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IN BRIEF

The 17+1 Mechanism: Something Doesn't Add Up

Re-Evaluating Cooperation Between China and Central and Eastern European Countries

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In 2012 the '16+1' initiative was officially launched with the aim of formalising a cooperation mechanism between Central and Eastern Europe (CEE)[1] and China. The goal of the partnership is to promote cooperation in infrastructure projects, trade, investment, and tourism, which would be beneficial to both sides. The launch came about in the aftermath of the 2008 financial crisis and the subsequent economic downturn in Europe, which brought rising unemployment in a number of EU countries and put severe strains on national budgets. China saw this as an opportunity to step up and engage with both EU and non-EU countries in order to increase its presence and open up additional export avenues. In 2019 Greece officially joined the initiative, which has since been dubbed the '17+1'. China's efforts were strategic as this framework set the scene for Beijing to expand its Belt and Road Initiative (BRI) onto European soil. In essence, the 17+1 mechanism should be seen as an effective conduit between CEE countries and BRI projects.

From the perspective of 2012, such an arrangement with Beijing made sense for the participating CEE countries. China had established itself as the EU's second-largest trading partner, while its sustained economic growth and integration into global supply chains gave promising assurances for its future trade clout. Moreover, stringent austerity policies, rising deficits, and low levels of public investment had made numerous European leaders pessimistic about their countries' economic outlooks. For many countries in the region, the China-CEE mechanism was an intelligent way to hedge long-term bets.

Beijing did make a tempting offer. Early on, the Chinese Prime Minister Wen Jiabao pledged the creation of a $10 billion credit line to support Chinese investment throughout the region. In 2012, the Asian country set a high goal of achieving $100 billion in China–CEE trade by 2015. Additionally, a number of megaprojects were announced in the following years. China agreed to support the multi-billion-euro high-speed rail project between Budapest and Belgrade, and Chinese financial credit and construction companies supported the work on Montenegro's first national motorway. An extensive public relations campaign among the media outlets of various CEE countries hyped up the upcoming Chinese investments and the potential windfalls of the projects and employment opportunities.

Broken promises

Almost a decade after the launch of the platform, the majority of the participating countries have realised that Beijing has under-delivered on its commitments. It is apparent that a huge slice of the available investment and credit has been heavily in favour of the five non-EU countries. This is a reflection of China's separate agenda to increase its influence in the Western Balkans. Chinese policymakers and businesses aim to become firmly embedded in infrastructure projects and investment

[1] The participating countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia.

deals while these countries are not fully bound by European legislation and regulatory standards. Among other factors, this is an opportunity to provide business for Chinese companies and Chinese workers, who are usually deployed on-site for the implementation of these projects.

When it comes to EU countries, research estimates indicate the grim reality for CEE investment trends. Cumulative Chinese investment in the 12 EU member states participating in the 17+1 initiative between 2012 and 2019 was lower than the investments China made in individual Western European countries such as Finland or the Netherlands in the same period. Overall, between 2010 and 2019, Chinese foreign direct investment (FDI) in CEE EU members averaged around 2% of total Chinese FDI to Europe, which is a much lower proportion than the region's population or its share of EU GDP.

In parallel, the expected positive trade spillover from the enhanced cooperation between Beijing and CEE simply has not happened. A detailed study dedicated to the 17+1 framework shows that the outcome of CEE trade with China is constantly rising trade deficits, amounting to $75 billion in 2018. Cases in point are the four Visegrád countries (Hungary, Czechia, Slovakia, and Poland), who have each registered a modest increase in exports to China and a surge in Chinese imports. Similar trends are visible for other countries in the region. In the last decade, China has fulfilled its promise of boosting the trade of goods, but with one major caveat—the trade flows are mostly one-way traffic from China to CEE.

It is somewhat embarrassing to try to compare the benefits of the China–CEE mechanism with EU membership. A huge part of the EU budget is devoted directly to supporting countries in Southern, Eastern and Central Europe to develop heavy infrastructure, improve connectivity and raise living standards. Take Poland, for example. As the biggest beneficiary of European Structural and Investment Funds, the country was allocated more than €80 billion in the period 2014–20. All of the EU CEE countries benefit from receiving up to 4% of their annual GDP from the various European funds. In the period 2015–17, the EU's Cohesion Policy funding accounted for more than a third of the public investment made in 13 countries—and in 7 of them the figure is close to (or goes beyond) a staggering 50%. That is without mentioning the benefits of the European single market, frictionless trade and the appeal of EU membership for third-country investors.

