

TRADE AND ECONOMIC COOPERATION BETWEEN CHINA AND CENTRAL AND EASTERN EUROPEAN COUNTRIES UNDER THE BELT AND ROAD INITIATIVE¹

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1. Introduction

Since 2012, China and 16 Central and Eastern European countries have signed a series of agreements on how to promote the cooperation between them. It includes „12 measures for promoting friendly cooperation in 2012“, „Bucharest outline in 2013“, „Belgrade outline in 2014“ and „Medium-term project for both sides in 2015“. These agreements represent both sides' will and determination to promote the cooperation between the parties. In these agreements trade and economic cooperation is one of the most important parts. As China's Belt and Road initiative is coming to the next level, it provides a great opportunity to speed up the development of trade and economic cooperation between both sides. It is significant to grab this opportunity and enhance the trade and economic cooperation between both sides, reaching to a win-win situation.

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China's Belt and Road Initiative has been raised by China's President Xi Jinping in 2013 when he visited Middle and Southeast Asia. The „belt“ stands for „Silk Road Economic Belt“. It includes three directions. The first one is from China to Central Asia, Russia and Europe.

The second one is from China to Central Asia, West Asia, the Persian Gulf and Mediterranean. The last one is from China to Southeast Asia, South Asia and Indian Ocean. The „road“ means „21st Century Maritime Silk Road“. It focuses on two directions. One is from harbors in China to Indian Ocean, stretching to Europe.

The other is from harbors in China to the South China Sea and South Pacific. In 2015, China presented the vision for the Belt and Road Initiative. Its main work is to cooperate with countries along the Belt and Road in five fields: policy coordination, facilities connectivity, trade, financial integration and people-to-people communication, reaching the goal of promoting economic cooperation and prosperity of countries along the Belt and Road.



Map (the three road lines: Silk Road Economic Belt and the two maritime lines: 21st Century Maritime Silk Road)

Europe plays a significant role in the initiative, and the 16 European countries² are located between the Asia and the West Europe just like a bridge. There is great potential and complementarities between China and the 16 countries. For example, the 16 countries have the advantage of technology and management experience. China's advantages are labor intensity and huge market opportunities. Nowadays, the trade between China and the 16 countries is mainly in goods while trade in services is rare. In addition, currently the investment fields are narrow. Taking all these problems into account, it is necessary to analyse the issue of trade and economic cooperation between China and 16 countries under the Belt and Road Initiative.

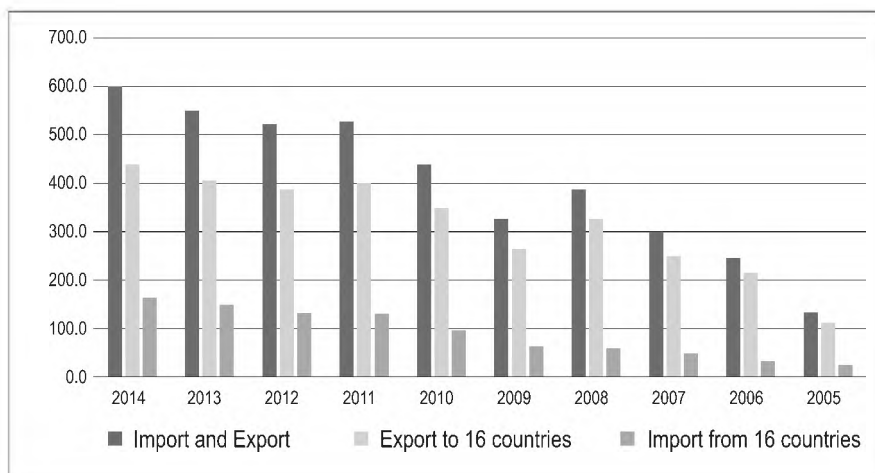
² The 16 countries include: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.

2. The current situation of trade and economic cooperation between China and 16 countries

The bilateral trade is growing significantly

Recently, the trade between China and the 16 European countries is growing significantly. As graph 1 indicates, during the period 2005-2014, the amount of trade between two sides has expanded from 131.8 to 602.1 hundred million US dollars, the average annual growth comes to 35.7%, and its proportion for China-Europe trade amount rises from 5% to 7.8%. Influenced by the international financial crisis in 2008, the trade amount between China and 16 countries declined from 385.4 hundred million US dollars in 2008 to 323.2 hundred million US dollars in 2009. In the next two years, however, the trade amount recovered rapidly, and the year-on-year growth reached 35.8% in 2010 and 20.6% in 2011. Even in 2012, when the world underwent a period of economic slowdown and China had an adjustment of the industrial structure, the trade amount between two sides still came to 520.6 hundred million US dollars. In 2014, the trade amount rose to the greatest of 602.1 hundred million US dollars, while the amount for export from China is 437 hundred million US dollars, 7.8% year-on-year growth, and the amount for import in China is 165.1 hundred million US dollars, 13.3% year-on-year growth. China's trade amount with 16 countries keeps stable and increases year by year, but we should realise that as for 16 countries, EU is still their main trade market. It means that there is a room for improvement of trade relations of these countries with China.

