Financial Cooperation between China and CEEC: Development and Prospective

JI YIi
Graduate of Chinese Academy of Social Sciences
BEIJING

LIU ZUOKUI
Researcher of Chinese Academy of Social Sciences
BEIJING

Abstract: *Since the implementation of "16+1 Cooperation", several financial instruments have been adopted by the Chinese government to strengthen the cooperation between China and the CEE countries, including US$ 10 billion USD Special Credit Line, China-CEEC Investment Cooperation Fund (second phase), Sino-CEE Finance Holding Company Ltd and China-CEE Fund. In addition, many Chinese banks have set up branches in CEE countries. Cooperation with institutions such as the European Bank for Reconstruction and Development has been strengthened, and a China-CEEC Interbank Consortium has been established. To diversify the channels of cooperation, currency swap agreements and RMB clearance arrangements have been signed, and cooperation in the bond market has also be strengthened. The main characteristics of China-CEEC financial cooperation are market-orientation and voluntary participation. In the past six years, achievements have been made, and the implementation of various projects contributed a lot to the "16+1 Cooperation".*

Key-words: 16+1 Cooperation, Financial Cooperation, development and prospective, policy suggestion
JEL Classification:

Financial cooperation is not only a significant pillar for China-CEEC cooperation, playing an important role in promoting Chinese investment in CEE countries and attracting CEE countries to participate in the "16+1" Cooperation, but also a model for implementing the Belt and Road Initiative in the investment sector. This article will provide a summary of the framework, policy toolkit, the principles of the "16+1" Financial Cooperation, as well as the achievements that have been made in the past years.

1. Framework and toolkit of "16+1" Financial Cooperation

"16+1" Financial Cooperation consists of three levels: At the first level, cooperation is achieved though the establishment of financial a toolkit, which is mainly initiated, financed or co-financed by China. At the second level, cooperation is achieved by the collaboration between financial institutions from China and CEE countries. At the third level, cooperation is mainly achieved by signing currency swap agreement and issuing bonds in each other's bond market.

1.1 Framework and instruments of the China-CEEC Cooperation

1.1.1 The US$10 Billion Special Credit Line

The first instrument adopted by China is the US$10 billion special credit line, focusing on investing in infrastructure construction, green and high technology, green economy as well as other sectors. The US$10 billion special credit line was initiated in *China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern Europe* published during China-CEE Leaders' Meeting in Warsaw in 2012.

The US$10 billion special credit line includes favorable loans, and there are strict requirements for the use of these favorable loans when investing in projects in targeted countries. For any project to be financed by the favorable loan on a preferential lending rate at 1%-3%, the location of the project should be within CEE countries, and a Chinese contractor should be included in the project. After the application for the favorable loan is approved, receiving countries do not need to pay for the insurance fee, but will be responsible for the administrative fee. Bedsides, receiving countries should also provide national sovereign guarantee for the construction of the projects. All projects proposals, together with the Special Credit Line application, should be put forward to the China Development Bank, the Export and Import Bank of China, the Industrial and Commercial Bank of China, the Bank of China, the China Construction Bank and China CITIC Bank.

Since the establishment of the US$10 Billion Special Credit Line, CEE countries, as debtors, have started the Special Credit Line application and project construction process. So far, the favorable loans of the Special Credit Line, with a value equaling to US$ 3 billion, have been used up, while the commercial loans have almost not received applications so far.

1.1.2 The China-CEEC Investment Cooperation Fund

The establishment of the China-CEEC Investment Cooperation Fund was firstly put forward in *China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern Europe* in 2012. In 2013, China-CEE Management S.à r.l. registered in Luxembourg, providing management, projects investment, accounting and administrative services for the China-CEE Investment Cooperation Fund. In 2014, the first phase of the Fund, totaled US$ 435 million, became operational. In 2016, the second phase of the Fund, totaled US$ 800 million, became operational. In 2018, the Fund (second phase) announced the inauguration of a new round of fund raising totaling US$ 1 billion. So far, China-CEE Management S.à r.l. has set up two offices in Warsaw and Prague.

