

Croatian International Relations Review

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China-CEEC Cooperation: China's Building of a New Type of International Relations /
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**Towards a Balanced Synergy of Visions and Interests: Latvia's Perspectives in 16+1
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**SWOT Analysis and Related Countermeasures for Croatia to Explore the Chinese
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State, Market and Infrastructure: The New Silk Road

Peter Nolan

Abstract

Infrastructure development, including transport, energy, buildings, electricity, telecommunications, water and sewage, as well as health and education, have been crucially important for China's growth as well as for Chinese people's welfare. China's role in infrastructure development has the potential to contribute positively to growth and welfare in the countries along the Silk Road.

KEY WORDS:

infrastructure, development, growth, welfare

State, market and infrastructure^{1, 2}

Infrastructure is crucial for development. It is necessary in order to liberate the creative energies of entrepreneurship. In countries at all stages of development, markets often fail to provide the necessary level of infrastructure provision. The requisite extent and nature of state involvement in infrastructure may vary between countries of different sizes and traditions, and at different points in history. The complex relationship between government provision of infrastructure provision and development was captured precisely by Adam Smith's proposition:

“The third and last duty of the sovereign or commonwealth is that of erecting and maintaining those public institutions and those public works which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature that the profit could never repay the expense to any individual or small number of individuals, and which it therefore cannot be expected that any individual or small number of individuals should erect or maintain. The performance of this duty requires too very different degrees of expense in the different periods of society” (Smith 1776, vol. 2: 244).

Infrastructure in China's development

Pre-modern China

Up until the eighteenth century China's technological level was more advanced than that of Europe (Li Bozhong 1986, 1998, and 2000). In the eighteenth century China produced around one-third of global manufacturing output, compared with less than one-fifth in the West (Bairoch 1982). The foundation of China's long-run economic dynamism

1 China Development Forum, 2014.

2 I am grateful to Tim Clissold, Stephen Perry and Zhang Jin for their comments on this paper.

was the force of a competitive market economy. In the eighteenth century, Father Du Halde, the Belgian Jesuit priest wrote:

"[T]he particular riches of every province, and the ability of transporting merchandise by means of rivers and canals, have rendered the empire always very flourishing...The trade carried on within China is so great, that all of Europe cannot be compared therewith" (quoted in Ho Ping-ti 1959: 199).

In order for the market mechanism to function effectively, the Chinese state performed critically important functions. They included the framework of peace and law, famine prevention, commodity price stabilisation, and control of the money supply. However, the most important state function at both the local and the national level was water control. This included massive centrally administered schemes such as the Yellow River Authority and the maintenance of the Grand Canal, as well as a myriad local water control structures. The early Qing scholar-official, Gu Shilian, stated:

"The ideal magistrate is an official who is close to the people. Flood and drought should be of as much concern to him as pain or sickness of his person. He should survey the topography of the region, ask about conditions of drainage, and investigate sluices and locks... All these affect the conditions of the public treasury and the welfare of the people and must be carefully considered by the magistrate" (quoted in Ch'ao Ting-chi 1936: 72).

Modern China

Under China's policies of reform and opening up, the scope of the market economy has steadily expanded. Expansion of China's infrastructure has been a crucially important factor in the release of market forces. Since the late 1970s China has made remarkable progress in expanding its ports, roads, railways, airports, electricity supply, sewage treatment, water supply, and telecommunications network, as well as its schools, universities, hospitals, and housing.

The growth of infrastructure has been essential to the creation of an environment in which both domestic and international capital wishes to

invest. Infrastructure can be compared to the 'cage' within which the 'bird' of market forces can spread its wings as the cage expands. China's local and central governments have performed vitally important functions in stimulating infrastructure expansion, and the state-owned banks have been crucial to infrastructure finance. In the West, less than one-fifth of the total financial stimulus package since 2008 has been devoted to infrastructure repair and expansion. In China most of the financial stimulus package has been allocated to infrastructure expansion, building productive assets that benefit development.

Between 1990 and 2011 China's consumption of electricity increased from 623 b. kwh to 4,193 b.kwh and the volume of freight traffic increased from 2.6 trillion ton-km to 15.9 trillion ton-km (Table 1). In the urban areas, the amount of residential housing space per person increased from 14 sq m. to 33 sq m., the proportion of the population with access to gas increased from 19 per cent to 92 per cent, the proportion with access to tap water increased from 48 per cent to 97 per cent, and the number of public transport vehicles per 10,000 people increased from 2.2 to 11.8. By 2011 China had 74 mobile phones per 100 people and over 500 million internet users.

Infrastructure and the Silk Road

The land route

Old Silk Road

China's Old Silk Road developed during the Han Dynasty, when Europe was united under Roman rule. Following the collapse of the Roman Empire, China's trade across Central Asia to Byzantium continued, operating through a network of intermediary merchants. Trade across the Old Silk Road routes expanded during the Tang Dynasty and flourished thereafter under Muslim rule across much of Central Asia. As well as silk, the products produced and traded along the route eventually included woollen and

cotton textiles, carpets, tapestries, and draperies. In his journey across Asia to China Marco Polo encountered a long sequence of vibrant commercial cities, including Baghdad and Basra (in today's Iraq), Tabriz, Yazd, and Kerman (in today's Iran), as well as Kashgar (Kashi) in Xinjiang:

"Kashgar has villages and towns aplenty. Its inhabitants live by trade and industry. They have very fine orchards and vineyards and flourishing estates. Cotton grows here in plenty, besides flax and hemp. The soil is fruitful and productive of all the means of life. This country is the starting-point from which many merchants set out to market their wares all over the world" (Marco Polo 1974: 80).

Collective action was vital to a vibrant Silk Road. Safe resting places for merchants along the trading routes were essential to thriving commerce along the Silk Road. Up until the eighth century "Buddhist institutions provided the infrastructure all along the Eastern Eurasian section of the Silk Road" (Liu Xinrui 2010: 72). From the tenth century onwards "Islamic institutions, like the Buddhist ones before them, established themselves on all the major trade routes... [providing] the infrastructure for a large section of the Silk Road" (Liu Xinrui 2010: 106).

Trade along the land route remained vibrant throughout the pre-modern era, through to the eighteenth century (Levi 1999). However, under traditional technologies, which mainly used camels and mules, transport costs across the Silk Road routes were high, and trade along the sea route gradually outpaced that along the land route.

New Silk Road

The development of road and, especially, rail technologies and the transformation of political structures in Central Asia opened up the possibility for a new era for the land route. Under the Russian Empire and the Soviet Union, the vast land mass stretching from Europe to the Pacific was unified politically. Between 1891 and 1916 the Russian Imperial state constructed the Trans-Siberian Railway across the vast expanse of the steppes, and built rail links to Kazakhstan and Uzbekistan. Under the Soviet Union the density of rail links in Central Asia was greatly expanded, helping to stimulate the region's economic development.

Technical progress in railways, including electrification, container rail trucks, and modern signalling systems, have facilitated increased efficiency in rail systems. The fastest recorded journey across the Trans-Siberian Railway from Beijing to Moscow is just eight days, with two weeks the normal time taken. This compares with 40-50 days for transport between Europe and China by the modern sea route. As infrastructure investment develops, using modern technologies for both road and rail, including high-speed trains, the times taken to transport goods between China and Europe will fall and the reliability of the links will increase.

The sea route

Old Silk Road

Trade across the South China Sea (Nan Hai) to Southeast and South Asia is of great antiquity, and was already well developed by the Han Dynasty. The trade across the Nan Hai greatly expanded during the Tang Dynasty:

“The South China Sea was the main trade route of what may be called the Asian east-west trade in commodities and ideas. It was the second Silk Route. Its waters and islands straits were as the sands and mountain passes of Central Asia; its ports were like the caravanserais. It became to the southern Chinese what the land outside the Jade Gate was to the northern Chinese” (Wang Gungwu 1998).

Guangzhou was at the centre of the thriving trade with southeast Asia for the next thousand years. In the thirteenth century, Marco Polo wrote of the city of 'Zaiton' (Xiamen) thus:

“Zaiton is the port for all the ships that arrive from India laden with costly wares and precious stones of great price and big pearls of fine quality. It is also a port for the merchants of all the surrounding territory, so that the total amount of traffic in gems and other merchandise entering and leaving the port is a marvel to behold” (Marco Polo 1974: 237).

From the sixteenth century onwards European shipping technologies progressed and European middle class demand increased. Europe's purchase of Chinese tea, porcelain and heavy textiles (e.g. 'nankeens') greatly expanded. The nineteenth century 'clipper' ship represented the apogee of sailing ship technology. It required around 120-150 days to sail between China and Europe, compared with the years required in the pre-modern era by the land route. By the early nineteenth century the volume of maritime trade between China and Europe greatly exceeded that across Central Asia.

In the nineteenth century the Sea Route was revolutionised by the steam ship, owned and operated mainly by European companies. By 1900 the Nan Hai was encircled by European colonies, including Indonesia, the Philippines, Indo-China, and Malaya. In Southeast Asia communities of Chinese people developed gradually up until the eighteenth century, but accelerated thereafter under European colonial rule.

New Silk Road

Large investments in infrastructure in the countries along the sea route are necessary if the New Silk Road is to achieve its full potential.

The G20 meeting in Sydney in February 2014 took the topic of 'finance for global infrastructure' as a central theme. In the high income countries, ultra-low interest rates have stimulated a renewed bubble in the price of equities, property and other 'assets', with the benefits confined to a small section of the population. In most developing countries, development is constrained by lack of infrastructure development.

Infrastructure provision in South and Southeast Asia still lags behind that in China. Compared with other large Asian countries China enrolls a larger share of the relevant age group in higher education, has more hospital beds per 1000 people, and a much higher electricity consumption per person (Table 2). China

also has a higher percentage of the population with access to sanitation facilities and a higher proportion with electricity. China's transport infrastructure is strikingly more highly developed than that in other large Asian countries. The four Asian countries with the highest populations apart from China are India, Pakistan, Bangladesh, and Indonesia, with a combined population of 1.8 billion compared with 1.3 billion in China. However, China's haulage of goods by rail, the volume of container traffic through its ports, the number of passengers and the volume of freight carried by air, are many times larger than that of the other four large Asian countries taken together (Table 3). China's depth of experience in financing, building and operating transport infrastructure is unparalleled in developing countries.

There are large potential mutual benefits from international co-operation in the provision of a wide range of infrastructure projects that can support accelerated growth and improvement of mass welfare in the countries along the sea route of the New Silk Road.

Conclusion

Infrastructure provision is a vitally important instrument for expanding international economic relationships and thereby deepening cultural interaction. In recent decades China has accumulated more experience than any other country in financing, building and operating infrastructure projects. Infrastructure is central to development of the New Silk Road. Peaceful international relations are the fundamental pre-requisite for success of the New Silk Road. Deng Xiaoping's approach of 'setting aside disputes and pursuing joint development' provides an important guide for the philosophy of infrastructure development along the New Silk Road, whether by land or sea.

Tables:

Table 1: Expansion of China's infrastructure, 1990-2011.

	1990	2000	2011
Freight traffic (b. ton-kilometres) of which:-	2,621	4,432	15,932
- Railways	1,062	1,377	2,947
- Highways	336	613	5,137
- Waterways	1,159	2,373	7,452
- Petroleum/gas pipelines	63	64	289
- Civil aviation	negl.	5	17
Electricity consumption (billion kwh)	623	1,347	4,193
Of which:-			
- Industry	487	1,000	3,087
- Households	48	145	512
Cities:-			
- Public transport vehicles (buses, trolley buses etc.) per 10,000 people	2.2	5.3	11.8
- Percentage of population with access to:			
- gas	19	45	92
- tap water	48	64	97
Building construction:-			
Floor space of buildings completed m. sq metres)	196	807	3,164
Residential housing space p.c. (sq metres):-			
- rural areas	18	25	36
- urban areas	14	25	33
Information technology:-			
Mobile phones per 100 people	-	7	74
Number of internet users (m.)	-	23	513

Source: ZTN 2012: 276, 378, 393, 602, 623, and 657-8

Table 2: Selected indicators of China's infrastructure compared with four large Asian developing countries.

	Enrolment in tertiary education (% age group) (2010)	Hospital beds per 1000 people (2005/10)	Percentage of population with access to improved sanitation (2010) urban rural		Percentage of population with access to electricity (2009)	Electricity consumption per person (kwh) (2009)
China	26	4.2	74	56	99	2,631
Bangladesh	11	0.3	57	55	41	252
India	16	0.9	58	23	66	571
Indonesia	23	0.6	73	39	66	590
Pakistan	5	0.6	72	34	62	449

Source: World Bank 2012: 86-7, 101-1, 108-9, 166-7, 288-9, and 324-5.

Table 3: China's transport infrastructure compared with four large Asian developing countries.

	Goods hauled by rail (billion ton-km) (2000-2010)	Container traffic through ports (million TEU) (2010)	Air passengers (millions) (2010)	Air freight million ton-km) (2010)	Population (million)
China	2,451	129.6	268	17,441	1,338
Sub-total for four large Asian developing countries	611	21.7	107	2,775	1,788
of which:-					
-Bangladesh	1	1.4	2	85	149
- India	600	9.8	64	1,720	1,225
- Indonesia	4	8.4	35	660	240
- Pakistan	6	2.1	6	310	174

Source: World Bank 2012: 320.

