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## **MASTER'S THESIS**

**The EU's Response to China's Growing Influence in Central and Eastern Europe.**

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## **INTRODUCTION**

China's increasing presence in Central and Eastern Europe (CEE) has occupied the European geopolitical agenda over the past few years. China's strategic investment, cooperation, and diplomatic incursions have created opportunities as well as challenges for the countries of the region and the European Union (EU) at large. It is necessary to be familiar with the broader historical context and with the evolving nature of China-CEE relations to be able to comprehend the EU's reaction to this shift in the balance of power. China's growing presence in CEE, Chinese investment failures and successes, and the European Union's response to this new geopolitical reality will be addressed by this research.

Post-Communist restructuring of CEE nations and their integration into the EU provided the base for heightened Chinese presence in the region. The Chinese Belt and Road Initiative (BRI) has been the vehicle for finance for new alignments to develop, and CEE nations, in need of investment and infrastructure creation, have latched onto the idea. Yet, these emerging relationships also raise questions regarding the likely economic, political, and security implications for the region, and indeed for the wider EU scenario. The EU's reaction to this presence, both opportunity and threat, is an extremely important subject of inquiry, especially in terms of its strategic interests and cohesion.

### **Relevance of the study**

China's growing presence in Central and Eastern Europe has far-reaching geopolitical and economic implications for both the CEE region and the European Union. China's growing investments can boost the region's economic growth but may also challenge the EU's political cohesion and strategic interests, namely in security and regional stability. As a rising Chinese presence in strategic infrastructure, telecommunications, and energy sectors is witnessed, the EU faces both direct and indirect consequences. The EU's stance on China's power needs to be understood because it will shape policy-making in the future and keep the union united in the face of international competition.

This study is timely not only for EU and CEE policymakers but also for global institutions monitoring China's growing global footprint. Through critical examination of China's investments in CEE, the risks and challenges, and the evolving response of the EU, the study aims to enhance public understanding of how Europe is positioning itself in a changing world order.

### **Purpose of the study**

The purpose of this study is to analyze the EU's response to China's growing presence in Central and Eastern Europe, considering both economic opportunities and the threats that China's political and strategic interests may pose. This research will explore China's investments in CEE, the most significant issues that these investments pose, and the European Union's strategic policy responses and reactions. By analyzing these factors, the study aims to enlighten on how the EU balances its economic aspirations with its apprehension over sovereignty, security, and foreign domination in its land.

### **Research objectives**

This study will examine some of the most significant purposes behind China's increasing influence within Central and Eastern Europe (CEE). It will attempt to interpret the context surrounding China-CEE relations by examining the political and economic drivers driving China's increase in the CEE region. The study will also examine whether Chinese investment across CEE countries has been fruitful or not, and what the implications economically and geopolitical implications have been. A further objective is to analyze the risk emanating from Chinese investment, and in particular in sectors of strategic value such as infrastructure, telecommunications, and energy. The study will also evaluate how the European Union has responded to China's increasing presence and role, including EU policy reactions and national dynamics that drive foreign policy and security decisions. Finally, it will look into the potential future trajectory of China-CEE relations and reflect on how it may affect the EU's strategic vision for the region.

### **Significance of the study**

This study is significant as it deals with a rather under-explored aspect of EU foreign policy—China's growing presence in a region at the heart of European integration. The research will cast further light on challenges and opportunities in China's expansion into Central and Eastern Europe. It will provide valuable suggestions to EU on how to approach China, balancing economic interests against strategic and security concerns. Moreover, by focusing on the CEE region specifically, the study adds to the vast literature on China's growing influence on the global level, highlighting the specific intersection of Chinese investment and European political solidarity.

### **Research questions**

The research will explore the following central questions:

1. How has China's growing influence in Central and Eastern Europe shaped the political and economic landscape of the region?
2. How has the European Union responded to China's increased involvement in the region, and what factors have influenced its policy decisions?

The theoretical framework of the study will incorporate elements of international relations theory, particularly focusing on geopolitical strategy, economic diplomacy, and security concerns. By examining the EU's response to China's influence through these lenses, the study aims to provide a nuanced understanding of the complex dynamics at play.

### **Outline of the study**

The structure of this study will be the following: Chapter 1 is a literature review and Methodology, Chapter 2 is a review of China-CEE history, Chapter 3 is a review of Chinese investment success and failure in the region, Chapter 4 is an analysis of the risks involved with these investments, and Chapter 5 is a review of the EU response to China's growing presence. The study concludes with a summary of key findings and policy recommendations for future EU strategy.

## **I Chapter: Literature Review and Theoretical Framework**

This chapter provides the groundwork for an in-depth literature review and methodology that guides the analysis of how the European Union has reacted to China's increasing role in Central and Eastern Europe (CEE). The increasing significance of China's 16+1 initiative has placed it as a focal point of debate in policy circles at both the regional and larger EU level. The chapter summarizes key scholarly observations on this endeavor, specifically focusing on how it has shaped the political, economic, and strategic position of CEE. Special focus is placed on the research of prominent scholars, including Tamás Matura and Andreea Brînză, who have explored China's growing economic presence in the region and the associated risks that this presence entails, primarily investment, security, and political influence. In this chapter, we'll dive into how the core ideas behind China's Belt and Road Initiative (BRI) have influenced the European Union's responses. By exploring these concepts within the context of our study's methodology, we aim to uncover the tensions and challenges faced by both EU institutions and member states as they navigate the complexities of this evolving geopolitical landscape. Through this approach, we hope to shed light on the ways the BRI has shaped the EU's strategies and decisions moving forward. This analysis outlines the theoretical groundwork for the ensuing empirical investigation, providing an advanced understanding of the intersection between China's global ambitions and the European Union's geostrategic interests in Central and Eastern Europe.

### **1.1. China's 16+1 Initiative**

The China-Central and Eastern Europe (CEE) relationship has been significantly altered during the last decade due, in significant part, to the establishment of the 16+1 initiative that was formally inaugurated in 2011. Formally known as the China-CEE Cooperation Framework, the initiative brought 16 nations of Central, Eastern, and Southeastern Europe together and China into an agreement of cooperation to promote economic, political, and cultural connections. China's increasing presence in the region has elicited contrary reactions, from encouragement and hope to suspicion and distrust, and thus it is a rich, complex area of study. The edited volume "China and Central Europe: Success or Failure?" by Tamás Matura responds to an extensive examination of China's activity in the region, evaluating the achievements, issues, and implications for the future of the 16+1 initiative.

The 16+1 notion emerged in the context of the increasing global power of China and economic adversity among most CEE countries, particularly following the international financial crisis. The notion envisioned providing an option for alternative economic



development and investment for CEE countries, all of which had been going through slow recovery and economic stagnation. China, in turn, used this opportunity to enhance its visibility in Europe, exercise its economic influence, and open up political relations with countries in the EU as well as in the Balkans. The 16+1, thus, is not merely an economic project but a political and geopolitical project that seeks to extend China's influence in Europe (Matura, 2020).

### **1.1.1. The Economic Dimensions of the 16+1 Initiative**

Economic impacts of China's activities in the CEE region are widely discussed in mentions of the 16+1 initiative. In "China and Central Europe: Success or Failure?", Tamás Matura et al. provide an exhaustive discussion of the pros and cons involved by China's investments in the region. The initiative has largely boosted Chinese investments in the infrastructure sector, such as roads, transport, energy, and buildings. Hungary, Poland, and Serbia have witnessed significant Chinese investment in such huge infrastructure initiatives as railways, highways, and ports. These investments are accepted by the local governments as necessary to stimulate their economies and reduce reliance on economic assistance from the EU (Szczudlik, 2020).

Rezková in her article entitled as "China and Central Europe: Success or Failure?" emphasizes the disadvantages of these investments. Rezková argues that although Chinese infrastructure investments have been substantial, they are conditional in nature, e.g., lending that can weigh recipient countries down with a heavy monetary burden. The Chinese government, through its SOEs, has financed many of these projects, but the long-term sustainability of such loans is often questioned. Critics express dissatisfaction that these investments will fail to yield the economic dividends promised and, even worse, precipitate an impending debt crisis in certain nations, especially as most of these loans are not accompanied by the kind of technological transfer or industrialization that would lead to growth in the long term. It is also noted by Rezková that many of the Chinese projects within the region have been directed toward the establishment of infrastructure rather than more meaningful economic cooperation in the areas of technology, manufacturing, or research (Rezková, 2020).

Besides, Gerasymchuk, in his research on "China and Central Europe" identifies that while some of the CEE countries have reaped from the influx of Chinese capital, overall Chinese foreign direct investment (FDI) into the region has been small compared to other parts of the world such as Asia and Africa. For instance, countries like the Czech Republic and Slovakia have been comparatively conservative in their China policy, with comparatively small

direct Chinese investments in key sectors of their economies (Gerasymchuk, 2020). These variations in investment patterns across the CEE region have helped to cast doubts on the long-term viability of the 16+1 platform as a viable economic tool for the region.

### **1.1.2. Political Implications and EU Divisions**

Aside from the economic side, "China and Central Europe: Success or Failure?" also touches on the political side of the 16+1. Perhaps most significant among the issues raised in the literature is that the initiative would lead to a division within the European Union. Szczudlik argues that China has been able to effectively employ a "divide and rule" strategy, utilizing its economic influence in order to pit one CEE state against the broader EU system. Through offering economic benefits to certain CEE states, China has been able to enhance bilateral relationships while avoiding EU-wide policies and interests (Szczudlik, 2020).

"China and Central Europe: Success or Failure?" describes how some of the CEE countries, such as Hungary and Poland, have been open to closer political and economic ties with China as an opportunity for them to be more independent of the EU and other Western blocks. Other countries, particularly those of the Visegrád Group (V4), such as the Czech Republic and Slovakia, have complained about China's growing influence, particularly in the context of the EU's emphasis on human rights and political freedoms. The various political approaches in the CEE region have, in some cases, resulted in regional disunity in the approach to China. While others view China as a potential partner through whom they can realize economic goals, others are afraid of the potential erosion of democratic values and EU solidarity due to China's growing presence in the region (Rezková, 2020).

One of the strongest points of debate in "China and Central Europe: Success or Failure?" is whether the 16+1 model jeopardizes the unity of the EU. Mitrović argues that by seeking individual bilateral agreements with CEE countries, China could expand existing cleavages within the EU and undermine the EU's ability to speak with one voice on foreign policy. On the other hand, the proponents of the initiative are of the opinion that the economic benefits to CEE countries from Chinese investment are too substantial to ignore and that the EU needs to find ways to engage constructively with China rather than resist its increasing influence. This controversy persists at the center of EU-China future relations discourse, since the 16+1 initiative becomes part of the geopolitical architecture of Europe (Mitrović, 2020). However, Bērziņa-Čerenkova offers a different point of view, contending that while it is true the 16+1 initiative indeed sought closer ties with some of the CEE countries, its divisive character was

vastly overstated. She argues that the project did not necessarily break EU cohesion because many CEE countries negotiated with China with the aim of gaining economic advantages more than undermining EU cohesion. Particularly, Bērziņa-Čerenkova observes that the 16+1 was basically a "hub-and-spoke" plan of bilateral agreements that never managed to establish lasting fault lines within the EU because most countries remained with the EU scheme (Bērziņa-Čerenkova, 2022).

### **1.1.3. Geostrategic Considerations: China's Role in Europe**

Another important aspect dealt with in "China and Central Europe: Success or Failure?" is the geostrategic role that China is trying to play in Europe via 16+1. Chinese expansion in CEE is seen by some scholars as part of a broader design to challenge the United States and the EU for regional power. The initiative, in association with China's Belt and Road Initiative (BRI), is regarded as an attempt to create new economic corridors and connect Europe more strongly with China's global trade network. Through the provision of infrastructure finance and the creation of political alliances with CEE countries, China seeks to expand its sphere of influence and bring its interests more to the forefront of European affairs (Svetličič, 2020; Turcsányi, 2020).

The "China and Central Europe: Success or Failure?" also identifies that China's interest in the CEE is not just for economic gain but also to establish a foothold in the political scenes of Europe. Turcsányi thinks that China's engagement with the CEE region is a part of a grand initiative to position itself as a world power and challenge Western hegemony on the world stage. By being a major partner to the majority of the CEE states, China has the potential to increase its political influence and achieve access to the EU key markets and infrastructure. In addition, Turcsányi contends that China's rising political influence in the world might help it negotiate better trade terms, gain access to strategic resources, and expand its military and technological footprint in Europe (Turcsányi, 2020).

### **1.1.4. Public Perception and Cultural Diplomacy**

The role of public opinion and cultural diplomacy in the context of the 16+1, overlooked in the literature, is identified by Mitrović (2020) in the context of China's use of cultural exchanges and soft power, i.e., Confucius Institutes, to obtain goodwill in CEE. Authors like Benner and Weidenfeld (2021) retort that these cultural initiatives are embedded in China's economic agendas, refuting the claim of China's influence being purely goodwill-driven. While CEE public opinion is split, with some, like Romania and Serbia, viewing China positively,

others, like the Czech Republic and Poland, are more reserved. Zeng (2023) believes that China's economic involvement is pragmatic and synergy-oriented rather than deliberately aimed at dividing the EU. The patterns in which the CEE countries engage with China are also determined by domestic political factors, as explored by László (2020), where national interests are prioritized over foreign policy by the governments. The focus of Mitrović on cultural diplomacy overlooks the aspect of domestic politics, a key driver of China's engagements in the region. In addition, Chinese investment in strategic infrastructure, such as railways and power plants, has political implications because these projects can be used as bargaining chips, shaping EU politics indirectly.

#### **1.1.5. The Future of the 16+1 Initiative: Success or Failure?**

In the final sections of *China and Central Europe: Success or Failure?*, contributors weigh in on the future prospects of the 16+1 initiative. Some authors argue that the initiative has already achieved a measure of success in terms of economic cooperation, with many CEE countries benefiting from Chinese investment in infrastructure and trade. However, others caution that the initiative's long-term success depends on the ability of CEE countries to navigate the complex political and economic dynamics of their relationships with China and the EU.

In the final chapters of *China and Central Europe: Success or Failure?*, authors express their view on the future of the 16+1 initiative. In the view of some authors, the initiative has already achieved some success as regards economic cooperation, with many CEE countries being the recipients of Chinese investment in infrastructure and trade. But others caution that the initiative's success in the long term would depend on CEE nations' ability to navigate the complex political and economic politics of their relations with China and the EU.

Matura and Rezková suggest that the fate of the 16+1 will be determined by a range of factors, including the evolving economic needs of the CEE countries, the China-EU geopolitical tensions, and the general global environment in which these processes evolve. "China and Central Europe: Success or Failure?" asserts that if the CEE states successfully harmonize their relationship with China with the requirements of EU commitments, the 16+1 framework might further dictate Europe's future, be it economics or politics. But if disagreements in the EU internalize themselves even further, then the framework would be able to further deteriorate existing tensions and tear the unity of the European project asunder (Matura, 2020; Rezková, 2020).

