

# EU-China Trade Partnership: Strategic Importance of Central and Eastern European Members

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## Abstract

*Four decades have passed since the European Union and People's Republic of China have established bilateral trade relationships. The EU-China relations context has changed dramatically in recent years. China's interest in Europe is expanding to new areas, both geographically (Central and Eastern Europe and Southern Europe) and in terms of content (e.g. the increase of Chinese investment in Europe). This paper aims to analyze trade flows between China and the EU member states in Central and Eastern Europe in the framework of the EU-China trade partnership and how these countries can be considered a strategic partner in EU-China trade relations.*

**Key words:** EU-China trade partnership, partner, CEE- China trade

**J.E.L classification:** F10; F14

## 1.Introduction

Both China and the EU are important centres of power in international trade, being „essential to ensure peace and to the world development and should work together to address challenges such as: climate change, terrorism, nuclear proliferation and piracy, setting an example of international cooperation" (Hailong, 2013 p.2).

The two powers have undergone dramatic changes over the last 25 years: with 507.89 million people, a single currency and the highest GDP in the world, the EU has become an important actor on the international stage and China with 1.357 billion citizens has undergone dramatic reforms and enjoyed a spectacular economic growth, resulting in the increased importance of this actor in the world. China and the EU "make up a third of global GDP, leaving a huge potential for cooperation" (Hailong, 2013, p.2).

In terms of trade, the EU and China enjoy one of the most representative trade relationships in the world: the EU is the largest trading partner of China, while China is the EU's second partner after the United States. If we consider the EU-China trade on partner countries, we can see that most of the trade flows are focused on mutual relations with Germany, UK, the Netherlands, France, Italy, Spain, Sweden in other words the EU-15. However, it is important to notice that another group of countries began to pay increased attention to their relationships with China, namely those in Central and Eastern Europe. For example, if Poland ranked 12<sup>th</sup> in the 2004 EU-China trade, in 2015 it ranked 8<sup>th</sup>, while the Czech Republic ranked 15<sup>th</sup> in 2004 and 10<sup>th</sup> place in 2015. In this context, in the following section we intend to analyze the CEE-China trade relations.

## 2. CEE -China relations - a retrospective view

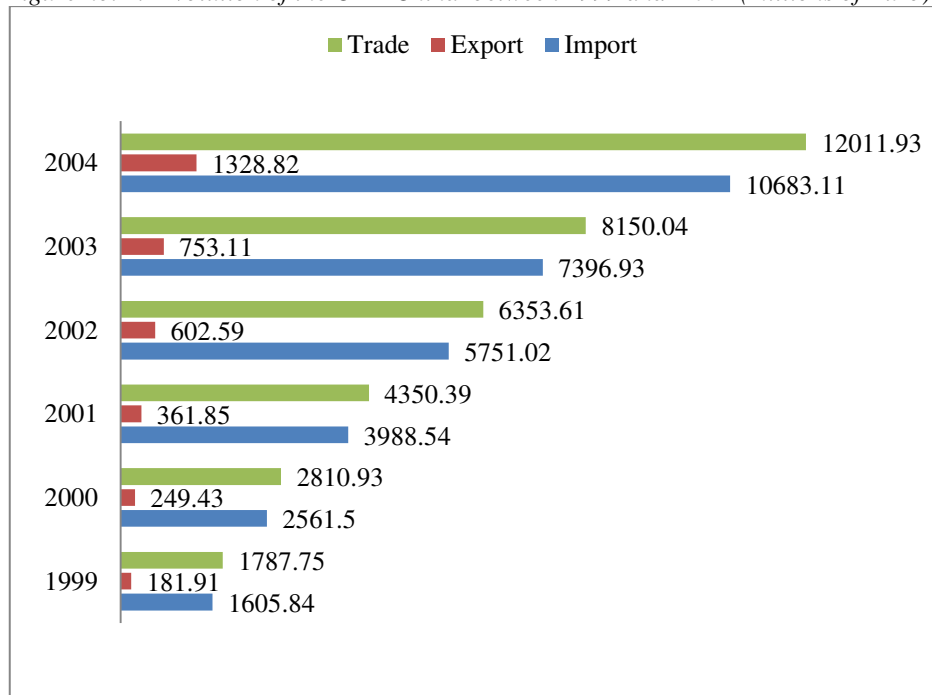
Relations between China and Central and Eastern European countries were established in the early days of the Cold War. Therefore, China has established diplomatic relations with most of the CEE countries in '49 (e.g. diplomatic relations with Romania were established on October 5, 1949, with Hungary on October 6, 1949 and with Bulgaria on October 4, 1949 etc.). Despite the fact that the relations between China and CEE countries were dependent on China's relationship with the Soviet Union, these countries have developed a multi-dimensional relationship in the political and economic field and the academia. Along with the rupture of relations between China and the Soviet Union in the '60s, relations between CEE and China have deteriorated. These relations had been resumed gradually following the tampering of political relations between China and the USSR, improving in the '80s. Nevertheless, the lack of common interests in the development of relations has led to their estrangement.

