologies in industry, agriculture, finance and public private partnership,”

Concerning Uzbekistan, Kazakhstan is also facilitating its further relevant connections to North routes. Since launch, in March 2018, the North Eurasian Route rail service from the Russian Port of Nakhodka-Vostochny through Kazakhstan to Uzbekistan and vice versa registers growing demand and now it has become firmly established. The connection has already been extended to include another (third) block train, so that now a departure can be offered every ten days in both directions. Transit time is between eleven and twelve days. On this service, the Russian InterRail subsidiary cooperates closely with Uzbekistan, organizing the leasing of wagons, doing port handling, freight invoicing and putting the block trains together. Increasingly, demand for this train service comes from Asian countries such as South Korea, China, Japan, Malaysia, Vietnam and Indonesia. Imports to Uzbekistan are mainly equipment for the automobile industry, car parts, household goods, resins and many more. Uzbek Export goods are cotton yarn and cotton pulp, textiles, copper, cellulose, fertilizers and so on.

2.3 Rail Transport: Kazakhstan – China

Overview Trade Kazakhstan- China in 2018: (Jan-August 2018)

In January-August of the current year 2018, the mutual trade turnover amounted to \$ 7,251.2 million, which is 11.3% more on-year. Exports rose by 5.9% to \$ 3,753.7 million.

Among the main export items are agricultural products - \$ 157 million, an increase of 48.4% (share in exports - 5%), copper and copper cathodes - \$ 862.4 million, an increase of 27.1% (23% share in exports), natural gas - \$ 635.7 million (16.9% share), an increase of seven times (by \$ 544.2 million), ferroalloys - \$ 511 million (a share of 13.6 %), copper ores and concentrates - \$ 491.2 million (13.1% share) and crude oil \$ 414.7 million (11% share).

Evolution of Rail freight traffic Kazakhstan- China – 2017-2018

Railway traffic between Kazakhstan and China saw a major rise in 2018. Especially eastbound traffic increased significantly, with more than 50 per cent. This is a positive milestone for Eurasian railway traffic, which has seen the majority of traffic in westward direction.

According to National Railway Company, Kazakh Temir Zholy (KTZ), the rail freight volumes between Kazakhstan and China amounted to 13,979 million tons in 2018, which indicated an increase by 38 per cent compared to 2017. Some 8,500 million tons of cargo were transported from Kazakhstan to China, which is 54 per cent more than in 2017.

“The representatives of Kazakh and Chinese railway administrations approved the projected traffic volumes of more than 15,700 million tons of cargo in 2019. It was agreed to transport grain cargo in the big bags and specialized wagon trucks with rearrangement of wheel sets and containers to/through the Alashankou and Khorgos stations, and vegetable oil in tank cars of up to 500,000 tons from Kazakhstan and Russia to China through the Alashankou-Dostyk border crossings. 280,000 tons of gas pipes will be transported from China to Kazakhstan in 2019.” reported the press service of KTZ.

To note that from January-October 2018, the dry port Khorgos on Chinese border had handled more than 105 00 TEU container cargo, compared to 45 000 TEU for the whole 2017 year. This included 21 000 TEU from Xi-an on 508 trains, four times more than in 2017

Conclusion: “Joint measures help to increase the volume of cargo transportation by rail through our border crossings with China. It also creates opportunities for the effective functioning of a single railway space in the Eurasian region,” (First Deputy Chairman of Kazakhstan Temir Zholy Kanat Almagambetov).

3. Eurasian Land Bridge Multiplier Impact on Central Asian sustainable development

The prospective overall impact of the BRI Eurasian transcontinental Land Bridge was clearly highlighted by EBRD President Suma Chakrabarti at the recent BRI-Central Asia Investment Forum in Beijing (14 Nov. 2018)

“Countries along the Eurasian Landbridge could increase GDP growth prospect by 4 to 6 % in adopting corresponding facilitating legal and economic reforms. The corridor was not only a transport line infrastructure but a powerful vector of economic and social development”.

As the Land Bridge is just taking off, preliminary observation suggest that the countries have clearly heard the message.

