

# **Interconnection Cooperation Between China and CEECs under the Belt and Road Initiative**

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*Abstract: The interconnection cooperation is important way to improve the relationship and deepening the field of China and CEECs under the “17+1 cooperation” framework. After the Belt and Road Initiative was proposed, the connectivity cooperation of China and CEECs could be included in the five cooperation priorities of B&R. There have been some cooperation fruits of China and CEECs on the connectivity. However, the connectivity cooperation between China and CEECs meets some barriers and challenges, such as less policy coordination, financial problem, trade barrier and insufficient people to people bond. Focusing on the problems above, some recommendations were introduced in the end of paper.*

*Key words: Connectivity China CEECs B&R*

## **1. Introduction**

The core conception of Belt and Road Initiative (B&R) could be concluded as the Interconnection, which includes “hard connection” such as infrastructure and trade, and “soft connection” such as exchanges of rule, system, financing and people to people. The five cooperation priorities of B&R, namely Policy Coordination, Facilities Connective, Unimpeded Trade, Financial Integration and People to People Bond, can be understood as the ways of interconnectivity building in the different cooperation areas. The 16+1 Cooperation is promoting the relationship of China and Central and Eastern European Countries (CEECs) by flourishing trade, investment, infrastructure, financing and culture, which has provided an excellent platform for CEECs to join, construct and share the B&R together. This paper would give some introductions about prospects for connectivity cooperation between China and CEECs, discussed the factors effecting connectivity cooperation and gave some recommendations for the cooperation.

## **2. Prospects for Connectivity Cooperation between China and CEECs**

Obviously, the connectivity cooperation between China and CEECs will benefit all parties and create opportunities. In other words, the cooperation has bright prospects. Firstly, the CEE region has been included in the construction of B&R and could get sufficient supporting policies. The important location of CEE region in the Eurasian continent is often mentioned by strategists. The spirit and content of 16+1 Cooperation are highly compatible with B&R Initiative, although the former was carried out earlier than the latter. The connectivity between China and CEECs is important component of interconnectivity and infrastructure construction of B&R. All the 16 CEECs have signed the cooperation documents with China about the B&R Construction, in which the construction of connective infrastructure was attached great importance by CEEC countries. There are many policies and financing tools under the B&R, such as Silk Road Fund and Asian Infrastructure Investment Bank (AIIB). So under the B&R initiative, a global governance plan promoted by China, connectivity cooperation between China and CEECs will receive many finance and policies support.

Secondly, the ability and source of China in the field of infrastructure construction can improve the connective infrastructure in the CEE region in a more efficient way. Chinese enterprises of infrastructure have rich experience in undertaking large-scale projects. Compared with the infrastructure projects invested by the EU, the infrastructure projects invested and built are more efficient and timesaving. The infrastructure projects

invested by EU would go through a complex process of project approval and implementation, the time of project usually is very long and inefficient. In addition, the technology of infrastructure, relevant equipment, raw materials and labor force of Chinese companies have price advantages, and they have comparative advantage over EU's enterprises in undertaking infrastructure projects in the CEE region.

Thirdly, there is bright future for connective cooperation between China and EU. The improvement of infrastructure conditions in CEE region has been as an EU developing strategy for many years. In the year of 2014, the EU open the "Berlin Process" in the West Balkans Summits and West Balkan countries need to improve their infrastructures in order to integrate to EU market better.<sup>1</sup> In the second West Balkans Summits of 2015, EU has determined to invest 1.2 billion Euros for connectivity construction in the region, of which 1 billion euros will be gradually invested in the next five years. However, the infrastructure connectivity will require 7.7 billion Euros in the future for West Balkans.<sup>2</sup> This situation in West Balkans reflected the dilemma of EU investing the transportation infrastructure in CEE region. Nevertheless, EU has rich experience in making standards and rule of connectivity, and CEE countries have been included into the EU system. It can be said that the EU has more soft influence in CEE region. The "hard power" of China in connectivity construction and the "soft power" of EU in rules are complementary and integrated in CEE region. On the other hand, the B&R initiative is aligned with the EU's strategy for CEECs, which would mean to achieve third-party cooperation between China and the EU in CEE region. So the strategic partnership between China and EU would be greatly deepened by connectivity cooperation in CEE region.

### **3. The Factors Effecting Connectivity Cooperation between China and CEECs**

It seems like that the construction of connectivity includes transportation, communication and so on, in the other words, the infrastructure. However, connectivity involves many factors, such as politics, trade, investment, financing and culture exchange between different countries. Particularly, the CEE countries are differing from each other on economic level, infrastructure condition and demand about connectivity. For China, there are many barriers and difficulties to cooperate with CEECs in the connectivity and the comprehensive approach is needed. The factors effecting connectivity cooperation between China and CEECs should be clarified.