Since 1989, CEE countries have focused on developing ties with Western Europe, allowing them to subsequently join the EU and the North Atlantic Treaty Organisation (NATO). In addition, in the period 1999-2004, trade relationships between China and CEE countries were affected by issues relating to human rights, by the Taiwan issue, the Tibet issue. In the following period, 2004 to 2007, ten CEE countries joined the EU.

After EU accession, these countries have shown considerable interest in developing their relations with China. In this sense, we can see that People's Republic of China has special relations with some countries in Central and Eastern Europe such as Hungary, Bulgaria, Romania, Poland etc. "These countries have good relations with China, because they do not pursue sensitive issues such as human rights, Tibet or Taiwan, approaching them more pragmatically since 2008" (Simurina, 2014, p .8).

In terms of trade, we can see from the figure below that trade flows before 2000 were insignificant, practically nonexistent. Starting this year, the trade flows recorded an upward trend; in 2000-2004 the trade turnover increased by an average of over 45% in both directions. Comparing the value of the EU-China trade during the same period, we can see that it has grown on average by only 16%.

Figure no. 1. Evolution of the CEE-China between 1999 and 2004 (millions of Euro)



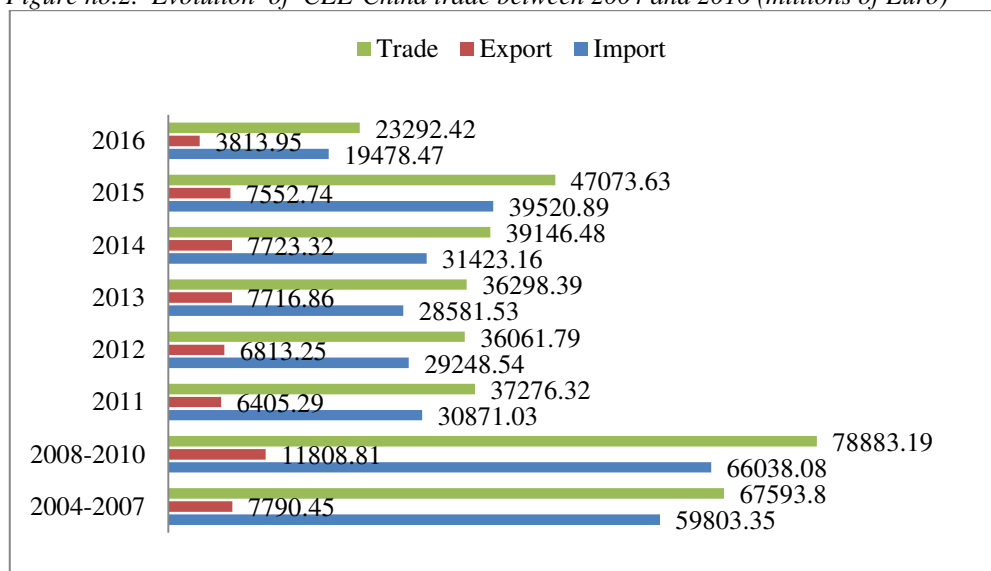
Source: made by authors based on data from Eurostat