Kazakhstan is establishing itself as an effective connectivity hub at the heart of the Eurasian space, connecting communications routes East-West and North-South. The new proximity to huge affluent markets and the proven performance of the transcontinental land bridge are unleashing unprecedented new trade and investment opportunities not only for Kazakhstan but also for the neighbouring economies of Central Asia as they gradually also effectively connect to the Eurasian space and embark on major economic and legal reforms attracting investments and trade, as in Uzbekistan and Kyrgyzstan.

Kazakhstan has also announced it was ready to provide a platform for the start of a dialogue on EU, the Eurasian Economic Union and China interactions dedicated to further improvement of the performance of the Eurasian Central Asia Land bridge transport and trade corridor.

” The interaction of the EU and Central Asia with the largest economic projects in the Eurasian space, namely the Eurasian Economic Union and the Belt and Road initiative, can make Central Asia an important link in global economic relations”. Closer cooperation would include the introduction of a new technological paradigm and digitalization elements, interfacing the transport and logistics infrastructure of the sides, financing mechanisms, sharing experience in energy efficiency and introducing green technologies” (Kazakh. Embassy, Brussels, Press release, 23 Nov.2018).

In the context, this invitation rings as a most timely call to strengthen the virtuous multiplier pull of the Eurasian transcontinental Land Bridge on the sustainable development of the region.

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**China's 16+1 Policy Towards CEEC and Western Balkan States. Understanding Sino-European
Relations and Their Future Implications**

Johanna DIRLEWANGER-LÜCKE

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Introduction

In the last decade, China, has been growing in presence in Central and Eastern European Countries (CEEC) as well as the Western Balkans. This is in line with China's continuing internationalisation and quest for stronger position on the global scene. China has achieved this goal mostly through opening and accession to foreign markets, including the revival of the Silk Road.

The current President of the People's Republic of China (PRC) Xi Jinping is driven by remarkable ambitions to hoist China to become the future top economy and eventual regional hegemon. Prior to the announcement of the Belt and Road Initiative (BRI) in 2013 in Astana (Kazakhstan), Xi Jinping officialised in 2012 in Warsaw (Poland) a new forum comprising 16 CEEC and Western Balkan states and China, known as the "16+1" (Lee, 2016b). The objective of this high-level forum, characterized by bilateral cooperation to foster economic development of the "16", is transport infrastructure, energy, maritime cooperation, culture, agriculture and tourism (Budeanu, 2018). However, in the broader sense this cooperation is a fraction of the BRI strategy, aiming at promoting an uninterrupted Eurasian transportation network (Kaczur, 2017), connecting the Far East with Europe, passing through Central Asia, the Middle East, the Caucasus and Russia. While the economic cooperation between China and the CEEC and the Western Balkans has up to now been limited with relatively few projects carried out, chiefly concentrated in non-EU states (Kratz, 2018), the 16+1 forum is becoming an increasingly important political instrument for CEE and Western Balkan countries, ensuring annual meetings with Beijing. However, where CEE and Western Balkan countries see a life-time opportunity to catch up in regard to their economic backwardness by responding to alternative funding and business opportunities, the European Union sees China's growing presence in

Europe as a threat to European influence in the region. Brussels has raised concerns on multiple occasions about China's policy to implement its power in CEE and the Western Balkans on the long-term (Bachulska, 2018), and Chancellor Merkel has formally addressed this issue to PRC's Prime Minister Li Keqiang during her visit to Beijing in May 2018 (Kowalski, 2018). Nevertheless, criticism about China's intentions in Europe, notably in most recently accessed EU-member states and aspiring EU are perceived by the "16" as unjustified. This is especially obvious when one takes into account that so far Chinese investment in CEEC represent only 2% of total investment in the EU, whereas Europe and the United States represent 90% of total investment in CEE (Almássy, 2018). In order to assess Chinese implication in CEE and Western Balkan countries under the 16+1 policy, this paper will argue that the strategy offers an alternative to EU economic aid, while political ties with China are predicted to be strengthening on the long-term, creating an environment of uncertainty regarding EU unity and stability in the Western Balkans.