## **1.2. Analyzing China's Influence in Central and Eastern Europe: A Comprehensive Review of Carnegie Endowment's Report**

This chapter analyzes China's growing presence in Central and Eastern Europe (CEE) in light of Carnegie Endowment's 2021 book *China's Influence in Southeastern, Central, and Eastern Europe: Vulnerabilities and Resilience in Four Countries*. The chapter explores the means by which China's economic and political influence is transforming regional politics and European policy and posing challenges and opportunities to CEE.

China's 16+1 policy, initiated in 2012, is aimed at stabilizing economic and political relations with 16 CEE countries and making China a major geopolitical force in Europe. The Carnegie report provides an outlook on the vulnerabilities and resilience of such countries while addressing China's rising influence. The Belt and Road Initiative (BRI) at the center is promoting infrastructure expansion, connectivity, and exchange through investments in industries like transport, energy, and telecommunications.

The Carnegie report discusses various examples of Chinese investment in the region that have been politically challenging and strategically valuable. In Greece, China state-owned company COSCO's acquisition of the Port of Piraeus has been a flagship undertaking, making the port a keystone node along the BRI maritime corridor. Greece's strategic position at the crossroads of Europe, Asia, and Africa has made it an attractive ally for China, and the Piraeus investment has been presented as a success story for the Greek economy. The report, however, also shows growing disillusion in Greece about the perceived economic benefits that accrue from such investments. While Chinese investment has increased global trade and port activity, local political dynamics that involve resistance by trade unions as well as the environmental movement have rendered long-term sustainability of the project difficult (Brattberg et al., 2021).

For example, Piraeus's container traffic expanded, from 0.8 million boxes in 2009 to 4.9 million boxes in 2018, a 190% increase, making it number six in Europe by 2018 (Brattberg et al., 2021).

Hungary has embraced China's growing closeness, especially under Viktor Orbán. It has been China's most compliant EU partner, leveraging Chinese investments to attain greater political autonomy. Huawei and the Bank of China have particularly influenced Hungary through an contested Budapest-Belgrade rail project. However, the report claims that such investments serve the elites, enabling corruption and weakening democracy (Brattberg et al.,

2021). The opaqueness of these deals and their minimal economic benefits have called into question Hungary's true interests in Chinese capital (Brattberg et al., 2021).

In Romania, the strategy has been more reticent. While Romania at first attempted to exploit China in the 16+1 format, it gradually stepped back from its fervor due to a series of causes. The government of Romania has been less open to pursuing broad Chinese investment, particularly after political and economic woes faced by other CEE countries that had advanced more boldly after Chinese capital (Brattberg et al., 2021).

The report further states that China's investment in Romania has been relatively low as opposed to other countries within the region. For example, in 2020, China's exports to Romania were approximately \$2.2 billion, while exports to China totaled \$3.4 billion (Brattberg et al., 2021).

In addition to financial investments, political influence of Chinese actions in CEE is expansive and profound. The Carnegie report describes how China has used economic leverage to reshape regional political agendas and, in some cases, break EU cohesion. One of the primary ways China exercises its influence in the region is via bilateral arrangements which circumvent EU-level policies. By offering benign terms to all individual CEE countries, China has managed to engage in a "divide and rule" approach, leveraging the economic and geopolitical vulnerabilities of the region (Brattberg et al., 2021).

Hungary is the prime exemplar of such a dynamic. The Orbán government has been using its solid ties with Beijing as a chip against the EU, often blocking or opposing EU statements and resolutions critical of China's human rights policy, particularly regarding Hong Kong, Xinjiang, and Tibet affairs. The paper emphasizes the extent to which Hungary's alignment with China has been used by Orbán to extend an alternative model to EU norms, especially given the trend in his government to become more and more authoritarian in nature (Brattberg et al., 2021). Orbán's affection for China also is the direct challenge of the EU effort to extend one voice in terms of foreign affairs, especially for China's effort to extend influence around the world (Brattberg et al., 2021).

The Carnegie report *China's Influence in Southeastern, Central, and Eastern Europe: Vulnerabilities and Resilience in Four Countries* examines how Hungary and Greece defended China within the EU, particularly on disputed issues like the South China Sea and human rights. They have earned economic benefits and diplomatic goodwill for backing China. However, this has been raising tensions within the EU as other nations like Poland and the Czech Republic,

which are more open to criticizing China, feel that EU foreign policy is being destabilized by Chinese economic influence (Brattberg et al., 2021).

The report further identifies China's soft power activities in CEE, particularly cultural diplomacy to shape public opinion. Measures such as Confucius Institutes, scholarly cooperation, and cultural exchange have tried to influence China's image, particularly among political and business elites. The report states that these measures have not been so effective, particularly in countries with active media and civil societies (Brattberg et al., 2021).

In Greece, Chinese media outlets like Xinhua have sought to create a favorable image of China. Such efforts to influence local elites have had little influence on the rest of the population. Public opinion polls show rising doubts about the intentions of China, particularly after the COVID-19 pandemic that tainted China's reputation in the region (Brattberg et al., 2021).

Similarly, Hungary's integration into the Chinese linguistic and cultural space through efforts like the Confucius Institute has not had much of an impact on the public perception of China. Public opinion surveys show that Hungarians in general view China as an economic partner but doubt its geopolitical designs. The limited effectiveness of China's soft power initiatives in those countries is a reflection of the resilience of local civil society and media, which continue to be a counterbalance to Chinese influence, even when subjected to intense economic and political pressure (Brattberg et al., 2021).

One of the primary focuses of the Carnegie report is the resilience of CEE countries against the menace of Chinese influence. In the report, China is said to have taken advantage of such vulnerabilities as poor state institutions, elite capture, and a shortage of independent media that have enabled its mounting political and economic penetration, often evading democratic oversight. But it also documents rising pushback in these countries against Chinese engagement. For instance, Greece and Romania, which initially were receptive to Chinese investment, have increasingly become critical since anticipated economic benefits did not seem or involve extremely high political costs (Brattberg et al., 2021).

In Hungary, Prime Minister Orbán's government has enjoyed a good relationship with China, but this may not be sustainable. According to the report, Hungary's growing dependence on Chinese investments, along with rising domestic and international criticism, may soon shift the balance against the benefits. Orbán's political centralization has consolidated Hungary's

position, but the long-term consequences of Chinese engagement may become a significant challenge (Brattberg et al., 2021).

### **1.3. China's Interaction with Central and Eastern Europe: Analyzing the EU's Strategic Response**

The China-CEE relationship has evolved from a mere economic cooperation to a more advanced, geopolitically significant partnership. Initially driven by China's Belt and Road Initiative (BRI) and the "16+1" framework, this China-16 CEE nation cooperation has been increasingly bedeviled by mutually diverging political agendas, different economic expectations, and apprehensions regarding the broader strategic ramifications of Chinese investment. This chapter will present a close examination of the changing dynamics of CEE-China relations based on the policy documents "China's Interaction with Central and Eastern Europe: Relationships at Crossroads?" by Raigirdas Boruta (2021) and "The Missing Pieces? How CEE Can Contribute to a Stronger European Approach to China" by Alicja Bachulska, Una Aleksandra Bērziņa-Čerenkova, and Ana Krstinovska (2024). This analysis will touch on China's regional economic influence, the failure of the EU to contain internal disunity, and the security implications of the conflict in Ukraine and tensions over Taiwan.

#### **1.3.1. Economic Engagement: Between Promise and Disillusionment**

Chinese economic influence in CEE has grown significantly over the past decade, particularly after the introduction of the "16+1" format. CEE countries first considered cooperation an opportunity to diversify their economic relationships and reduce reliance on Western markets and the EU. Boruta notes that the CEE region, having had sluggish economic growth after the 2008 global financial crisis, turned to China as a potential alternative source of financing, particularly for infrastructure and energy projects. (2021) The allure of Chinese financial influence was too great, particularly in countries with underdeveloped infrastructure such as Serbia, Hungary, and Poland.

But in the years that have passed, the actual returns on these investments have typically fallen short of expectations. Boruta notes that although China has invested heavily, much of the funds have not resulted in tangible economic advancement or jobs for the indigenous peoples. (Boruta, 2021) The investments have targeted a few sectors, in particular energy and transport, but the projects could also rely on Chinese companies and human resources, limiting the potential to hire locals and technology transfer. At times, the projects have come with



unsustainable lending that has left CEE nations debt-stricken without the expected economic benefits.

One of the primary points presented by Bachulska et al. is China's inability to live up to expectations regarding upgrades and modernization of the infrastructure. (Bachulska, 2024) While there have been some enormous developments, such as developments in the Port of Piraeus in Greece, the investments have generally been symbolic rather than revolutionary. The economic effect has been minimal despite these large projects. Chinese investment in CEE is still smaller than in other regions of the globe like Western Europe, where China is more involved. CEE nations in 2020 only received slightly 10% of the overall foreign direct investment (FDI) from China within Europe, which was a reflection of China's limited extent of investment in CEE compared to its investment in Western Europe (Bachulska et al., 2024).

Moreover, Boruta points out that economic imbalances led to an increasing debt burden on some CEE countries. (Boruta, 2021) Specifically, Hungary's enormous expenditure on infrastructure using Chinese funding has been noted as raising question marks regarding the sustainability of such investments in the long run. With the increasing debt burden along with the absence of considerable returns, there has been increased public skepticism regarding China's economic participation and the actual benefits.

### **1.3.2. Political and Geopolitical Implications: EU Divisions and Strategic Autonomy**

Initially, China's engagement with Central and Eastern Europe (CEE) was considered as an opportunity for CEE countries to improve their political and economic influence locally and in the EU. China's early years of engagement were perceived primarily as an opportunity to have stronger global connections, with Hungary and Poland setting up firm bilateral ties with China. As Boruta notes, China's sway over these countries seemed to elevate their status in the EU. This initial optimism was shortly thereafter replaced by overt divisions in the EU since some of the member states, such as Lithuania and the Baltic states, began expressing more concern regarding Beijing's growing political and economic influence (Boruta, 2021). In this case, one of the most important issues is the imbalance of China's economic strength that tends to benefit disproportionately China and renders CEE nations to gain meager returns in the form of job opportunities generated, technological upgrading, or long-term sustainable economic development (Castrillón-Kerrigan, 2022). Such a discrepancy renders CEE nations excessively reliant on China without causing the type of economic change it had expected.

From my own analytical perspective, the widening divide in the EU regarding its approach to China has been more clearly delineated, especially regarding China's human rights record. The differing positions of EU member states not only expose the fragmentation of the EU but also the challenging task of balancing economic interests with core European values like democracy and human rights. The search for economic ties with China will often come into conflict with these fundamental principles of the EU on a very regular basis, presenting an enormous challenge to the EU. This challenge of how to balance economic ties with China while maintaining political and moral standards has been made only more acute by Chinese investment continuing to permeate the continent. What had seemed at first a possible opportunity for the CEE nations to diversify their external relations has, in my view, become a source of tension within the EU and made it ever more difficult for the bloc to have a common line towards China.

In response to this internal fragmentation, the evolution of strategic autonomy in the EU emerged as an essential evolution. The EU's China orientation was initially economic, focusing on trade and investment. However, Bachulska et al. write that the participation of CEE countries, particularly those with a closer relationship with China, has played a pivotal role in compelling the EU to reevaluate its strategy (Bachulska et al., 2024). While strategic autonomy is proposed as a means for the EU to defend its own interests within the more multipolar global order, its application within the EU has been inconsistent and often overturned by domestic national interests. CEE countries, particularly with long-standing economic ties with China, now have to balance the competing demands of maintaining national interests while simultaneously adjusting to EU objectives (Castrillón-Kerrigan, 2022). This internal inconsistency also prevents the EU from acting as a single entity on China matters, since national economic interest may become paramount for individual members like Hungary at the expense of EU collective interests.

The concept of strategic autonomy, though beneficial for both internal cohesion and EU global influence, has been less straightforward for CEE countries. On the one hand, countries like Lithuania have been quite outspoken in their condemnation of China's policies on Taiwan and Hong Kong, pushing for a values-driven foreign policy based on European values.(Bachulska, 2024) On the other hand, because there is no EU consensus on China, the CEE countries are often left alone to manage this delicate issue, with the danger of an incoherent policy that weakens the EU's position in global governance. However, on the other hand, Hungary's insistence on pursuing closer ties with China is indicative of the internal tensions

within the EU. Hungary's reluctance to take a common EU stance and insistence on developing closer relations with China based on national interests point to the limits of strategic autonomy as an agenda for consolidation for the entire EU. These cleavages highlight the difficulty in forging a coherent, shared strategy towards China, where national interests prevail over collective EU agendas, thus laying bare the EU's fundamental contradictions in its foreign policy strategy towards China (Castrillón-Kerrigan, 2022).

### **1.3.3. Geopolitical Risks: Taiwan, Russia, and China's Strategic Alignment**

With rising tensions between Europe and non-European circles, EU China policy is increasingly based on international conditions, primarily on Russia's invasion of Ukraine. The worry among the EU with China appearing to align itself with the Russian bloc is why several CEE countries reoriented their strategy towards China. Bachulska et al. (2024) highlight how the invasion has given China an opportunity to further strengthen ties with Russia, with worries about China's growing role in European security matters. CEE countries, especially those along the EU's eastern border, are more pessimistic about China's relations with Russia, worried about additional destabilization in the region. Taiwan is also at the eye of it, especially for pro-Taiwan CEE countries like Lithuania, which has irked Beijing by hosting a Taiwanese representative office in Vilnius. China's reaction has been to sanction Lithuania and suspend trade agreements (Bachulska et al., 2024). Such an action has likely made other CEE countries think twice about their long-term relationship with China, especially in regards to Taiwan. More broadly, the EU has failed to reconcile policy towards China between economic interests and political values, and tension has been most extreme in the EU response to Taiwan and China's increasing authoritarianism. The dilemma is how to seek economic co-operation with China without compromising the democratic values of the EU.

### **1.3.4. The Future of EU-China Relations: Building a Cohesive European Strategy**

In the coming years, the direction of EU-China relations will be defined by the extent to which CEE countries are successful in making their contribution towards creating a collective European strategy toward China. As Boruta suggests, CEE countries must navigate the balance between economic opportunities and EU cohesion, especially in the area of security and democratic issues. The EU's ability to deal with these rival demands will be the determining factor in defining its future relations with China (Boruta, 2021). The balance has nevertheless grown more challenging with the altered geopolitics, especially following the invasion of Ukraine by Russia. The heightened wariness of the CEE states towards China, particularly following its lukewarm reaction to the Russian invasion, is transforming the EU's China policy.

This is indicative of a broader concern in the continent that, despite economic integration, China's political alignment with Russia poses a threat to Europe's security, on which the EU's quest for strategic autonomy and democratic values suffers (Kaczyński, 2022).