#### **3.1 Policy Coordination**

As a country outside the region, China needs to make policy coordination with CEECs when participate in connectivity projects in the region. It is obviously that the diversity of CEECs makes policy coordination more difficult and costly. The 16 CEE countries differ greatly in terms of social, economic, political environment, history, culture and religious. As a result, these countries have diversified demands for connectivity. It is difficult to work out a connectivity plan that covers the whole region and is in line with multilateral interests. For example, the Baltic countries (Lithuania, Estonia and Latvia) have proposed to build the Baltic Railway, which is a high-speed railway running through the three countries to increase passenger and cargo transportation. However, the three Baltic countries have serious disputes on the route direction, construction standards, equipment procurement and other aspects, and the implementation of the project has been delayed. Only in January 2017 did the three countries sign the agreement about railway project, and the 728km high-speed railway is scheduled to be completed in the year of 2025.

In addition, 11 of the 16 CEE countries have joined the European Union. It needs to coordinate policy with EU when China develops cooperation on connectivity with CEECs. In September 2018, the EU adopted joint communication which titled as Connecting Europe and Asia - Building blocks for an EU Strategy<sup>3</sup>. In this

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<sup>1</sup> Final Declaration by the Chair of the Conference on the Western Balkans, Berlin, 28 August 2014 .  
<http://shtetiweb.org/berlin-process>.

<sup>2</sup> Final Declaration by the Chair of the Vienna Western Balkans Summit , 27 August 2015.  
[http://ec.europa.eu/enlargement/pdf/policy-highlights/regional-cooperation/20150828\\_chairmans\\_conclusions\\_western\\_balkans\\_summit.pdf](http://ec.europa.eu/enlargement/pdf/policy-highlights/regional-cooperation/20150828_chairmans_conclusions_western_balkans_summit.pdf)

<sup>3</sup> Connecting Europe and Asia - Building blocks for an EU Strategy. [https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/\\_014y\\_ZmZOKD0lvjc4Zx1hfTSz91fJMhUGyXRUHp25I/mtime:1537348892/si](https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/_014y_ZmZOKD0lvjc4Zx1hfTSz91fJMhUGyXRUHp25I/mtime:1537348892/si)

communication China was the foremost cooperation partner in connectivity, however, some media interpreted the document as an attempt by the EU to counter China's B&R initiative in the Eurasia. Different interpretations of EU's documents reflect doubts and confusion about the relationship of China and the EU under the B&R. Therefore, policy coordination between China and the EU is a key prerequisite for connectivity under the 16+1 cooperation.

### **3.2 Financial Integration**

The amount of capital investing connectivity construction is beyond the capacity of one country and requires the joint efforts of relevant countries and various types of capital. So the strong financial support is necessary. Since 2012, China has taken the lead in setting up financial security instruments, such as the 10 billion special loans providing to CEE countries, the China-CEECs Investment Cooperation Fund and the China-CEECs Financial Holding co., LTD. In addition, China and CEECs have strengthened cooperation in the financial sector by setting up financial institutions, signing currency swap agreements and issuing bonds.

However, it should also be noted that the financing platforms and tools for bilateral cooperation are funded and led by China, so the financial risk would be mainly taken by China. Financial investment and financing cooperation between China and CEECs is dominated by state-owned funds, and the ability to leverage private capital is limited. The EU has strict rules and regulations on the use of infrastructure funds, to which all parties and funds have to abide. However, China indeed lacks experience and knowledge about EU's rules. Only by solving the above financing problems can the connectivity cooperation between China and CEECs get fully financial guaranteed.

### **3.3 Unimpeded Trade**

Promoting the trade relationship of China and CEECs is the essential force and goal for connectivity cooperation between China and CEECs. Central and eastern Europe is the important node of the Eurasian trade corridor. All the railway freight lines between China and Europe pass through CEE region. The continuous development of economic and trade relations between China and CEECs can drive relevant countries to attach importance to connectivity, especially paying great attentions to the construction of unimpeded trade routes. Compared with traditional maritime transport, China-EU railway express can save 10-15 days. This improvement on time efficiency has been vigorously mentioned by China as a highlight. However, the enthusiast from CEECs for saving transporting time is not very high. As matter of fact, enterprises of CEECs are more concerned about the cost of transportation other than saving transportation time. In other words, the enterprises are thinking about decreasing the prices of goods, raw materials and products, while time saving is a secondary consideration. The production mode and rhythm of most enterprises in Europe have been determined during the long-term development, and the cargo travel time and production rhythm have been well adapted to each other in most of enterprises. The manufacturing industry in Central and Eastern Europe get raw commodity traditional and distribute products mainly through ports around the Western Europe, which is much lower in price than China—Europe railway express. In addition, CEECs have a large trade deficit with China, and the exports from CEECs to China are not increasing quickly. There are limited needs for the products and good made by CEECs to be transported by China—Europe railway express. As a result, the transport capacity of China-Europe railway lines cannot be fully utilized and some rail wagons are empty when return from Europe. Therefore, the flourishing trade between China and CEECs could provide inexhaustible impetus for connectivity cooperation.