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China-CEEC Cooperation: China's Building of a New Type of International Relations

Liu Zuokui

Abstract

The article analyzes how the 16+1 Cooperation promotes the Chinese new type of international relations from four perspectives: firstly, the "16+1 Cooperation" insists on not rejecting third parties and promotes the idea of open and inclusive international cooperation; Secondly, the cooperation framework adheres to the principle of mutually-beneficial and win-win cooperation, and proposes to wisely handle differences and divergences; Thirdly, this framework never engages in zero-sum games, instead, it fully respects and closely watches the core interests and major concerns of the relevant parties; Fourthly, it is committed to creating a cooperative platform through consultation, to meet the interests of all. The article also makes an analysis of the challenges facing 16+1 Cooperation and gives some suggestions.

KEY WORDS:

16+1 Cooperation Framework, new type of international relations, challenges ahead, policy suggestions

Forward

When Chinese President Xi Jinping visited Russia on 23 March 2013, he made a keynote speech at Moscow State Institute of International Relations titled: "Keeping with the trend of the times, and promoting the world peace and development" (Xinhuanet 2013). During his speech, Xi proposed to build a new type of international relations with a focus on mutually-beneficial and win-win cooperation. He stated that:

"The world tide is moving forward with unstoppable might. Those moving with the current will see prosperity, while those going against it will plunge to their doom; therefore we should abandon the colonial expansion or the zero-sum Cold War mentality and keep up with the trend of the times. All countries should jointly promote to establish new-typed international relations centering around the win-win cooperation. Moreover, all peoples of the world should work together to safeguard the world peace and push forward the common development" (Xinhuanet 2013).

His proposal in handling international relations has been closely followed by the international community, with wide interest in checking whether the initiative will be implemented in China's diplomacy.

From 4 to 6 November 2016, Premier Li Keqiang paid a visit to Latvia and attended the 5th Meeting of the Heads of Government of China and 16 Central and Eastern European countries (the CEECs). At the "16+1 Economic and Trade Forum", Li stressed that ever since the "16+1 Cooperation" mechanism was established five years ago, it has become increasingly mature and gathered many valuable and sustainable experiences, namely: consultation on the basis of equality; mutual respect and mutual support; mutually-beneficial and win-win cooperation; openness and inclusiveness; joint development and interests created and shared by all (People 2016). The meeting showcases China's practice of building a new pattern of international relations based on mutual benefit and win-win cooperation, and creating new dynamics and a new vision for the "16+1 Cooperation".

Under the initiative of the Chinese government, China and the 16 CEECs jointly launched the “16+1 Cooperation” framework in 2012. Ever since then, China has been actively carrying out “16+1 Cooperation” based on the principle of openness and inclusiveness, mutual benefit and win-win cooperation, and has achieved fruitful results. The “16+1 Cooperation” framework, so to speak, is China’s latest attempt to construct the aforementioned new-type of international relations.

How “16+1 Cooperation” promotes a new type of international relations

There are four different ways in which “16+1 Cooperation” promotes a new type of international relations. Firstly, the “16+1 Cooperation” insists on not rejecting third parties and promotes the idea of open and inclusive international cooperation.

It has been 5 years since the “16+1 Cooperation” framework was established in 2012. So far it has attracted attention from the international community and the interest of countries and organizations outside the framework, with the intention of joining. Greece, Austria, the European Bank for Reconstruction and Development, Belarus and Switzerland all showed strong interest in participation at different stages.

The representatives of EU institutions were all invited to attend the Annual Meeting of Heads of Government of China and CEECs. The EU’s attitude, likewise, has also gone through a positive change from an initial period of suspicion to the present willingness to collaborate with China. Moreover, the EU expects the “16+1 Cooperation” to be the critical platform to boost China-EU cooperation. At the 3rd Meeting of Heads of Government of China and CEECs, held in Belgrade, Serbia, Greece was invited to attend the meeting and worked together with CEECs including Macedonia, Hungary and Serbia to build the China-Europe Land-Sea Express Route. Accordingly, Greece became the first beneficiary of increased cooperation with China, outside the “16+1 Cooperation” framework. At the 4th Meeting

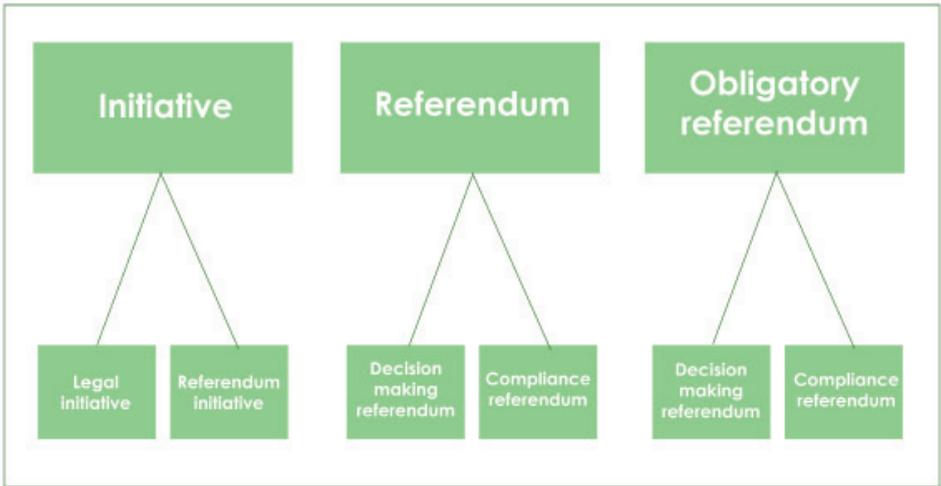
of Heads of Government of China and CEECs, held in Suzhou, China, Austria and the European Bank for Reconstruction and Development were also invited as third parties. Austria is a Central European country that maintains a close relationship with the Višegrad Group and enjoys influential status in the CEE region. More importantly, Austria is showing enthusiasm towards joining the “16+1 Cooperation” framework. As an internationally-recognized, development-oriented financial institution, the European Bank for Reconstruction and Development engages in a wide range of business in the CEE region. The participation of the European Bank for Reconstruction and Development has provided more opportunities for China-CEECs cooperation in the financial realm. In addition, Belarus and Switzerland attended the 5th Meeting of Heads of Government of China and CEECs held in Riga, Latvia, as observers. Belarus has always been an important node of the Silk Road on land, linking Russia and the CEECs. Switzerland also maintains an extensive presence as a stakeholder in the CEE region. Ever since the CEECs were admitted into the European Union in 2004, Switzerland has sped up its market accession eastwards, with a great number of enterprises investing comprehensively in the CEE region. In order to safeguard its strategic investments and tap into a huge market of 75 million customers, for over a decade from 2004 to 2014, Switzerland started to finance over 300 cooperative projects in the CEE region. These projects covered economy, tourism, health, energy, and more, with a total of 1.3 trillion Swiss francs. The engagement of Switzerland has undoubtedly broadened the scope of the “16+1 Cooperation” framework.

The process of “16+1 Cooperation” has suggested that the initiative proposed by the Chinese government is not a closed-off and cyclic system. Instead, it is an open, inclusive and mutually beneficial cooperative framework that welcomes and supports all willing parties to join in and expand cooperation.

The second way in which “16+1 Cooperation” is promoting a new type of international relations is that the cooperation framework adheres to the principle of mutually-beneficial and win-win cooperation, and proposes to wisely handle differences and divergences.

There exist great differences among the 16 CEE countries, with each country having particular demands. The CEE region is not a homogeneous

region either. I have participated in a great many conferences and seminars hosted by CEECs such as the international seminar on energy cooperation among the three Baltic countries (Estonia, Latvia, Lithuania), held in Latvia on 17 October 2016. I used to think that the Baltic countries are relatively alike in terms of national conditions. It was not until the seminar that I started to realize that each attending representative of the above-mentioned countries was not there to seek consensus. Instead, they all made use of precious time to illustrate why their country (and their energy policy in particular) is different from the other two. In fact, this reflected the common mindset of CEECs, that the aim of the symposium is to handle differences and divergences through communication and consultation.



The current diversity of CEECs in terms of national conditions, domestic politics and foreign policies is the direct result of European integration at different stages. To go into detail, some CEECs are EU member states while others are not; some are Euro-zone countries while others are non-Euro countries. As an actor who is deeply involved in the CEE region, the EU has contributed tremendously to the accession and integration of CEECs to the EU, but such efforts also led to the unbalanced development of CEECs. Thus, it is reasonable to conclude that the contradictions and differences among CEECs are common and almost impossible to reconcile. The EU has failed to do so and is showing signs of expansion fatigue.

The “16+1 Cooperation” framework has wisely and flexibly handled the differences among CEECs. Specifically, the framework focuses on the win-win cooperation and suggests participating countries should seek common ground while minimizing differences, learning lessons and sharing each other’s successes in the spirit of mutual respect and understanding. A case in point is that, so far, CEECs have put forward many proposals aiming to integrate with the “16+1 Cooperation” framework and the “Belt and Road” Initiative such as the “Danube Strategy”, the cooperative projects in the Adriatic, Black and Baltic Sea regions, the “Amber Road”, etc. Each one of these initiatives has pros and cons. The “Danube Strategy” exploits the estuary of the Danube River, therefore receiving a lot of attention from the Balkan states. The Baltic countries, on the other hand, are more concerned with the “Amber Road” Initiative which gives rise to trade and inter-connectivity among those states. The cooperative projects in the Adriatic, Black and Baltic Sea regions focus on regional integration and cooperation in the fields of energy, communication and transportation, among CEECs that are members of the EU. The different initiatives are indeed exclusive to a certain degree, as the cooperative projects in the Adriatic, Black and Baltic Sea regions mainly involve CEECs that are members of the EU while the western Balkans (except Croatia) are excluded. The “Amber Road” was mainly proposed by the Baltic countries and Southeastern Europe barely has the opportunity to get involved. Based on this situation, the Chinese government has been actively promoting synergy within the “16+1 Cooperation” framework and the above-mentioned initiatives, by proposing infrastructure and logistics cooperation in the Adriatic, Black and Baltic Sea regions. The project has integrated all the merits and positives of existing initiatives, offsetting their weaknesses. To begin with, it is more inclusive than the cooperative projects in the Adriatic, Black and Baltic Sea regions as it involves CEECs that are non-EU members. Secondly, it is more comprehensive than the “Danube Strategy” as it comprises logistics and infrastructure cooperation including ports, wharfs, and so on. Moreover, it is more pluralistic than the “Amber Road” initiative as it is not limited to regional trade and inter-connectivity.

The “16+1 Cooperation” framework has pioneered a new model of international relations in the new era of globalization which emphasizes mutual respect, harmonious coexistence, mutually-beneficial and win-

win cooperation between China and CEECs of different social systems, cultural traditions and stages of development. China's flexible and pragmatic policies are in line with the vision of CEECs that advocate independent choice of their development path. The cooperation based on the mutual learning and understanding between China and 16 CEECs is a new classic in the field of international relations.

The third way in which "16+1 Cooperation" promotes a new form of international relations is that it never engages in a zero-sum game. Instead, it fully respects and closely watches the core interests and major concerns of the relevant parties.

The "16+1 Cooperation" framework initiated by China neither contests the interests of others, nor engages in a zero-sum game. Instead, it takes the core interests and major concerns of all parties into full consideration. This can be clearly seen from China's deeds in handling relations between "16+1 Cooperation" and the EU. The EU has always been suspicious of China's motives in proposing "16+1 Cooperation", worried that China is adopting a "divide-and-rule" policy which will exert negative influence upon solidarity within the EU and the efficiency of related EU policies. The EU institutions and Germany, for instance, have voiced their concerns over "16+1 Cooperation" on many occasions. In response, China has fully acknowledged the EU's influence as a peaceful power and supports EU's unity and self-reliance, especially at a time when the EU is faced with multiple crises such as the financial crisis, refugee crisis and regional conflicts, etc. Moreover, China is committed to promoting balanced development within EU and EU-China cooperation through "16+1 Cooperation", rather than playing zero-sum games.

The "16+1 Cooperation" framework promotes multiple synergies between China and Europe, which has indeed reflected China's respect and concern about the EU's core interests. Here I would like to elaborate on the synergy between China and Europe in the infrastructure sector by listing three examples. The first example is that before the 5th Meeting of Heads of Government of China and CEECs, there were plenty of reports about China's possible acquisition of the Baltic port. However, China pays more attention to the Baltic railway which is a mutually-beneficial project under the "16+1 Cooperation" framework and China-EU partnerships. The Baltic

railway is an important project funded by the EU that starts from Helsinki, via Estonia, Latvia, Lithuania, and Warsaw, to Berlin. Chinese enterprises have always been keen on the project and hope to introduce Chinese techniques and experiences of building high-speed railways to the Baltic region, so as to enhance the connectivity of the EU as a whole. The second example is that China is now actively pushing forward the construction of the China-Europe Land-Sea Express Route, the Hungary-Serbia high-speed railway in particular. The Hungary-Serbia high-speed railway connects the north to the south and thus advances north-south connectivity, which is in accord with Pan-European transport corridors and has largely promoted the pragmatic cooperation between China and Europe. The third example is that of Chinese enterprises vigorously promoting cooperation with the Klaipeda port of Lithuania. The Klaipeda port deals with freight transport in the construction of the Silk Road Economic Belt, and is the perfect convergence of freight that departs from China and arrives at North Europe and West Europe via Central Asia, Russia, Belarus, and Klaipeda of Lithuania. According to the *Development Plan of CR Express Construction 2016-2020*, issued by the National Development and Reform Committee, the construction of the China-Europe railway transport corridor, with transportation hubs, should be completed by 2020 so as to promote China-Europe freight transport and trade to the greatest extent. Many CEECs, including Lithuania, will play the role of a transportation hub in the construction of the corridor. In a nutshell, "16+1 Cooperation" has truly boosted China-Europe cooperation and will become a new driving force for furthering that cooperation.