Bachulska et al. propose that the EU, instead of resorting to hasty accommodation or opportunism, should seek to build a robust framework that not only addresses economic cooperation but also strengthens the EU's democratic principles of democracy, human rights, and security (Bachulska et al., 2024). This idea of building up the EU's democratic principles becomes more imperative as the initial economic euphoria regarding China's investments has begun to fade away. The long-awaited economic returns of Chinese efforts in CEE have generally remained unrequited, with investments often falling behind or going unfulfilled, such as the much-touted Budapest-Belgrade railway connection and other Belt and Road projects (Kaczyński, 2022). This is in contrast to the earlier perception that China's engagement would help CEE countries develop their economies. In the meantime, security challenges and the downfall of the majority of them are compelling CEE countries to reconsider their alignment with China and undermining the viable long-term potential for economic reliance on China in view of increasing challenges for the EU in terms of security and internal cohesion (Kaczyński, 2022).

This policy must be multilateral, building up cooperation with such partners as the U.S. and Japan, reducing overdependence on China in sensitive sectors. As fragmentation in the EU is growing, particularly with CEE countries adopting a cautious approach towards China, there is a pressing need for a joint EU strategy. The increasing divergence between the economic and political interests of CEE countries exemplifies the challenge of balancing the EU's China policy against economic interests and political values. CEE countries, given their weaknesses and histories, will need to take the lead in this policy, finding a balance between economic and political interests. The shift from economic cooperation to security concerns is the EU's challenge of balancing economic pragmatism against democratic values and geopolitical stability (Kaczyński, 2022; Bachulska et al., 2024)..

Based on the evidence at our disposal, the China-CEE bilateral relationships are at a crossroads with significant opportunities alongside significant challenges. While Chinese investments have evidently yielded economic benefits to some of the countries, in my considered view, the regional influence overall is still uneven, with the majority of CEE nations now questioning the long-term sustainability of such investments. Politically, the divisions within the EU complicate the building of a united approach to China. I think CEE countries

have a key role to play in shaping the future direction of EU-China relations. While the EU grapples with strategic autonomy and grave security issues, I think the contribution of CEE countries will be crucial to ensuring Europe's strategy towards China is both coherent and strong in the face of changing global conditions.

#### **1.4. Theoretical Framework**

Realism is a dominant and widely applied theory in international relations that offers essential insights into why states behave the way they do in an anarchic international system. The core assumptions of realism include a skeptical view of human nature, the belief that international relations are inherently conflictual, and that states prioritize national security and survival above all else (Jackson & Sorensen, 2013). Realist theory helps explain the competitive nature of global politics, where power struggles and strategic calculations determine state actions.

John Mearsheimer, a key figure in offensive realism, builds on Waltz's ideas by emphasizing states' aggressive pursuit of power to achieve regional or global hegemony (Mearsheimer, 2001). According to Mearsheimer, great powers are driven not only to be strong but to become the sole dominant power in their region to maximize security and influence. This perspective is particularly relevant when analyzing the strategic competition in Europe today, where the rising influence of China via the 16+1 initiative and the EU's response can be seen as a contest over regional dominance.

At the heart of realism is the concept of self-help—in an anarchic world, states cannot rely on others for their security and must maximize their own capabilities to survive (Waltz, 1979). This often results in security dilemmas, where defensive measures taken by one state are perceived as threats by others, leading to mistrust and potential conflict. The balance of power principle seeks to prevent any one state from becoming overwhelmingly dominant, as such dominance would threaten others' survival.

Applying realism to the case of China's growing influence in the CEE region through the 16+1 initiative reveals the geopolitical undercurrents driving both China's expansion and the EU's strategic responses. China's increasing economic and political engagement is viewed by the EU as a challenge to its regional influence and cohesion, potentially upsetting the balance of power in Europe. The EU's initiatives, such as the Global Gateway and tighter controls on foreign direct investment, reflect efforts to counterbalance China's rise and preserve European strategic autonomy.

Realism's focus on power, security, and competition provides a valuable framework to analyze the historical development of the 16+1 initiative, the successes and failures of Chinese investments, the risks introduced by regional conflicts like the Russian-Ukrainian war, and the EU's strategic policy responses. By emphasizing the primacy of state interests and systemic pressures, realism allows for a comprehensive understanding of the strategic rivalry between the EU and China in the CEE region.

## **II CHAPTER: METHODS AND DATA SOURCES**

### **2.1. Research Approach, Design, and Strategy**

This research adopts a mixed-methods approach, combining both qualitative and quantitative methods to thoroughly examine the European Union's (EU) response to China's growing influence in Central and Eastern Europe (CEE). The approach provides both depth and breadth, enabling a comprehensive understanding of the complexities surrounding China's 16+1 Initiative and the associated investment risks. By integrating qualitative analysis of policy documents, expert opinions, and case studies with quantitative data on investments, economic trends, and trade patterns, the study offers a holistic perspective.

The research follows a case study strategy, focusing specifically on the EU's reaction to China's 16+1 Initiative and the related investment risks in CEE. This methodology allows for an in-depth exploration of the political, economic, and institutional responses within the EU and its member states. By analyzing multiple sources of evidence, the research captures the nuances of EU-China relations and the broader geopolitical impacts of China's economic expansion in the region.

### **2.2. Data Collection Methods**

#### **Secondary Data Collection**

Secondary data sources are essential to complement and contextualize the findings from primary data. These sources include official EU policy documents and statements that outline the Union's stance on China's economic engagement, providing insight into institutional strategies and frameworks. Additionally, reports from prominent international organizations and think tanks, such as the European Council on Foreign Relations (ECFR), the Mercator Institute for China Studies (MERICS), and the Center for Strategic and International Studies (CSIS), offer expert analyses and interpretations of China's role in Central and Eastern Europe. Trade and investment data from Eurostat, the World Bank, and Chinese government reports supply quantitative evidence to track economic trends and assess the scale of Chinese involvement in the region. Academic literature on EU-China relations and economic diplomacy further enriches the analysis by offering theoretical perspectives and historical context. Finally, media reports and press releases from reputable sources like *The Financial Times*, *Politico*, and *The Economist* provide timely updates and diverse viewpoints on ongoing developments. By

integrating both primary and secondary data, the research achieves a comprehensive and balanced understanding of the EU's response to China's expanding influence in CEE.

In addition to traditional sources, this research extensively utilizes online materials and digital resources. Given the nature of contemporary policy documents, reports, and media content often available primarily in digital formats, several sources accessed do not include conventional page numbers. Therefore, while citations provide full bibliographic details, page references are omitted where unavailable, reflecting the reliance on online and electronically published documents. This approach aligns with academic standards for citing digital content and ensures transparency in referencing a diverse range of up-to-date, accessible materials.

### **2.3. Data Analysis Methods**

#### **Qualitative Data Analysis**

The qualitative data from expert interviews and policy documents are analyzed using thematic analysis, a method that identifies recurring patterns and key themes within the discourse on EU-China relations. This analysis focuses on several crucial aspects, including policy shifts in the EU's stance toward China's 16+1 Initiative, highlighting how the Union's approach has evolved over time. It also examines geopolitical concerns expressed by policymakers, capturing the strategic anxieties and security considerations surrounding Chinese engagement in Central and Eastern Europe. Furthermore, the analysis explores the regulatory and economic measures implemented by the EU to mitigate investment risks and maintain a balanced economic landscape. Lastly, it includes a comparative assessment of individual EU member states' responses, shedding light on the variation in national strategies and perspectives toward China's growing influence. This structured approach ensures a nuanced understanding of the complex dynamics shaping EU-China relations.

#### **Quantitative Data Analysis**

The quantitative aspect of this research uses descriptive statistical analysis to examine investment flows, trade volumes, and economic indicators, providing a data-driven perspective on China's engagement in Central and Eastern Europe (CEE). This includes trend analysis of China's foreign direct investment (FDI) over time, a comparative analysis of investment risk factors, and correlation analysis to explore links between Chinese investments and EU policy shifts. SPSS and Excel are used to process data and generate visual representations, enhancing



the empirical depth of the research by complementing qualitative findings with measurable insights.

#### **2.4. Limitations of the Study**

Despite the comprehensive approach of this study, several limitations must be acknowledged. One key limitation is the restricted access to Chinese policy documents. Some official Chinese government sources may not be publicly available, which limits the ability to gain direct insight into China's strategic objectives and investment rationale. Additionally, potential bias in expert opinions presents a challenge. Experts' perspectives may reflect institutional or personal biases; however, this is mitigated through triangulation, cross-referencing multiple data sources to ensure balanced interpretations. Furthermore, the dynamic nature of the geopolitical environment introduces uncertainty. The EU-China relationship continues to evolve, and rapid policy shifts may affect the study's long-term applicability. By recognizing these limitations, the study maintains a critical and transparent approach to analyzing the EU's response to China's influence in Central and Eastern Europe.

### **III CHAPTER: HISTORICAL CONTEXT OF THE 16+1 INITIATIVE**

#### **3.1. Historical Background and Framework of "16+1 Cooperation"**

A transregional model under the "16+1 Cooperation" was established with the objective of enhancing relations between China and 16 nations that are based in Central and Eastern Europe. When Wen Jiabao, the then Premier of the People's Republic of China, visited Hungary in 2011 on an official basis, he announced that China was resolute to solidify relations with the CEE nations. He also declared the formation of a new mechanism to this end (Kavalski, 2018). A framework under the name of "16 + 1 Cooperation" was established in Warsaw a year later by China and the 16 CEE governments for institutionalizing the coordination of their relations (Simurina, 2014). The 16 CEE countries involved in the mechanism include the Czech Republic, Hungary, Poland and Slovakia, Latvia, Lithuania, Estonia, Albania, Bosnia-Herzegovina, Croatia, North Macedonia, Montenegro, Serbia, Slovenia, Bulgaria, and Romania (now 14+1 Cooperation). China's recent attempts at setting up new global institutions to increase its role in world affairs are in line with the "16 + 1 Cooperation." A significant element of the "16 + 1 Cooperation" is that it is directly incorporated in China's general foreign policy ambition, the One Belt One Road initiative.

During the 2012 Warsaw Summit, which brought together the prime ministers of China and the Central and Eastern European nations, the mechanism's member states embraced the Twelve Measures, which established the primary goals and structure of the collaboration. The most important development is the formation of the Secretariat in Beijing, which is under the jurisdiction of the Chinese Ministry of Foreign Affairs. China has declared plans to create a \$10 billion special credit facility, which would be partially available as preferential loans for the execution of shared projects, mostly related to infrastructure and the green economy. For project funding, the CEE nations can submit applications to Chinese financial institutions such as the National Development Bank of China, Export and Import Bank of China, Industrial and Commercial Bank of China, Construction Bank of China, Bank of China, and China Citic Bank. A 500 million-dollar development fund was agreed upon by the parties, and by 2015, member nations planned to boost regional commerce with China to \$100 billion USD. In addition, the agreements called for collaboration in the areas of science, culture, tourism, and finance, and China pledged to fund 5,000 scholarships for regional students over the next five years (Kusai, 2017).

The most significant outcome of the November 2013 summit in Bucharest was the agreement made by the parties that the heads of state from the relevant governments would convene once a year to discuss the outcomes of the collaboration and determine the course of future growth. They also decided to develop a medium-term program for "16 + 1 Cooperation". Regarding economic cooperation, a decision was made to establish chambers of commerce for China and the CEE nations, as well as to host investor and scientific forums. Member states may choose to join these chambers voluntarily. The members also agreed on the preparation for the establishment of coordination centers in various fields. A number of new forums in the fields of education and science were announced, including the China-CEEC Education Policy Dialogue, the China-CEEC Young Political Leaders' Forum, and the China-CEEC High-level Symposium of think tanks. Lastly, it was stated that China, Serbia, and Hungary will work together to rebuild the railway network between Belgrade and Budapest (Stanzel, 2016, p. 3-13).

The "China 2020 Strategic Agenda for Cooperation" document and the EU law are the fundamental principles on which the participants in the December 2014 Belgrade Summit collaborate. The Budapest-Belgrade railway corridor was reconstructed and signed in the first major infrastructure project of the "16 + 1 Cooperation". Regional economic groups are free to become members of the China-CEEC Business Council, created in Warsaw under the support of the summit parties. The establishment of the first centers of sectoral coordination, the China-CEEC Investment Promotion Agency in Warsaw and Beijing, and the China-CEEC Tourism Promotion Agency in Budapest, was made through a resolution (ibid, 2016).

The institutional structure of the functioning of the "16 + 1 Cooperation" was finally resolved at the November 2015 Summit in Suzhou, with the Chinese side and the national coordinators beginning to prepare the summit meeting (National Coordinators' Meetings). During the summit, the parties made an agreement on where the next meeting would take place, discussed the objectives of the community, and inspected the implementation of the previous plans (Ministry of Foreign Affairs of the People's Republic of China, 2015). Apart from the previously established channels of cooperation, the "Suzhou guidelines" defined the China-EU Connectivity Platform as a means of further advancing the relationship between the EU and the "16+1 Cooperation." The Memorandum of Understanding between Hungary and China received special attention since it was ensured that the Chinese side runs the "16+1 Cooperation" as a mechanism that is closely related to the ambitious One Belt One Road initiative. The two states decided to build a railway link between the two states with a vision of

furthering business linkages. It would be the same trend of existing goods traffic between Chengdu and Lodz. In order for the commodities to be conveyed from the Piraeus port to the EU as rapidly and as efficiently as possible, the Greece-Macedonia-Serbia-Hungary customs clearing cooperation system was in force (China-Europe Land-Sea Express Line). The parties ratified the initiative for cooperation between the Adriatic, Baltic, and Black Sea ports and annexed industrial parks, and the latter's integration with economic corridors (Adriatic-Baltic-Black Sea Seaport cooperation). In order to ultimately bring together the following areas of cooperation, the "Medium-term Agenda" was created as a common platform: economy, infrastructure and connections, industry and processing industry, finance, agriculture and sylviculture, science, research, and environmental protection, culture, education, youth exchange, sports, and tourism, healthcare, and, last but not least, local cooperation (ibid, 2015)

The most important result of the Riga Summit of November 2016 was the creation of the China-CEEC Investment Cooperation Fund. The sides agreed to align their infrastructure construction with the TEN-T corridors. In Riga, the China-CEEC Secretariat on Logistics Cooperation was created and provided an online platform. The sides support the second mega-scale infrastructure project of the mechanism, i.e., the upgrading of the Belgrade-Bar section of the railway (State Council of the People's Republic of China, 2016).

### **3.2. Economic Dimensions, Challenges, and Criticisms of the "16+1 Cooperation"**

Based on the experience of recent years, the "16 + 1 Cooperation" has a number of interesting features distinguishing it from other international organizations.

