

# BULLETIN

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## China's Policy towards Central and Eastern Europe

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*China's interest in Central and Eastern European countries has grown considerably in recent years. It could be seen as a new direction in Chinese foreign policy. China's aims are mainly economic—to enter the European market through the “eastern door” and become present in the region by increasing direct investments and manufacturing. This policy is consistent with the “going out” strategy that encourages Chinese companies to invest abroad. So far, political and cultural issues play a supporting role in obtaining economic goals. The largest Chinese economic mission to Warsaw so far was in April and is proof that China is also interested in closer cooperation with Poland.*

The PRC's policy toward Central and Eastern Europe (CEE) is based on *China's EU Policy Paper* published in October 2003. Furthermore, the relevant recommendations that can be perceived as advice for Chinese authorities are presented in the *Report on China's Policy toward Central and Eastern European Countries*, prepared by the China Institute of Contemporary International Relations (CICIR) and published in the *Contemporary International Relations* journal at the end of 2003. Despite the lack of public documents about the strategy toward the CEE, it seems plausible that the PRC has a coherent policy toward Europe, which is being implemented now.

**China's Goals.** The Chinese policy toward CEE has three dimensions: economic, with the most important dimension being the PRC's influence on Europe; political, which at present plays a supporting role in achieving economic goals; and, education and culture, which are seen as soft-power tools through which China wants to warm relations with the region and create a positive image of the PRC.

As for the economy, China is interested in pushing forward business relations. Its main goal is to upgrade the level of cooperation, show appreciation for partners, extend areas of cooperation and “tie” CEE countries to China. The PRC also intends to change the structure of trade with CEE countries so that Chinese exports would consist mainly of products with high-technology input. One of the most important goals is better implementation of the “going out” strategy, which was announced in 2001 and recently repeated in the 12<sup>th</sup> Five Year Guideline (2011-2015). It assumes an increase in Chinese investments abroad. The PRC concentrates on foreign direct investments in CEE countries as a way to circumvent the EU's trade barriers (e.g., antidumping procedures, high import tariffs, etc.). Additionally, China uses foreign chain stores in the CEE to increase exports to these countries (chain stores are the main clients of Chinese exporters). The PRC also wants to create a positive image of its brands, which must be associated with high-quality goods and services and to use China's foreign exchange reserves for investment on the CEE market.

In politics, China wants to intensify mutual visits at a high level, which could help create a positive political climate. It fits the foreign policy approach where the process of achieving economic goals should be widely supported by the Chinese authorities and diplomatic staff. China also encourages politicians, businessmen and tourists from CEE countries to make visits to China in order to acknowledge the scale of Chinese transformation. Chinese authorities also pursue support from CEE countries to grant Market Economy Status to PRC, provide relief from anti-dumping procedures and an arms embargo.

In education and culture, China makes attempts for better mutual understanding. The PRC is aware that after 1989, CEE countries have hostile attitudes toward communist regimes, so it tries to improve its image by promoting the success of modernization and the so-called “Chinese model”

using also culture and education. The PRC establishes Confucius Institutes (there are 21 Institutes in CEE countries), offers studies in the PRC and takes part in cultural events in the CEE.

**China's Policy in Practice.** China's new foreign policy towards Europe could be fully implemented by the next generation of Chinese leaders. But what should be strongly highlighted is that China is not entering Europe in "one big jump." It has been doing it gradually and carefully.

The PRC goes to these countries where it has enough space to operate, such as places where economic assistance is needed, especially in the face of the global economic crisis (the PRC is able to provide financial support using its foreign exchange reserves). In other words, China appears to come to countries where others withdraw or do not see opportunities. A good example is the offer made in 2009 to Moldavia to provide it with a loan worth \$1 billion, mainly for infrastructure projects. China also offered a \$1 billion loan to Belarus during Chinese vice-Chairman Xi Jinping's visit to Minsk in 2010.

The PRC takes advantage of its "friendship" with particular CEE countries, e.g., Hungary, Bulgaria, Romania, Ukraine and Belarus. These states maintain good relations with China and rarely put on the agenda sensitive issues like human rights, Tibet or Taiwan. For example in 2009 and 2010, the probable next leader of China, Xi Jinping, paid two visits to Europe, including to CEE countries. In 2009, he visited Bulgaria, Hungary and Romania, and in 2010, Belarus. It could be perceived as a signal that these countries, and generally speaking Eastern Europe, will be one of the directions for China's foreign policy under Xi's leadership.

China takes advantage of the lack of a coherent EU policy and uses a "charm offensive" in the CEE to try to circumvent EU rules in order to "tie" these states to China. For example, China is interested in car manufacturing in Bulgaria and Slovakia, and in building logistic and transit points for Chinese exports destined for Europe in the port of Tallinn and a European hub for China in Hungary. Additionally, China is assumed to be more present in Europe in banking service. At present, the sole branch of Bank of China in CEE is in Budapest. But probably in 2011, a branch of one of the Chinese banks will be established in Poland.

The PRC uses very similar instruments in its engagement with the CEE as the tools it has been using for years in "traditional" involvement areas, such as in Africa, Latin America, and Asia. This policy is based on the so-called "win-win" strategy, which means benefits for both sides. This policy comprises not only preferential loans, but also other forms of cooperation, such as establishing with a host country industrial zones for high-technology parks and R&D bases or building Chinese factories in the CEE to produce high-quality goods outside China using relatively low (compared to other European countries) labour costs in the host country in order to reduce transport costs and avoid customs. For example, in 2010 Bulgaria made an agreement with Zhejiang Province to establish a joint Bulgarian-Chinese industrial zone near Sofia. Furthermore, the PRC invests in wind and solar plants in Romania and Bulgaria, electronic device manufacturing in Poland, Hungary, and Czech Republic and in the agriculture and mining sectors in Romania.

**In Poland.** After worsening bilateral relations at the end of 2008 because of the Dalai Lama's visit to Poland, which made China suspend Sino-Polish political consultation and abandon sending Poland Chinese purchase economic missions in 2009, Sino-Polish relations significantly improved in 2010. The main objective of bilateral relations is economic cooperation—balancing trade and increasing mutual investments.

Although Poland has a negative trade balance with China (in 2009 it was €8.932 billion euro) and the level of mutual investments is not high, prospects for bilateral economic cooperation for 2011 and the following years are optimistic. China seems to be interested in investing in Poland as a place of further expansion in Europe for Chinese companies. The increase in Chinese investment in Poland is tremendous. At the end of 2008 its total value was about €200 million but in June 2010 it was about €400 million. Furthermore, the more than 30 Chinese economic missions to Poland in 2010-2011 (with the biggest in April this year) as well as an increase (according to Polish data) in trade in 2010 of about 17% and imports from Poland of about 11% vindicates this assumption. But economic cooperation should be supported by political dialogue at a high level. A good opportunity to strengthen bilateral relations, which may result in a deepening of economic cooperation, will be political momentum—the Polish presidential visit to China in 2011 before or during Poland's presidency of the EU (the last visit of a Polish president to China was in 1997).