The fourth and final way in which "16+1 Cooperation" is emblematic of a new type of international relations is how it is committed to creating a cooperative platform through consultation, to meet the interests of all.

In today's world, international relations are normally shaped by multiple, multilateral platforms such as the G20, BRICS, South-South cooperation, etc. They are more like mechanisms playing the role of functional platforms. Chinese foreign policy, in recent years, has increasingly given rise to platform building and participation, through which China expects to create new-types of initiatives for cooperation, and explore common benefits. More importantly, China seeks to promote a new model of international relations.

The “16+1 Cooperation” framework has shown how such multilateral platforms not only integrate a variety of resources, but also enjoy great popularity and a large voice in crucial global affairs. The platform, which gathers all sources of information and provides intellectual support, is established for all parties to exchange views, brainstorm new ideas, tap the potential for cooperation, and enrich practical cooperation. Under the general “16+1 Cooperation” platform, there are a range of sub-platforms that are more specialized and centralized, as detailed in Table 1.

Table 1: Coordination mechanisms or platforms established or in-progress under the “16+1 Cooperation” framework

Coordination Mechanism or Platform	Site of Secretariat	Organizer	Progress
16+1 Agency for Tourism Promotion and Association of Enterprises	Hungary	Hungary Travel Company	Established
16+1 Association of Colleges and Universities		Ministries of Education of the 16 CEECs	Established
16+1 Contact Mechanism for Investment Promotion	Poland	Polish Information and Foreign Investment Agency	Established
16+1 Commercial Union	Poland (executive agency), China (Secretariat)	China Council for the Promotion of International Trade	Established
16+1 Association of Governors	The Czech Republic	Czech Interior Ministry	Established
16+1 Association for Agriculture Promotion	Bulgaria	Bulgarian Ministry of Agriculture and Food	Established
16+1 Technology Transfer Center	Slovakia	Science and Information Center of Slovakia	Established
16+1 Thinks Tanks Exchange and Cooperation Network	China	Chinese Academy of Social Sciences	Established

Coordination Mechanism or Platform	Site of Secretariat	Organizer	Progress
16+1 Association for Transportation Infrastructure Cooperation	Serbia	Serbian Ministry of Transport	In progress
16+1 Association for Logistics Cooperation	Latvia	Latvian Ministry of Transport	Established
16+1 Association for Forestry Cooperation	Slovenia	Slovenian Ministry of Agriculture, Forestry and Food	Established
16+1 Association for Health Cooperation	To be determined	To be determined	In progress
16+1 Association for Arts Cooperation	To be determined	To be determined	In progress
16+1 Association for Customs Cooperation	To be determined	To be determined	In progress
16+1 Association for Energy Cooperation	Romania	To be determined	In progress
16+1 Association for Maritime Cooperation	Poland	To be determined	In progress
16+1 Coordination Center for Cultural Cooperation	Macedonia	To be determined	In progress

As a matter of fact, “16+1 Cooperation” has been well-received in the past 5 years. In spite of ups and downs, most CEECs started to take a proactive attitude towards the cooperation framework soon after realizing its positives. A Baltic diplomat once told me that the Baltic countries are more inclined to join the cooperation platform initiated by North European countries rather than the “16+1”, because the Baltic states are quite different from most CEECs in terms of history, national condition, comprehensive capability, domestic policy and diplomacy. In response to this, I said that differences never prevail over collaboration, nor do they prevent a country from joining a cooperative platform. The BRICs are

obviously more diversified in terms of social and economic systems, size of the country, race and color. Still, BRICs cooperation develops robustly. The “16+1 Cooperation” mechanism has offered a new window and a rare opportunity for collaboration between China and CEECs. It turned out that the Baltic diplomat was convinced by my views.

In a word, China's initiatives regarding international relations has revealed a Chinese mindset of openness, inclusiveness and win-win cooperation instead of a zero-sum game, and has promoted the healthy development of a new type of international relations.

Challenges Ahead

Any pioneering work is expected to encounter challenges and risks. The “16+1 Cooperation” Initiative is not an exception. Firstly, decline in economies and trade has created serious challenges for “16+1 Cooperation”.

The “16+1 Cooperation” framework has always been committed to promoting bilateral trade and investment to reach a new high, but this objective seems difficult to fulfill due to the global and domestic uncertainty faced by “16+1” member states. According to foreign trade statistics provided by the Ministry of Commerce of China, from 2012 to 2014, most CEECs' trade with China fluctuated and showed a general downward trend, except a few CEECs like Poland, Bulgaria, Bosnia and Herzegovina, Montenegro, etc. By 2015, trade between China and most CEECs (not including Macedonia) declined, and quite dramatically. This downward trend has to do with China's reforms, attempting to stabilize economic growth, and adjusting its economic structure. The decrease is also related to the increasing competition in export markets due to the growing cost of raw materials and labor forces inside China. The capabilities of imports and exports of CEECs, on the other hand, are also negatively affected by the global economic and financial crisis. Besides, the impacts of larger China-EU relations on China-CEECs cooperation

cannot be ignored, as the sustainable economic development of China and CEECs was undermined by the EU Anti-dumping and Countervailing investigation. It is also worth noting that China's trade surplus has caused concerns for some CEECs. For instance, Polish and Czech media often suspect Chinese enterprises of receiving illegal state subsidies and thus causing the trade deficit of their countries.

Secondly, the ever-worsening regional security has posed new challenges for the "16+1 Cooperation". The "16+1 Cooperation" framework has the disadvantage of a single function, as it only deals with business and does not involve politics. The security situation of the CEE region has been constantly challenged by the Ukraine crisis, refugee crisis, terrorism and tensions between Russia and EU. The CEECs bordering the Baltic Sea and the Black Sea are located at the forefront of the Russia-America and Russia-EU conflicts. As a result, the ways of dealing with all kinds of potential security threats are regarded as priority tasks by those countries. The "16+1 Cooperation" mechanism has indirectly played a role in resolving those crises since the necessity of cooperation with China in political and security realms has been underlined by CEECs many times. When the Ukraine crisis broke out, Poland insisted on calling for each party to resist Russia's "invasion" and acting in line with the EU's sanctions against Russia, but China seemed not to attach importance to it.

Thirdly, the all-round synergy of development strategies between China and CEECs faces many difficulties. China and CEECs have different understandings of national development. Countries adopting election politics focus more on employment, welfare and the sustainability of democratic governance. In contrast, China interprets development as the rise of economic competitiveness and the integration of economic resources on a global scale. The Chinese vision of "pursuing growth" is not in accord with CEECs' goal for stability. So far, the synergy of development strategies and initiatives emphasized by China has not produced tangible and fruitful results. It needs time, skills and experiences to nurture pragmatic cooperation. The differences in state regimes, thinking and behavioral patterns between China and CEECs have also caused difficulties in synergizing development strategies and initiatives. Apart from that, governmental instability, frequent elections and leadership transition of some CEECs has also undermined the effectiveness of China-CEECs cooperation.

Lastly, while enhancing “16+1 Cooperation”, China needs to wisely and properly handle its relationship with regional stakeholders. The CEE region is largely influenced by great powers. For instance, the EU maintains a strong economic and regulatory presence while the US continues its military presence in the region (through the NATO security framework). Moreover, CEECs are traditionally regarded by Germany as its key partners. Russia is also a key stakeholder in the CEE region. Under such a situation, how to properly handle relations with those big powers and organizations while developing ties with the 16 CEECs becomes a tricky issue for China. While the EU is not as suspicious of “16+1 Cooperation” as it used to be, its regulations still pose many difficulties for “16+1 Cooperation”. Besides, the representatives of EU institutions have emphasized on many occasions that “16+1 Cooperation” needs to be more transparent. Only in that way can the China-EU cooperation progress. Although Germany, Russia and the US have not showed a clear position towards “16+1 Cooperation”, their influence upon it is undoubtedly significant. Hence, much effort is needed to explore ways of expanding win-win cooperation with more stakeholders.

Policy suggestions

I will present four policy recommendations. (1) *To actively create conditions and promote policy communication.* Firstly, to focus on cooperation between various frameworks and platforms and achieve mutual agreements better policy communication is needed. The “16+1 Cooperation” framework is only a supplement to China-EU cooperation; hence its function is relatively limited. This is especially true in the early stages of development. Moreover, the topics under discussion cannot be increased without restrictions in every important field, especially in the political fields involving security. To maintain the vitality of cooperation, strategic cooperation must be promoted and in this regard, “16+1 Cooperation” and the Belt and Road Initiative have achieved something. Regarding the security issues faced by the CEECs, they can be solved within the framework of the UN, or within the EU and related sub-regional frameworks or regional security frameworks (such as the Organisation

for Security and Cooperation in Europe). China can strengthen connectivity among various platforms or mechanisms.

Secondly, furthering open platforms would also enhance policy communication. The Belt and Road Initiative undoubtedly provides "16+1 Cooperation" with a wide platform and development space. Thus, in the future it is necessary to tap into the potential of local cooperation and third-party cooperation. It is essential to attract more stakeholders to become part of the initiative, to further open the observer system, to attract the EU and its Member States, international financial institutions and international organisations to taking part and to create greater energy for the platform. The EU is an inevitable influencing factor in "16+1 Cooperation", and the promotion of China-EU connectivity can be achieved through this third party. Meanwhile, China should actively promote prominent EU Member States, such as Germany and France, to be third parties in the China-CEECs cooperation.

A third way to increase policy communication in "16+1 Cooperation" is to strengthen the knowledge of relevant laws and regulations of the EU amongst Chinese policy makers. The CEECs have fully connected with the EU in the laws of various fields (even CEECs without EU membership), therefore, it is a necessary condition to know the EU's relevant laws for the promotion of "16+1 Cooperation". Meanwhile, the successful experiences of business management in the CEECs, such as Huawei, should be studied in order to know the invisible regulatory barriers for investment in CEECs.

(2) To develop even greater China-CEECs cooperation, to actively promote smooth trade flows and push forward infrastructure connectivity. China should: strengthen the promotion of exemplary engineering; create new highlights of China-CEECs cooperation; provide clearly the model of cooperation between the Belt and Road and industrial cooperation; complete construction of the Hungary-Serbia Railway within two years; actively build the China-Europe land-sea Express Line; have successful cooperation towards the ports of the three seas and to accelerate connectivity amongst them.

In the process of "going global", it should be established that enterprises are pioneers and pacesetters. Enterprises need to focus on communication with various countries in the fields of culture, education, etc. Based on the principal status of overseas investment, enterprises should work by international rules and market rules, focus on the establishment of international social accountability of Chinese enterprises, know in-depth local economic and social development demands, support increasing local employment, emphasise a cooperative spirit with openness, inclusiveness and mutual benefits, and remove the misgivings of CEECs.

(3) Based on a long-term strategy, to improve the financial support tools of bilateral cooperation. Effective integration of various financial tools is necessary to form lasting and steady financial support, focusing on the financing demands of CEECs. This can be achieved by actively discussing the establishment of a "16+1" investment bank and supporting the establishment of regional and multilateral international financial companies. Such a "16+1" financial company, actively learning from the experiences of international financial institutions in the CEECs, insisting on market-orientation and providing financial guarantees for bilateral cooperation.

(4) To strengthen publicity, to insist on an "enterprises-first" strategy and to promote people-to-people connectivity. China needs to advocate the positive ideas of the "Belt and Road" initiative and "16+1 Cooperation", to enhance mutual trust, remove misgivings, and to expand the channels of cooperation. The process of publicity should be forwarded by China's enterprises and NGOs, with the Government's support and follow-up. It will be more acceptable to allow enterprises to give publicity, as they are better suited for influencing society and media. Enterprises always connect their own investment and "going global", with the political significance of the Belt and Road and "16+1 Cooperation". Therefore, enterprises can tell better "Chinese stories".

To increase funding for CEECs scientific and academic institutions, it would be important to establish joint centres for Chinese studies in CEECs, thus enhancing the understanding of CEE elites towards China.

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Articles

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Towards a Balanced Synergy of Visions and Interests: Latvia's Perspectives in 16+1 and Belt and Road Initiatives

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Abstract

The article analyses China's 16+1 and Belt and Road initiatives from Latvia's perspective. Although the initiatives provide engagement on a large scale, it is challenging to achieve the task of achieving a synergy between a variety of stakeholders and interests in the context of a diversity of visions and agendas. The strategic dimension of transcontinental initiatives complicates further the building of synergy. Connectivity is an important and promising principle of both initiatives and transcontinental infrastructural linkages are especially high on the agenda. Mutually beneficial progress, however, must yet be achieved. In times of uncertainty, Central and Eastern European countries, including Latvia, are engaged in a balancing process of potential economic benefits and strategic implications of the 16+1 and Belt and Road initiatives.

KEY WORDS:

China's Belt and Road Initiative, China-CEEC, connectivity, Latvia

The Summit of China and Central and Eastern European countries in Riga in November 2016 became a formative and symbolic experience for Latvia, in the context of its relationship with China. Hosting the summit was perceived and framed in Latvia as extending and deepening the country's engagement and mutual trust-building with China. The gathering of representatives from China and Central and Eastern European countries was also considered as an opportunity to take economic and diplomatic advantage of the 16+1 partnerships and China's ambitious Belt and Road Initiative (Kučinskis 2016). At the same time, the summit in Riga provided an appropriate moment to reflect and assess the developments and prospects of both 16+1 and the Belt and Road Initiative.