Since the launch of the Chinese-initiated '16+1' framework in 2012, 7 summits have taken place in Europe and in China, fostering economic cooperation. In fact, China's economic support for infrastructural projects for CEE and Western Balkan countries has increased significantly in the last decade, more precisely in the years following the 2008 financial crisis, while Western EU-countries experienced negative growth rates. China, which greatly suffered from a slow-down in the global growth rates as the demand for Chinese products heavily decreased, saw in CEE a stable economic and political area, which simultaneously offers highly qualified workforce (Kratz, 2018). Despite the economic factors of the '16', the political background also plays an important role in the high-level forum and to China. The forum comprises of 11 Central and Eastern European countries (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) as well as 5 Western Balkan states (Albania, Bosnia-Herzegovina, Macedonia, Montenegro and

Serbia). Before assessing Chinese's implication in CEE and the Western Balkans, it is important to mention that, firstly, all the states share a communist past and, secondly, they proclaim themselves as having a pro-European orientation, meaning that they are either member of the EU, official or aspiring candidates. The importance of the political orientation of the 16 plays a crucial role. In fact, what are the future implications of China's presence in Europe for EU-unity and development and stability in the Western Balkans?

Chinese funding - a substitute to EU funds?

Through the '16+1' framework, China has been offering financial aid for infrastructural projects for CEE and Western Balkan countries more than ever, constituting an attractive alternative to European investment funds. In fact, China, via the funding of infrastructural projects at very interesting interest rates (about 2%) especially for Western Balkan countries, which have limited access to EU funds but with high interest rates, seems to increasingly become a substitute to the EU regarding the funding of connectivity projects (Damjanovic, 2018). However, experts have expressed concerns about Chinese implication in the Western Balkans, some apprehensions are undeniable, while some convey the impression of being unjustified.

The Chinese approach

Contrary to the EU's approach to fund vast infrastructural projects in the EU and neighboring states, such as in the Balkan region – which is to identify and then plan projects – China's plan of attack approaches only projects that have already been identified. China's funding

mechanism is also especially for Western Balkan states easier to implement than EU funds (Makocki, 2017). In fact, China's approach relies on the funding of infrastructural projects which are not covered by other funds, such as the Connectivity Agenda, a part of the Berlin Process for Balkan countries, and the Trans-European Transportation Network (TEN-T), which covers planned networks in the European Union and which was extended to Eastern Europe in 2017. Through this mechanism, China seems to be participating more in the accomplishment of connectivity projects, as the projects it funds are less expensive and already concrete. Precisely, before a project is being realized, it is discussed at the governmental level, but without entering into the details of the project. Following the agreement, the project is being negotiated in detail on a lower political level. The source of funding generally stems from one of the two so-called Chinese 'political banks': the China Development Bank (CDB) or the Export-Import Bank of China (Exim), the latter being usually responsible for CEEC. Via this instrument, Chinese government can finance up to 85% of the total project at low interest rates compared to the time-consuming 'genuine' funds, and it offers as well a substantial grace period (generally between 5 and 8 years) and a long period of reimbursement (20 years or more) (Kratz, 2018). However, these preferential conditions come at a price. In fact, there are strict conditions imposed by China: the funding generally implies that, in the case of infrastructural projects, Chinese state construction enterprises or Chinese equipment are involved (Kratz, 2018). Contrariwise, if a state asks to hire national construction enterprises, then China is very likely to augment interest rates. In other terms, this approach not only benefits states regarding the funding of massive projects, but also Chinese firms implemented abroad, financially supported by state banks. While some have argued that this mechanism is far from being a 'win-win' situation for both parties, China claims that its construction firms offer unbeatable prices (Kratz, 2018). Nevertheless, it is important to underline that these described practices are forbidden in EU member states, as strict communitarian regulations are applied in terms of

workforce, which explains why China carries out infrastructural projects chiefly in the Western Balkans (Kratz, 2018).