As an off-shore equity investment fund with limited partnership, the partners of the China-CEE Investment Cooperation Fund include the Export-Import Bank of China and the Hungarian Export-Import Bank. The core of the Fund's investment strategy is to be market-oriented and commercial-operated, focusing on the effective value of the projects and the enterprises that receive funding, as well as to synergize and integrate resources through optimizing the structure of capital and governance in enterprises with steady investment. There are five principles that the Fund must abide by: (1) Focusing on supporting the development in areas of infrastructure construction, telecommunication, energy, manufacturing, education and medical care. (2) Looking for competitive enterprises and projects and conducting due diligence on potential projects to ensure that the targeted enterprise is in positive operation with steady future currency flow, foreseeable profits and strong risk-management ability. (3) Building up strategic-partner relationships with targeted enterprises and providing value-added services to targeted enterprises and projects. (4) Adopting a multiple investment model with equity investment, mezzanine debt and multiple financial derivatives. (5) The scale of each investment should be in kept within US$ 10 million to US$ 70 million.

1.1.3 Sino-CEE Finance Holding Company Ltd and the China-CEE Fund

During the Fourth Meeting of Heads of Government of Central and Eastern European Countries and China in 2015, China raised the proposal of exploring opportunities of cooperation in connectivity and capacity between China and CEE countries by providing financial support in a commercial way. In the *Riga Guidelines for Cooperation between China and CEE Countries*, it is stated that financial institutions and enterprises in CEE countries are invited to contribute to the China-CEE Fund, established by Sino-CEE Finance Holding Company Ltd., on a voluntary basis, to jointly promote cooperation between China and CEE countries in connectivity and other industries. In 2017, the *Budapest Guidelines for Cooperation between China and CEE Countries* reiterate that CEE countries are welcome to contribute to Sino-CEE Holding Company Ltd. and support the fund raising for cooperation between China and CEE countries.

Sino-CEE Holding Company Ltd. was established in 2016 with leading support from the Industrial and Commercial Bank of China, as well as support from China Life Insurance Company, Golden Eagle Group, Fosun International and partners from CEE countries. The China-CEE Fund was launched by Sino-CEE Holding Company Ltd, totaled 10 billion euros, aiming at leveraging credit and loan totaling 50 billion euros. So far, agreements have been signed between the Fund and the Hungarian Export-Import Bank, and negotiations are ongoing between the Fund and other institutions, such as the Chinese Silk Road Fund, foreign institutions from Poland, the Czech Republic, and Latvia about injecting capital into the Fund. The first phase of the Fund has reached over 3 billion euros.

Sino-CEE Holding Company Ltd. broadens the channel of market financing for the China-CEE commercial cooperation. As the first non-sovereign overseas investment fund supported by the Chinese Government, the China-CEE Fund abides by the principle of market orientation and commercial operation, focusing on the commercial feasibility of investment in the areas of infrastructure construction, high-tech production, public consumption and more. Based on that, the Fund provides capital support for China-CEE capacity cooperation policies, aimed at achieving cross-regional market development by bridging global capital and introducing Chinese support. The Fund is mainly targeted in CEE countries and will extend to other European countries and regions when needed.

1.2. Regional institutional cooperation

1.2.1 The Asian Infrastructure Investment Bank (AIIB)

As an inter-governmental and multi-lateral development institution in Asia firstly initiated by China, AIIB mainly focuses on investing in infrastructure construction. It is founded under the principle of promoting the connectivity and economic integrity within the region, as well as at the strengthening of cooperation between China and countries in Asia and other regions. Since its was started, CEE countries have shown strong interests and took active actions. Poland, together with Austria and Switzerland, who are observers of the China-CEE Cooperation (16+1 Cooperation), are among the first 57 countries that were granted AIIB membership. Hungary, Romania, as well as Greece and Belarus, received their membership later. CEE countries' membership contributes to a stronger foundation of the cooperation of AIIB and provides market opportunities for CEE countries in Asia.