The article will analyse China's two initiatives towards Central and Eastern Europe and beyond, from Latvia's perspective. In order to achieve this goal several research questions must be addressed: Who are the stakeholders and what are their interests in an intensifying interaction between China and Central and Eastern European countries in general, and Latvia in particular? How is connectivity, as one of the major declared objectives of the two initiatives, being deliberated and implemented? What is the strategic context for the 16+1 and Belt and Road Initiatives?

The paper is structured corresponding to the above questions. The first part of the paper focuses on the challenging task of charting the diversity of visions, agendas and interests involved in the two initiatives. It outlines both the opportunities and constraints to the synergy between a variety of stakeholders and interests. The second section elaborates on the important principle of connectivity. Although connectivity may embrace a number of aspects, the main attention here is on the developing economic and infrastructural linkages, as they can readily demonstrate concrete practical steps and achievements. The last part of the paper analyses the strategic dimension of transcontinental initiatives. In times of uncertainty, Central and Eastern European countries, including Latvia, must increasingly take into account both the economic benefits and strategic implications of the 16+1 and Belt and Road Initiatives.

The paper is based on a growing number of scientific and analytical resources. Scientific literature on China's international ambitions and activities is abundant (Lanteigne 2016; Carver 2016; Tan Li, Larry D. Qui

and Ying Xue 2016). With the advent of the New Silk Road idea, scientific research focused specifically on China's "going out" strategy is rapidly increasing (Godement and Kratz 2015; Hongying Wang 2016; Wang Yiwei 2016; Ghiasy and Jiayi Zhou 2017). However, the analysis of the role, place, and perspectives of the Central and Eastern European countries vis-à-vis China's ambitious initiatives is more fragmentary. The distribution and scope of research findings on Central and East European countries relations with China remains rather limited and unevenly spread among the countries and institutions in the region. At the same time, "islands" of regional expertise on relations with China in Central and Eastern Europe are forming. These islands look beyond bilateral interaction and place the 16+1 format into a wider context. Among the CEE countries, Poland has demonstrated increasing capacity and resources in assessment of China's strategy and activities, including in the Central and Eastern European region (Jakoby 2016; Kaczmarek 2016; Jakobowski 2015; Szczudlik 2016). Moreover, opportunities and constraints for synergies with China's various initiatives have also been discussed by Chinese counterparts (Liu Zuokui 2016a; 2016b). The research in the Baltic countries essentially reflects thoroughly on China's motivations and the implications for the Baltic states and the wider region (Andrijauskas 2015). Analysis in, and on, Latvia in the context of China's initiatives fits into this regional picture and necessitates further research. Most research activity in Latvia on China's global and regional initiatives has been carried out under the auspices of the Latvian Institute of International Affairs (Andžāns and Sprūds 2016).

Managing diversity: visions, agendas and interests

A strategic vision is indispensable for a transcontinental, inter-civilizational, and infrastructural endeavour on the scale envisaged by China's Belt and Road Initiative. China's opening towards the West is based on the win-win philosophy of mutual understanding, respect and benefit (Li Keqiang 2016). The initiative aims to contribute to the creation of an embracing, inclusive, and pluralistic community. The Belt and Road Initiative has facilitated a mental re-mapping of geographic space and has already gained the image of a grand engagement, inter-civilizational connectivity and

mutual enrichment. Latvia has not been an exception here, experiencing an emergence of China on the country's mental maps and political and business agenda in recent years (Marty-Hemphill and Morisseau 2015).

A grand design or grand dream clearly helps to establish a normative basis to drive forward the concrete initiatives and projects. Cooperation in the 16+1 format may be perceived as an integral part of the wider and more ambitious Belt and Road Initiative (Liu Zuokui 2016a). China's Belt and Road Initiative involves allegedly 65 countries, and 16 of them are in Central and Eastern Europe. Central and Eastern Europeans see this as their opportunity to jointly appear on China's political and business agenda. However, the complexity and challenge to harmonising the variety of visions, agendas and interests at play has apparently been unachievable in the process. Latvia has experienced a multifaceted trajectory in its opening to the East in general, and China in particular, during the last decade.

Latvia's active engagement with Asian countries essentially began with the country's active participation in the Northern Distribution Network. The Northern Distribution Network became an important catalyst for opening to the East. In 2009 Latvia started to play a significant role in this network of transportation lines, launched and developed above all by the United States, to supply both its own and allied troops in Afghanistan (Rikveilis 2012: 86). Latvia grew into one of the most central and dynamic supply routes to Afghanistan via Russia and Central Asian countries. Although Latvia's visible role in the Network lasted a rather limited period of time from 2009 until 2013, it had considerable conceptual and political implications. The participation in this transcontinental supply endeavour motivated Latvia's decision-making and business community to think and act beyond the geographic and designed limits of the project. Commercialization of the existing network and extension of its connections to the immense economies of China and India increasingly entered Latvia's diplomatic and business thinking and agenda (Andžāns 2013: 9-29).

The importance of and adherence to the Trans-Atlantic dimension initially found its presence in the concept of the New Silk Road promoted by the United States (Starr 2007: 5-32). However, the limitations of the US New Silk Road initiative emerged soon (Standish 2014). The uncertainty of the US

initiative and the emerging prospective of economic opportunities in the context of China's own Silk Road thinking, motivated Latvia, alongside Estonia and Lithuania, to join the format of 16+1 established in 2012. Taking into account China's implicit objective to limit US presence in developing major mainland routes in Eurasia (Fallon 2015: 140-147), the evolution and pragmatic turn of Latvia's and its partners' positions become noticeable.

European necessities have provided another dimension to the somewhat challenging task of reconciling a variety of visions and agendas and promoting synergy in the context of the 16+1 format. 11 Central and East European countries of the format have become members of the European Union. This has added to the importance of the region in the eyes of the Chinese, whose regional presence may become a window of opportunity for them to shape relations with the EU. On the other hand, Central and East Europe has been perceived as an "outskirt" of the European Union, which is obliged to follow the Community's requirements and instructions (Kaczmarek and Jakobowski 2015). Hence, the region has arguably become a certain backdoor into the EU and Europe at large for China's political and business interests.

Central and East European countries have had their own challenge with their membership in the 16+1 format. This is the first and only regional, institutionalized formation within the EU engaging with China. Although a number of larger member states have developed intensive bilateral relationships, other EU members and the European Commission have perceived 16+1 as a fragmentation of common diplomatic standing and trade and investment policies. This has been complicated by the fact that the 16+1 format also includes non-members of the Union. Latvia has grasped the sensitivity of the situation. In the context of Russia's aggression in Ukraine, a common stance on foreign policy has been deemed of paramount importance for the country on the "frontline". The summit in Riga emphasized synergy among the 16+1, the Belt and Road initiative and, indicatively, an EU-China common platform (Riga Guidelines 2016). This has been a skilful endeavour to engage all three.

The Riga Summit pinpointed diversity within the 16+1 format. The Central and East European countries vary in terms of size and capacity, perceptions and interests, relations and affiliations. Most of the countries are members

of the EU and NATO. Five states have decided to integrate into the core of EU integration: monetary union. Poland is the only country from the region to become a founding member of the Chinese led Asian Infrastructure Investment Bank. If one paraphrases Henry Kissinger and asks what is the phone number for Central and East Europe, there would not be a single response. Moreover, the stakeholders - governments, businesses, non-governmental institutions - occasionally compete among themselves for access, attention and resources. Management of diversity becomes both a challenge and reflection of an ever-growing web of linkages, mutual interests and increasing connectivity.

Economic and Infrastructural Connectivity

Connectivity has become the defining feature of China's modern Silk Road initiatives. Inter-civilizational and people-to-people engagement is important. At the same time, economic connectivity has also become one of the primary goals of both the 16+1 format and Belt and Road Initiative. The Medium Term Agenda for Cooperation between China and Central and Eastern European Countries, or Suzhou Guidelines, have underlined the intention that "China and CEECs will further facilitate mutual investment and trade and aim to make trade and investment relations one of the most dynamic growth points in 16+1 cooperation" (Medium Term Agenda 2015). Trade and investment has already increased considerably. China's 65 USD billion trade with its Central and East European partners in 2015 exceeded for the first time the trade with neighbouring Russia, which has been a traditionally close trading partner. However, it must be added that considerable and increasing trade deficits create some concerns and reservations on the part of the Central and Eastern European countries (Jitaru and Pralea 2016).

The Baltic countries, including Latvia, follow the general regional patterns of intensifying trade and investment interaction. Since the inauguration of the 16+1 format in 2012, Latvia-China trade has increased considerably (Andžāns and Bērziņa-Čerenkova 2017: 163-172). The trade growth was further facilitated by the recovery of Latvia and its Baltic neighbours from

a profound economic recession. Moreover, Latvian businesses began to look increasingly to the East to diversify its markets. Latvia has successfully gained a wider access to China's market, exemplified by Latvia's doubled export volumes to China in recent years. The agreement, which has provided access for Latvia's fish and dairy products to China's markets in 2015, has demonstrated the positive dynamic of upgraded cooperation. Although Latvia still faces a sizeable trade balance deficit with China, an interest to advance mutually beneficial trade relations between the two sides apparently remains strong (Kučinskis 2016).

Trade promotion and increasing mutual awareness has become an integral part of strengthening economic connectivity. The Belgrade Guidelines of 2014 encouraged and introduced a number of initiatives to promote mutual trade links (Belgrade Guidelines 2014). As one of the most visible results, China's International Consumer Goods Fair in Ningbo has become a platform to advertise the products from the region in a specifically tailored fair for Central and East European countries. Latvia has actively taken advantage of the opportunity to motivate its country's businesses and promote its goods in China. In this process, the major role has been played by Latvia's Investment and Development Agency. This agency, responsible for coordinating and supporting foreign investment and trade cooperation, has actively disseminated information, engaged with entrepreneurs, set up a fair pavilion and, indicatively, established a representative office in Ningbo. These activities can be perceived as foundational to more intensified cooperation in the future (Latvian Ministry of Economics 2016).

Mutual investment is slowly following a positive trend. The Baltic countries have also been willing to advertise their performance in developing and possessing intellectual capital, providing a professional workforce for businesses with a potential to establish regional R&D or technologically advanced business centres. However, attracting considerable investment from China to the Baltic countries has proven to be a challenging endeavour. The knowledge and experience of the region on the Chinese side appears to be rather limited. Moreover, the Baltic counterparts are just starting to gain knowledge of how to build trust and make concrete steps towards cooperation with their Chinese partners. The relatively small sizes of the countries, in a geopolitically challenging environment,

apparently dampened enthusiasm for immediate cooperation and direct linkages. Hence, the political, societal, institutional and increasingly business investment has yet to yield its economic fruits.

The infrastructural connectivity of the East and West has become centrepiece of mutual interest and engagement. The development of the 'hardware' of transportation infrastructures and 'software' of a formal and informal regulatory framework has been at the heart of the modern Silk Road vision. Connectivity contributes to the synergy between the Belt and Road Initiative and 16+1 formats. The Suzhou Guidelines of 2015 clearly prioritized the importance of the Eurasian transport corridor for China and its Central and East European partners:

"The Participants will work to reinforce a safe and efficient connectivity network on land, at sea and in the air between China and Europe, in conjunction with key transport passages, linkages and projects, and jointly build the New Eurasian Land Bridge Economic Corridor. This way, the Participants hope to make fresh contribution to Eurasian connectivity." (Medium Term Agenda 2015)

Central and East European countries have already been actively placing nationally advanced infrastructural projects on a common agenda. The region's governments and businesses see the potential for Central and East Europe being a hub, bridge, and gateway between the East and West. Regional projects contribute to both complementarity and competition.

Latvia, Estonia and Lithuania have traditionally emphasized the region's comparative advantages such as favourable location and considerable experience in transit and logistics. Their well-developed port and railroad infrastructure has provided a basis for international business partnerships with the three Baltic countries. The transport sector has been a major source of revenue to the Baltic economies. The modern Silk Road idea and engagement with China has grasped the imagination of decision-makers and the business community of the Baltic nations. The Belt and Road Initiative has contributed to thinking about transcontinental

Eurasian transportation corridors. The 16+1 platform has provided a concrete platform to turn ideas into some concrete projects. But the location of the Baltic States and relatively small size also entail some limitations, so concrete results are yet to be seen.

Latvia arguably has been most active among the Baltic nations in transport diplomacy. Latvia succeeded in becoming a coordinating country for logistics in the 16+1 format. It was decided at the Suzhou Summit in 2015 that Latvia would set up the CEEC-China Secretariat on Logistic Cooperation under the Ministry of Transport (CEEC-China Secretariat 2017). The first 16+1 Transport Ministers' meeting was held in Riga in May 2016. The country's officials reiterated support for the New Silk Road initiative and the 16+1 format as "a significant platform for practical cooperation, attraction of new cargos and implementation of joint investment products in transport and logistics" (Ozoliņš 2016). Latvia has expressed its ambitions of being integrated into the Belt and Road transit and distribution networks and its expectations of attracting Chinese investment in infrastructure and transportation. A green-field or port infrastructure investment, or regional customer and executive centre for a major Chinese company, or increase of transportation flows through the region, would be deemed as a success.

The overall support for intensifying infrastructural connectivity has hidden a diversity of approaches and interests. Implicit dilemmas exist on how to find the right balance and synergy between wider regional, national and intra-national interests and approaches. Chinese counterparts have emphasized inter-regional cooperation in promoting a mutual interconnectedness. The Baltic Sea ports have apparently been perceived in China's approach in the wider context of Black Sea, Adriatic Sea and Baltic Sea connectivity. Indicatively, during the Transport Ministers' meeting China's representatives underlined the importance of the synergy between regional connectivity aspiration under the 16+1 framework, and EU regional policies such as the EU Strategy for the Baltic Sea Region (Bērziņa-Čerenkova and Sprūds 2017). Although the Three Seas connectivity idea could contribute to the development of a South-North Corridor in the CEE region, its economic value for the Baltic countries and its regional counterparts is not clear.