### **3.4 People to People Bond**

Some media and think tanks have some doubts about Chinese ability and purposes of connectivity cooperation. The failure case of Chinese company constructing the high speed way in Poland was repeatedly mentioned by scholars and media reports since 2011. As research fellow of think tank from CEE analyzed, there are few transportation infrastructure projects in CEECs. Any infrastructure project will attract the

attention and focus of the public and media. Therefore, failure case will be regarded as poor performance and reputation of enterprise. The public and media in CEECs have more trust in western European companies and Chinese companies are seen as newcomer. Chinese companies are likely to be questioned about their insufficient capacity for projects. <sup>4</sup> In addition, most of the infrastructure projects in CEE are undertaken by Chinese state-owned enterprises, whose status is easily questioned and doubted as the strategic investment with political intentions by China.

The misunderstanding towards Chinese abilities and intentions of connectivity are rooted in unfamiliarity with China by CEECs. In order to dispelling these misunderstandings, people to people exchange is essential, which could make the media and public truly understand China's soft and hard forces and realize the mutually beneficial, open and inclusive nature of the B&R and 16+1 cooperation initiated by China. It is fair to say that people-to-people bond is an important basis for connectivity between China and CEECs.

## **4 Recommendations for Improving Connectivity cooperation between China and CEECs**

By analyzing the factors that affect connectivity cooperation between China and CEECs, some existing issues and obstacles can be found. Some recommendations were carried out in this paper, which could give inspiration to connectivity cooperation between China and CEECs under B&R initiative.

### **4.1 Policy Coordination of China with CEECs and EU**

The rules and regulations are the core system of EU. The member states should take the rules and standards of the EU as guideline of their actions. The EU has doubted the 16+1 cooperation mechanism as Trojan horse, which mean would divide and conquer Europe. China has always announced that 16+1 cooperation is the important part of strategical partnership of China and EU since 2012. China's position of supporting EU and her integration process has never changed and welcome EU's institutes to participate 16+1 the cooperation with CEECs. In order to dispelling EU's doubts, China should advertise her policies, principles and spirits of Consultation, Contribution and Shared Benefits. For China and EU, the policy coordination and synergy of development strategy should be enhanced.

For each CEE countries, the policies about connectivity are various, which are based on the national conditions and demands. Therefore, it is important to conduct in-depth research on specific areas of cooperation from the policy perspective, which means to understand each country's demand for connectivity, identify cooperation projects. Making sure that "one country, one policy" is implemented so that China's competitive technologies and production capacity are in line with the actual needs of CEE countries. For example, there are many people in China who believe that China's technology-leading position on high-speed railway will make cooperation of railway construction to be advantage projects in CEECs. However, in fact, the advantages of China's high-speed railway are not obvious, especially the cost advantages. For example, according to relevant data, the cost of China's high-speed railway is about two-thirds of that of Western Europe countries, but if the difference in price of land costs and labor between China and CEECs are taken into account, the cost advantage of China's high-speed rail will be greatly reduced. Some CEECs' are narrow in land area and there are little demands about high-speed rail way. So the polices and key fields of connectivity cooperation should be various for CEECs.

### **4.2 Using Financial Platform and Exploring New Financing Model**

Some high-level financial cooperation platforms for China and CEECs have been established, such as China-CEEC Inter-Bank Association, Conference of China-CEEC Central Bank Presidents, which have closed relationship with relevant countries' financial departments. These financial cooperation platforms should be used effectively through conducting coordination, information sharing and risk prevention. In order to improve the transparency of cooperation and reducing risks, it need to increase active communication with various financial sectors of relevant countries and rely on local financial service institutions to do consulting business.

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<sup>4</sup> Interview with Richard Turcsany from Institute of Asian Studies, Slovakia, Aug. 16, 2018, in Beijing.