The "16+1 Cooperation" first characteristic is that its level of institutions has been intentionally left loose (KONG, 2015). Each state participates voluntarily in the activities of the mechanism's organs. The mechanism operates on three levels: 1.) the level of state leaders; 2.) the level in terms of the most crucial areas of professional discussion and collaboration (such as agriculture and development of infrastructure); 3) and lastly, the Secretariat, being the central organization operating in Beijing and continuously developing relations with interested countries' embassies (they arrange meetings, monitor fulfillment of initiatives and commitments, and prepare subject suggestions) (Liu, 2013). Informal institutionalization of such kind supports focus on those issues that elevate cooperation and coordination to the interests and objectives of member states. In addition, this effectively tempers the criticism of the mechanism, China wants to create its own international entity within the EU, and cushions it somewhat from the EU. Interestingly, loose institutionalization has value in the fast-changing

situations of the last decade: it makes the mechanism more flexible and meaningful, although it seems to be a trait of weak organizations.

Thus, yet another typical aspect of such cooperation is the deliberate awareness of the heterogeneity of the countries involved. Twelve of the 16 CEE countries are member-states of the North Atlantic Treaty Organization (NATO), and eleven of them are member-states of the European Union (EU). Geographically and in the historical context, the 16 nations have extremely disparate origins; the sole similarity that they possess is that all of them had formed part of the communist bloc. In case of the operation of the "16 + 1 Cooperation," heterogeneity has to be embraced. But it also somewhat enhances efficiency by not requiring the member nations to be subscribers to compulsory homogeneity. But by not forcing the member states towards compulsory homogeneity, it also elevates efficiency to a certain extent. But definitely, it was thought that China would divide the 16 countries into an internal bloc in the immediate future, leaving the existing institutional structures (the Baltic states, the Western and Eastern Balkans, and the Visegrad countries) for the purposes of a more effective co-operation (European Parliamentary Research Service [EPRS], 2018)

These groups can reflect the aforementioned three regional clusters. This approach can improve cooperation by addressing the unique needs, priorities, and economic circumstances of each sub-region. For instance, the Baltic States, as advanced economies with strong connections to the EU, can give high priority to digital infrastructure and trade activities. The Visegrád states, as some of the region's more developed economies, can give high priority to large-scale infrastructure or manufacturing cooperation. At the same time, Western and Eastern Balkans, both requiring serious development in terms of their infrastructure, might suffice with primary schemes like road and railway networks, as well as energy infrastructures. China, activating these small clusters, could thus adapt its activities and render them more productive to better suit dominant local conditions. The action also has a good prospect to de-complicate the procedure of negotiating and implementation, making use of existing regional co-ordination templates.

Thirdly, the "16 + 1 Cooperation" has become an institutionalized regional platform that, of necessity, ties the Central and Eastern European countries together. Up to now, all this has not weakened the historically Western European orientation of the region, yet in the long run, it must consolidate a regional identity. Considering political processes in Europe, their significance must not be evaluated too lightly in the long run.

The fourth feature is that while cooperation indeed covers almost all spheres of the relations, it is still the economy that retains its leading role. The central aspect of economic relations is economic cooperation (preferential investments or credits) and the laying of infrastructures such as the Budapest-Belgrade railway. The forums and organs of economic cooperation tend to be the most active and crucial ones, including the "China-Central and Eastern Europe Business Council" and the "China-Central and Eastern Europe Business Forum". The priority of the relation to economic cooperation reinforces the result-oriented approach of the two institutions. This "16 + 1 cooperation" personality is certainly a manifestation of the practical, less value-driven element of Chinese foreign policy that is equally fitting to bolster the acceptability of the mechanism in the EU.

The fifth aspect of the "16+1 Cooperation" is its orderly framework, one that was evidenced right from the beginning through initiatives such as the "Twelve Measures." It took a more institutionalized form in the aftermath of the Suzhou Summit, with the additional setting up of a medium-term agenda for the mechanism. Clarity in identifying goals and systematic tracking of progress further underwrite the platform's typically results-oriented nature.

The sixth characteristic is that China leads cooperation, and the Central and Eastern European countries are unable to take a united stance. Part of the imbalance is mirrored in the institutions' structures and functions. As much as China considers small participating nations' interests deliberately, in practice, Chinese investments are something governments throughout the region are fiercely competitive to secure, and this is extremely unlikely to change very soon.

The seventh unique feature is that the "16 + 1 Cooperation" is certainly in accordance with the European Union; moreover, it synchronizes the applicable laws and decrees (Eszterhai, 2017). The "16 + 1 Cooperation" must be compatible with the strategy documents and Union laws (China-EU 2020 strategy Cooperation). This must be emphasized so that the system will not be criticized. But the "16 + 1 Cooperation" is not a purely international economic organization and is entirely free of political goals.

Lastly, China's coordination of its relations with Central and Eastern Europe fits into China's other new institutions and coordination of China's state-level relations with other regions (e.g., the Forum on China-Africa Cooperation) through the "16 + 1 Cooperation." It implies that the Chinese government constructs its transregional institutions based on a model, which provides a foundation for the functioning of the One Belt One Road Initiative (Eszterhai, 2017).

It is believed by some Chinese that one of the most important diplomatic achievements of China's Europe strategy is the "16+1 Cooperation," which can even be used as a model for other regions or the EU as well. For some experts, the cooperation has already entered a new stage of development and achieved significant results in a relatively short period of time. Whereas in the past, the setting up of institutional mechanisms had been prioritized, now endowing it with content has acquired principal significance (Kong, 2015).

On the other hand, other analysts hold that the operation of the partnership is brought into question by the varied political and historical backgrounds of the sixteen countries (Kusai, 2017). In Doubtless, the first target of the mechanism's inception—i.e., raising trade between China and the CEE region to \$100 billion—was unattainable, as China exported \$42.2 billion in 2015, whereas that of the 16 countries totaled \$14.1 billion (Pavličević, 2016). The figures clearly show that trade remains quite unbalanced and that attempts at penetrating the SMEs of Central and Eastern European nations have had no impact on the Chinese market (HKTDC Research, 2016).

A further disappointment, in particular for the CEE nations, is that, in spite of the "16+1 Cooperation," no perceptible increase in Chinese investment has taken place (Kaczmarek, 2015). The main reason for the absence of green field investments is that they are a very fashionable tool in domestic policy since they have the potential to create jobs (Turcsányi, 2017). Nevertheless, in spite of the criticism, the governments of the CEE countries continue to perceive the "16+1 Cooperation" positively. The main reason for this is the One Belt One Road project, which, in the optimistic view, is apt for the region to discontinue its semi-peripheral status in Europe by boosting trade (Kratz, 2016).

Actually, the largest challenge for the "16+1 Cooperation" is from the outside, from the EU direction. Although first priority in EU-China relations is not given to cooperation (in contrast to trade, investments, human rights, etc.), there are some influential EU circles (and even member state governments like Germany's) who think the region does not require any additional channels apart from the EU for dealing with China. The five Balkan nations as member candidates and the member states are subject to this guiding principle. Three issues tend to arise in relation to the "16 + 1 Cooperation" in the EU.

The first is that the joint ventures under this mechanism's umbrella, particularly the investments in infrastructure and their financing, contravene the EU law. The argument is that the projects are opaque and do not meet EU internal market legislation requirements (public

procurement, environmental impact assessments, technical specifications, etc.). For these reasons, the European Commission regards the flagship project of the cooperation, i.e., the rehabilitation of the Budapest-Belgrade railway. Secondly, the critics assume that the system does not adhere to European values and the model which the EU represents in the CEE region (Eszterhai, 2017). Third, emphasis by some critics is placed on China's attempts to use the mechanism to apply the "divide and rule" principle and instill strife within Europe (de Jonquières, 2015). The "16+1 Cooperation" has been viewed as China's Trojan horse by some radicals (Heilmann et al., 2014). Even when sometimes overstated and partially based on the maintenance of the CEE market, all these arguments need to be refuted in order for the "16 + 1 Cooperation" to continue to evolve.

Having contextually presented China-Central and Eastern European history in the context of the 16+1 Initiative, now the focus needs to be directed to considering the economic aspect behind the platform—Beijing's strategy towards investing in CEE. According to strategic agendas displayed early in the initiative's launch phase, China's emphasis on the economic element of its historical involvement in the region has rendered Beijing's previous engagements with Central and Eastern Europe a solid template for the development of infrastructure, technological exchange, and financing unification. These investments are not only a statement of China's intentions for its Belt and Road Initiative (BRI) but also an articulation of its geopolitical arithmetic, aiming to leverage economic ties to forge political capital and expand its presence on the eastern periphery of Europe. In analyzing the nature, extent and implications, the next section talks about China's economic engagement and investments of China towards the CEE countries.



## **IV CHAPTER: CHINA'S INVESTMENTS IN CEE**

A key component of Beijing's external economic policy, Chinese investment in Central and Eastern European Countries (CEECs) has experienced dramatic growth, particularly within the framework of the "16+1" Cooperation and the broader Belt and Road Initiative (BRI). The previous trade-oriented exchanges have shifted towards an increasingly investment-oriented strategy, centered on such sectors as technology, manufacturing, energy, and infrastructure. The trade between China and CEECs increased from \$43.9 billion to \$58.7 billion from 2010 to 2016, indicating a growing economic bloc. In tandem with this, investment has increased, with Chinese foreign direct investment (FDI) in the CEECs reaching a total of \$16.6 billion by 2016. This investment is most heavily concentrated in the Visegrad nations and the Balkans, with key projects including the Cernovada nuclear Plant in Romania and the Hungarian-Serbian Railway.

Aiming to include CEECs in its BRI network and establish a foothold in the EU market, China's investment strategy exhibits geopolitical as well as economic motivations. With the shift from the previous patterns of trade in light industrial goods, the investments cover both the traditional infrastructure projects and the new high-tech projects in machinery and renewable energy. These are supported by platforms such as the China-CEEC SME Cooperation Forum that register mutual interests in economic growth. There are, however, existing challenges such as shifting trends of trade, political interference concerns, as well as regulatory barriers in countries covered by the EU.

This chapter will delve further into the paradox of success and failure in Chinese investments in China's CEEC.

### **4.1. Successful Investments of China to CEE**

China has also been investing successfully in Central and Eastern Europe, particularly in infrastructure, energy, and manufacturing sectors. The investments have largely been backed by bilateral deals, strategic partnerships, and alignment with national development strategies of the host countries. Activities such as strategic industrial asset acquisition, logistics platform development, and energy facility construction have demonstrated China's capacity to make positive contributions to host economies. These accomplishments are a combination of economic investment, diplomatic engagement, and regard for local interests, and they indicate the possibility of the benefits of Chinese engagement when there are articulated common interests to which respect is shown.

#### **4 .1.1. Budapest–Belgrade Railway project**

Budapest–Belgrade Railway project is among China's most outstanding Belt and Road Initiative (BRI) projects in Europe. In a bid to shorten journey time from eight to four hours, the project aims to upgrade the current rail line between Hungary's Budapest and Serbia's Belgrade. At an estimated cost of \$2.1 billion USD, it is the costliest railway project in Hungarian history, the Hungarian section with 166 kilometers of length being the most costly one. This has its main funding source in the form of a \$1.855 billion USD 20-year, 2.5% interest loan granted by the Export-Import Bank of China (Szunomár, 2022). Serbia managed to sign a \$297 million loan facility with the Export-Import Bank of China, and Hungary gained a \$2.1 billion credit facility worth 85% of its investment. DB Engineering & Consulting, CRE Consortium, and the China Railway International (CRI)-China Communication Construction Company (CCCC) consortium are among the contractors (Keller-Alánt, 2019).

New lines shall be built in the project, while existing lines shall be upgraded. About 166 kilometers of Hungarian railway and 184 kilometers of railway in Serbia are available. Belgrade-Stara Pazova (34.5km), Stara Pazova-Noví Sad (40.4km), and Novi Sad-Subotica-state border (107.4km) are the three segments of the Serbian portion of the railway. For safe and effective operations, the railway incorporates contemporary signaling systems and is built to reach speeds of up to 200 km/h (Railway Technology, 2024).

In 2018, work on the railway's Serbian segment got underway. By March 2021, the Belgrade-Stara Pazova portion was up and running, and in March 2022, the Belgrade-Noví Sad section began service, drawing 6.83 million passengers over the course of two years. In April 2024, the Novi Sad-Subotica rails were added, and by the end of 2024, the Serbian portion should be finished. Important milestones in Hungary include the October 2021 laying of the last rail beyond Budapest, which is expected to be completed in 2025 (Xinhua News Agency, 2024).

The construction and development of the railway is headed by the Chinese–Hungarian Railway Non-profit Limited Company (CHRN), a joint venture between Hungarian State Railways (MÁV Zrt.) and two Chinese companies, China Railway International Corporation (CRIC) and China Railway International Group (CRIG). The construction contract was given to CRE Consortium, which comprises companies of China Railway Group Limited and Hungary's RM International Limited. That both participants have 50% shares highlights how collaborative and yet dominated by China the project is (Rencz, 2019)

This railway line is to be part of a larger transportation network connecting Western Europe to the Chinese majority-owned Piraeus Port in Greece. Once completed, it should allow for smoother cargo transportation through Serbia, Hungary, and North Macedonia. The delay in the accomplishment of the wider vision is seen in the fact that major segments between Piraeus and Skopje and Skopje and Belgrade are yet to be completed (Rogers, 2019).

Hungary's desire to become a European transportation hub and reinforce its bilateral relationship with China is evidenced by its giving priority to the Budapest–Belgrade Railway. There are, however, serious concerns over the profitability of the project. Based on the conservative estimate of 1.6 million tonnes of freight traffic per year, analysts put the return on investment at up to 2,400 years (Káncz, 2020).

In addition, non-transparency in the project has also been criticized. Institutional and public attention has been directed against the ten-year categorization of contract terms and the feasibility study. As Opus Global, a significant investor, is associated with a close friend of Hungarian Prime Minister Viktor Orbán, claims of favoritism have also been leveled (Keller-Alánt, 2019).

Several issues have been brought forward concerning the method of the project, with some of the issues affecting its credibility and sustainability in the long run. One of the significant concerns has been the categorization of the primary documents, which has restricted public access to vital information about the project, such as its viability and anticipated benefits (Keller-Alánt, 2019). This is a cause for concern with respect to accountability and governance, with most of the critical analysis of the project being obscure.

At the local level, the scope for the railway to deliver regional economic value seems small, given that it skirts major Hungarian towns like Szeged, which are described as commercial hubs. This puts doubt over its potential to provide good chances for local businesses and communities. Additionally, Chinese firm control in the building industry further narrows the benefit for local firms, further expressing worries over the overall economic ramifications of the project (Brînză, 2020).

The project's long-term sustainability has also been called into question by other cheaper and more efficient alternative European shipping lines. Ports such as Koper, Trieste, and Rijeka present superior alternatives in shipping Chinese goods to Europe, making the viability of the railway into question (Vörös, 2018). There are also geopolitical issues looming over the project,

as the project appears to be an extension of China's broader goal to expand its influence in Europe. While the project suits China's mission of connecting Eastern and Western markets, it is also fraught with the danger of increased dependence on Chinese technology and investment, with the potential of leading to greater geopolitical tension. This is fueled by Hungary's political alignment with China on polarizing issues such as the conflict in the South China Sea dispute, which is capable of deepening internal splits within the European Union (Gizińska & Uznańska, 2024).