The intra-regional and intra-national dynamics and competition further add to, and occasionally complicate, the complex connectivity agenda (Baltic News Service 2017). The Chinese side has indicated its interest in cooperation with the Baltic countries in the context of China-led development of the Great Stone Industrial park in Belarus. Given that Belarus is a landlocked country, a considerable potential exists to integrate the Baltic ports in a chain of supply and distribution (Korol 2016). Klaipeda port in Lithuania has apparently made the most tangible progress to become a regional partner, by integrating its facilities into the developing distribution network through existing and expanded railway infrastructure. Although the authorities of the largest Latvian ports of Riga and Ventspils have been promoting the idea of developing a logistics base in Latvia, in close cooperation with Chinese counterparts, international and intra-national competition has actually made it challenging to speak with a single voice even on a national level.

The potential for China's cooperation with Latvia, Estonia and Lithuania in infrastructural connectivity could proceed in multiple directions. Chinese businesses have demonstrated their interest in large-scale infrastructure projects in Central and East Europe, including the Baltic region. *Rail Baltica*, which plans to connect the three Baltic countries with a fast-speed European size railway system, has been an attractive large-scale infrastructural project. This EU supported project provides both investment opportunity and potentially profitable business prospects for the infrastructure developing and construction companies. At the same time, the EU legislative and regulatory framework creates strict and transparent tender conditions in a highly competitive business environment. Participation of China's companies in the construction of this project has been discussed without the agreements being finalized (Baltic Course 2016). Similarly, the ideas of cooperation in the air transportation sector, and direct air connection between Latvia and China, have been deliberated but are yet to be developed. Hence, Latvia's regional connectivity hub ambitions in the context of the Belt and Road Initiative and the 16+1 format continue to be in the making.

Beyond connectivity and CEE: strategic dimension of transcontinental visions

The Belt and Road Initiative is an ambitious vision that has encouraged enthusiasm and interest among many stakeholders. Countries in Central and East Europe unsurprisingly have rushed to the regional format of 16+1 to speed up economic engagement with China, connectivity and infrastructural development and societal interaction. The modern Silk Road is still evolving a long-term vision with both economic and strategic implications. Although the economic rationale has dominated the 16+1 agenda, the countries in the region may increasingly deliberate on the strategic and security dimension of China's transcontinental vision of Eurasia. For Latvia, alongside its Baltic neighbours of Estonia and Lithuania, strategic assessment of their participation in a Chinese led agenda becomes an integral part of its strategic calculation.

China's opening Westward's has an assortment of motivations. It may still be unclear what the geopolitical underpinnings of China's vision are. However, China's proactive stance, strategic concepts and growing economic presence are facilitating its increasing role in global governance and regional security affairs. China is steadily becoming a formative global security actor with its own interests and interpretations. China shapes globalization through its various connectivity initiatives. The New Silk Road concept combines China's centred vision and unilateral approach with Western principles of regionalism and multilateralism (Kaczmarek 2016). This raises questions about whether China's geopolitical agenda is actually converging or diverging with fundamental security paradigms and the interests of Central and Eastern European countries, including Latvia, Estonia and Lithuania. The picture is clearly mixed.

The convergence of interests between China and CEE countries takes place in Central Asia. Central Asia is vital in the context of developing critical infrastructure links for sustainable transcontinental transport corridors, and the vision of connectivity between the Eastern and Western parts of Eurasia. Stability in the heart of Asia is essentially a precondition for a successful Belt and Road Initiative and 16+1 cooperation. China

has become an indispensable actor in the diverse Central Asian region. China's overall increasing political and economic presence and its Belt and Road Initiative may have positive implications for the region. Central Asian countries gain more room to manoeuvre to balance their dependence on Russia, receive an additional boost for economic growth and socio-economic stability, and could be motivated to cooperate more regionally. On the other hand, the Belt and Road Initiative's resources may further deepen endemic corruption and regimes' proclivity to tighten control in the context of growing interdependence (Ghiasy and Jiayi Zhou 2017: 19-28).

Latvia has had a proactive approach in Central Asia. Although one must not overestimate Latvia's political and economic footprint in Central Asia, the country has played an active role in the region alongside such players as Germany in recent years. During its presidency of the EU Council in 2015, Latvia built on previously established common experiences and cooperation. The presidency served as a platform to promote the country's links and interests in Central Asia. Latvia supported a comprehensive review of the EU Strategy on Central Asia, and renewal of the position of the EU's Special Representative for Central Asia (Pastore 2017: 151-162). Estonia intends to continue the trend during its EU presidency in the second part of 2017. Cooperation in border security, education and connectivity have been the top priorities on Latvia's agenda. Latvia's transport diplomacy and its endeavours to play a more important role in Eurasian transport corridors essentially started in the Central Asian countries of Kazakhstan and Uzbekistan, in the context of the Northern Distribution Network. The dilemmas created by a divergence of values and interests amongst the parties were largely solved in favour of practical and pragmatic cooperation. Apparently an interest-dominated approach may facilitate cooperation among a variety of stakeholders in Central Asia under the Belt and Road Initiative.

The implications of the Belt and Road Initiative for Russia and its role are more difficult to assess. Likewise, Russia's strategic moves may have mixed consequences for the Initiative and its connectivity dimension. Russia's sovereign multipolar thinking makes it a complicated partner in transcontinental win-win endeavours. Russia's assertiveness in the post-Soviet space, which it apparently is willing to approach as its backyard,

preclude from building a wider community of mutual trust and respect. Quite the opposite, Russia's aggressiveness in Ukraine invoked ghosts of insecurity and neo-imperialism and was a regional security wake-up call for many neighbouring countries. Moreover, Russia promotes and develops its own integration project of the Eurasian Economic Union, including in Central Asia, and has approached jealously any potentially competitive visions (Makocki and Popescu 2016: 47-49). The time of overlapping integrative spaces in Russian strategic thinking has evidently passed.

On the other hand, the picture is more complex when accounting for China's relationship with Russia. China has become a vital and strategic partner for Russia in the so-called anti-hegemonic and multipolar world approach. Russia and China have been able, so far, to arrive at some division of labour in Central Asia. While Russia has been largely shaping military and political developments, China has ensured its predominant economic presence. Moreover, Russia and China have strategically promoted closer economic cooperation between themselves, especially in the energy sector. Development of transport corridors through Russia in the context of the Belt and Road Initiative may provide Russia with both economic gains and political leverages in the wider Eurasian area (Kaczmarek and Rodkiewicz 2016).

Russian assertiveness has undoubtedly alarmed Central and Eastern European countries. Western sanctions and deterrence measures against Russia have demonstrated even wider consensus and understanding in the Euro-Atlantic Community of Russia's dangerous strategic behaviour. Russia and China's forging of an alliance to promote a post-Western world adds to the strategic dilemmas for NATO and the EU, especially their Central and Eastern European members. At the same time, economics matter. Sanctions fatigue is noticeable. Russia's enormous territorial landmass makes it indispensable for implementing the connectivity vision of the Belt and Road Initiative. Central and Eastern Europeans have most to lose from Russia's aggressive undertakings, but they also have the most to gain from constructive and pragmatic economic engagement with a large neighbour. Latvia faces this Central and East European dilemma even more acutely due to direct proximity to Russia. Russian military exercises remind Latvia regularly of its insecurity concerns, while cargo

flows from Russia of mutual economic interest, perhaps even necessity from the Latvian perspective. Latvians are willing to cooperate with Russia and its EEU partners of Belarus and Kazakhstan economically, despite the existing sanction regime. Hence, the visions and agendas of the 16+1 and Belt and Road Initiatives, and especially its connectivity priority in Central and East Europe in general and Baltics in particular, are caught in the crossfire of ambitions, compromises and geopolitical developments.

EU-China engagement adds to the complexity of the situation. The EU's new Global Strategy declares that the EU will "pursue a coherent approach to China's connectivity drives westwards" (European Union 2016). However, the "coherent approach" is apparently in making. The signing of a Memorandum of Understanding on an EU-China Connectivity Platform to "enhance synergies" between the Belt and Road Initiative and EU's Investment Plan for Europe might not be enough. Europe is clearly placed in China's transcontinental strategic vision. The Belt and Road and 16+1 initiatives are motivating the EU to think more strategically. The EU-China Connectivity Platform will not become a substitute for strategic vision and will not create a community of the like-minded in Eurasia. The EU may need to put more emphasis on promoting a rules based global order for global and regional governance. Although clearly the "rules based order" could be interpreted through the prism of national interests, a number of agendas converge. The EU and China are both interested in dealing with current traditional and non-traditional global and regional security challenges such as terrorism, cyber security, energy and environment, human development and resilience. This creates a platform for more coherent engagement (Ghiasi and Zhou 2017: 45-56).

The 16+1 format comes into the strategic picture of EU-China relations as both a nuisance for Brussels and dynamic test ground for a further engagement. The 16+1 initiative has been perceived by some in the EU as China's deliberate creation of its regional "Trojan horse" in the EU policy-making corridors (Stanzel et al. 2016). On the other hand, in the absence of common voice, the 16+1 platform has become a test ground for also developing the EU's strategic thinking and practical cooperation in connectivity, trade and investments (Long Jing 2016: 25-28).

Conclusions

China's transcontinental connectivity initiatives have obtained momentum. This is a success in times of uncertainty. The Belt and Road Initiative remains a non-institutionalized cooperation work-in-progress and will be shaped by a variety of stakeholders. The 16+1 format has developed into a dynamic institutionalized platform with a spectrum of challenges and opportunities. Positive spill-over from this vision of engagement, intensifying economic cooperation and regional stability will depend on mutual interest and the ability to harmonize competing interests and find synergy. A number of synergies must be achieved in the Eurasian space to achieve political, human, economic and infrastructural connectivity. The European Union, Eurasian Economic Union, Eastern Partnership and Shanghai Cooperation Organization are only a few institutional frameworks and initiatives that must be taken into account.

Latvia, Estonia and Lithuania, alongside other CEE countries, have been pro-active to facilitate cooperative efforts and extend the mutually beneficial political, economic and people-to-people engagement with China. The Fifth Summit of the Prime Ministers of China and Central and Eastern European countries in Latvia's capital Riga, in November 2016, was indicative of the interest in and understanding of the importance of cooperation with China. The Baltic States have been closely engaged in Baltic Sea region interaction and have fully integrated into the European Union. Latvia deems the 16+1 format as an important complementary platform to the wider EU-China dialogue, and has supported the vision of the Belt and Road. The prospects of cooperation between China and its Central and Eastern European counterparts have been and will be shaped by an assortment of challenges and opportunities. The synergy of the two initiatives becomes both a significant measurement and prerequisite for further development of mutually beneficial partnerships. Latvia, alongside other Baltic countries, faces its own choices of striking the right balance in a productive engagement with China in the context of its flagship initiatives. Thus, for Central and East European countries, especially small countries like Latvia, these Chinese initiatives create both challenges and opportunities. Yet, playing proactively at several diplomatic and business chessboards has become a matter of necessity rather than choice.

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China's Belt and Road Initiative Extension to Central and Eastern European Countries - Sixteen Nations, Five Summits, Many Challenges

Marsela Musabelliu

Abstract

The Belt and Road Initiative proclaimed by President Xi in 2013, a strategy developed by the Chinese government, is very important to China but is not confined to China. In order for the initiative to be successful it needs to be embraced by the countries on the terrestrial and maritime route indicated in the plan. In the late 1980s Deng Xiaoping proposed to integrate Socialism with Chinese Characteristics (Zhongguo Tese Shehui Zhuyi, 中国特色社会主义) into global capitalism and in the 1990s the Jiang Zemin leadership initiated the Going out policy (Zouchuqu Zhanlue, 走出去战略) – the current Belt and Road Initiative is China's continuation in implementing those policies into actual deeds. China's accession to WTO in 2001 marked China's full integration into the global economy and since then the People's Republic of China (PRC) has become the largest trading partner for more than 180 countries. The Xi-Li administration has been extremely proactive since it was established in 2012; from that year on, Chinese behavior in international affairs has gained an ever-growing role as a forger of economic and diplomatic ties between countries. The primary example of this behavior is the Belt and Road Initiative (BRI). As every serious foreign policy plan, the BRI is an accumulation of various other initiatives. For example, the cooperation mechanism "16+1", with which the PRC has approached Central and Eastern European Countries (CEEC), can be integrated under the BRI. This paper analyzes the "16+1" China-CEEC cooperation mechanism in the context of the bigger BRI initiative, and tries to comprehend the economic and political factors intertwined with its implementation.