1.2.2 Branches of banks from China and CEEC

With the fast 16+1 Cooperation development momentum, bank branches were set up in CEE countries such as Poland and Hungary by the Bank of China, the Industrial and Commercial Bank of China, the China Construction Bank. By the end of 2017, there were eight branches launched in CEE countries (Table 1).

Table 1: Branches of Chinese Banks in CEE countries

Name of the Bank	Local Branches	Launching Date
Bank of China	Bank of China (Hungary) Close Ltd.	February 2003
	Bank of China (Luxembourg) S.A., Poland Branch	June 2012
	Bank of China Limited Hungarian Branch	December 2014
	Bank of China (Hungary) Close Ltd Prague Branch	August 2015
	Bank of China Serbia a. d. Belgrade	January 2017
Industrial and Commercial Bank of China	Industrial and Commercial Bank of China Poland Branch	November 2012
	Industrial and Commercial Bank of China Prague Branch	September 2017
China Construction Bank	China Construction Bank Warsaw Branch	May 2017

Source:

Meanwhile, banks from CEE countries also started businesses in China. In October 2017, OTP Bank from Hungary set up its representative office in Beijing.

1.2.3 Cooperation with international institutions

In November 2015, representatives of the European Bank for Reconstruction and Development (EBRD) attended the Fourth Meeting of Heads of Government of Central and Eastern European Countries and China in Suzhou as the only institutional observer. In December 2015, China was granted non-debtor membership of

EBRD, becoming the 67th shareholder-member. The cooperation between China and EBRD broadens towards investment channels for China and promotes cooperation between China and Europe in the areas of RMB internationalization and sub-regional development in Europe. At the same time, as a result of their communicating with EBRD on experiences and practices, Chinese financial institutions accumulate knowledge and experiences on information storage, investment practices and risk management, which contribute to the development of Chinese financial institutions in the process of implementing the "Going Out" policy.

There are possibilities for China and CEE countries to forge multi-lateral cooperation within international financial institutions, considering China and several CEE countries are members of the World Bank and the International Monetary Fund (IMF). For instance, when Hungary was granted membership of IMF in 1980 (IMF, 1982), the People's Bank of China provided US$ 88 million of loans from its US$ 375 million of SDR quota to Hungary as Hungarian quota and membership fee (Müller and Kovács , 2017). Support from China played an important role in the successful accession of Hungary to the IMF because the Hungarian National Bank was lacking capital at the time. After RMB joined the SDR of IMF in 2016, the RMB's value as international reserve currency was recognized, and the RMB became increasingly welcomed in CEE countries. Several CEE countries have signed agreements with China on Currency Swaps, Outright Monetary Transactions, and RMB clearing bank services and RMB cross-border payment systems.

1.2.4 The China-CEE Interbank Consortium

The *Riga Guidelines for Cooperation between China and CEE Countries*, during the Fifth Meeting of Heads of Government of Central and Eastern European Countries and China in 2016, encouraged China and CEE countries to jointly explore the possibility of launching a China-CEE Interbank Consortium on a voluntary basis. In *the Budapest Guidelines for Cooperation between China and CEE Countries* in 2017, it is actively expressed that all parties welcome the establishment of the China-CEE Interbank Consortium mentioned in the *Riga Guideline*, and support the establishment of a Secretary and a Coordinating Center of China-CEE Interbank Consortium, led by the China Development Bank and the Hungarian Development Bank respectively. The China-CEE Interbank Consortium was officially launched in November 2017. So far, there are 14 member banks. As the initiator of the Interbank Consortium, the China Development Bank will provide 2 billion euros cooperative development loans to member banks in the coming five years.