On the other hand, new financial models are needed for the connectivity projects. Firstly, the public-private partnership (PPP) model is welcomed by many CEECs, especially those countries with high government debt. PPP mode transfers part of government responsibilities to enterprises in the form of franchise. The government and enterprises establish a cooperation relationship by benefit and risk sharing and whole-process cooperation, which can reduce the financial burden of the government. The PPP financing model in infrastructure projects should be encouraged by all parties, which would be meet the needs of CEECs on financing. Secondly, strengthen cooperation with international financial organizations, such as the European Bank for Reconstruction and Development (EBRD). The EBRD has lots of experience on participating in investment in CEE region, and acquaintance EU's rule and regulation countries' conditions. It would not only enable Chinese investors to gain experience of investment in Central and Eastern European countries, but also enable Chinese companies to get into the financial markets of CEE through cooperation with EBRD. Last but not least, we need to leverage private capital to participate in financing platforms for infrastructure projects in CEECs. The existing investment funds and financial investment companies should open more to private capital and attract local and global private capital, which would gain greater financial support for the connectivity cooperation.

### **4.3 Building Good Image for Chinese State Owned Enterprises**

Most Chinese participates in the connectivity cooperation of CEECs are state owned enterprises. The status of state-owned enterprises is often be doubted by media and public of CEECS. It is suspected that China is making strategic investment with political intentions in CEE region. However, due to the lack of cooperation experience in infrastructure projects in Europe, Chinese private enterprises do not have enough enthusiasm to engage into the projects in CEECs. In the future, state-owned enterprises will remain the main force of China in participating in infrastructure projects in CEECs.

CEECs should give objective understanding to Chinese state-owned enterprises, which are market-oriented and abide by international trade and investment rules. In participating in CEECs' connectivity cooperation projects, Chinese state-owned enterprises have made great progress in adapting to the environment of the host country, following local laws and regulations and taking on social responsibilities.

For example, the Chinese construction enterprise, SINOHYDRO, has been contracted to build two high-speed roads in Macedonia, which is one of first projects financed by 10 billion USD special loans between China and CEECs. Since the commencement of construction, there have been no organized protests by local residents on the pretext of environmental protection. SINOHYDRO's project department in Macedonia has maintained good relationship and friendly exchange with local residents. In addition to strictly complying with environmental protection standards and doing a good job in project quality, the Chinese enterprise has kept communicating with local media, community and governments. SINOHYDRO proclaimed through the media of Macedonian that it is the company's goal and task to promote local economic development and public transportation conditions by constructing the roads. The company also helped local people to solve the difficulties and troubles in their lives, such as digging wells for the community, repairing the roads washed out by floods. Additionally, this company sand presents and letters of consolation to local government and community. All these have made local people feel that Chinese enterprises are not the so-called economic colonization and cultural aggression hyped by some media.

It can be seen that Chinese stated owned enterprises are undertaking the responsibility and sprit of benefit share, harmony and inclusiveness under China's B&R initiative and 16+1 cooperation.

### **4.4 The Role of Local Governments in the Connectivity Cooperation between China and CEECs**

The cooperation of local governments between China and CEECs is bright spot, which could benefit all the public and improve bilateral cooperation of China and each CEEC. Although China has a vast territory and abundant resources, the economic development level and natural resources conditions of various regions are quite different, which made the demand for cooperation quite different. There is potential for complementarity between China's regional diversities and those of CEECs. The infrastructure, electric power, telecommunications, industrial parks, agriculture, small and medium-sized enterprises, high and new

technologies and other fields will be included into the cooperation of local governments. Some recommendations were put forward as following to improve the local cooperation between China and CEECs.

Firstly, there should be an outline for the local governments which is made by bilateral central governments. There are many cooperation fields for local governments, which would involve national interests and development plans. So the bilateral central governments should discuss and make outlines for connectivity cooperation, which would summarize and give instructions on the priorities, approaches, mechanisms and expected outcomes of the cooperation, thus pointing out the direction and path for bilateral cooperation between local governments.

Secondly, the local cooperation between China and CEECs should focus on the industries or sectors with local advantages. The diversity of CEECs and Chinese local regions make the cooperation more complicated, so respective advantages of China and CEECs should be found and encouraged. The related research institutes and think tanks from China and CEECs could play important role in finding the cooperation advantages. Especially, the enterprises, tank tanks and local governments of CEEC should pay more attention to central and western provinces of China. These provinces are developing faster than eastern region of China. The central and western region of China is experiencing a new round of development and needs new channel and opportunity to cooperate with other regions of world, especially in the fields of infrastructure, agriculture, green industries, people to people and culture exchanges. The connectivity cooperation between local governments of these regions and CEECs is one of the best chances to work closely relation.

Last but not least, for local governments of China, the cooperation with CEECs is to promote opening-up and deepen internal reform. Many local governments of blindly participate in connectivity projects under the B&R in disregard of local conditions, which may easily lead to vicious competition among local governments and waste of resource. For example, many provinces and cities in China are engaged in the China—Europe railway Express and subsidize the operation and transportation, which result in competition among the local governments. In the future, Chinese local governments will be guided by central government and coordinate the policies and actions of cooperation with CEECs.

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