Graph 1. 2005 - 2014 Import and Export Between China and 16 countries
(Unit: Hundred Million US Dollars)



(Data from China Statistical Yearbook)

China is keeping trade surplus to the 16 countries consistently

As we can see from table 1, China is keeping trade surplus to 16 countries consistently, but it did not expand recently. Since 2010, the trade surplus has been kept at a level of

250-270 hundred million US dollars. After China and 16 countries signed the cooperation agreements in 2012, both China's import and export to 16 countries rise significantly, but the growth of import in China is higher than the export of China to these countries. From 2012 to 2014, the year-on-year growth of China's export to 16 countries is 4.4% and 7.8%, while the year-on-year growth of China's import from these countries is 9.9% and 13.3%.

In 2014, the top 5 countries of China's trade surplus to 16 countries are Poland (113.2 hundred million US dollars), Czech Republic (50.1 hundred million US dollars), Hungary (25 hundred million US dollars), Romania (17 hundred million US dollars), and Slovenia (16.6 hundred million US dollars), while there are only 2 countries with trade deficit for China, they are Slovakia (5.5 hundred million US dollars) and the Republic of Macedonia (0.1 hundred million US dollars).

China can actively adjust the trade policies with the 16 countries, in order to encourage Chinese enterprises to expand import of varieties of goods from the 16 countries. In fact, the 16 countries have comparative advantages for many types of products. For example, in Poland, the production and export volume of primary products such as coal, sulfur, copper and silver rank at the top of the world. In terms of manufactured goods, the 16 countries have advantages on industries such as automobile manufacturing, shipbuilding, aviation industry, sewage treatment, brewing and pharmaceutical, life sciences. China's expanding imports of resource-based products from the 16 countries, not only can promote the diversification of trade structure, but it can also provide raw materials for China's rapid economic development and ease the trade imbalances with the 16 countries.

**Table 1: China's trade with 16 Countries
and trade balance (2005-2014)**

Year	Import and Export	Export to 16 Countries	Import from 16 Countries	Trade Balance
2014	602.1	437.0	165.1	271.9
2013	550.9	405.2	145.7	259.5
2012	520.6	388.0	132.5	255.5
2011	529.1	401.6	127.5	274.1
2010	438.9	345.9	93.0	252.9
2009	323.2	262.7	60.5	202.2
2008	385.4	327.4	58.0	269.4
2007	297.3	249.8	47.6	202.2
2006	244.4	213.0	31.4	181.6
2005	131.8	110.0	21.8	88.2

Unit: Hundred Million US Dollars (Data from China Statistical Yearbook)

China's trade to the 16 countries mainly concentrates on several countries

In the last decade, Poland has been China's main trade partner among the 16 countries, while Czech Republic, Hungary, Slovakia and Romania are from second to fifth, which can be seen from table 2.

China's trade to the 16 countries mainly concentrates on these five countries. For example, China's trade to Poland accounts for 28.55% of China's trade with the 16 countries, and the top 5 countries account for nearly 80%.

From 2005-2014, China's trade to the top 8 countries keep stable at the level of 90%. Bulgaria is usually between the 6th and 8th place and its proportion accounts between 2.28 % and 7.63% of the trade with the 16 countries depending on the respective year.

As we can see from the data, China has a successful trade partnership with the top 5 countries, because of the traditional friendly relationship built between sides long before. These countries have outstanding advantages on resources endowment, human quality and geographical location. The data also indicates that there is a lot of potential to be discovered in other 11 countries, since the last 8 countries only account for 10% of China's trade to the whole 16 countries.

3. China's investments in 16 countries make some breakthrough

As indicated in table 3, from 2004 to 2013, China's Foreign Direct Investment (FDI) in 16 countries rises from 0.47 hundred million US dollars to 14.2 hundred million US dollars. Hungary, Poland, Czech Republic, Romania and Bulgaria are the top 5 target countries where China makes its investments.

Until the end of 2013, China's FDI in these 5 countries has reached 12.9 hundred million US dollars, accounting for 90% of the total 16 countries.

The European debt crisis in 2010 has become an important incentive for the 16 countries to improve their investment environment. The 16 countries have become investment targets.