As a typical development financial organization, interbank consortium is a significant platform for cooperation except cooperation between commercial banks and central banks. [1] China-CEE Interbank Consortium aims at promoting multi-lateral financial cooperation within the framework of "16+1" Cooperation, which will contribute to the economic and social development through project financing, inter-bank credit, training and exchanges, high-level dialogue, policy communication and information sharing. All member banks of the China-CEE Interbank Consortium are policy banks or development institutions and national commercial banks, including the China Development Bank, the Hungarian Development Bank, the Czech Republican Export-Import Bank, the Slovakian Export-Import Bank, the Croatian Bank for Reconstruction and Development, the Bulgarian Development Bank, the Romanian Export-Import Bank, the Serbian Postal Saving Bank, the Export Development Bank of Slovenia, the Republic of Srpska Investment Development Bank, the Macedonian Development Promotion Bank, the Investment Development Fund of Montenegro, ALTUM from Latvia and the Lithuanian Investment Development Agency. The Consortium consists of a Board of Directors, a High-Level Meeting and a Secretary. Under the principle of autonomous operation, independent decision-making and undertaking of risks, the China-CEE Interbank Consortium provides financial support to key projects of the China-CEE cooperation through effective communication and commercial cooperation, and guides capital into less developed or bottlenecked areas, such as infrastructure construction, electricity energy, agriculture and high-tech development.

1.2.5 Fintech cooperation and coordination

[1] Interbank Consortium is a method frequently taken by China to promote regional financial cooperation. So far, there are the SCO Interbank Consortium, the BRICS countries Interbank Consortium, the China-Asia Interbank Consortium, the China-Africa Interbank Consortium and more.

In *the Sofia Guidelines for Cooperation between China and Central and Eastern European Countries*, all parties support the establishment of a 16+1 Fintech Coordination Center in Lithuania, and the organization of a High Level Forum on 16+1 Fintech Cooperation in Lithuania in 2019. With the fast development momentum, China is leading in the international fintech sector. On the contrary, fintech development differs in CEE countries. Therefore, the cooperation between China and CEE countries in fintech field helps fill not only the gap in CEE countries, but also that under the framework of "16+1" Cooperation. Lithuania enjoys advantages in fintech legislation, supervision, equipment, talents, business environment and entrepreneurship, while, as a eurozone country, the fintech cooperation platform will also contribute to the cooperation between China and eurozone countries.

1.3 Currency cooperation

1.3.1 Currency swaps

So far, China has signed currency swap agreements with Albania and Serbia, and has renewed the agreements with Hungary, with the total swaps scale reaching RMB 23 billion (Table 2).

Table 2: Currency swap agreements between China and CEE countries

Parties	Date	Scale	Validation	Notes
Central Bank of Hungary	2013	RMB 10 billion/HUF 375 billion	3 years	
Central Bank of Hungary	2016	RMB 10 billion/HUF 375 billion	3 years	renewed
Central Bank of Albania	2013	RMB 2 billion/ALL 35.8 billion	3 years	
Central Bank of Serbia	2016	RMB 1.5 billion/ RSD 27 billion	3 years	

Currency swap
Source:

The currency swap agreement highlights financial cooperation, promotes bilateral trade and investment, and contributes to financial stability. With its strong economy and the fast internationalization of the RMB, China needs to strengthen its financial risk resilience. As a back-up instrument, the currency swaps agreement will help the signing countries maintain confidence in the market with the risk of financial crisis and currency deflation hovering. Meanwhile, as a practical instrument, the currency swap agreement would promote investment through loans and credits.

1.3.2 RMB clearance arrangements and RMB circulation

In June 2015, a memorandum on RMB clearance arrangement was signed, and the Bank of China, the Hungarian Branch, was designated by the Bank of China as the RMB clearing bank in Hungary, becoming the first RMB clearing bank in the CEE region. UniCredit, one of the largest banks in the CEE region, transferred its RMB account with the RMB clearance service from Hong Kong, China to the Bank of China, the Hungarian Branch in 2016. Besides, a HUF and RMB debit card was issued by Bank of China (Hungary) Close Ltd. in 2017, which was the first RMB debit card issued in CEE region.

1.3.3 Bond market cooperation

The cooperation is less witnessed on the bond market compared with that on other markets. So far, cooperation only exists between China Poland and Hungary. Poland is the first European country that issued Panda Bonds on the Chinese market. On June 20, 2016, a memorandum on Panda Bonds was signed between Bank of China and Poland's Ministry of Treasury. As the major contractor, Bank of China will assist in the registration and the issuance of Panda Bonds for the Polish Ministry of Treasury, the bond scale reaching RMB 3 billion with the validation of three years and the nominal rate of 3.40%. It is both the first time for Polish government to issue RMB dominated Treasury bond, and the first time for a European country to enter the Chinese bond market and issue Panda Bonds.