Furthermore, delays in Hungarian construction have been attributed to corruption and tender irregularities. These prompted the European Commission to intervene, and it wasn't until 2019 that a final agreement was signed to address these problems (Brînză, 2020), further complicating the project timeline and creating uncertainty over its future development.

The intricacy that surrounds the large-scale infrastructure projects within the Belt and Road Initiative is represented most aptly by the Budapest–Belgrade Railway. Outstanding issues of financial viability, openness, and benefits to the local people still exist, although it is a huge Chinese investment in Europe and Hungary's attempt to advance its transport infrastructure. The success of the project indicates that this could be the first of more Chinese participation in the building of European infrastructure; it accentuates, also, the geopolitical and financial issues involved in such co-operation.

#### **4.1.2. Piraeus Port Project**

The Piraeus Port, Piraeus, Greece, is a defining location in the bigger canvas of Sino-Greek relations and the Belt and Road Initiative (BRI). Controlled by the China Ocean Shipping Company (COSCO) since 2009, the port is an example of local-global relations and encapsulates the aspirations and problems of Chinese investment.

COSCO Pacific Limited, owned by state-owned China Ocean Shipping Company (COSCO) and the world's largest port operator, acquired the concession to operate container Pier II and to build and operate container Pier III at the Piraeus Port for 35 years on October 1, 2009, after a last-year concluded international tender. The two container piers are operated and owned by Piraeus Container Terminal Single Member S.A. (PCT), a recently founded COSCO subsidiary. Pier III development was completed in 2013, raising the total capacity of the two terminals to 6.2 million 20-foot equivalent units (TEUs) (Huliaras & Petropoulos, 2013, p. 215-230).

No Chinese loan was taken in the 2009 Concession Deal between COSCO and the then-state-owned Piraeus Port Authority (PPA). COSCO, instead, paid the PPA a one-time 50 million EUR and an annual payment according to a complicated formula taking into account COSCO's construction burden and yearly container volumes. The PPA agreed not to develop more container piers, including Pier I, that were still within its sphere of influence (Tsimonis, Giannoulou, & Frantzeskaki, 2023).

It is through "Amicable Dispute Settlements" that the 2009 Concession Agreement has been amended in 2011 and 2014, respectively, to grant COSCO financial security during Greece's financial crisis. To benefit PCT-COSCO, the initial settlement restructured the payment terms of annual fixed compensation (referred to as "Guaranteed Consideration") to the PPA and implemented the project schedule of upgrading its port infrastructures. Among other beneficial clauses, the second agreement terminated the PCT's yearly compensation payments to the PPA until Greek GDP recovered to 2008 levels. The Greek state reduced COSCO's financial risk during the height of the crisis and facilitated the PPA's privatization with these two agreements (Neilson, 2019, p. 559–574).

As part of a third bailout deal with the European Commission, the European Central Bank, and the International Monetary Fund (IMF), the Greek government privatized the PPA in 2016. No other bidders entered the international bidding for the privatization of the PPA because of the favorable conditions created for COSCO's container operations in Piraeus by the 2009 agreement and the previously stated Amicable Dispute Settlements of 2011 and 2014. The 2016 privatization deal gave COSCO a 51% initial ownership in the PPA, which rose to 67% in 2021 (Souliotis, Karoulas, Komninou, & Afouxenidis, 2023).

Why did Greece adopt such an accommodating stance towards COSCO? Some academics contend that members of the influential Greek shipping community who wanted to use the government to further their commercial interests dominated Greek foreign policy toward China; others have emphasized the role of Chinese and Greek political elites, specifically the geopolitical and geoeconomic considerations that went into the decision to solidify COSCO's position in Piraeus. Nonetheless, all parties concur that Greek shipowners were instrumental in enabling COSCO's 2009 debut into Piraeus. Greek shipowners have spent over \$50 billion USD in Chinese shipyards, constructing over 1,500 vessels since 2000 (Tsimonis, 2024).

At first, the locals' perceptions of COSCO were expected. The entry of COSCO was enthusiastically welcomed by the Piraeus business community, which expected increased

economic growth and commercial prospects. On the other hand, labor unions responded angrily, fearing that the port's labor relations may become "Sinified," which would result in job losses, a rise in casualization, and wage cuts. It's interesting to note that these groups' expectations and anxieties have somewhat changed throughout the course of COSCO's 15-year stay in Piraeus. Once hopeful, the business sector has become more wary of COSCO's monopolistic practices in a variety of commercial endeavors. However, despite their early concerns, labor unions have progressively come to terms with COSCO's presence and have been effective in improving working conditions in the port's most deregulated operations (Neilson, 2019).

Moreover, the impacts of this project can be divided into several parts such as: Employment and labour rights, Environment, Local businesses, Governance by Chinese media.

Following the arrival of COSCO at the port in 2009, the workforce became polarized, and a highly unregulated labor regime was established at the PCT-controlled cargo wharfs. Over time, there was an improvement in unionization, occupational health and safety protocols, and labor conditions following successive workers' mobilizations. The workers at PPA have maintained their employment status since the 2016 privatization (Huliaras & Petropoulos, 2013).

While the increased activities of the port have indeed had their impact on the environment and public health, it is the planned expansion of the cruise liner terminal that has generated the most social resistance. The prospect of the project contributing significantly to air pollution and destroying the marine ecosystem has triggered large-scale protests (Tsimonis, 2024).

Initially, the privatization of PPA was embraced by local businesses in hopes of growth and expansion of business activity. They have, nevertheless, been prejudiced by COSCO's monopoly strategies in fundamental areas of the Piraeus economy, such as retail, ship repair, logistics, and real estate. Moreover, sections of the shipping sector are significantly frustrated and annoyed at COSCO's arbitrary and ad hoc charge policies on ships (Tsimonis, 2024).

On the governance front, COSCO's activities in Piraeus saw long-standing complaints over local government, particularly the mixed application of laws of the European Union by local authorities. COSCO has been criticized for enabling the Greek administration to allow activities that are ruinous to the environment and inimical to public health despite the fact that the same initiatives are funded through the European Union. This situation has seen threats to the destruction of the rule of law (Neilson, 2019).

It is impossible to exaggerate the port's significance for the City of Piraeus and Greece. In addition to providing direct or indirect assistance to companies and thousands of employment in various areas, including shipping, logistics, ship repair, tourism, real estate, and retail, the port employs about 3,000 people, including dockworkers and office and other auxiliary personnel (Fernández Ibáñez, 2022). This emphasizes how important the port is to the local and national economies. About 0.8% of Greece's GDP comes directly from the port (GTP editing team, 2024).

Following PCT's 2009 concession of cargo piers II and III, labor disputes swiftly arose due to the stark differences in working conditions between the port's several cargo piers (Neilson, 2019). Dock workers retained their existing contracts and perks at the publicly owned container pier (I), but in the PCT piers (II and III), they were subjected to severe neoliberal labor practices that were not typical of European port norms (Frantzeskaki, 2016). Employees were asked to perform 16-hour back-to-back hours and were employed on what amounted to zero-hour contracts through local labor contractors. There was a clear disparity between several cargo piers in the same port due to inadequate health and safety regulations and the suppression of unionization initiatives. Beginning in 2014, a series of strikes and mobilizations were sparked by the bad working conditions at PCT docks. Although COSCO originally refrained from engaging in direct talks with workers, the pressure from the strikes resulted in better working conditions and the PCT dockworkers' creation of the ENEDEP union. A collective bargaining agreement for PCT workers was successfully concluded in 2022 as a consequence of improved collaboration between the various unions on both sides, despite the fact that the 2016 privatization did not end the labor segmentation between the PCT piers and the rest of the port (Euro2day.gr, 2022).

According to statistics in 2023, COSCO-operated Piraeus has become the fourth-largest container port in Europe; however, this achievement has been at a high environmental cost (Glass, 2024). As the port is close to the highly populated city of Piraeus, the environmental problems caused by COSCO's activities directly impact the residents. Though the air pollution of the port was a problem for residents even before the arrival of COSCO, increased traffic of cargo and passenger ships has yielded levels of pollution that are not seen before and make public health concerns worse. Above all else, the cruise terminal's expansion, which will attract one million more visitors a year, has been highly contentious (Tsimonis, Giannoulou, & Frantzeskaki, 2023). The critics have pointed to the adverse emissions emitted by massive cruise liners that operate on an ongoing basis and the increased traffic jams produced by tour

buses transporting the visitors from the port and the archaeological sites of Athens. Furthermore, poisonous dredging wastes from other parts of the port are being used for land reclamation to expand the terminal, thus endangering the Saronic Gulf marine ecology. In what has been the most contentious dispute between COSCO and Piraeus residents, these events have evoked extensive mobilization and protest in the local community, which has, at least for the time being, stopped the port expansion by legal means (Tsimonis, Giannoulou, & Frantzeskaki, 2023).

Another less-than-anticipated source of tension with COSCO is that the firm has signaled its desire to extend profit streams in a variety of economic areas, at the expense of domestic enterprises, since assuming total ownership of the PPA. Tensions have been created because local business interests have been felt to be harmed by COSCO's expanded commercial aspirations in logistics, ship repair, real estate, even tourism, and retail. By claiming that its proposals for building a shipyard, (Σχοινά, 2020) shopping complex, hotel, and other recreational facilities are driving out local competition and eliminating opportunities for small firms in the port economy, these companies accused COSCO of monopolistic intentions. Price restraint and rising docking charges have led to protests from the shipping and ship repair industry. The corporate world has become more suspicious and wary of COSCO's monopoly ambitions, but overall, it still prefers the company's presence at the port. Lastly, COSCO's operations in Piraeus have put the spotlight on the long-standing governance problems and regulatory deficiencies of the EU and Greece. Perhaps most significantly to the permit granting dumping of very poisonous dredging material in the Saronic Gulf and permitting construction of the new cruise terminal without a strategic environmental impact study, the local and Greek governments have been chastised for a lack of enforcement of environmental law (Boutsis, 2021). Furthermore, inconsistency exists in the subsidization of the construction of the cruise terminal by the European Commission and the European Investment Bank, an operation that has come under strong condemnation for its probable negative environmental effects, especially on traffic, air quality, and local infrastructure. After decades of grassroots campaigning and court fights against COSCO, the European Commission in July 2024 added further tough environmental requirements to its continued subsidizing of the cruise terminal development.

#### **4.2. Unsuccessful Investments**

Yet, none of the Chinese investment initiatives in the region have been successful. Most high-profile proposals have been stalled, put on hold, or produced no desired effects because of factors such as regulatory hurdles, financial issues, transparency concerns, or changes in host



country political will. In other cases, domestic opposition to China's strategic interests or inability to embrace EU laws further prevented progress. These failed investments uncover China's failure to adapt its investment model to the diverse political, legal, and economic environments in Central and Eastern Europe and are significant lessons to Chinese stakeholders and regional partners alike in the future.

#### **4.2.1. Cernovada nuclear Plant**

One such illustration of the complexity and intricacy of Chinese investment in Central and Eastern Europe (CEE) is that of Romania's Cernavodă Nuclear Power Plant. Having been sold as a flagship project of the 16+1 Initiative, the investment failed, a reflection of deeper issues of Chinese economic engagement in the region. The background history of the participants in the Cernavodă project and the geopolitical aspects thereof, from communist roots to project collapse as one sponsored by China, are examined in this chapter.

The history of Cernavodă started during the communist era, when Romania had dreamed of a five-reactor nuclear facility to become energy independent. Romania's desire to reduce its dependence on Soviet energy sources was the major reason for this giant project. As a result of the project's progress running behind schedule, only two reactors came on stream in 1996 and 2007, respectively. Political and financial concerns, such as a lack of resources and experience, also contributed to extending the time frame. Romania was looking for foreign partners in 2009 to complete half-built reactors 3 and 4 (Nuclearelectrica S.A., 2014).

The first effort involved European partners RWE (Germany), GDF Suez (Belgium), and ENEL (Italy). They withdrew after three years, however, citing profitability and economic concerns. During the 16+1 Summit in Bucharest in 2013, China General Nuclear Power Corporation (CGN) emerged as a potential savior by committing to invest in the venture through a memorandum of understanding (MoU) (World Nuclear News, 2015).

It took six years before negotiations were undertaken as in 2014 CGN was selected as the sole bidder. Romania's political uncertainty, questions about its economic feasibility, and EU restrictions on state aid stopped such negotiations. To compel Romania to cross-subsidize when market prices fell below a certain level, CGN compelled the government to issue guarantees in the form of "contracts for difference." Since this was considered to be potentially incompatible with state aid rules, it posed serious financing issues for the Romanian government and raised some eyebrows in the EU (Kinstellar, 2020).

Geopolitical tensions played a major role in aggravating these problems. In 2019, CGN was charged with nuclear espionage by the U.S. Department of Justice, charging the company with illicitly procuring U.S. nuclear technology. This indictment damaged the image of CGN worldwide and increased pressure on the relations between China and the United States. With this in tune, one of NATO's most critical allies, Romania, began to distance itself somewhat from Beijing. Romania concluded negotiations with CGN on the basis of strategic and security interests by May 2020. Romania's administration, headed by Prime Minister Ludovic Orban, actively searched for other partners, with a preference being given to NATO members over Chinese firms in order to stay in line with Romania's geopolitical goals (U.S. Department of Justice, 2016).

When Romania aligned closer towards the United States, the Chinese-funded Cernavodă project was suspended. Romania and America signed an intergovernmental agreement in October 2020 to take advantage of U.S. nuclear technology and experience. The deal was one that symbolized Romania's commitment to the West and a solidification of the strategic partnership between Romania and the United States. However, since American participation was merely one of providing access to information and possible finance through EXIM Bank, the deal was short of symbolic. Significantly, EXIM's \$7 billion line of credit was accompanied by a string of infrastructure and energy projects in conjunction with Cernavodă (Export-Import Bank of the United States, 2020).

While there is optimism for the involvement of the U.S., there are problems. It would cost at least \$8 billion to finish reactors 3 and 4, and due to inflation, evolving energy technology, and regulatory problems, the cost will undoubtedly be more. All these problems are compounded by Romania's low budget, making it hard for the government to invest as much as needed in huge infrastructure projects. Additionally, EU legislation insists on public tenders for the development of such projects, potentially muddying and delaying U.S. participation. Also, the economic argument in favor of nuclear power investment is increasingly questionable with less expensive options of renewable energy with shorter payback periods, like solar and wind (Reuters, 2023).

The fall apart of the Cernavodă project underscores a trend of Chinese investments in Romania and the broader CEE region that failed to take off. Romania had anticipated an onslaught of flagship Chinese projects in transportation and energy infrastructure following the 16+1 Summit of 2013. Instead, disillusionment was rife following political instability, failure to deliver on finance pledges, and increasingly uncertain Chinese motives. Doubts about

whether the Chinese investments were advancing their long-term national interests increased among locals and other stakeholders.