Beijing has been far from a magnanimous, good-willed partner for European countries. The more one digs into the details of the joint projects and credit lines, the more one becomes aware of the broken promises, incompetence and a hidden agenda on China's part. Focusing on some of the most ambitious BRI megaprojects in the region, there is additional cause for alarm. The planned high-speed Budapest–Belgrade rail network, supported by mammoth Chinese loans, has been mired in controversy surrounding the legality of the development and the overall debt sustainability of the project. In a recent unusual statement, Montenegro's deputy prime minister called on the EU to help reduce the country's debt dependency on China, which has been substantially increased by the Chinese-financed national motorway project. The unsustainability of these debts is a reminder of the harsh criticism the BRI has already received in Asia and Africa regarding its debt-trap diplomacy and the pitfalls of trying to secure quick deals with China under 'favourable' terms.

Finally, even the operational format under which the China–CEE cooperation framework has been set up demonstrates one-sidedness and organisational inadequacies. The partner countries have had annual meetings in different European capitals since its inception, thus sending the signal that an institutionalised framework exists. However, behind this multilateral veneer, we find the effective exercise of power by Beijing over the individual countries.[2] Scholars studying the 17+1 framework have described it as a form of 'multilateral bilateralism' which places China in the middle, with the rest of the countries arrayed around it with little to no cooperation among themselves. For example, Greece's entry to the mechanism came after the signing of a one-to-one agreement between Athens and Beijing, with little prior consultation with the rest of the members. Such bilateralism has become part of the operational design of the mechanism. China coordinates bilaterally with all of the countries prior

[2] For a longer discussion of China's approach to the BRI and its overall agenda, see J. E. Hillman, *The Emperor's New Road: China and the Project of the Century* (2020).

to the official meetings, while internal coordination between the EU's CEE members is haphazard.

The entire framework of 17+1 has provided the Asian country with a strong agenda-setting role and has also given Beijing additional room to manoeuvre when it comes to formal commitments and the execution of projects. Regrettably, China has shaped the whole mechanism to resemble its own institutional governance—heavy on promises and posturing, but light on transparency and open deliberation.

A new decade, a new reality

These developments have darkened the mood for many of the European member states, which are still unable to see any actual benefits of all the political pledges and lengthy summits. The 2020 China–CEE summit was postponed due to the COVID-19 pandemic and took place in a virtual format in early 2021. This long pause was a moment of reckoning for many European capitals. While President Xi Jinping was expecting to converse with the heads of state or government of all the members of the mechanism, six CEE countries (Bulgaria, Estonia, Latvia, Lithuania, Romania, and Slovenia) decided that lower-ranking ministers should attend the 2021 digital summit. At the meeting, several countries voiced their dissatisfaction with access to Chinese markets and the overall trade dynamic. Even Czech President Miloš Zeman, one of the staunchest political supporters of the 17+1 initiative, publicly acknowledged his disappointment at the lack of substantial investment in his country.

The most damning critique of China's CEE partnership came from Lithuania. The country's foreign minister described the 17+1 as an initiative which is dividing EU member states and bringing little actual benefit for Europeans. The Lithuanian parliamentary committee on foreign affairs has recently called for the country to leave the cooperation mechanism. Similar concerns about the usefulness of the mechanism are shared by Estonia, which signals that a rift between Beijing and the Baltics on the 17+1 is imminent.

Beijing has recently suffered an additional blow on the technological front in CEE. In 2020, the US launched its 'Clean Network' diplomatic initiative, which bluntly states that its aim is to 'guard our citizens' privacy and our companies' most sensitive information from aggressive intrusions by malign actors, such as the Chinese Communist Party'. The US State Department has been quite active on this front, securing the signatures of many EU countries in a diplomatic offensive that limits the penetration of telecommunications companies such as Huawei or ZTE within the EU. As of late 2020, the majority of the countries participating in the 17+1 initiative had signed an agreement with the US on the Clean Network or adopted national regulations that exclude untrusted vendors.

The tumultuous months in the wake of the COVID-19 pandemic also marked a discernible shift in European public opinion regarding the People's Republic of China. Unfavourable views of China have reached historic highs in many countries given the poor handling of the outbreak by Beijing and its aggressive diplomatic endeavours throughout the year. Additionally, European citizens watched with distaste as China triggered a crackdown on pro-democracy protests in Hong Kong and blatantly breached the Sino-British Joint Declaration, which guarantees Hong Kong's high degree of autonomy. Most shockingly, China continues its violent, large-scale incarceration and re-education of Uighur Muslims and other minorities in the region of Xinjiang. China's abhorrent actions have been recognised as an active policy of genocide by the US State Department, as well as by the legislatures of Canada and the Netherlands, with Lithuania likely to join them in the future.