In 2015, an Agency Agreement was signed for the People's Bank of China to Manage Magyar Nemzeti Bank's Investment on China's interbank bond market, and it was also decided that the People's Bank of China would extend the RMB Qualified Foreign Institutional Investors (RQFII) scheme to Hungary with a total investment quota of RMB 50 billion. In 2016, a Dim-Sum Bond totaling RMB 1 billion was issued in Hong Kong by the Bank of China Hungarian Branch, designated by Hungarian Debt Management Agency (AKK), with the validation of three years. It is the first RMB bond issued by a CEE country, and the third RMB sovereign bond issued on the global market, as well as the first time for Hungary to issue bonds on the international bond market after two years' leaving. In 2017, Hungary issued a Panda Bond totaled RMB 1 billion in China's Interbank Bond Market with the validation of three years and nominal rate of 4.85%.

2. Principles of the China-CEE Financial Cooperation—voluntary basis and market-orientation

Since the Warsaw Summit in 2012, numerous financial cooperation proposals were put forward, serving as the policy guidance for cooperation. The principles of the China CEEC financial cooperation state that cooperation between 17 countries will be strengthened on a voluntary basis and market-oriented new channels and instruments will be explored. The core of the China-CEE financial cooperation is market orientation. Financial instruments from China are not non-profitable, and are is neither a political debt nor a free gift, but a market-oriented instrument with favorable debt and low interest rate that aiming at leveraging cooperation.

The comparison between grant and loan can be adopted here as an example, to provide a further analysis of the principle of market orientation. EU grants, such as those under the Structural Fund and Cohesion Fund, are the major financial tool provided by EU to CEE countries. CEE countries can apply to EU for such grants. If the conditions imposed by the EU on democracy, rule of law, anticorruption, market reform etc. are met in CEE countries the grant is provided to CEE countries, without interest and capital being refunded. Therefore, it is clear that the grant is closely related to politics. In comparison, for any financial instrument provided by China to CEE countries, the form is that of a loan, which means that interest and capital must be repaid, as in any commercial loan, and there is no political conditionality related to the loan.

3. Characteristics of the China-CEE cooperation

3.1. Initiation by the government with participation by national financial institutions

Investment instruments from China to CEE countries are mostly initiated by the Chinese government with participation by political banks and state-owned banks. For the Special Credit Line and Investment Fund, major participants include some political banks, such as the China Export-Import Bank and the China Development Bank, and state-owned banks, such as the Industrial and Commercial Bank of China and Bank of China. Most loans and credits come from such Chinese banks. As development financing institutions, the China Development Bank and the China Export-Import Bank played important roles in promoting the "16+1" investment cooperation, connecting governmental will, market interests and commercial resources. Sino-CEE Finance Holding Company Ltd, established by the Industrial and Commercial Bank of China, serves as a pilot for China to operate overseas investment in the form of a holding company, as well as to leverage capital through market-oriented methods.

3.2. Market-oriented commercial loans

The implementation of commercial loans is a priority in promoting China-CEE cooperation, and commercial loans play huge parts in all financial instruments. For instance, commercial loans took up 70% of all US$ 10 billion Special Credit Line, and commercial loans are also the instrument adopted by Sino-CEE Finance Holding Company Ltd aiming at leveraging market capital totaling 50 billion Euros by 10 billion Euros. Although the commercial loans weigh over favorable loans in quantity, they are less effective than favorable loans, due to the high interest rate of these commercial loans. So far, the interest rate of these loans is around 6%-7%, which is less competitive in European market.

3.3. Loans and funds as the major channels for investment

Another feature of the China-CEE Cooperation is that traditional channels of investment, such as loans and funds, hold an important position in investment and financing cooperation. By comparison, there is less interaction between China and CEE countries on the bond market. So far, there are only two Panda Bonds that have ever been issued on the Chinese market by Poland and Hungary, and the effect has more of a symbolic meaning.