KEY WORDS:

Belt and Road Initiative, China, CEEC, economic cooperation, challenges

Introduction: The Belt and Road Initiative (yi dai, yi lu 一帶一路)

China's new Belt and Road Initiative is trying to reimagine the ancient Silk Road trading routes by connecting East and West over land and sea. For over 1600 years the Silk Road promoted the exchange of Western and Eastern civilizations, bringing together Chinese, Indians, Persians, Arabs, Greeks and Romans. This initiative highlights the core of China's new strategic development, founded on economic progress and shared prosperity. Clover and Hornby (FT Analysis 2015), estimate that, "[...] if the sums of total commitments are taken into account, the BRI is set to become the largest program of economic diplomacy since the US-led Marshall Plan for postwar reconstruction in Europe, covering dozens of countries with a total population of over three billion people". What is happening is that Beijing functionaries are trying to inject new vitality to these ancient trading routes through a new economic master plan that would connect Asia, Europe and Africa with one single development policy, financially supported by one institution, the Asian Infrastructure Investment Bank (AIIB). The Chinese government, through a National Development and Reform Commission (NDRC News Release 2015), advocates "[p]eace and cooperation, openness and inclusiveness, mutual learning and mutual benefit as the benefits of the BRI... By promoting practical cooperation in all fields and will work to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness". This Chinese vision seeks to replicate and expand the results of the Asian Miracle. The economic takeoff of East Asia consolidated domestic stability in most countries; Likewise, regional peace dramatically improved as countries realized that a focus on economic growth would bring more stability (Overholt 2015).

However, CEEC and Asia are two very different realities and identifying how the BRI can function in a non-Asian land becomes essential. The necessity here is to determine which are the channels and modus operandi of the BRI, and how it can actually be implemented in a given group of states through the

regional approach. The main purpose of this paper is to analyze and understand this specific cooperation mechanism between CCEC and China, in three different perspectives: first, by analyzing leadership discourse and policymaking; second, by considering the 16 nations of CEEC as distinct economic and social entities and third, by understanding the significance of high level political summits and how much they actually impact upon a project's implementation.

The keyword for BRI seems to be infrastructure. The Chinese authorities see infrastructure (with the outcome of facilitating transportation) as the milestone for what will be the Eurasian "Economic Corridor".

Xi Jinping: the man with a dream and plan

In order to better understand the BRI's impact outside China, it is essential to seek an organizing principle in terms of the PRC's overall foreign policy objectives. For this it is important to know the "fifth generation of Chinese leaders",¹ guided by Xi Jinping.

Soon after becoming the leader of the Chinese Communist Party in 2012, he introduced what would become the blueprint of his foreign policy. The Chinese Dream, he said, is the great rejuvenation of the Chinese nation; Xi's Chinese Dream is portrayed as accomplishing the "Two 100s".² From that year on, with the shift of power in Chinese leadership, we see a very proactive attitude in foreign affairs. President Xi and premier Li are perhaps the Chinese leaders with the most foreign visits in the last three decades. President's Xi Chinese dream seeks to combine national and personal aspirations to reclaim national pride and enhance personal well-being;

1 Five generations of Chinese leaders after the proclamation of the People's Republic of China starts with Chairman Mao Zedong as leader, followed by Deng Xiaoping, Jiang Zemin, Hu Jintao, and the fifth, Xi Jinping.

2 1) The material objective of turning China into a "respectably well-off society" by 2021, the 100th commemoration of the Chinese Communist Party, and 2) The modernization objective of turning China into a fully developed country by around 2049, the 100th commemoration of the establishing of the People's Republic of China

China's foreign policy was not equally dynamic in the past. In this regard, making a comparison with the previous leader, Ferdinand (2016: 941), states "Hu Jintao was extremely risk-averse and largely preoccupied with maintaining domestic economic growth."

It is President Xi's plan to associate Asia and Europe by putting resources into framework activities to improve exchange and social relations. These activities are upheld by unfathomable money related assets, such as the AIIB fund (more than 100 billion US dollars), the New Development Bank (NBD) and the Silk Road Fund.

The first time the world heard about this initiative was in Kazakhstan, during a visit of President Xi in the country. He states:

"Shaanxi, my home province is the starting point of the Silk Road. As I stand here I reflect on history, I can almost hear the camel bells echoing among the mountains and see the wisp of smoke rising from the desert. It all reminds me of home... throughout the millennia, the peoples of various countries along the Silk Road have jointly reached a chapter of friendship that has been passed on this very day..." (Ministry of Foreign Affairs of the People's Republic of China 2013)³

From the above we can see that this initiative is the tool of a foreign policy master plan as much as it is a personal endeavor and challenge for the Chinese President. Xi starts by evoking the past, while tracing the guidelines for the future cooperation of the countries involved in the initiative. Kissinger (2014) argues that the rise of China into eminence in the 21st century is not new but it reestablishes historic patterns. What is distinct is that China has returned as both the inheritor of an ancient civilization and as a contemporary great power in the Westphalian model. It combines the legacies of all under heaven, technocratic modernization and an unusually turbulent 20th century quest for a synthesis between the two.

3 President Xi chose a foreign, neighboring country to launch his new initiative, in the most exclusive academic environment of Kazakhstan: Nazarbayev University, in Astana.

Pragmatism in action - what's in it for China?

Chi (2015: 54) considers that “the implementation of the New Silk Road strategy will unleash a regional infrastructure boom by connecting China with Asia, Europe, and Africa by land and sea, and boost RenMinBi (RMB) internationalization by encouraging its use in both trade and financial transactions. Domestically, it will help export China's excess capacity, which should enhance investment returns and stabilize growth... Beijing is using the project to secure foreign trade relationships in response to some major trade pacts that have excluded China in the past”. The proclaimed Beijing consideration on the initiative, among others, is: “...to forge closer economic ties, deepen cooperation and expand development in the Euro-Asia region... take an innovative approach and jointly build an 'economic belt' along the Silk Road” (See: Ministry of Foreign Affairs of the People's Republic of China 2013.).

Chi continues by highlighting also that “the initiative has three main pillars: first, spreading economic development around the world through infrastructure investment and new trade routes; second, creating interdependence between China and other countries and regions via global partnership networks; and third, focusing on Asia as part of a new “neighborhood diplomacy” strategy. By building closer economic ties with the regional economies along the New Silk Road premier Xi promises to meet the expectations of history and the Chinese people” (Chi 2015: 56).

China-CEEC partnership framework

According to Xi (2006: 47), geostrategic policymaking “represents a country's effort in the world arena to use geographic orientation and principles to pursue and safeguard its national interests. Entering the twenty-first century, China's geostrategic relationships

are undergoing profound change”.

Chinese presence and initiatives in Central and Eastern Europe are not new. The first step for an East European alliance between Romania, Yugoslavia and Albania, was made by Prime Minister Zhou En Lai in 1968.⁴ During the Cold War, Chinese foreign policy officials had already made their advances in these three countries. This was the first time that China was engaged in energetic behavior towards Europe. Chinese policy makers intended to create a strong regional fulcrum under Beijing's influence, for their future interest in the European market. However, the plan was never implemented. The late 1980s and early 1990s were years of great social and political changes in both areas under examination. After the fall of the Berlin Wall, both China and CEEC countries, faced challenges of transformation and transition. While the PRC took a gradual approach to reforms the CEEC countries went for drastic reform strategies and immediate opening to the outside world.

As mentioned earlier, the countries under analysis in this paper are part of a cooperation mechanism named “16+1”, which is the cooperation between 16 Central and Eastern European Countries plus the People's Republic of China. The 16 countries of the CEEC include: the three Baltic countries of Estonia, Latvia and Lithuania; the four Central European countries of Poland, Hungary, the Czech Republic and Slovakia, also known as Višegrad countries; the nine Eastern and Southeast European nations of Albania, Bosnia and Herzegovina, Macedonia, Croatia, Montenegro, Bulgaria, Slovenia, Serbia and Romania, namely the Balkans. In order to gain a better geographic understanding of these nations let us turn to the memorable speech of Winston Churchill in 1946, who claimed that an “Iron Curtain” was being formed in the heart of Europe between East and West, in essence all CEEC countries are what Churchill placed on the eastern side of the Curtain. These countries seem somehow similar in their political past, especially during the Cold War, but have plenty of dissimilarities after the 1990s in economic, social, and foreign policy discourse.

4 It was easier for the Chinese premier to place Romania and Yugoslaviain the same alliance, as both of these countries had turned away from Moscow and had no conflict, past or present, with each other. Premier Zhou knew that the hardest party to convince for this possible future alliance would have been Albania.

Returning to economic and social differences between the CEEC, we will now inspect some important statistical indicators:

Table 1: CEEC general and governmental performance indicators

Country Name	Population in millions	GDP in Billions of USD	GDP growth in %	Per capita GDP thousands of USD	Unemployment, total (% of total labor force)	GINI index * 2012
Albania	2.89	11.46	2.6	3,965	16.10	28.96
Macedonia, FYR	2.08	10.09	3.7	4,853	27.90	..
Montenegro	0.62	3.99	3.4	6,415	19.10	32.18
Bulgaria	7.18	48.95	3.0	6,820	11.60	36.01
Bosnia and Herzegovina	3.81	16.00	3.2	4,198	27.90	..
Croatia	4.22	48.73	1.6	11,536	16.70	32.51
Serbia	7.10	36.51	0.7	5,144	22.20	..
Romania	19.83	177.95	3.7	8,973	7.00	34.88
Hungary	9.84	120.69	2.9	12,259	7.80	30.55
Slovenia	2.06	42.75	2.9	20,713	9.50	25.59
Slovak Republic	5.42	86.58	3.6	15,963	13.30	26.12
Czech Republic	10.55	181.81	4.2	17,231	6.20	26.13
Poland	38.00	474.78	3.6	12,494	9.20	32.39
Lithuania	2.91	41.24	1.6	14,172	11.30	35.15
Latvia	1.98	27.04	1.9	13,665	10.00	35.48
Estonia	1.31	22.69	1.1	17,295	7.70	33.15

Source: World Bank Database 2015

As we can see from Table 1, we are dealing with a group of countries with relatively small populations, except Poland and Romania. Considering the total GDP of each of the CEEC, these are small scale economies and some almost medium ones. The economic performance of the CEEC is diverse, led by the Czech Republic with growth of 4.2% and trailed by Serbia with 0.7% growth. According to the latest statistics the average unemployment of the Eurozone is around 10%, and according to mainstream economics scholars any country with more than a 15% unemployment rate is not performing well (Eurostat Statistics Explained, 2016). As we can see six out of the sixteen CEEC are definitely not in good shape with regards to their labor market. The GINI index (See: World Bank, 2016?) demonstrates that the countries under analysis have still a huge gap in their population between rich and poor.

Table 2: Economic performance indicators

Country Name	Ease of doing business index (1 to 190)	Imports of goods and services (current millions US\$)	Exports of goods and services (current millions US\$)	Foreign direct investment, net inflows (BoP, current US\$ millions)	Inflation, consumer prices(% annual)	Total natural resources rents (% of GDP)
Albania	90	5.07	3.11	981.50	1.89	5.40
Macedonia, FYR	16	6.54	4.89	192.65	-0.30	3.06
Montenegro	48	2.44	1.73	699.74	1.55	0.71
Bulgaria	37	31.83	32.54	1,773.86	-0.10	1.87
Bosnia and Herzegovina	79	10.54	6.28	267.28	..	1.49
Croatia	39	22.73	24.06	158.97	-0.46	1.68
Serbia	54	20.97	17.41	2,345.15	1.39	3.03
Romania	35	74.06	73.13	3,890.53	-0.59	1.69
Hungary	40	113.43	123.48	-966.57	-0.07	0.47
Slovenia	30	29.27	33.27	1,680.44	-0.52	0.50
Slovak Republic	30	79.11	81.21	2,149.68	-0.33	0.54
Czech Republic	26	141.91	153.60	2,478.53	0.34	0.44
Poland	25	221.11	234.36	7,353.00	-0.99	1.44
Lithuania	21	31.93	31.88	627.35	-0.88	1.18
Latvia	17	16.27	15.89	719.04	0.20	2.56
Estonia	11	17.17	18.10	-174.21	-0.46	2.71

Source: World Bank Database 2015

Regarding the business and trade environment of the CEEC there are still uncertainties and different levels of performance amongst the group. For example, the ease of doing business (The World Bank, 2016?) varies hugely, with the most business friendly being Estonia and the least, Albania. Regarding exports and imports (for both, services and goods) the total volume goes mainly according to population, the larger the population the higher this index. In terms of FDI the most attractive are Poland and Romania, and the least attractive are the FYROM and Montenegro. Regarding consumer prices we see 10 countries with deflation of those prices and five with low inflation percentages. And last, Table 2 shows us that the natural resources of all of those countries show very little contribution to their overall economic performance.

Cooperation Mechanism of "16+1" and the pivot on investments

This political and economic partnership is quite peculiar, no aggregation, international network or association could embody the same aspects as the "16+1". Institutionally everything started in April 2011 when Wen

Jiabao visited Eastern Europe, starting from Poland. The next step of cooperation was to call yearly summits where all leaders would meet in a joint session and after that, if representatives desired, meetings would proceed to bilateral talks.

The first China CEEC Summit was held in Warsaw in 2012, and had emblematic significance since the prime ministers of these countries had never before been all gathered in the same venue.

Usually all Heads of States and decision-making personalities are present at these summits (Prime Ministers, Ministers of Trade, Ministers of Infrastructure, etc.). The most important outcome of this summit was "China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries". According to the documents from the official release (MFAPRC News Release 2012), the main points included "... the creation of a Secretariat for Cooperation between China and CEEC; the establishment a US\$10 billion special credit line with focus on infrastructure; China committed to send trade and investment promotion missions to the 16 countries involved in the process". Further, the Chinese government promised to provide 5000 scholarships for students of these countries in order for them to study in the PRC; a forum on cultural cooperation would be held and a tourism promotion alliance would be established. In addition, premier Wen Jiabao introduced a four-point proposal on promoting and deepening relations within the "16+1" platform by focusing on establishing a perfect working mechanism, exchange platforms of cooperation, specify priorities of cooperation and enhance closer cultural and people-to-people exchange. Politically, the most important pronouncement of premier Wen was: "Chinese leaders hope that the two sides will make joint efforts to inject new vitality on the development of China-Europe relations". Essentially, the hidden message here (confirmed in a formal declaration two years later) is that the "16+1" is an integral part of China-EU cooperation, and not an isolated foreign policy strategy oriented only towards these 16 countries. On the other hand, declarations from CEEC representatives welcomed and applauded China's contribution to the global economy and its fast economic growth was portrayed as a successful model of development.