Dissimilar impacts across the '16'

The forum comprises 16 CEE and Western Balkan states whose economies are far from being economically homogenous, notably due to the membership of 11 countries to the EU. Regarding these differences, China does not seem to care about these discrepancies, experts argue (Stanzel et al., 2016). Moreover, a simple glance at facts about Chinese implication in CEE and the Western Balkans show that there are great differences between governmental and thus economic relations between the PRC and each of the 16 countries. In fact, figures show that 95% of total Chinese investment in the '16' accounts for only 6 countries, namely Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia (Stanzel et al., 2016). This difference can be explained by the fact that CEEC favor greenfield projects (projects that are not subjected to prior infrastructural works), as employment is a main concern, while especially Western Balkans seek the construction or modernization of infrastructures such as highways, railroads, ports and airports, which have to be developed (Richard, 2016). But this is only one side of the medal; behind economic aid from China to each of the 16 maintains a political relation with Beijing. And in some cases economic dependency can contribute to future political uncertainties: Montenegro is a good example. Through Chinese funding the Montenegrin state heavily increased its indebtedness, which worries economic advisers about its fiscal stability. But the main issue that is critically addressed by researchers and political advisers is the question about Montenegro's sovereignty, which can be summarized with the following question: how far will economic dependence on the Chinese state affect future political decisions and diplomatic ties with the PRC and the EU?

There have also been several concerns raised about Chinese implication across Europe. Firstly, numbers show that, like in Western European countries, there is a huge trade deficit between China and the '16'. For example, China is both Bosnia and Herzegovina's (BiH) and Montenegro's third most important trading partner (Kaddik et al., 2018), but the latter do not figure in the top ten of China's trading partners. Contrary to the belief that a closer economic cooperation with China will have a positive outcome on the economies of the '16', in reality Chinese funding increases the gap between Western European countries and the area in question (Kratz, 2018).

Secondly, experts argue that the physical presence of Chinese state banks and construction firms suggest that Chinese involvement in Europe represent legitimate concerns. Indeed, while Chinese construction firms employ only few locals, the funding of projects severely burdens governments (Rudic, 2017). In addition to this, worries also stem from the highly probable increase of political influence that China will exercise in the future on CEE and Western Balkan countries. A physical example is the progressive implementation of branches of the Bank of China in Belgrade (Rudic, 2017), which are a form of state representation. Intrinsicly, this suggests that Chinese implementation is likely to increase in the future, which is welcomed with open arms by CEE and Western Balkan countries. The EU, nonetheless, apprehends China's economic implication as a rising political instrument in the region.

The Implications of China's Presence in Europe

Through the 16+1 framework, which comprises CEE and Western Balkan states that are very relevant to the China-led Belt and Road Initiative (BRI) (Richard, 2016), China aims to promote its political influence in Europe via various forms of economic cooperation. Indeed, China's

rise in CEEC and Western Balkans translates into the rise of China's hegemony or global player; through the medium of economic aid the PRC accompanies its implications by policy coordination (Vangeli, 2017). In other words, China is gaining political influence in CEEC and Western Balkan states through the funding of infrastructural projects. However, it is very important to underline that also CEE and Western Balkan countries profit from the 16+1 framework, which assures them several meetings per year with Beijing. In this sense, the economic cooperation of the 16+1 forum has gradually been accompanied by political cooperation (Kratz, 2018). Concerns arise whether this reality should worry Brussels about future stability in the Western Balkans and undermining of EU unity, but in order to objectively address this issue it is necessary to comprehend what the political ties with the 16 and China are.

The 16+1 Forum: A political instrument

While the accession of Central and Eastern European states to the European Union represented a great step forward for the societies and economies of the latter, it has not been directly accompanied by the recognition of these as "Western countries". In fact, CEEC are still seen by Europeans notably as former Eastern-bloc countries; not that this is erroneous, but it is often meant as a differentiation between Western and Eastern Europe. Another term used to describe this discrepancy is a 'multi-speed Europe', a description that is not very much appreciated in Brussels and in the CEEC. However, it seems that when it comes to building politico-economic relations with the People's Republic of China, a multi-speed Europe does not upset CEEC: yet, Sino-CEEC relations are more complex (Almássy, 2018). As previously mentioned, CEEC and the Western Balkans are not only key partners for the BRI due to their strategic geographical position, but they are also a region which offers opportunities to Chinese firms under the *going-*