Due to the European debt crisis, economic growth of the 16 countries slowed down. In order to promote the country's economic growth, most of the countries adopt measures for attracting external direct investment as important means of financing. They further implement policies on external direct investment, develop more specific policy for investment liberalisation and investment promotion and orient the external direct investment to their specific industries, such as electricity, gas, transportation and communications.

Table 2. China's trade with the Central and Eastern European Countries and its proportion (top 8, 2005 - 2014)
Unit: Ten Thousand US Dollars

2014			2013			2012			2011			2010		
Country	Export & Import	Proportion %	Country	Export & Import	Proportion %	Country	Export & Import	Proportion %	Country	Export & Import	Proportion %	Country	Export & Import	Proportion %
Poland	1719154	28,55%	Poland	1480667	26,88%	Poland	1433336	27,63%	Poland	1298752	24,55%	Poland	1113491	25,37%
Czech Republic	1097959	18,23%	Czech Republic	945272	17,16%	Czech Republic	873003	16,77%	Czech Republic	998733	18,88%	Czech Republic	884953	20,16%
Hungary	902407	14,99%	Hungary	840743	15,26%	Hungary	806107	15,48%	Hungary	925824	17,50%	Hungary	871601	19,86%
Slovakia	620458	10,30%	Slovakia	654259	11,88%	Slovakia	607826	11,68%	Slovakia	596995	11,28%	Romania	376059	8,57%
Romania	474385	7,88%	Romania	403004	7,31%	Romania	377675	7,25%	Romania	440002	8,32%	Slovakia	374904	8,54%
Slovenia	232340	3,86%	Slovenia	213561	3,88%	Bulgaria	189346	3,64%	Slovenia	187741	3,55%	Slovenia	156213	3,56%
Bulgaria	216292	3,59%	Bulgaria	207373	3,76%	Slovenia	182267	3,50%	Croatia	162046	3,06%	Croatia	139462	3,18%
The Re-public of Lithuania	181578	3,02%	The Re-public of Lithuania	181096	3,29%	The Re-public of Lithuania	171992	3,30%	Bulgaria	146490	2,77%	The Re-public of Lithuania	102449	2,33%
Total		90,42%	Total		89,41%	Total		89,26%	Total		89,90%	Total		91,58%
2009			2008			2007			2006			2005		
Country	Export & Import	Proportion %	Country	Export & Import	Proportion %	Country	Export & Import	Proportion %	Country	Export & Import	Proportion %	Country	Export & Import	Proportion %
Poland	899290	27,82%	Poland	1043480	27,08%	Poland	766518	25,78%	Romania	631633	25,85%	Poland	315276	23,93%
Czech Republic	680967	21,07%	Hungary	747906	19,41%	Hungary	622504	20,94%	Poland	467330	19,12%	Hungary	285902	21,70%
Hungary	615551	19,04%	Czech Rep.	650019	16,87%	Czech Rep.	496558	16,70%	Hungary	398660	16,31%	Czech Rep.	203919	15,48%
Romania	281056	8,70%	Romania	324982	8,43%	Romania	236570	7,96%	Czech Rep.	288253	11,79%	Romania	166157	12,61%
Slovakia	229651	7,10%	Slovakia	294977	7,65%	Slovakia	220592	7,42%	Bulgaria	186467	7,63%	Croatia	61749	4,69%
Croatia	119350	3,69%	Croatia	180982	4,70%	Croatia	158288	5,32%	Croatia	93342	3,82%	Bulgaria	53076	4,03%
Slovenia	89649	2,77%	Bulgaria	134163	3,48%	Bulgaria	97066	3,26%	Slovakia	91369	3,74%	Slovakia	49138	3,73%
Bulgaria	73715	2,28%	Slovenia	109576	2,84%	The Re-public of Lithuania	82183	2,76%	Estonia	74101	3,03%	The Re-public of Lithuania	37219	2,82%
Total		92,48%	Total		90,47%	Total		90,15%	Total		91,30%	Total		88,98%

Data from China Statistical Yearbook)

Since 2013, the agreements of cooperation between both sides have greatly promoted China's investment in the 16 countries. Besides of the listed 5 countries, China's investments in Serbia and the Republic of Macedonia have achieved a great breakthrough. The investment fields range from mechanical and chemical to telecom and logistics.

Recently, Chinese enterprises' investments in the 16 countries have increased considerably. The enterprises include Huawei, ZTE, Lenovo, TCL, Great Wall Motor, BYD and so on. Merger and acquisition for Chinese enterprises have been made. For example, in 2011 Wanhua Industrial Group in China purchased 96% shares of the Borsod Group in Hungary. In 2013, Xiangyang automobile in China purchased 89.15% shares of KFLT in Poland.