3.4. The risk-and-benefit sharing principle

In the process of implementing the “16+1” Cooperation, many of the financial instruments are provided by Chinese government, such as the China Development Bank and the China Export-Import Bank, which means that most financial risks and most of the pressure are carried by Chinese financial institutions. Therefore, Chinese financial institutions are now actively exploring new financing channels for risk-and-benefit sharing, such as sovereign guarantee and joint financing with CEE countries.

4. Evaluation of the China-CEEC financial cooperation

4.1. Active achievement of the China-CEEC financial cooperation

Over the past six years, financial instruments have been widely adopted, for example, most of the favorable loans in the US$ 10 billion Special Credit Line have been used, the first phase of the China-CEEC Investment Cooperation Fund has been operational and the second phase has been inaugurated. Investment from China has contributed to the benign business environment in the CEE market, making the CEE market more attractive to Chinese investors.

The biggest beneficiary of the favorable loans under the US$ 10 billion Special Credit Line is the Balkan region, with most loans going to projects in infrastructure and energy development.

Table 3: Projects of favorable loans under the US$ 10 billion Special Credit Line

Country	Projects	Value	Instruction
Bosnia and Herzegovina	Stanari Coal-fired Thermal Power Plant	550 million Euros (350 million Euros from Special Credit Line)	As the first project financed by the Special Credit Line, it started in May, 2013, and ended in September, 2016. The Power Station belongs to the British EFT Group, with the contractor being Dongfang Electric Corporation. It is environmental-friendly, satisfying both local and EU green standards. It is the first energy cooperation project between China and Bosnia and Herzegovina since the establishment of bilateral relationship, as well as the first power plant designed and constructed by a Chinese company independently in Europe.
Macedonia	Ohrid-Kicevo highway and Skopje-Stip highway	637 million Euros (579 million Euros from Special Credit Line)	Contracted by Sinohydro, the Ohrid-Kicevo highway and the Skopje-Stip highway will contribute to improved connectivity in Macedonia, shortening transport time from Skopje, the capital of Macedonia, to the historical resort Ohrid, which will activate regional productivity and promote economic development.
Montenegro	Smokovac-Mateševo section of	Contract value: 809 million Euros (743 million from	Contracted by China Road and Bridge Corporation, the project started in May 2015 and will contribute to economic development

Country	Projects	Value	Instruction
	North-South highway	Special Credit Line)	and connectivity improvement.

Source:

The first phase of the China-CEEC Investment Cooperation Fund totaled US$ 435 million, of which US$ 422 million has been used. So far, the investment has covered 12 projects in 5 countries, including in the energy, higher education, manufacture, telecommunication, bio-medication and lighting fields, with active social and economic influence.

Table 4: Projects supported by the China-CEEC Investment Cooperation Fund (by 2017)

Fields	Country	Projects	Year
Energy	Poland	Investment in joint wind power farms projects, Wroblew and Project 2, developed by GEO Renewables, becoming majority shareholders with 50.1% ownership.	2014
		Purchasing 16% stake of PEP, Poland's largest private utility company in renewable energy.	2014
		Investment in Polenergia, a Polish independent power utility listed on the Warsaw Stock Exchange and active in convential and renewable energy generation and distribution.	2015
		Purchase of the wind power turbine Zopowy.	2015
	Czech Republic	Purchase of three solar power plants of ContourGlobal, a solar energy provider.	2016
		Investment in Energy 21, the second-largest PV plants operator.	2016
Telecommunication	Poland	Investment in Electronic Control System S.A., one of the leading engineering company providing telecommunication service.	2015
	Hungary	Purchase of Invitech, a leading communications infrastructure service provider.	2017
Higher education	Hungary	Investment in Budapest Metropolitan University (MetU)	2014
Manufacture	Bulgaria	Investment in Walltopia, a world leader in climbing wall design and manufacturing.	2015
Bio-Medication	Poland	Purchase of 13.2% of stakes of Bioton S. A., a biotechnology company specialized in drug development and manufacturing.	2015
Lighting	Slovenia	Investment in Javna Razsvetljava, a marker leader in design and implementation of public lighting and signaling solutions.	2016

Source:

By 2017, the above investment projects have been widely recognized, helping the China- CEEC Investment Cooperation Fund acquire the title of top Renewable Deal of the Year on CEE Energy Summit in 2015, Top Chinese Investor of the Year in the FDI Poland Investor Awards in 2015, the title of CEE Clean Energy Investor in the third annual CEE Clean Energy Awards in 2016.