out strategy (Richard, 2016) (international expansion of Chinese enterprises). To CEEC and Western Balkan states, China offers a hand to use these opportunities (Lee, 2016a). In turn, it legitimizes the political approach of the Chinese government of the 16, which is, on the one hand, inevitable, as governments meet to discuss the implementation of infrastructural projects, and on the other, worrying the EU. During a meeting with the President of Serbia Aleksandar Vučić last September, PRC's President Xi Jinping addressed his homologue by expressing that Serbia is a “good, honest friend, and good partner” (Zivanovic, 2018). For Hungary's Prime Minister Viktor Orbán, infamous for his critical stance towards the Union, China is a desirable counter-power to the EU, as it has the assets to permit developments, that the EU could financially not support (Gruber & Höhler, 2017). Coming from Hungary, which is a member of the Visegrád Group (V4) along with the Czech Republic, Poland and Slovakia, this statement underlines the dangers of the East-West cleavage. In fact, Chinese engagement in CEEC and the Western Balkans does not only revive the economy of the region, it has over all geopolitical consequences (Gruber & Höhler, 2017). Romania, however, which is considered as being one of the major CEEC that does not have an anti-EU stance, as it associates the EU as the supervisor of democracy, is much more sensitive to negative signals sent by Brussels regarding China's implementation in Europe (Budeanu, 2018). Nevertheless, a pro-European attitude does not necessarily ostracize a good relationship with the PRC; Romania, for instance actively works on its partnership with the Asian giant.

The 16+1, which is due to the above-mentioned reasons considered as a political instrument, should vehicle a better Sino-European relation, as the framework would contribute to a more positive perception of China (Richard, 2016). In fact, the 16+1 format is a means that helps to deepen Sino-CEEC relations, that could benefit economic growth of the region (Richard, 2016) – and in turn the economic stability of the European Union. Some argue however, that the forum is a way of conducting infrastructural projects under the BRI without having to consult Brussels

(Gruber & Höhler, 2017). Others stress the fact that the EU has raised concerns about the participation of Western Balkan states to the 16+1 framework, fearing that this may interfere in its policy towards China and stability in the Western Balkans (Richard, 2016).

Is China a threat to regional security?

Chinese implication in Europe, especially in the Western Balkans implies a possible threat to security. Just as for Central Asia, the Western Balkan might become the new chessboard for a Great Game between China, Russia, Turkey and the EU. The European Union foreign policy chief Frederica Mogherini has alerted about the Balkans' situation (Makocki, 2017): Russia, Turkey and China seem to be competing to become political influencers in the Western Balkans. Yet, Russia, Turkey and China approach the region in different manners: while Russia and Turkey work on and profit from the destabilization of the region, China seems to support stability (Makocki, 2017). In either case, however, Chinese, Russian or Turkish interference into state's politics undermine the role of the EU in the Western Balkans. The EU, which promotes democracy, reforms of the judiciary system and economic growth in the region, in particular for official candidate countries, is thus confronted by great powers paying little attention to democratic values. But while China is not directly interfering in politics, unlike its Russian and Turkish counterparts, its approach is directly eroding EU's influence in the region. Indeed, the 16+1 format comprises EU member states as well as non-EU states and official candidates, just as it comprises some EU-members of the Eurozone and EU-members that do not have the Euro, as well as former Yugoslavian states, but no ex-Soviet countries, such as Moldova, the Ukraine or Belarus (Budeanu, 2018). In other words, China betrays the defined structures by altering an already complex Venn-diagram-like politico-economic design of CEE and the Western Balkans. Concealed by the 16+1 framework, which is above all fostering

economic cooperation, the rising political influence of China in the region is by some referred metaphorically as a ‘Chinese Trojan horse’ (Budeanu, 2018). Another factor enhancing Chinese rise in the Western Balkans is the gradual retreat of the USA as a global power: China is ready to fill the vacuum (Gruber & Höhler, 2017).

The BRI is considered for some as the greatest development project of all times – even referred to as the ‘new WTO’ by Joe Kaeser, chief of Siemens – while critics underline the risks of dependency (Gruber & Höhler, 2017). Examples of subordination due to debt obligations is Sri Lanka, which had to lease a port and land for 99 years to China. Hence the question: how likely can this occur to one of the 16? Unfortunately, it is still too early to measure the effects of Chinese implications in CEEC and Western Balkan states. Even though the EU is still the principal influence in the region, it needs to reassert its position in the Western Balkans, as these are nonetheless a key region to the future of the EU, especially in terms of future enlargement (Makocki, 2017).

Is the European Union under threat?