Relations between China and the countries of Central and Eastern Europe (CEE) have developed rapidly in recent years due to "the opening of the new platform 16 + 1 in 2012, to the development of the 12 Measures strategy, to the establishment of annual meetings at high level and to specialized forums for a significant increase in investment and trade" (Turcsányi 2014, p.1). High level meetings that took place in Budapest (2011), Warsaw (2012) and Bucharest (2013) "opened new prospects for cooperation between China and the countries of Central and Eastern Europe" (Pencea et al, 2015, p.45).

Following EU accession, the economic and political system of the countries of Central and Eastern Europe has improved and the development gap between West and East was reduced and relations between the two have since improved. This relationship is now governed by the EU-China Strategic and Trade Partnership and develops in line with the interests of both China and the EU Member States, in this new framework.

Regarding trade flows between China and CEE, they continued their upward trend after the accession of CEE countries to the EU, reaching a peak in 2015 of 47.073.63 million Euro, of which CEE export was of 7.552,74 million Euro, and the imports of 39.520,89 million Euro. This ascending trend is due particularly to the increased imports. In 2015, CEE-China trade accounted for 9.04% of the total EU-China trade.

Figure no.2. Evolution of CEE-China trade between 2004 and 2016 (millions of Euro)



Source: made by authors based on data from Eurostat

Note: 2016 - first six months

One can see from the figure above a decrease in the trade flows between CEE and China, in 2012, with a value of 36.061,79 million Euro, of which CEE exports was of 6.813,25 million Euro and CEE import was of 29.248,54 million. "The reduction of bilateral trade as compared to 2011 came amid the uncertainty of the world economy in recession, of the sovereign debts of eurozone countries, of the sluggish recovery of US economy, of the reduction in value of imports, and in the context of slowdown of the growth pace of the Chinese economy" (Ministerul Afacerilor Externe). This trend was consistent with that recorded at the EU-28 level, between 2012 and 2013.

After analyzing the statistical data, it appears that the CEE region is a net importer, generating a high trade deficit, which is present in all CEE countries. This high and quasi-continuous trade deficit is a common feature of CEE-China and EU-China trade relations. In this context, we ask ourselves which is the strategic importance of CEE countries in EU-China trade relations.

### 3. CEE countries - strategic partners of China in trade relations with EU

EU enlargement in 2004 and 2007 brought a significant change both for the old EU member states as well as for China, which perceived the EU as a global actor of great strategic importance

which continues to play a key role in the global economy. In addition, EU enlargement has prompted China to show considerable interest in EU member countries, and not only, from Central and Eastern Europe. Moreover, China believes the EU countries from CEE are the *gateway* to all of Europe. Also, countries in this region are perceived by China as a "future partner due to their economic and political potential" (Jaroch, 2016). According to Hungarian ambassador Cecilia Szilas, "the EU-China strategic and commercial partnership provides a favourable framework and an impetus for the cooperation of CEE –China countries, and the Strategic Agenda in 2020 for cooperation between the EU and China marks the exact borders of the CEE countries in order to develop relations with China into a harmonious and efficient manner" (Shen, 2014).

China's interest for the countries of Central and Eastern Europe became visible near the accession of the ten countries from CEE to the EU. This assertion is supported by the fact that in October 2003, China has developed its first policy document on the relations with EU – the China's Policy Paper on the EU - which highlights the objectives of the Chinese policy towards the EU, the areas of cooperation and related measures for five years. Also, the paper identified the EU "as a major world force that will play an increasingly important role in both regional and international issues" (Embassy of the People's Republic of China in Romania, 2004). China's main reasons to show visible interest in CEE countries are related to the economic dimension of foreign policy in relations with the EU, namely: increasing and diversifying mutual trade and cooperation on investment (Chinese investments can help reduce both the EU-China trade imbalance and that of CEE-China). In addition, China "wants to create a positive image of its brands, which are going to be associated with high quality products and services" (Szczudlik-Tatar, 2011, p.2436) by introducing them on the CEE countries market at accessible prices; this will be beneficial for expanding the brands in Western Europe. A concrete example of such a situation is Huawei.