The second China-CEEC summit was held in Bucharest in 2013. At

this time China's political establishment had changed and the representative who visited Romania was Premier Li Keqiang. His main analysis was the untapped potential of CEEC which in 2013 represented only 1/10 of China-EU trade volume. Much more could be done since China was willing to further promote trade and investment in the region. In order to further expand cooperation and limit protectionism from all sides, the guidelines of the summit pledged to hold a number of events including: a China-CEEC ministerial meeting; an expo of CEEC commodities in China; a symposium on investment promotion, as well as support the establishment of the association of chambers of commerce. During this summit China achieved an agreement with Hungary and Serbia to together construct a railroad between these two countries, within the Chinese investment framework for the region. As in the previous summit, as far as investments were concerned the headline was again infrastructure.

The third summit was held in Belgrade in 2014 and the theme of was: "New Driving Force, New Platform and New Engine". All parties involved, while reaffirming their commitment to deepening their partnership, expressed the need to formulate a medium term agenda on account of project implementation and continuation. And again, the highlight was to enhance cooperation and connectivity, but this time besides infrastructure many other fields of common interest were highlighted, for example: the promotion of Small and Medium Enterprises (SME); signing currency swap agreements; developing nuclear energy projects and promoting sustainable use of natural resources;

In fact, some of the most important points of the joint declaration after the summit (MFAPRC News Release 2014), was to "strengthen the cooperation in infrastructure development, such as construction of roads, railway, ports and airports on the principle of mutual benefit; creating an investment fund of US\$3 billion in order to facilitate financing procedures in the CEEC and expand cooperation in science, technology, innovation, environmental protection; establishing of the China-CEEC Think Tanks Exchange and Cooperation Center". The Ministry of Foreign Affairs of the People's Republic of China, as the comprehensive coordinating institution for China-CEEC cooperation, would actively support the Chinese Academy of Social Sciences (CASS) for this purpose.

At the start of the fourth summit in Suzhou in 2015, Premier Li Keqiang (CNON Opinion 2015) stated: “Over the past three years, ‘16+1’ cooperation, just like a high-speed train, has set out on its journey and gained speed all the way from Warsaw to Bucharest and from Belgrade to Suzhou”. This is a very important step in publicly integrating the “16+1” in the frame of the BRI and what Chinese scholars name “Mr. Li’s Railway Diplomacy”.

The motif of this summit was: “A New Beginning, New Domains, and A New Vision”. These three new perspectives speak to a plan for collaboration for the coming five years and six agreed upon priorities: actualizing a guide for propelling participation; improving synergy between the BRI and policymaking within the CEEC; searching for better approaches to finance cooperation; enhancing people-to-people cultural and personal exchange; intensified cooperation in the spheres of agriculture and forestry; beginning cooperation on the local government level. The Medium Term Agenda mentioned in the Belgrade Guidelines one year earlier were also highlighted in Suzhou. Most importantly, the idea that the “16+1” framework for cooperation is embedded in the China-EU Strategic Agenda Cooperation was reemphasized as highlighted by the addition to the Suzhou Guidelines (MFAPRC News Release 2015), which states: “This cooperation will aim to advance important national and regional projects. Instead of replacing existing bilateral cooperation mechanisms or platforms, “16+1” strives to complement and reinforce them, aiming at enhanced and expanded cooperation between China and the 16 countries”.

The main theme of the fifth summit, held in Riga, was: “Three Seas Interconnectivity”. The summit (MCPRC News Release 2016) aspired “... to strengthen Adriatic-Baltic-Black Sea Seaport Cooperation, in line with the geographical distribution of ports and their future development needs. This increased cooperation is to be achieved by: better using, developing, and upgrading ports; supporting cooperation in ports investments; expanding the handling capacity of ports and extending the shipping route network of the three seas and inland waterways and ports”. China claimed to be ready to build industrial and technological parks with the CEEC, conduct cooperation on deep processing of agricultural products, and help these countries raise their level of industrialization and agricultural productivity. The “16+1” financial holding company proposed

the previous year in Suzhou was officially established. Led by the Industrial and Commercial Bank of China, the holding company is expected to raise funds from global markets through commercial operations. Five principles of cooperation were also agreed upon: 1) equality, mutual respect and mutual assistance; 2) mutual benefit and win-win cooperation; 3) openness and inclusiveness; 4) interconnected development; 5) joint contribution and shared benefits. It is important to note that at this summit participants (special envoys) from EU, Austria, Switzerland, Greece, Belarus and the European Bank for Reconstruction and Development, were present as observers.

Besides the direct link of this cooperation with the BRI (which is a long-term foreign policy plan), internal development in the PRC's establishment and institutions should not be overlooked. "The goals of China's direct investments in Central and Eastern Europe should be viewed in the wider context of the development goals identified in the CCP twelfth Five-Year Plan for the years 2011–2015. The Plan mentions the need to acquire strategic assets to: enable Chinese companies to increase their competitiveness in global markets; increase investments in foreign infrastructural projects; offer preferential loans for projects carried out by Chinese contractors" (Jakobowski 2015: 2).

From the abovementioned activities we can see that the plan is no longer conceptual, but implementation has already started and has progressed with significant steps.

Challenges of cooperation

This diversity of views about the implications of China's rise in global politics is testimony to the uncertainty associated with that rise. But one aspect is abiding: As Shambaugh (2013: 317) states, "China going global will undoubtedly be the most significant development in international relations in the years ahead. Since China's opening to the world in 1978, the world has changed China – and now China is beginning to change

the world". A lot has been written on the challenges that the BRI could face in its implementation and the same can be said for its extension, the "16+1" cooperation platform. In any cooperation plan where a lot of countries are involved, difficulties are inevitable.

Internal challenges

First and foremost, the different stages of development for each of the CEEC could slow down the development of projects. There are differences in the structure of the CEEC economies, the division of the group into EU and non-EU states, into nations which are part of the Eurozone and those who are not. This makes it difficult to devise a uniform approach towards the countries under analysis. It must also be underlined that the 16 nations do not shape a single coalition and they sometimes see each-other as opponents and, to some degree, they struggle with who and how will earn the most out of the flow of Chinese investments towards the region (Turcsanyi 2014). As a consequence, coordination within the group is lacking. The most successful investment for now has been the Hungary-Serbia railway, in which both countries showed economic and political maturity in developing the project funded with Chinese money; but for the remaining countries there is still a long way to go.

The next internal challenges are the governments of some of the countries involved in the cooperation mechanism. Especially in the Balkan Peninsula, most of them are "fragile democracies", not more than 30 years old. Transitioning from one governance system to another is never without consequences. Such states suffer social instability, financial fluctuations, institutional fragility and last but not least, corruption. Antagonism between Balkan countries is another issue. Perhaps it is not an existential threat to the cooperation mechanism, but let us not forget that 17 years ago there were actual armed conflicts in the region and the repercussions of these conflicts are still unfolding in the region.

External challenges

The Chinese official standpoint is that of including the China-CEEC relations under the China-EU framework and cooperation structure. We must highlight here that eleven countries within the “16+1” mechanism are members of the EU, and three of them are founding members.⁵ Long (2014), argues that “the EU takes a suspicious and cautious attitude to the establishment and development of the China-CEEC cooperation mechanism. The EU is concerned that China is trying to achieve a political objective in dividing the EU countries through economic means, and regrouping EU states according to their attitudes towards China. Such a strategy would weaken the appeal of Brussels and prevent its consistency in foreign policy”. Another important factor to consider in this agenda is Russia. No tangible declarations by Russian politicians have been made about the “16+1”, but while dealing with the individual parties, China and CEEC, Russia seems to be very cautious. Most of the countries which are part of the CEEC have a long history with Russia, notable many were satellites of the Soviet Union, and most of them experience economic dependence on Russian gas as an ever-present factor in foreign policy decision making.

From the other side of the Atlantic, the other major actor is the United States of America (USA). The dominant insecurities coming from the USA are security threats, as 12 countries out of 16 are NATO members.⁶ So far no official statement has been released from Washington, but this does not mean that the cooperation initiative has been overlooked. International relations at the beginning of the 21st century are marked by the most important bilateral relationship in the world, that between China and the US. Some scholars (eg. Kissinger 2011; Shambaugh 2013; Zhang 2012; Friedberg 2011) firmly believe that this relationship will define the current century, and getting this relationship right is essential for global peace and stability. The two states closely analyze every move of the other and, of course, any possible new alliance with other nations. In his new book *World Order*, Kissinger (2014) describes China as ‘Conceptual’ and the

5 The Baltic States: Estonia, Latvia and Lithuania.

6 In chronologic order of accession to NATO: Czech Republic, Hungary, Poland (1999); Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, Slovenia (2004); Albania, Croatia (2009).

United States as 'Pragmatic'; we will have to see in the next years if his assessments of these countries will also apply to the "16+1" cooperation mechanism.

A further discontent is circulated about the absence of long term clarity of deals and plans as well as the possible undermining of the market potential of European companies and organizations. Casarini (2015: 9) claims that "infrastructure works financed by China's soft loans are carried out by Chinese companies, as in the case of the Hungary-Serbian high-speed railway or Terminal II of Piraeus. This raises the question of reciprocity. While Chinese companies find an open-door environment in Europe, it is quite difficult, if not impossible, for a European company to succeed in winning a contract to build an infrastructure project in mainland China".

Finally, besides the official and unofficial discourse from outside the "16+1", the primary issue is that of influence. What are we to expect from the PRC? What is the PRC's agenda and ulterior motives? For Poulain (2011: 6-7), "Beijing's sizeable investments in CEEC are as much about financial returns as they could be about leverage. The investments by Chinese state-owned companies on the periphery of the EU, have not only given China an indirect say in European affairs, they have also signaled to the U.S. and the West that Beijing is ready to advance its own agenda in the region."

The term "mutual distrust" is often used in describing the China-US political relationship, however we might see it more often used in the future to describe China-EU relations. Le Chorre and Sepulchre (2016) name an entire chapter of their book 'Spreading the tentacles, opportunistically' referring to the Chinese investments in Europe. They argue that the ever-growing Chinese presence in Europe is working to expand Beijing's power through finance and infrastructure.

The challenges go both ways. Since its creation in 1993, the EU has continued to provide one of China's most visible multilateral challenges. Beijing has had to adjust its European policies to take into account both Union and country-level decision-making procedures, further complicated by the lack of single cohesive EU foreign and often economic policy (Lanteigne 2013: 144).

Many seem concerned about what is not proclaimed in the plan; which is the final aim of this terrestrial expansion throughout the Belt and Road countries. What the skeptics fail to admit is that securing economic growth is at the core of national security policy proclaimed from Beijing and to further ease worries, President Xi has emphasized the “Three No’s” policy within the BRI: China will not interfere in the internal affairs of the nations along the BRI route; will not try to increase its influence towards these nations; and last but not least, PRC is not striving for hegemony or dominance.

Conclusions

China's ascent as an important factor in the international arena is the most essential aspect of what some scholars (eg. Tselichtchev 2012; Rosefilde 2013) name the “Global Power Shift of the 21st Century”.

The Chinese “economic miracle”, its GDP growth in double digits after the 2000s, the lifting of hundreds of millions out of poverty in just two decades, can be ascribed to a slow and gradual reformation of the country's core policy, a proper transition from a centrally planned economy to a free market one, and opening to the outside world as perhaps a new forger of globalization. These factors, and more, make the PRC a desirable partner in the economic field.

The CEEC, experiencing the heat of the financial crisis of 2008, turned to China in search of investments, financial cooperation and new trade agreements. CEEC location favors these moves since their geographic position between East and West can easily provide a connection between the markets of Asia and Europe, which could give the area enormous potential to end up as a key point for direct exchange between the two continents.

Although China is much larger than Central and Eastern European countries in term of area, population and the size of its economy, China

has sought to build partnership with the CEEC on an equal footing. The “16+1” cooperation framework, in which each country is an equal partner, can serve as the platform to enhance every country’s interests. The China-CEEC summits bear compelling significance in their origin and operation. They not only express the seriousness with which Beijing is dealing with the situation but also the meeting schedule demonstrates the commitment of the parties involved.

The Chinese behavior in the CEEC group should be viewed as both pragmatic and proactive. Chinese behavior was proactive because it was the PRC who initiated the entire process of cooperation, and pragmatic because the emphasis is always on win-win cooperation and easy access to trade and investments. However, this cooperation faces many challenges, inwards and outwards the same mechanism.

In a situation where 16 nation states of Central and Eastern Europe with individual historical, social and economic backgrounds meet and schedule a cooperation mechanism with a “civilization state” such as China, progress is not always smooth. Even in the very short lifespan of only a few years, the “16+1” platform has triggered reluctance, concerns and sometimes discontent, both within and outside the group.

Even though regionally-led implementation of projects is less expensive and moves at a faster pace than traditional technical assistance from a global perspective, in order for China-CEEC cooperation to properly function every aspect of participation should be conducted through policy communication and the coordination of objectives.

While analyzing Chinese behavior in the region one point is vital: commercial exchange. Every diplomatic, political and economic approach the PRC has towards the region is just an extension of Beijing’s actual foreign policy: cooperation through mutual benefit and progress.

Last but not least, let us remind ourselves that the BRI makes China the only country in the world today with a clear long term plan for the rise of the global economy.