Romania's pivot from China was part of a broader global pattern following the geopolitical tensions between China and the United States. The "Russian factor" was also involved, as Romania's security concerns, given Russia's aggression, had made U.S. security commitments necessary. Romania's accession to Washington's "Clean Network" initiative, keeping Huawei out of its 5G network, was geopolitically motivated. The Huawei case is a very pertinent example of the larger issues regarding Chinese business behavior in the CEE geopolitical sphere. The Huawei ban, as one of the world's technology titans, was an umbra of security as well as increased alignment by the CEE nations, Romania included, with Western and the United States, in particular, "Clean Network" initiatives. This choice, along with the exclusion of CGN involvement in Cernavodă, showed the Romanian preference for EU and NATO alliances over Chinese business offers (Reuters, 2021).

#### **4.2.2. Bar-Boljare highway**

The Bar-Boljare highway project, this so-called paradigm-busting infrastructure venture, has also become the symbol of financial and environmental ailments. That Montenegro had to finance such a project with a \$944 million loan from China's Exim Bank is also symptomatic of China's Belt and Road Initiative (BRI) investment challenges. The European Union's disapproval of Montenegro's application to refinance such a loan is just further testament to the larger geopolitics and economics involved in such a union.

The Bar-Boljare highway, which started being constructed in 2014, was aimed at linking Montenegro's Adriatic sea port city of Bar to the capital of Serbia, Belgrade, and ensuring regional integration as well as economic development. China's Exim Bank contributed 85% and the government of Montenegro 15%. It was started in 2015 by the China Road and Bridge Corporation (CRBC), which is a subsidiary of the China Communications Construction Company (CCCC) (Kovačević, 2021).

Although ambitious in nature, the highway was plagued with severe issues because of Montenegro's mountainous landscape. The initial 41 km section of 20 bridges and 16 tunnels suffered cost overruns and delays, pushing total expenditure to around \$1.3 billion (European Commission, 2019).

This choice to employ Chinese companies for the project was due to Montenegro's limited financial capabilities and inability to obtain good terms from Western banks. The agreement terms exempted CRBC and subsidiaries from a number of taxes, including value-added tax and import tax, with estimated exemptions totaling over €100 million (Bertin, 2019).

Montenegro's GDP, standing at \$5.5 billion in 2020, made the cost of the highway unaffordable. The project's debt stood at 45% of the country's GDP, and public debt hit 105% during the economic downturn brought about by the pandemic. Payments of \$67.5 million annually became a grave burden, and the Montenegrin government resorted to refinancing with European banks (Vujović, 2023). The EU, though, declined assistance because of problems concerning debt dependence and a lack of transparency in the original contract.

The incurred fiscal cost restricted Montenegro from having fiscal space, affecting its capacity to finance other vital projects. Attempts at securing funds for future phases of the highway from the European Investment Bank (EIB) were turned down, on the grounds of feasibility reports showing low volumes of traffic levels to warrant investment (Reuters, 2018). Montenegro then negotiated refinancing deals with US and European banks, temporarily averting the strain but not relieving the wider economic implications.

Opponents of the Bar-Boljare project have cited its exorbitant cost and questionable economic advantages. Two feasibility studies before construction showed inadequate traffic loads to make the venture worthwhile. Transparency was also eroded by labeling key contractual documents as confidential and charges of corruption against local subcontractors (Stojkovski et al., 2021).

The project has also come at a high environmental cost. The construction work irreparably harmed the Tara River Gorge, a UNESCO-protected area, and led to ecosystem degradation and water pollution. In spite of protests by activists, Chinese contractors dumped building waste into the river, as claimed, and thereby did harm to it. The secrecy that distinguished the terms of the project only heightened the suspicion of corruption. The key documents were kept confidential, and civil society organizations criticized the government for not safeguarding public interests in the negotiations (Vujović, 2023).

Montenegrin former ambassador to NATO, Vesko Garcevic, also reported that Montenegro's dependence on Chinese loans is decreasing its bargaining power for future agreements. As per him, "Montenegro is now more reliant on Chinese loans and can't negotiate

better commercial transactions with China in the future," and commented that such dependence discourages other foreign investors apart from Chinese (Stojkovski et al., 2021).

The Bar-Boljare highway is a classic case of problems that Chinese BRI investments in developing nations lead to. The same has been witnessed in other BRI initiatives across the Balkans, such as rising costs, secrecy, and long-term loans. China's debt diplomacy strategy tends to put recipient countries at risk of debt crises, as has been seen in Montenegro (Stojkovski et al., 2021).

China's investment in Montenegro is part of a larger effort to expand its influence across the Balkans. Other local projects, such as the Belgrade-Budapest high-speed rail and Serbia's Kostolac B3 power plant, share the same patterns of opaque deals and fiscal risks to host nations. Besides, Montenegro also negotiated with China for other economic and infrastructure projects, such as the purchase of bulk freighters and upgrading its railway network (Stojkovski et al., 2021).

The Bar-Boljare motorway underscores calls for greater checks on foreign investments. Prior to host nations like Montenegro, transparency, green considerations, and pre-feasibility studies are important to forestall unsustainable levels of financial undertakings. The EU may be a pioneering force by introducing alternative funding means consistent with democratic and environmental measures. Initiatives such as the €9 billion Economic and Investment Plan by the EU for the Western Balkans represent a sustainable path that reduces reliance on external partners such as China (European Commission, 2020).

What one derives from the Montenegrin experience is that considerable cost-benefit analysis and alignment with global best practice in public procurement are strictly necessary. Building institutions to control negotiation and monitor bulk infrastructure transactions is crucial for guaranteeing long-term economic stability.

Although the highway Bar-Boljare was meant to enhance regional connectivity, the environmental and financial cost of the project has exceeded its advantages. The project offers a warning to other countries considering BRI investment, where due diligence requirements and multiple sources of funding were highlighted. How to overcome the challenges requires coordination among national governments, local actors, and international institutions for sustainable development to be achieved.

## **V CHAPTER: INVESTMENT RISKS AND UNCERTAINTIES IN THE 16+1 INITIATIVE**

China's 16+1 Initiative, launched in 2012, has been involved in trade and investment cooperation between China and sixteen Central and Eastern European Countries (CEECs). Despite the fact that the initiative has seen increased capital inflow, particularly in infrastructure and logistics, there have been increasing fears over the risks of the investment. The risks take many forms as financial dependence, imbalance in trade, geopolitical intervention, cyber threats, and security threats. Close examination of them is essential to an analysis of the broader implications of Chinese economic investment within the region. Financial dependence poses the greatest danger of Chinese investment within the 16+1 format, brought about by China's investment strategy using debt finance.

Unlike finance tools of the European Union that offer grants and tutelage-aided money, Chinese investment is most typically of the type of massive loans given through state-backed money houses such as the Export-Import Bank of China (Exim Bank). This has caused concerns over potential debt distress for host nations. For instance, Montenegro's decision to finance the Bar-Boljare highway with a \$1 billion Chinese loan has significantly contributed to the debt burden of the country. Default on the loans has raised alarm over the confiscation of sovereign assets, joining worries over debt-trap diplomacy that some accuse Beijing of using to deepen its geopolitical influence through making states economically dependent on Chinese credit (Bertelsmann Stiftung, 2020). Serbia is also increasingly indebted to China, with Chinese investment surpassing that of all 27 EU Member States combined as of 2022 (Ghiretti et al., 2023). Such budgetary over-reliance curtails the fiscal sovereignty of such countries and concerns policy alignment issues with Beijing's interests. Other than debt dependency, trade deficits are another economic risk in the 16+1 initiative. The CEECs' trade deficit with China has been persistent, as most of these economies import far more from China than they export.

For instance, Serbia in 2021 had exported a combined total of just €329 million worth of goods to China, while Chinese exports to Serbia totaled €2.88 billion, leaving a colossal trade deficit (Čakajac, 2024). This imbalance disempowers local industries by fostering reliance on Chinese goods and limiting the scope for reciprocal trade. Secondly, while Chinese investments bring funds into infrastructure growth, they tend to utilize Chinese labor and supplies, keeping their contribution to local business and employment very low (China Labor Watch, 2024). The Budapest-Belgrade railway initiative, a gargantuan Chinese investment in Hungary, has come under fire for using a considerable proportion of Chinese workers and, therefore, depriving the

Hungarian enterprise and workers of the economic benefits they would otherwise be entitled to (European Parliament, 2023). Low transfer of knowledge resulting from such an investment also erodes their contribution to long-term CEEC economic development.

Chinese investment in the CEECs is also subject to geopolitical risks, and most importantly, foreign policy interference and national security concerns. Perhaps one of the best-known instances of China's increasing presence in the region is its investment in Greece's Piraeus port. Since COSCO Shipping acquired a 51% interest in the Piraeus Port Authority back in 2016, China has solidified its logistical presence in Europe. This investment has been accompanied by Greece's increasing alignment with Chinese policy positions, as seen through its opposition to EU statements that are critical of China's human rights record (Smith, 2017). Similar trends are also observed in Hungary, where the government has repeatedly supported Chinese economic and technological initiatives, such as the Huawei-led development of digital infrastructure. Hungary's intimate economic ties with China have made it one of the most ardent supporters of Chinese investment in the EU, creating tensions with Brussels over China's growing presence in European affairs (European Commission, 2021). China's ability to shape political decision-making through economic leverage is a test of the policy coherence and strategic autonomy of the EU.

The issue of data protection and cybersecurity has emerged as a rising concern with the enhancement of Chinese companies' role in the development of CEEC infrastructure. In Serbia, Huawei has played a crucial role in smart city initiatives, which have raised an issue of concern over surveillance and data protection gaps (Seaman, 2020). Conforming to China's legal framework, where businesses are obligated to support state intelligence agencies, European policymakers have also complained about issues of espionage and cybersecurity threats arising due to the installation of Chinese technological infrastructure. A case in point is Hungary's East-West Gate (EWG) Terminal, the first 5 G-enabled smart railyard in Europe, developed in partnership with Huawei. While the undertaking will be logistically more cost-effective, dependence on Chinese digital infrastructure escalates the risk of cyber vulnerabilities that would leak delicate transport data and imperil European supply chains (Bruno, 2022). Owing to the strategic value of rail and terminal facilities to shipping goods across Europe, risks herein extend from the economic to the national security front.

Security concerns related to Chinese investment in CEECs extend from cybersecurity to military and defence-related issues. Chinese investment in strategic maritime and land infrastructure raises concerns about dual-use capabilities, where civilian resources would be

redirected for military purposes. COSCO Shipping, for example, is directed by China's 2015 National Security Law that mandates civilian maritime assets to be put at the disposal of the military when needed (Van der Putten & Petkova, 2020). This has left open the possibility of speculation that Chinese-owned infrastructure, such as the Piraeus Port, could be utilized for geostrategic purposes in the case of geopolitical tensions. In Serbia, too, there has been significantly enhanced Chinese and Serbian military cooperation, with Belgrade acquiring Chinese HQ-22 surface-to-air missile systems (Gosselin-Malo, 2025). These developments reflect the strengthening security convergence between Serbia and China that may complicate Serbia's EU accession and enhance regional security tensions.

Chinese investment of a strategic nature within the 16+1 Initiative poses economic and security risks to the respective Central and Eastern European countries, as well as broader implications for EU unity. With China reinforcing ties to these nations, disparities in economic dependencies, policy alignments, and foreign policy agendas within the EU have been aggravated. Some member states seem more aligned with the interests of Beijing, which threatens EU cohesion and ability to enact collective economic policies, maintain autonomy, and ensure collective foreign policy decision-making. How China's engagement encourages intra-EU divisions is central to assessing the long-term geopolitical consequences of the 16+1 Initiative and potential undermining of European solidarity.

Chinese debt-funded projects, trade deficit, and geopolitics are creating medium-term economic sovereignty and national security issues. Additionally, the building of Chinese digital and transport networks in CEECs is posing new cybersecurity risks to European strategic interests. To counteract these risks, CEECs must extend regulatory openness, facilitate diverse sources of foreign investment, and organize infrastructure development according to EU standards and national long-term economic interests. How far CEECs can, on the one hand, engage in cooperation with China on economic issues without undermining national and regional interests will seal the long-term existence of the 16+1 platform in the context of greater European politics.

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and ensure collective foreign policy decision-making. How China's engagement encourages intra-EU divisions is central to assessing the long-term geopolitical consequences of the 16+1 Initiative and potential undermining of European solidarity.

Chinese investment in Europe has been highly asymmetrical, with Western European countries experiencing high-value technology and manufacturing takeovers, while CEE nations have been the target of infrastructure development that has been financed to a large degree with Chinese loans (Seaman, 2020). Such strategic compartmentalization has widened economic disparities in the EU and accumulated rival economic dependencies.

Chinese foreign direct investment (FDI) in Western Europe has concentrated in the automobile, robotics, telecom, and energy sectors. In Germany, for example, the acquisition of Kuka, a leading robotics firm, by China's Midea Group raised alarm over the transfer of sensitive technologies and national security risks. Similarly, the energy sector of France has seen substantial Chinese investment, including China's State Grid Corporation's acquisition of a 49.9% stake in Réseau de Transport d'Électricité (RTE) (European Commission, 2021). These investments have further solidified China's strategic grip on Western European high-tech industries, making it challenging for the EU to implement a single investment screening regime.

In contrast, CEE countries have been the recipients of most Chinese investment in terms of infrastructure projects, the lion's share of which are supported by state-led Chinese loans rather than direct capital investment. One of the most prominent examples is the Belgrade-Budapest high-speed railway, a flagship project of China's Belt and Road Initiative (BRI), 85% financed by the China Exim Bank (Bertelsmann Stiftung, 2020). Priced as a win-win project, the investments actually trap CEE countries into debt and increase their economic reliance on Beijing, making them more politically susceptible to Chinese pressure.

The Piraeus Port of Greece is another dramatic illustration of how Chinese investment has reshaped economic alliances within the EU. The Greek port was acquired by the Chinese state-owned COSCO, which acquired a 51% controlling stake in the port and turned it into a top hub for Chinese trade corridors into Europe. This has lured Greece to be more accepting of Chinese economic policies, like blocking EU resolutions condemning China on human rights and trade matters (Budová, Kmecová, & Štiblárová, 2024).

As a result of these trends in investment, the EU is internally divided on China policy, with some nations prioritizing economic benefits at the cost of broader European security and trade interests. This division weakens Brussels' ability to regulate foreign investments and adopt

collective trade policies, as countries with close economic ties to China are reluctant to support restrictive policies.

In addition to its economic influence, China's 16+1 Initiative also had a significant political impact on EU policymaking, uniting Europe to battle key foreign policy issues jointly. By forging individual-to-individual connections with individual EU member nations, Beijing was able to bypass Brussels and erode the collective bargaining power of the EU.