Relations between China and CEE countries have a strong influence on the relations between China and the EU. Dariusz Kalan said that "China is trying to establish a stable political relationship with CEE countries" (Jaroch, 2016), to develop boarder trade and political relations with the EU. "Other experts suggest that China's motivation in developing political cooperation with CEE countries is driven by the incentive to increase Beijing's influence over the decision-making process of the European Union" (Jaroch, 2016). In this regard, we must bear in mind that the interests of CEE countries in mutual relations with China differ from one country to another, depending on the attitude adopted towards the European Union. In this context, Fox J. and Godement F. divided EU countries into four clusters, based on two criteria: how to manage China's impact on the European economy and the way in which China engages from a political point of view, in the EU. So, we have assertive industrialists, ideological traders, European followers and mercantilists (Fox et al, 2009, p.3). If we consider the CEE countries, they can be grouped as follows: "assertive industrialists - the Czech Republic, Poland - which focus on a stronger European integrated approach, mercantilists - Bulgaria, Slovakia, Slovenia, Romania and Hungary – they believe that good political relations with China will lead to commercial benefits and that the economic issues should dominate the relationship with China, European followers - Estonia, Latvia and Lithuania – they support the EU policy towards China and consider that this is not a key priority for the EU" (Fox et al, 2009, pp 5-7).

Important to note is that the development and strengthening of the relations between CEE countries and China have sparked the envy of the old EU member countries, accusing China of trying to divide the EU. In order to remove any doubt among EU member countries, during the 2013 meeting between China and CEE countries, Chinese Foreign Minister Yank Jiechi stressed that the "relations with CEE countries are practical and that they do not want to form an alliance with them" (Zuokui 2013, p.2). To support this statement, the EU Member States participating in the 16 + 1 platform stated that "mutual relations with China are conducted in accordance with EU legislation and the Strategic and Trade Partnership EU-China" (Jaroch, 2016). Moreover, Chinese Premier Li Keqiang - in a phone conversation with Angela Merkel - stated that "the cooperation relations between China and CEE countries is in compliance with EU standards and EU legal framework and that these relationships are a part of China-EU relations, which will facilitate the balanced development and EU integration" (Zhao, 2014).

Systematizing the facts stated above, we can conclude that, on the one hand, the commercial partnership EU-China provides a favourable environment for the development and strengthening of

CEE-China cooperation relations, and on the other hand, CEE-China cooperation relations could lead to the strengthening of EU-China commercial partnership and to the solving of the problems faced by the EU in relations with China.

#### 4. Conclusions

The European Union and China are the central pillars both in international trade and when it comes to addressing the problems faced by the third millennium. In addition, the EU and China enjoy a harmonious cooperation relationship for over four decades, which developed at a fast pace, covering various fields. The most important area of cooperation is trade.

After analyzing the statistical data, we have seen that the EU-China trade relations are oriented towards the trade relations with EU-15 member countries. Nevertheless, it was noted that, since 2008, the CEE countries have paid great attention to their trade relations with China, registering in 2015 a trade value of 47.073.63 million Euro and in the first six months of 2016 a value of 23.292.92 million Euro. Currently, CEE countries and China enjoy harmonious cooperation relations which have developed at a fast pace.

Thus, from the foregoing, we can conclude that the cooperation relations between CEE countries and China play an active role in developing and strengthening EU-China trade partnership and in the implementation of the Strategic Agenda 2020 of cooperation between the EU and China. This should provide a boost to EU to support CEE countries in cooperation relations with China. In addition, EU countries should adopt a common regional approach in its trade relations with China and not compete for Chinese FDI.

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