Analyzing the location of all the projects, most of the US$ 10 billion Special Credit Line goes into non-EU countries in the Balkan region, and the reason is that the implementation of the Special Credit Line requires sovereign guarantees, a barrier for EU Member States in CEE region because of the EU regulation on national debt. By comparison, most of the China-CEEC Investment Cooperation Fund goes into countries such as Poland, Hungary, Czech Republic, Slovak and Romania, where the business environment, economic situation and solvency capability are better than in other CEE countries.

4.2. Problems related to the China-CEEC financial cooperation

4.2.1 Lack of private capital involvement and low rate of financing from the market

So far, the financing of the "16+1" Cooperation mostly comes from the government, and participants are state-owned banks and financial institutions related to the government. As the commercial pivot, Sino-CEE Finance Holding Company Ltd only started its business recently with few achievements. Government-supported investors caused distrust and doubts among people in some countries who worried there will be geopolitical factors behind such investments.

The general business scale of the Chinese private financial institutions is limited in the CEE region, which is another reason for the negative participation in the China-CEEC Financial Cooperation except for the low level of intention. Besides, there is the problem of information asymmetry in terms of information storage and update, which also contributes to the imbalanced participation between governmental supported banks and private financial institutions.

Another problem that "16+1" Cooperation faces is the low rate of direct market financing. There are only two governments from the CEE countries, Poland and Hungary, that have issued Panda Bonds on the Chinese bond market, and no companies from CEE countries have ever issued any bonds on the Chinese market. At the same time, there direct financing related to "16+1" Cooperation projects is rarely seen on the global market. If direct financing becomes possible for the "16+1" Cooperation, it would contribute a lot to relieving the financing burden on China and reducing the financing risk.

4.2.2 Conflicting rules between "16+1" Cooperation and the EU

Some of EU rules are barriers for China-CEEC Financial Instruments entering European market. One of the most representative conflicts is the requirement on sovereign guarantee. If the government of CEE countries provide sovereign guarantee for the "16+1" Cooperation project, it is highly possible for its national debt to increase and exceed the standard set by the EU, which requests that the value of national debt should not exceed 60% of GDP or add negative influence on the financial feasibility. Such rules make it difficult for China's favorable loan being adopted in CEE countries. Even when Chinese loans are used in CEE countries, they are easily suspected and criticized by the public, accusing that China, acting with a geopolitical purpose, is trying to manipulate CEE countries through the loans. The non-EU states in the CEE region are all candidate countries or in the process of accession, therefore, these potential EU members all need to follow EU rules to certain degree. Especially in the infrastructure sector, Western Balkan countries all agreed to follow EU rules on energy and transportation, such as the environmental standards and the EU competition law. However, the adoption of China's loan usually comes with the condition to reach inter-governmental agreements on Chinese labor hiring, raw material and equipment importing, and special taxes exemption. Such an inter-governmental agreement obviously goes against the public biding and government procurement required by EU (Grieger, 2017)[2]. China-CEEC Special Credit Line cannot be influential unless the conflict of rules between China and the EU could be solved.

4.2.3 Insufficient currency cooperation

From the layout of branches of Chinese banks, it could be easily discovered that there is huge space for improvement for Chinese banks providing overseas services. In comparison with the dominant position of Western banks in CEE region, Chinese banks are lagging far behind in terms of quantities, and most of the current branches are located mainly in Serbia and the Visegrad countries, leaving Baltic and Balkan counties unexplored.