Assessing the current impacts of Chinese politico-economic implication in the EU is up to now too early, considering the fact that the 16+1 framework has been launched 6 years ago. Thus, one cannot aright assert the development of small and medium enterprises (SME), job creation and economic growth due to Chinese investment (Zeneli, 2017). However, many scholars have looked into the concern of Chinese threat to the internal cohesion of the European Union.

Although some claims about the political undermining of EU unity by China are considered as being too alarmist, it may seem that the general opinion about threat to EU unity is not taken seriously. The threat that China poses fits in a frame of global political insecurity and

uncertainty: the declaration of United States of America's President Donald Trump and the geo-historical ties of Europe and Asia might thwart EU cohesion policies (Mirel, 2018). The economic crisis, the refugee crisis, the Brexit and the rise of populist governments across the continent weaken the EU and simultaneously reduce her availability to assist and her *soft power* in the Western Balkans (Mirel, 2018). In a context where European solidarity is endangered, it is uncomplicated for re-emerging powers such as Russia, Turkey and China to intervene and interfere in interior political affairs of CEE and Western Balkan countries. In the case of China, the EU is particularly worried about future barriers on common stances on sensitive subject such as the Tibet, the South China Sea and human rights, for example in the Xinjiang province. The EU, which promotes the respect of freedom and human rights sees itself trapped: meanwhile Chinese implementation in some Member states increases, the latter adapt their diplomatic ties with the PRC to better accommodate cooperation under the 16+1 framework for instance. Concrete examples are the blocking by Greece (whose biggest port 'Piraeus' has been taken by China) of a EU-statement in the UNO condemning the situation of human rights in China (Gruber & Höhler, 2017). Another example is the Czech Republic's Tibet-policy, which it has altered (Kaddik et al., 2018). In fact, the government depicted the Dalai Lama as a secessionist and Foreign Minister Lubomír Zaorálek even compared him with Konrad Henlein, a nazi-Sudet leader (Kaddik et al., 2018).

Throughout the 16+1 framework China attempts to 'bilateralize relations' (Zeneli, 2017), which can therefore be expressed as the '16 x (1+1) forum [sic]' (Stanzel et al., 2016). This could have an important consequence on the cohesion of the European Union, as it increases the risk of cleavage. Chinese political influence could foster dissension on sensitive topics, such as the refugee crisis (Zeneli, 2017).

Yet, Germany is the only founding member state of the EU to have expressed concerns about the changing of the *status quo* in CEEC (Budeanu, 2018). Why do other founding member states

stay silent about China's rise in CEE and the Western Balkans? While no definite response can be given, it should be noted that via specific strategies such as the Three Seas Strategy (Baltic, Black and Adriatic Seas) China develops solidarity networks, which undermines the influence of the EU, 'in order to better cope with Russia' (Budeanu, 2018) ...

Conclusion

The original purpose of 16+1 framework – economic cooperation between PRC and the 16 – has lately shifted towards an increasingly important political instrument. Under this framework, CEE and Western Balkan countries can use the opportunity to develop their economies via Chinese investment and funding of infrastructural projects. However, the 16+1 has so far not delivered sufficient results, compared to what has been promised by China (Kaczur, 2017), while CEE exports to China increased. But still, there is a very important trade gap, in favor of China (Makocki, 2017). Nonetheless, what worries experts more about Chinese trade is the reverse of the medal. China’s investments are most beneficial to itself: in the context of the BRI, China aims to primarily increase exports to Europe (Gruber & Höhler, 2017). Other scholars, yet, argue that the 16+1 forum could be a means of the integration of the European continent. Also, the 16 and China respond to each other’s demand: meanwhile CEE and Western Balkan countries need to develop their infrastructures, China offers generous funding and a significant production capacity (Richard, 2016).

Nevertheless, Chinese implication in CEE and in the Western Balkan come at a price. Indeed, China’s presence increasingly undermines the stability of the region, by exercising a political influence on governments. Experts stress the importance of a strong EU-response to reaffirm its rule in the Western Balkans notably (Makocki, 2017). However, it is necessary that the EU bases its response on the fact that opportunities offered by China are inevitable; that is why it is crucial not to limit these, but assuring that the latter do not interfere with EU influence and possible future membership opportunities (Makocki, 2017).

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