To sum up, China's investment in the 16 European countries has three characteristics. First, focusing on the integrity of the investment distribution. Second, investing in industries with specific characteristics. Third, investing primarily in countries with good cooperation practices and then in other countries.

Table 3. China's FDI to Europe and 16 countries (2004 - 2013)
Unit: Ten Thousand US Dollars

country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Europe	67665	127293	226982	445854	513396	867678	1571031	2445003	3697512	5316196
Albania	-	50	51	51	51	435	443	443	443	703
Bosna and Herzegovina	401	351	351	351	351	592	598	601	607	613
Bulgaria	146	299	474	474	474	231	1860	7256	12674	14985
Croatia	-	75	75	784	784	810	813	818	863	831
Czech Republic	111	138	1467	1964	3243	4934	5233	6683	20245	20468
Hungary	542	281	5365	7817	8875	9741	46570	47535	50741	53235
Latvia	161	161	231	57	57	54	54	54	54	54
The Republic of Lithuania	-	393	393	393	393	393	393	393	697	1248
The Republic of Macedonia	-	20	20	20	20	20	20	20	26	209
Poland	287	1239	8718	9893	10993	12030	14031	20126	20811	25704
Romania	3110	3943	6563	7288	8566	9334	12495	12583	16109	14513
Serbia	-	-	-	200	200	268	484	505	647	1854
The Republic of Montenegro	-	-	-	32	32	-	-	-	-	-
Slovakia	10	10	10	510	510	936	982	2578	8601	8277
Slovenia	-	12	140	140	140	500	500	500	500	500
16 countries	4768	6922	23807	29923	34638	39843	84033	99652	132575	142491

Data from 2013 Statistical Bulletin of China's OFDI

4. Problems of trade and economic cooperation between China and the 16 countries

Some of the problems of the trade and economic cooperation between China and 16 countries are the following. First, there is a trade imbalance between two sides and China is keeping trade surplus to 16 countries consistently. China's import from 16 countries is rising in recent years, but China's export is so great that the import could not catch up in a short time, which may bring some negative influences to the bilateral trade partnership. Second, the amount of investment between China and the 16 countries is not satisfactory enough. Enterprises are not quite familiar with the target countries' markets and commercial cultures. Chinese enterprises have little investment in new member states of the EU.

5. The prospects of trade and economic cooperation between China and 16 countries

Under the Belt and Road Initiative, China and 16 countries should base their relations on the agreements between them, shall further enhance the scale of bilateral trade, increase the investment and expand the financing channels.

Cooperation on the infrastructure construction

Chinese enterprises have lots of experience on infrastructure construction. At the same time, the 16 countries have huge demands on infrastructure construction, such as the construction of harbors, railways, highways, power stations and so on. Chinese enterprises could take part in the construction of engineering contracting, PPP (public-private partnership), BOT (build-operate-transfer) etc. Chinese enterprises should also know more about the laws, regulations and investment environment in the 16 countries.

Cooperation on the equipment manufacturing industry

China has advantages in equipment manufacturing, such as the railway, electricity, harbor and chemical. The equipment from China has excellent qualities on reasonable prices. Combining China's equipment manufacturing with the 16 countries' infrastructure construction will not only promote the 16 countries' economic development but also fully use China's manufacturing capacity. For example, China's technology on high-speed railway could help building railway from China to the 16 countries, which will make trade easier. China and 16 countries can also cooperate on the industries of environmental protection and energy sources.

Construction on new investing and financing cooperation outline

In 2012, China established a special loan for the 16 countries with 10 billion US dollars, which means that the 16 countries could apply for the loan to enhance their infrastructure construction. In 2014, China established the Investment Cooperation Fund with 3 billion US dollars and also 40 billion US dollars of the Silk Road fund, which would provide great

support for the cooperation between China and the 16 countries. Basing on these funds, both sides could work together and build a new investing and financing cooperation outline, such as reducing the cost of financing, encouraging enterprises and financial institutes in 16 countries to issue bonds of CNY (China Yuan) and so on.

6. Conclusion: Promoting further trade between China and the 16 countries

Both China and the 16 countries should strengthen their industries and continue to cooperate. To be specific, both sides should enhance cooperation on customs, quality certification and make them more convenient; promote the negotiation on the agreements of investment between China and Europe. There are good opportunities for beneficial cooperation both in terms of trade and Foreign Direct Investment. All the 16 countries are currently EU Member States, Candidate Countries or potential Candidate Countries for EU membership. Enhancing the cooperation between China and these countries will also strengthen the trade and economic relations between China and the European Union.

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