For the current currency cooperation, China and CEE countries have reached benign consensus, signed memorandums of understanding on cooperation, and taken certain symbolic actions, such as issuing HUF and RMB debit card in Hungary to encourage the use of RMB. However, looking through the general picture, there are only three countries out of the 16 counties that have signed currency swap agreements with China, and only two countries, Poland and Hungary, have ever issued bonds in the market. Other countries have not made any concrete movement after signing the symbolic memorandum of understanding on cooperation, which means that cooperation is superficial but not concrete.

4.2.4 Lack of a risk prevention mechanism

Many CEE countries are faced with the problems of high government debt, strong dependence on foreign investment and financial support from the European Investment Bank and the European Bank for Reconstruction and Development, not to mention the problems of unstable regimes and ethnic conflicts in some CEE countries. When dealing with such problems, there is no mechanism in the "16+1" Financial Cooperation that can be adopted to provide solutions on potential risk evaluation and prevention. Even though memorandums of understanding on financial supervision and risk prevention have been signed, the China-CEEC Interbank Consortium has been established, and the Central Bank's Governor Meeting has been held regularly, concrete steps on financial risk preventions remain to be taken.

5. Suggestions for promoting the China-CEEC financial cooperation

5.1. Continuing to abide by the principle of risk-and-benefit sharing

The implementation of "16+1" Financial Cooperation should avoid creating the image that "China is sending money to CEE countries", and for the sake of the financial sustainability, the amount of favorable loans should be carefully controlled.

Based on the current traditional financing channels, it is necessary to explore more possibilities and encourage the involvement of private sector and social capital in the form of PPPs. At the same time, it is also important to diversify the financing instruments, deepen cooperation in the bond market, increase the direct financing in the global capital market, and augment financial support for the "16+1" Cooperation.

As the "16+1" Cooperation deepens, improving the ability of risk prevention becomes crucial to guarantee the sustainability of cooperation, therefore, it is highly suggested that the Chinese government strengthen its cooperation with CEE countries on regular information communication and supervision and establish mechanisms to deal with financial security issues. So far, the Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries has played a coordinating role in regional financial affairs, which could be a model for the China-CEEC Interbank Consortium in coordinating the collaboration within the "16+1" Cooperation. Similarly, the China-CEEC Interbank Consortium should serve as a coordinating mechanism for leveraging capital and assisting supervision, and contribute to building a multi-level supervision and security mechanism through communication among different parties.

5.2 Actively dealing with the conflict of rules and promoting mutual benefits

First, it is necessary to make the investment strategy more transparent, and actively promote coordination, communication and information-sharing on various platforms. A smooth channel for communication is helpful for increasing the transparency and openness of cooperation, and contributes to a mechanism of risk prevention and emergency responses. Besides, it is also suggested to communicate with other financial institutions in Europe and encourage third parties to participate in the China-CEEC Cooperation.

Second, a thorough understanding and analysis of EU laws and regulations is a must. Such conflicts can only be avoided when there is no blind point in the laws and regulations of targeted countries. For example, to solve the conflict concerning sovereign guarantee, it could be better to develop another commercial financing instrument that does not require any sovereign guarantee.

When it comes to the problem of public biding, compliance with EU requirement on public tenders for any investment project is necessary.

5.3. Expanding the scale of currency swaps and RMB cross-border usage

Closer currency cooperation will not only contribute to promoting multilateral investment and trade, but also reducing the risk of exchange rate fluctuation, strengthening the stability of cooperation and the internationalization of RMB. With the premise of and accurate evaluation of currency swaps and exchange rate fluctuation risks, agreements and renewal agreements on currency swaps are highly encouraged. The momentum of RMB usage brought by the establishment of RMB Clearing Banks and the issuing of HUF and RMB debit card should be kept. Moreover, it is important to ensure the infrastructure construction of the RMB clearance system and unified payment system so as to guarantee the smooth use of RMB.

5.4. RMB financing and green bond cooperation

As one of the largest green bond markets, China has experience in the issuance of green bonds. If the green bonds cooperation could be added to "16+1" Financial Cooperation, more capital would flow into green sectors of CEE countries, which will not only satisfy the economic need on the short term, but also helpful to the sustainability of the economy and society in the CEE region.

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