One of the stark examples of China's political leverage in the EU during 2017 was when Hungary and Greece blocked the EU from making a unified statement against China's human rights record. Again, in 2018, Hungary vetoed an EU resolution condemning China's actions in the South China Sea, although there was widespread concern among Western European nations about China's increasing assertiveness in the seas. These events illustrate how states with large Chinese economic stakes in them have a tendency to put their own individual national interests first over broader EU foreign policy interests, thereby making it difficult for Brussels to come to a common stance on Chinese issues (Budová, Kmecová, & Štiblárová, 2024).

Furthermore, China's influence has extended as far as diluting EU regulation. Some of the CEE states, such as Hungary, the Czech Republic, and Greece, fought against the implementation of the EU foreign investment screening regime in 2019, whose governments were scared that more EU regulation would exclude Chinese investments. That the states were not able to help with the screening of investments is proof of how China's economic power has been converted into political power in the context of the EU institutions (Van der Putten & Petkova, 2020).

China's policy is also in line with the broader geopolitical trend of capitalizing on EU divisions. While France and Germany have been advocating for tougher EU policy against China, CEE countries have generally pursued a gentler approach, in line with their economic dependence on Chinese investment. The division among Western European members who want tighter controls and CEE countries who want to have more Chinese contacts has weakened the EU's capacity to present a clear-cut long-term policy towards Beijing, rendering the bloc vulnerable to outside influences.

China's increasing economic footprint in the EU has triggered significant security issues, most notably about vital infrastructure, telecommunications, and technology transfers. The most hotly debated has been the role of Huawei in the building of Europe's 5G network, an issue that has contributed further to the fragmentation of the EU.

While Germany, France, and the Netherlands have barred Huawei on the basis of alleged cyber-espionage, Hungary and Serbia have opened their doors to Chinese telecommunication investment, creating a European security divide. This divide showcases how China's investment policy has led to asymmetrical dependencies, which make it difficult for the EU to have a coherent cybersecurity policy.

Moreover, China's acquisition of strategic infrastructure, including ports, railways, and energy grids, has raised alarm bells regarding potential geopolitical influence. The Piraeus Port in Greece and the Belgrade-Budapest railway are high-profile examples of how Chinese investments can have broader strategic ramifications, enabling Beijing to deepen its logistical presence in Europe while evading EU regulations. To alleviate these threats, the EU must strengthen its investment screening abilities, introduce more stringent regulatory oversight, and convince the CEE countries to diversify their economic partners. Without a more coordinated approach, China's continued involvement in Europe risks further fracturing intra-EU tensions, eroding the bloc's long-term stability and geopolitical influence.

The EU fragmentation instigated by China's 16+1 Initiative extends from the economic to the political as shifting geopolitical realities redefine CEE's stance towards Beijing. Having once been wooed for investment, China's pro-Russian neutrality in the Ukraine war has evoked suspicion, prompting a reassessment of its role. The Lithuanian-Taiwan conflict and the Balkan states' abandonment of the initiative help to further solidify this pivot. As security concerns mount and diplomatic tensions rise, CEE countries are rethinking their relationship with China, and questions are being asked about the long-term impact on EU-China relations.

### **5.1. Lithuania's exit from the "17+1" initiative**

The 2021 Lithuanian withdrawal from the "17+1" mechanism was a grave benchmark in Sino-CEE affairs. By doing this, Lithuanian Foreign Minister Gabrielius Landsbergis emphasized the need for more joint EU action:

***"From our perspective, it is high time for the EU to move from a dividing 16+1 format to a more uniting and therefore much more efficient 27+1."*** (Lau, 2021)

This line came as a reaction to growing resentment regarding the lack of tangible economic benefits of the mechanism and apprehension over Beijing's increasing geopolitical ambitions. The most recent provocation for Lithuania's drift away from China came in November 2021, when Vilnius agreed to open a "Taiwan Representative Office," a move perceived by Beijing as a tangible insult to the "One China" policy. China retaliated with de

facto economic sanctions against Lithuania, including excluding the country from its customs system, effectively suspending bilateral trade (Lau, 2021).

China's retaliatory economic measures against Lithuania spilled over into wider bilateral relations. Beijing subtly bullied multinationals such as German auto giant Continental to abandon Lithuanian vendors. This was an extension of China's coercive diplomacy, demonstrating that it will employ subtle pressure to affect smaller nations. But this strategy did not work, with the EU acting quickly by filing a case against China at the World Trade Organization (WTO) and supporting a €130 million package of assistance to Lithuanian businesses affected by Beijing's sanctions (European Commission, 2022).

Latvia and Estonia pulled out of the "16+1" format in August 2022, in much the same manner as Lithuania expressed similar grievances. They stated tactfully refrain from clashing with Beijing but insisted on a preference for an EU-wide approach to confronting China:

***"Estonia will continue to work towards constructive and pragmatic relations with China."*** (Estonian Ministry of Foreign Affairs, 2022)

***"Latvia will continue to strive for constructive and pragmatic relations with China."*** (Latvian Ministry of Foreign Affairs, 2022)

These exits, at times of heightened tensions between China and the West on Taiwan, were interpreted as a strategic shift towards the EU and the United States. The rising wariness of the Baltic states in Beijing also mirrored China's view of moving closer to Russia, particularly after the Ukraine war (*The Diplomat*, 2022).

The Baltic states' withdrawal has made other CEE countries reconsider their participation in the "16+1" cooperation. The Czech Republic, Poland, and Slovakia have expressed growing skepticism about the utility of Chinese cooperation. Czech policymakers, for instance, have threatened to withdraw, particularly in the wake of China's growing presence in sensitive sectors, such as telecommunications and infrastructure (Szczepański, 2022).

China's coercion of Lithuania has coincidentally enhanced EU cohesion as regards issues related to China. Freezing the process of adopting into law the EU-China investment agreement by the European Parliament is even more symbolic of the deterioration of the two sides' relationship. Even further, Beijing's support for Moscow following Russia's takeover of Ukraine attests to negative feelings among European countries regarding Beijing's eligibility as a good partner.

The exit of Lithuania, Latvia, and Estonia from the "16+1" format is an indication of a broader trend in China-CEE relations. China's economic coercion has rather pushed these countries towards the EU and NATO. As more CEE countries reconsider their relations with Beijing, the future of China's regional strategy is uncertain. The EU's growing emphasis on collective action against China means that Beijing will find it increasingly difficult to impose its will on individual EU states.

The intensifying tensions between the European Union and China, which have been driven by the Russia-Ukraine war and the diplomatic policy of Lithuania, have necessitated the reevaluation of the EU's engagement with the 16+1 platform. While Beijing's economic coercion practices and geopolitical forays continue to test the EU's cohesion, Brussels has strived to cultivate a more united and coordinated response. The EU has increasingly viewed the 16+1 mechanism as a step to split its decision-making institutions, which would establish strategic dependencies, investment security, and geopolitical alignment of its member states. In response, the EU has pursued regulatory policies, increased economic protection, and reinforced transatlantic relations to counterbalance China's influence in Central and Eastern Europe. The following subsection reports on the standout actions being initiated by the EU to prevent the risks created by China's investment policy via the 16+1 mechanism.

## **5.2. The Impact of the Russian-Ukrainian War on Sino-EU Relations**

The conflict between Russia and Ukraine has profoundly reshaped the political landscape, affecting China's alliance with the European Union (EU) at its core. While economic interdependence is always a necessity, political developments and strategic re-prioritization have framed the way European capitals engage Beijing. The conflict itself has not only consolidated Europe's security dilemma but has shed light on divergences of fundamental conception in the foreign policy approach of the EU and China.

China's policy in respect of the Russian invasion of Ukraine has been one of strategic ambiguity. While Beijing has officially maintained a distance, in the process, it has provided diplomatic and economic support to Moscow, which has further isolated it from Europe. While China voted in the UN for resolutions that called for Russia to withdraw, it has not come as far as actively condemning Russia's acts or taking any economic measures against Moscow (Brinza et al., 2024). This seeming Russo-friendly neutrality has generated alarm among European policymakers to the extent that the EU's long-term policy of engagement towards China is open to review.

In response to China's reluctance to strongly denounce Russia, European officials have increasingly questioned the good faith of the EU-China "Comprehensive Strategic Partnership." The High Representative of the European Union for Foreign Affairs, Josep Borrell, has noted that silence on behalf of China regarding Russian aggression undermines trust in EU-China relations (Borrell, 2023). Besides, the European Parliament also called for taking a more cautious approach towards China, such as increasing vigilance on Chinese investment and economic activity in the EU. The war has also accelerated the strategic rebalancing of Europe, particularly against the backdrop of reducing dependence on authoritarian regimes.

The overall economic policy of the EU currently includes balancing dependence on Chinese value chains, particularly in the critical sectors like rare earth, semiconductors, and green tech. European Union leader Ursula von der Leyen has stated the EU must "not substitute one dependency for another" as it weans off Russia's fuel (Szucs, 2022). Towards that objective, Europe is now negotiating trading agreements with alternative partners, like Australia, Indonesia, and India, in a move to make supply chains diverse and reduce the economic dependence on China (European Union External Action, 2024). Statistically, in 2023, China was the EU's largest trading partner, with total trade amounting to €739 billion. This represented 21.3% of the EU's imports and 8.3% of its exports. The EU experienced a trade deficit of €292 billion with China in 2023 (European Commission, n.d.). Nevertheless, European dependence on Chinese imports, particularly high-tech imports, has raised concerns about supply chain vulnerabilities.

China, on the other hand, is concerned with economic dealings with Europe and downplaying political divergence. During a conference in Beijing, China's Special Representative for Europe, Wu Hongbo, blamed Europe for increased security concerns over Chinese investment, arguing that "de-risking" and economic fragmentation are Western-conceived ideas that unjustly undermine Sino-European partnership (Wu, 2023). The EU, on the other hand, has moved gradually, particularly with the addition of China's massive economic support for Russia.

However, another important sector affected by the war is Europe's technology strategy. The European Chips Act is modeled after the U.S. effort to reduce dependence on Chinese semiconductor production. The act, which comes backed with €43 billion worth of funding, will guarantee semiconductor supply chains and increase domestic production capabilities in the EU (European Commission, 2023). While the EU has no ambition to be completely decoupled from China, it is attempting to develop domestic production capabilities and gain

access to technology partnerships with trusted partners. The policy is coherent with growing concerns over Beijing's hegemony over strategic technological supply chains, further triggered by its refusal to move away from Moscow. The future of EU-China relations will most likely be shaped by the geopolitics of the war in Ukraine.

Whilst economic engagement is imperative, the EU must adopt a more assertive stance in terms of dealing with political and security matters related to China. Deepening synchronization between Beijing and Moscow poses a threat to Europe and compels policymakers in the EU to balance how they keep the economic relationship alive with China, but also secure European strategic interests. The re-adjustment of the EU-China relationship after the war will depend on whether Beijing changes its position and follows in line with the international community in upholding global security and territorial integrity.

## **VI CHAPTER: EU'S RESPONSE TO CHINA'S GROWING INFLUENCE**

### **6.1. The Global Gateway Initiative**

The European Union's (EU) geopolitical response to China's Belt and Road Initiative (BRI) and the 16+1 project introduction is its Global Gateway Strategy (GGS). This essay examines how the EU transitioned from being a "payer but not a player" to a more proactive global player through its use of infrastructure investments and partnership with developing countries. The study contrasts the EU value-driven investment approach to China's state-driven, rapid progress infrastructure financing strategy. Also included are challenges or limitations to the Global Gateway Strategy to battle China's moves or initiatives and its implications for future EU-China relations and global infrastructure diplomacy. From the time China opened the Belt and Road Initiative (BRI) in 2013, Beijing has made considerable leaps towards constructing its global footprint, particularly in the emerging world, through investments in such infrastructure ventures like roads, railways, and ports (Urhová, 2025).

At the same time, China's 16+1 format, a cooperation platform between China and the Central and Eastern European (CEE) countries, has provoked concern in Brussels regarding Beijing's presence within the EU (García-Herrero, 2024). In response, the European Commission launched the Global Gateway Strategy (GGS) in 2021 as a counter reaction to trigger investments of as much as €300 billion by 2027 to establish a values-driven and sustainable competing strategy to the economic efforts by China (European Commission, n.d.). China's BRI, a grand development of global infrastructures, has been criticized for creating debt dependencies and transparency and sustainability deficits among its projects (Urhová, 2025). Similarly, the 16+1 format has appeared as a political tool to unbundling EU decision-making through encouraging bilateral relationships between Beijing and single EU nations, dislocating the collective bargaining power of the EU (García-Herrero, 2024). The strength of the 16+1 and BRI is that they are able to provide quick financing with fewer political strings attached.

The majority of Global South countries and a few European nations have been attracted to Chinese investment owing to the fact that there are no calls for democratic governance, openness, or human rights concerns (García-Herrero, 2024).

However, concerns are also raised regarding debt sustainability and geopolitical dependence, particularly in Europe, since part of its member states, such as Lithuania, have withdrawn from the 16+1 mechanism (ibid, 2024).



The Global Gateway Strategy is intended to counterbalance China's influence by offering sustainable infrastructure investments combined with democratic values, environmental consciousness, and openness. The most significant sectors of investment for the GGS include digital infrastructure, renewable energy, transport connectivity, and healthcare (European Commission, n.d.). Unlike the state-led model of China, the EU finances its investments based on public-private partnerships and untied aid principles, which renders it more inclusive but slower (García-Herrero, 2024).

One of the clean energy initiatives by the EU is its EU-Africa Renewable Energy Initiative (REI), through which it aims to accelerate the transformation of Africa into green energy technology, with a focus on solar energy. The EU has made investments in large solar power plants across the African continent, making countries able to reduce their reliance on fossil fuels and coal while ensuring energy independence. For instance, the EU has supported the Noor Solar Complex in Morocco, one of the world's largest solar projects, producing clean power for millions of individuals in the region (African Development Bank, n.d., p.6-10). The EU's focus on renewable energy is not just to fight climate change but also promotes energy security and economic resilience for developing nations, providing a cleaner alternative to Chinese investment in coal-based infrastructure.

The Global Gateway Strategy of the EU addresses the creation of green transport connectivity. This involves investments in ports, railway systems, roads, and airports that enhance trade connectivity, but with a focus on low-carbon transport means. The EU aims to integrate green transport solutions into global infrastructure networks such that the infrastructure projects are not just good for economic growth but also for sustainability in the environment.

An example of such commitment is the EU-Africa Transport Connectivity initiative, aimed at increasing railroad connections connecting Europe to North Africa through the use of electrified railroad infrastructures and green logistics. All these projects assist in reducing carbon emissions that come with moving goods using traditional highway infrastructure. The EU's focus on multimodal transport networks, such as high-speed rail, is aimed at offering a sustainable alternative to China's approach to infrastructure in the Belt and Road Initiative (European Commission, 2025). Among the most significant differences between BRI and GGS is governance.