The rocky geopolitical ride of 2020 culminated with the agreement in principle of the EU–China Comprehensive Agreement on Investment (CAI). The agreement is a theoretical step forward in providing improved market access and investment opportunities for European companies. From CEE's perspective, the CAI will mostly serve the interests of the leading European companies in Western Europe, especially given that the intra-EU political push has come from the biggest EU member states. The future of the EU–China investment agreement is shrouded in uncertainty as it needs to be ratified by the EU Council and the European Parliament. China's deplorable labour and human rights track record, as well as recent Chinese sanctions against European parliamentarians, make the ratification of the CAI extremely unlikely for the time being.

Policy recommendations for EU member states

On the question of how one becomes bankrupt, Ernest Hemingway famously quipped: '*Two ways—gradually, and then suddenly*'. The 17+1 mechanism has been in gradual decline for some time, with little to no positive trade or investment spillovers for the majority of its European partners. Moreover, the political reality of 2021 is quite different from the one in 2012. China is far from the benevolent partner looking for investment opportunities that it once claimed to be. It has become Europe's competitor and systemic rival on numerous vital fronts. The current Sino-US confrontation on trade and technology is just a precursor to the escalating clashes between democracies and authoritarian regimes globally. The CEE EU member countries should be aware of the changing dynamics and reposition themselves within the 17+1 mechanism in order to pursue their joint national and European strategic interests. Bearing all this in mind, the following policy recommendations can be made:

1. Reform. As it stands, the 17+1 mechanism's usefulness for European member states does not add up. The CEE EU countries should make a co-ordinated effort to revamp the initiative and openly address the rising trade deficit and unequal access to Chinese markets. If this is not achieved, the EU partner countries should consider abandoning the defunct Chinese initiative altogether. EU CEE capitals should not allow the mechanism just to linger on unreformed as this mostly serves the political and economic interests of China.

2. Regroup. European partners should explore ways to better coordinate internally as the initiative is heavily tipped in favour of Beijing when it comes to agenda-setting and future priorities. Annual meetings should be preceded by intra-EU coordination that excludes Chinese counterparts. European capitals should also use the '17+1' mechanism to improve dialogue with the Western Balkans and accommodate some of the concerns of these countries when dealing with China. This is of long-term interest to the EU as it would help to better integrate potential future member states and counter China's soft-power advances in the region.

3. Respond. The China–CEE partnership is also a marketing tool for promoting Chinese BRI projects on European soil. National and local authorities should be extremely cautious of their involvement with large-scale projects, which are a potential liability when it comes to European public procurement rules. BRI projects may also lead to unsustainable levels of debt and put pressure on national leaders to grant political favours to China in the future. National administrations should make sure that they cooperate quickly and effectively with the European Commission to boost the effectiveness of the recently launched EU foreign investment screening mechanism. The screening should also be applied to foreign media investments—an area where China has been quite active in a number of EU countries. Regulators should also be on guard against hostile takeovers from state-backed enterprises, which strategically buy shares in CEE EU companies.

4. Secure the digital Eastern front. CEE countries should further their efforts to oppose the rollout of 5G infrastructure and the penetration of telecommunications services by untrusted vendors. The Clean Network initiative is a welcome first step. The region should be part of the EU's wider efforts to increase cyber resilience and protect critical digital infrastructure. China has a grim track record of cyber-espionage, online censorship, and illicit citizen monitoring through surveillance technology. CEE's own bitter experience with Soviet totalitarianism should help the region become a bulwark against the digital offensive of the Chinese Communist Party and its proxy companies.

5. Explore alternatives. It is clear that China will not be the benevolent benefactor solving the region's problems related to connectivity, infrastructure, and low levels of FDI. European CEE governments should actively explore opportunities to strengthen other cooperation mechanisms that could improve transport, energy and digital infrastructure in the region, such as the Three Seas Initiative. National economic and commercial attachés should be on the lookout for new trade opportunities in Asia given the worsening trade deficits, as well as the high level of dependence on China for a myriad of goods and raw materials. Lastly, CEE governments should ensure that they make the most of the EU's Recovery plan for restoring and modernising their economies and making them more sustainable.

6. Stand up for European values and interests. The 17+1 initiative has been regarded with suspicion as a potential Chinese Trojan horse aimed at dividing European partners. Even if this does not hold true for the majority of CEE countries, there are already visible cracks. Hungary's gamble with taking huge Chinese loans and breaking ranks by relying on the less-effective Chinese COVID-19 vaccine is a cause of deep concern. The recent repositioning and audible criticism from many CEE EU members towards China should be a clear signal that the region can stand united behind European values and common interests. China must be reminded that it is dealing with mature EU economies and state institutions. CEE EU members should use this opportunity to take a vocal stand on the thorniest issues that they are facing in order to contribute to and shape the EU's common position towards China.

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