While Chinese state-owned companies manage BRI projects directly and are financed by Chinese state banks, the EU approach is marked by diversity among stakeholders, such as international financing institutions, private investors, and national governments (European Commission, 2021). Even as this offers more transparency and alignment with global regulatory needs, it also imposes administrative delays, so that GGS projects are less effective in terms of responsiveness and speed compared to BRI investments (García-Herrero, 2024). Although very ambitious in vision, the Global Gateway Strategy faces a set of challenges. Funding shortage is one of the primary challenges as the €300 billion investment target is far smaller than China's Belt and Road Initiative (BRI), which has spent over \$1 trillion in value of global investments since its inception (García-Herrero, 2024).

Implementation bottlenecks are also a challenge as the EU's decentralized decision-making structure tends to create inefficiencies and delays in project implementation, thus being less competitive in comparison to the streamlined model of BRI (European Commission, n.d.). In addition, there are regulatory constraints as the strict ESG policies of the EU constrain the possibility of implementing projects faster than in China's state-driven model, particularly in locations where regulatory mechanisms are not very robust (García-Herrero, 2024). Finally, geopolitical issues are an issue, as the majority of nations to which the infrastructure investments are directed are already highly integrated into China's economic system, leaving the EU to fight to be a viable alternative (Urhová, 2025).

To enhance the outreach of the Global Gateway Strategy, the EU needs to rationally simplify decision-making to ensure more efficient project implementation. The EU needs to increase coordination between the EU institutions, member states, and private partners to have an increased impact on investments, argues Urhová (Urhová, 2025). Domestic stakeholder participation in partner countries needs to be improved to support the adoption and sustainability of projects. Finally, the EU must engage in strategic communication to better promote the benefits of the Global Gateway Strategy over China's Belt and Road Initiative, as recommended by the European Commission (European Commission, n.d.). While the Global Gateway Strategy provides an EU values-based counterpoint to Chinese infrastructure investments, success hinges on the capability of the EU to overcome bureaucratic and fiscal challenges.

The future of global infrastructure diplomacy will be shaped by competition between BRI and GGS, both in economic growth and geopolitical positioning globally. The Global Gateway Strategy is the EU's strongest bid to counter China's economic diplomacy through

infrastructure growth. Nevertheless, its competitiveness against the BRI and the 16+1 framework is constrained by economic, administrative, as well as geopolitical limitations. The EU, in the future, will be forced to sharpen its strategy so that GGS can serve as a competitive and viable option to China's state-led infrastructure development (European Commission, n.d.).

## **6.2. EU Foreign Direct Investment Screening Mechanism**

The European Union (EU) has increasingly expanded its foreign direct investment (FDI) screening instruments as part of a broader strategy to fight economic security challenges posed by foreign investments, particularly from China. The rising anxieties regarding the presence of China in key areas, particularly in state-owned enterprises (SOEs) and greenfield investments, have prompted the EU to beef up its rules on screening. This article examines the evolution of the EU's FDI screening mechanism, its impact on Chinese investment in Europe, and the broader geopolitical and economic implications.

The dynamic between the European Union and China has shifted dramatically in the past decade. The latter was primarily viewed as a commercial partner a decade ago, but is today viewed as a systemic competitor because it has been engaging more in economic statecraft and strategic investments in core European industries (Brinza et al., 2024). This shift has led the EU to become more cautious in its approach to foreign investments, culminating in the development and recent revision of the EU FDI screening framework.

The EU introduced its inaugural FDI screening regulation in 2019, the beginning of a concerted response to foreign investment (Grieger, 2019). FDI screening was otherwise in the main national sphere, with varying degrees of scrutiny across member states. The regulation established an infrastructure for coordination between member states and the European Commission to consider the security risks of foreign investments in strategic sectors.

Since its creation, the screening mechanism has seen increasing application to screen Chinese investments in strategic sectors like semiconductors, artificial intelligence, and infrastructure. The European Commission's 2024 reform plan of the screening mechanism is to further harmonize national screenings and extend the scope to cover greenfield investments and outbound FDI (European Parliament & Council of the European Union, 2019).

Chinese FDI into the EU sped up in the early 2010s, peaking at €47.5 billion in 2016, then plunging sharply due to increased regulatory scrutiny and political tensions (Kratz, Zenglein, Brown, Sebastian, & Meyer, 2024). Chinese investment had initially concentrated on

mergers and acquisitions (M&A), including in critical infrastructure and technological sectors. With regulatory hurdles mounting, however, Chinese investors pivoted to greenfield investments, which picked up speed from 2% of Chinese FDI overall in 2017 to 78% in 2023 (Ballestracci, 2025).

The electric vehicle (EV) sector has been a leading focus of Chinese greenfield investments, with BYD and CATL establishing production factories in Hungary, France, and Germany. Despite the economic benefits of these investments, intellectual property risks and economic dependencies remain concerns (European Commission, 2024).

The 2024 European Commission proposal aims to address some blind spots of the current screening scheme. The proposal foresees expanding the coverage to include greenfield investment as well as foreign direct investments emanating from the union. The proposal also aims to enhance cooperation between the member states in terms of intensified information exchange as well as consistent screening practice. Further, the proposal also demands increased tracking of investments in high-technology sectors, particularly in the sectors of semiconductors, quantum computing, and artificial intelligence (Ghiretti, 2024).

But the proposed adjustments have run into resistance from a few member states, led by Hungary, that have benefited from Chinese investment in their motor vehicle and battery industries (European Commission, 2023). The exclusion of strategically sensitive areas such as semiconductors and AI from the list of screened sectors, proposed by Hungary, points towards the intra-EU divisions concerning finding a balance between economic openness and security concerns.

Strengthening the FDI screening regime is also one aspect of a broader EU policy to "de-risk" its economic relationship with China. During the presidency of European Commission President Ursula von der Leyen, this new policy aims to reduce dependencies on Chinese investment without cutting economic engagement where necessary.

Some of the significant implications of the new screening mechanism are increased entry barriers for Chinese investment, as expanding the screening mechanism can deter Chinese businesses from investing in the EU, and above all, in sensitive sectors. Chinese businesses can also increasingly concentrate on establishing joint ventures and local manufacturing facilities to circumvent regulatory hurdles, as seen in recent joint ventures in the electric vehicle (EV) industry. Moreover, the stricter EU regulations could be countered by potential trade retaliation

from China, in the shape of countermeasures that would impact European businesses with Chinese operations.

## CONCLUSION

Launched in 2012, the 16+1 Initiative epitomizes China's strategic endeavor to enhance relations with sixteen Central and Eastern European (CEE) countries under the broader framework of its Belt and Road Initiative (BRI). Initially perceived as a conduit for economic modernization and infrastructural development, the initiative has increasingly elicited concerns regarding financial dependency, trade imbalances, geopolitical influence, and national security vulnerabilities. This report has critically examined the long-term sustainability of the 16+1 Initiative and offered strategic recommendations for future engagement in CEE countries.

A central critique of the 16+1 Initiative pertains to the economic dependency it fosters among CEE nations. China's investments, predominantly financed through state-backed loans from institutions such as the Export-Import Bank of China, have escalated public debt levels in host countries. For instance, Montenegro's Bar-Boljare highway project, financed by a \$944 million loan, constitutes nearly 45% of the country's GDP, thereby imposing significant fiscal burdens and raising concerns about debt sustainability. Similarly, Serbia's mounting debt, exacerbated by Chinese loans, constrains its capacity to invest in other critical sectors of economic development.

Furthermore, China's infrastructural investments have precipitated pronounced trade imbalances. Serbia's trade deficit with China, exemplified by a 2021 import value of €2.88 billion juxtaposed with exports of only €329 million, underscores the asymmetrical economic relationship. Such imbalances not only undermine local industries but also perpetuate dependency on Chinese goods, thereby limiting the potential for autonomous economic growth in CEE economies.

Geopolitically, China's economic engagements have translated into political influence. The acquisition of a majority stake in Greece's Piraeus Port by the state-owned Chinese company COSCO has been mirrored by a more China-aligned foreign policy stance, particularly on issues such as the South China Sea. This pattern raises concerns about the erosion of national sovereignty and the potential fragmentation of the European Union's cohesive foreign policy framework.

Hungary's advocacy for Chinese investment, such as Huawei's role in its 5G network, for instance, has put it at odds with Brussels, which foresees security risks. Hungary's stance reflects the strategic challenge facing most CEE nations: weighing economic gain from China

against possible political and security costs within the EU and NATO systems. This increasing political alignment with China can also lead to further rifts within the EU, as some nations, such as Hungary, back Chinese political and economic interests, while others in the region, such as Poland and the Baltic States, are suspicious of Chinese involvement. China's foray into CEE's tech infrastructure has also given rise to serious concerns regarding cybersecurity and national security.

The increasing involvement of Chinese companies, specifically Huawei, in the region's 5G and smart cities projects has also raised concerns over the possibility of espionage and surveillance risks. A few CEE nations, such as Hungary and Poland, have disregarded EU appeals to restrict Chinese technology from essential infrastructure, citing the possible economic gains. This is despite the enormous risks that Chinese technology will be utilized to attain intelligence or compromise national networks. The conflict in Russia and Ukraine has complicated CEE geopolitics. China's neutrality and strategic side-taking with Russia have questioned the position of China as a staunch ally of most of the CEE nations. The conflict has also compelled realignments, with some nations such as Romania turning to the EU and the United States, indicating the heightened significance of security matters in foreign policy choices. Despite the above-stated risks, Hungary and Serbia, among CEE nations, continue to interact with China. Closer examination indicates a few domestic political and economic reasons for maintaining cooperation.

In Hungary, the "Eastern Opening" policy of the state, launched in 2010, implied diversification of economic cooperation from the traditional Western partners. This trend has been especially pronounced in the electric vehicle (EV) industry, and Chinese firms like CATL and BYD have invested heavily.

CATL's €7.5 billion Debrecen battery factory and BYD's intended €5 billion EV factory in Szeged highlight Hungary's attractive location as a destination for green technology investment. These projects are expected to provide thousands of job opportunities, thereby boosting the local economy and political legitimacy. Additionally, Hungary's alignment with China enables the government to be more independent of EU authorities, thus its sovereignty when making foreign policy choices.

Serbia's engagement with China is similarly driven by strategic considerations. As a candidate for EU membership, Serbia has sought to balance its aspirations for integration with the EU and its historical ties with Russia. China's investments in infrastructure, energy, and

mining sectors have provided Serbia with much-needed capital and expertise. The construction of the Budapest–Belgrade railway, a flagship BRI project, exemplifies this collaboration. Additionally, Serbia's acquisition of Chinese military technology, including air defense systems, reflects a strategic alignment with China that serves to bolster national security and assert geopolitical independence.

In response to China's growing influence in CEE, the EU has launched the Global Gateway strategy, aiming to offer an alternative to China's BRI. The Global Gateway seeks to provide sustainable, transparent investments in CEE's infrastructure projects, focusing on green energy, digitalization, and environmental sustainability. By offering competitive and transparent alternatives to Chinese investments, the EU hopes to reduce the region's dependency on China and encourage alignment with EU standards on governance and sustainability.

The EU has committed to investing €300 billion in global infrastructure by 2025 through the Global Gateway initiative. This strategy aims to counterbalance China's influence and offer CEE countries a more secure, sustainable, and transparent means of financing development. However, the success of the Global Gateway depends on the EU's ability to present competitive investment options that meet the needs of CEE countries without imposing the long-term geopolitical and financial risks associated with Chinese loans.

The 16+1 Initiative has undeniably facilitated critical infrastructure development in the CEE region. However, the attendant risks—financial dependency, trade distortions, geopolitical leverage, and cybersecurity threats—pose significant challenges to the initiative's long-term sustainability.

Debt accumulation curtails fiscal flexibility and exposes CEE economies to external coercion. Concurrently, trade imbalances undermine local industries and perpetuate dependency on Chinese imports. Geopolitical implications further threaten the unity of the EU and introduce national security vulnerabilities, particularly through Chinese technological engagement.

Although the infrastructure financed by Chinese investments has contributed to regional development, the lack of transparency, environmental concerns, and sustainability challenges remain pressing. The evolving geopolitical landscape, accentuated by the Russian-Ukrainian war, underscores the imperative for CEE countries to balance economic relations with China against the demands of security and Western alignment.



The EU's Global Gateway initiative represents a strategic counterbalance to China's influence, but it requires concerted efforts and robust coordination to ensure access to viable, sustainable alternatives for CEE countries. Moving forward, CEE states must adopt diversified and sustainable investment approaches that reduce dependency on Chinese capital while aligning with EU values of transparency, governance, and sustainability.

In conclusion, the 16+1 Initiative has been instrumental in advancing infrastructure in Central and Eastern Europe but has simultaneously introduced complex financial, economic, and geopolitical challenges. A nuanced understanding of domestic political and economic motivations behind continued Chinese engagement—particularly in Hungary and Serbia—enhances the analysis and informs more effective policy responses. For sustained regional stability and prosperity, CEE countries must pursue balanced investment strategies that align with EU priorities, and the EU must continue to provide competitive and transparent financing mechanisms to mitigate the risks associated with China's Belt and Road Initiative.

## SUMMARY OF FINDINGS

**Hypothesis 1** presumes that the EU response to China's growing influence in CEE is a considered balance of economic outreach and geopolitical caution. Realism is added value in such an analysis: the EU is engaging China to extract maximum economic dividends (trade, investment, infrastructure) while also preventing Beijing from gaining undue influence in its zone of interest. The EU's qualified embrace of China's Belt and Road Initiative (BRI) and its launch of the Global Gateway strategy reflect this twin approach, seeking economic benefits while pushing back against Chinese strategic encroachment. This is an old-fashioned realist hedging strategy: economically co-opting a rising power and hedging against political independence and collective security risks. The EU's investment screening processes, regulatory scrutiny of Chinese technology firms (i.e., Huawei), and apprehensions regarding the 16+1 framework undermining EU unity reflect its desire to uphold internal cohesion and shun strategic weaknesses.

**Hypothesis 2** contends that the collapse of the 16+1 policy, expanded by Baltic states' withdrawal and the Ukraine war, forced China to shift its CEE strategy in a bilateral direction. Realism once again offers a good account. Being a rational actor, China adapts to sustain its influence by dealing with countries individually where multilateral influence has lost its ground. The shift to bilateral relations with Hungary and Serbia is the best example of China's continued search for regional strategic beachheads. They are employed for economic and geopolitical reasons—guaranteeing entry into European markets and securing support in EU institutions. Realism perceives such actions as the quest for relative gains and local influence, especially in the face of heightened hostility from larger EU members and convergence of CEE states with the U.S. following Russia's invasion of Ukraine. China's refusal to criticize Russia has made China even more distrusted, driving the majority of CEE states towards NATO and the U.S., further polarizing the region. However, China's bilateral diplomacy is a reflection of realism's view of power maximization via opportunist diplomacy and flexibility in an evolving power configuration.

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