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The Baltic Sea Macro-Regional Transport Cluster as an Element of the Silk Road Economic Belt

Olga Nežerenko, Ott Koppel

Abstract

This article analyzes the opportunities of the Chinese initiative “One Belt, One Road”, for the development of the Baltic Sea macro-region (BSR), as a single transport cluster. One of the objectives of the initiative is to strengthen transport linkages from the Pacific Ocean to the Baltic Sea Region. Thus, the contemporary macro-regional approach to the development of EU macro-regions can provide an additional impulse to the creation of formal macro-regional inter-cooperation, via in this case, the project that will advance the transport infrastructure of the region. This study examines the situation of the railway sector in the BSR in the period 2004–2015, through hierarchical cluster analysis, to identify countries with similar trends in cargo flow turnover. Taking into account the favorable geographical position of Poland, its transport performance and advanced (in comparison to other Baltic Sea region countries) relations with China, it is concluded that Poland’s conditions are more suitable to promote economic integration with its closest neighbors – the Baltic countries – through the creation of formal macro-regional railway transport within the Rail Baltic project.

KEY WORDS:

Baltic Sea macro-region, “One Belt, One Road” initiative, Silk Road Economic Belt, transport routes

Introduction

The increasing role of Brazil, Russia, India, China and South Africa (the BRICS), especially that of Russia and China, is widely discussed as a key symptom of the changing patterns in the global economy. In 2013, China presented its grandiose initiative "One Belt, One Road" (OBOR), also known as the New Silk Road, which has acquired wide international coverage.

The initiative brings together China, Central Asia, Russia and Europe and offers them huge potential for economic development (State Council 2015). One of the five goals set by the Chinese government is to strengthen the global transport network, connecting China with other continents, their regions (including the Baltic Sea Region) and countries, boosting inter- and intraregional cooperation. The focus is on the elimination of transport bottlenecks, the development of trans-border transport infrastructure and the creation of new international corridors and multimodal hubs (State Council 2015; Summers 2016).

On the international arena, the economic and political expansion of China is seen as a specific diversification tool, which is still at the planning stage and can face many serious challenges along the way (European Council of Foreign Relations 2015; Qingguo 2015; Huang 2016; Sárvári and Szeidovitz 2016). Summers (2016) divides the positions of the international community towards China's intentions into two main categories: 1) OBOR is seen as an instrument for promoting China's geopolitical and diplomatic expansion through investment injections into stakeholders' economies in such a clever setting as to have control over them and their political choices; 2) OBOR is seen as a tool for China's economic and commercial expansion to new markets to benefit its industrial companies, and the promotion of the national currency yuan as the new regional currency.

However, the construction of the OBOR is less likely to meet obvious strategic resistance from the Central and Eastern European countries (CEECs) (Liu 2014) and especially of the Baltic countries, because it offers opportunities for boosting their economies through increasing demand

towards transport services, which strongly depend on international relations between the European Union (EU), Russia and China. Moreover, the last decade demonstrates that bilateral relations between the Baltic countries with strategic trade partners tend to be of a complex character. For example, politically premature decisions made by the Baltic countries in their bilateral relations with the biggest actors of Russia (in 2007) and China (the visits of the Dalai Lama to the Baltic countries) have resulted in freezing, or in some cases even crises in national business and transport activity (Koppel 2008; Bochra 2015). In addition to political issues, cyclical economic fluctuation affects the trade and transport activity of the whole region. Still, after seven post-global economic crisis years, the BSR failed to achieve its pre-crisis (2004-2006) indicators of transport sector performance.

Background

EU exports to China constituted 9.5% (imports 20.2%) of its total exchange volume in 2015 (European Commission 2017). All countries of the BSR are net importers of Chinese products. China's share in their import structures varies from 3% (in Lithuania) to 13% (in Denmark). Denmark, Poland and Norway can be considered as major trade partners in the region for China, their average imports from China were 11% and exports to China were 6% in 2015. Around 1% of all Latvian and Estonian exports go to China, and Lithuanian exports account for only 0.5% of its total export volume (World Bank 2017). These variations are driven from the specialization patterns of the different economies and reflect where their companies operate in global production chains.

Presently, maritime transport is still more competitive in cost and capacity in Baltic-Chinese mutual relations, but not in the delivery lead time. Chinese intentions to extend, within OBOR, railway connections (via its financial funds) to Europe will reduce its overdependence on sea transportation (Liu 2014) and cause a shift in the international transport modal split towards the railway transport mode.

The railway infrastructure of the CEECs has traditionally been underfinanced by the public sector and the opportunity to attract foreign direct investments from China for that purpose is seen as a tool for the reanimation of that transport sector, especially in the BSR. From 2010, the countries of the BSR have competed for a direct project with Chinese investors in the field of Transport and Logistics. As a result, in 2013, Chinese FDI inflows reached about 13.1 billion USD in CEECs, whereas the special place of Poland in Chinese foreign trade policy is justified by 1.6 billion USD invested to it (Jaroch 2016). At the moment, China has actively set bilateral agreements with some EU countries for opening a container train-line in these new directions:

- Suzhou-Manzhouli-Warsaw,
- Chengdu-Łódź,
- Zhengzhou-Hamburg,
- Beijing-Hamburg,
- Kunming-Rotterdam,
- Harbin-Hamburg,
- Yiwu-Madrid,
- Yiwu-Riga.

These routes allow delivery of goods via a distributional network to the point of destination, reducing Chinese dependence on maritime transport. In terms of competition for Chinese cargo, all of the routes compete with each other. However, they can be seen as the basis for further integration into the main routes of the Silk Road Economic Belt. The authors point out here that block trains between Europe and China are currently functioning more as an (informal) business initiative. Demand for the development of a regular block train is insufficient, and there also exists the problem of the lack of return trips from Europe to China (Islam et al. 2013). An essential component in the solution of these problems is the promotion and realization of intergovernmental (formal) cooperation around the macro-regional transport corridors.

The geographical coverage of this study is the BSR, which consists of Poland

(PL), the Baltic countries (Estonia - EE, Latvia - LV, Lithuania - LT), Nordic countries (Finland - FI, Sweden - SE, Norway - NO, and Denmark - DK), and Germany (GE). The territories of all these countries are covered by “old” and “planned” transport routes, which have been developed on the basis of macro-regional cooperation by national and intergovernmental initiatives. These initiatives can be presented as umbrella projects that cover countries randomly, regardless of the performance of the country’s transport sector, Logistics Performance Index, and involvement in the TEN-T corridors (Nežerenko and Koppel 2015).

This study uses the concept of a formal macro-regional transport cluster (Nežerenko, Koppel and Tuisk 2017; Nežerenko 2016), developed recently. The concept is intended to estimate the level of impact of the components of economic cycles on the demand for transport services in the macro-region (BSR), which helps to determine behavioral patterns of the transport sector at different stages of the economic cycle. Moreover, it helps to forecast development trends in the transport sector on the basis of its cyclical character, and to identify and eliminate potential bottlenecks in the sector that may obstruct its sustainable development. The concept raises the problem of the predominance of the business (informal) aspect of macro-regional cooperation.

The need to analyze the BSR as a macro-regional cluster is justified by the accuracy of the OBOR project and by the opportunity to create a formal macro-regional transport cluster, which can be promoted as an element of the OBOR’s Silk Road Economic Belt. Transport structure development in the BSR macro-region addresses not only a transport connection within the EU (between “old” and “new” member countries), but calls attention to the importance of Baltic Sea infrastructure development concerning the interconnectedness between the EU and its Eastern neighbors, particularly China and Russia, but also Belarus and Kazakhstan. The authors of the study suggest that the Chinese initiative can offer an impulse to the creation of formal macro-regional inter-cooperation, which would promote the development of the transport sector, revitalizing economic growth in the region. Due to involvement of governmental stakeholders in the process of international business cooperation, the scale of benefits expands, increasing its competitiveness in certain sectors on the global level (Nežerenko and Koppel 2015; Nežerenko, Koppel and Tuisk 2017).

Within the study, the authors set two research questions:

1. How can the Silk Road Economic Belt contribute to the economic and transport development of the BSR?
2. What is the effect of bilateral relations of the BSR countries with China on cohesion in the region?

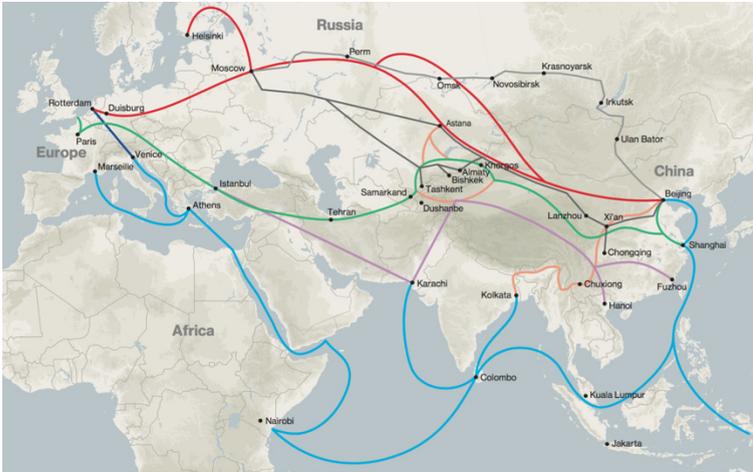
Scope of research

In strategic and ambitious infrastructure projects, the question of the priorities of the initiative arises. There are two approaches: the first is based on industrial activities that accelerate the development of new transport routes (demand-side impact). The second approach starts with large-scale infrastructure developments in order to attract future industrial and other activities (supply-side impact). The New Silk Road is based on the second approach, which has great potential to bring capital to the BSR, especially to the “new” member-states of the EU, like Poland and the Baltic countries, creating perfect conditions for positioning the region as an element in a global supply chain.

The OBOR initiative is comprehensive in its scope, tying together the coordination of national economic strategies, the elimination of barriers to international trade and investments, and financial cooperation. At the same time, efficiently functioning physical infrastructure is considered to be a cross-cutting element of the program (Huang 2016).

The OBOR consists of two parts: 1) the Silk Road Economic Belt is an inland transport route, which is based on the New Eurasian Continental Bridge and spreads from western China towards Europe and 2) the Maritime Silk Road is a maritime transport route which starts at the coastal area of China and links the country with Africa and Europe. The OBOR is not a completely new transport route grid; it includes both existing and new routes (see Figure 1).

Figure 1: Silk Road Routes



Source: Summers 2015

The Silk Road Economic Belt, which is in the scope of the study, consists of:

- The Northern corridor (Beijing – Moscow – Helsinki – Rotterdam),
- The Central corridor (Beijing – Shanghai – Rotterdam),
- The Southern corridor (Fuzhou – Hanoi – Istanbul),
- Railway routes (Silk Route trains and Trans-Siberian Railway).

China's investments into infrastructure projects (excluding private investors and lenders) in the coming years are expected to be about 300 billion USD (European Council of Foreign Relations 2015). There are two high-speed railroads planned as cross-border projects of the OBOR, known as the main routes, that will connect the Asian region with Europe (Huang 2016):

- The Eurasian High-speed Rail (starts from England (London), crosses the territories of France, Germany, Poland, Ukraine and Russia (Moscow), where it will separate into two branches, one of which goes to Kazakhstan and another, through Russia's Far East, to northeastern China);
- The Central Asian High-speed Rail (starts from northeastern China (Urumqi), crosses the territories of Uzbekistan, Turkmenistan, Iran, and Turkey, and arrives in Germany).

As mentioned previously, the OBOR initiative is in its starting stage, and the projects are planned for the long term. Its realization could take at least 35 years (European Council 2016) and the transportation routes will be adjusted not only because of the expansion of bilateral business relations but due to the development of transport infrastructure already planned (i.e. core-corridors of the EU) and the political decisions of key countries.

Within the scope of this study, the authors' concern relates to the development of land transport routes. It is necessary to shift the focus of the study to the South part of the BSR, which can offer rail connection within the Silk Road Economic Belt and integrate it into the EU core-network. From this perspective, the current share of international rail freight transport in Denmark, Finland and Norway is low, while Germany, Sweden, Poland and the Baltic Countries are located in key international transport corridors.

In order to develop the BSR as a gateway for traffic between Asia and Russia on one hand, and Europe on the other, it is vital to develop the present transport network in the BSR into a formal macro-regional cluster which depends on:

- The economic power/potential of a region.
- The development level of regional infrastructure.
- The region's positioning relative to core national and international transport corridors.

The basis of the cluster approach in the organization of the transport sector involves the promotion of cross-border cluster cooperation by intergovernmental institutions, i.e. the recent Chinese 16+1 Format. The next factor that would secure a balanced use of existing and potential capacity of the infrastructure of national transport systems, is the intensification of cooperation within international transport corridors of the region (TEN-T and Core network). Therefore, development of a single BSR transport cluster must be based on the corridor approach (Nežerenko 2016).

Taking into account the geographical scope of the study and the Silk Road Economic Belt, there are five major transportation corridors that cross the territory of the BSR and can be seen as secondary transportation arteries of the OBOR:

1. The Baltic-Adriatic Development Corridor – an intermodal corridor which runs from Scandinavia down to the Mediterranean region/ Adriatic. This corridor supports integrated spatial, economic and infra-structural development in a country-crossing manner, in the European context. The corridor countries are: Austria, the Czech Republic, Italy, Poland, and Slovakia.
2. The North Sea-Baltic Corridor – a railway corridor which stretches from the North Sea ports through Poland to the Belarus border, and to the Baltic countries as well as to Finland. The key project is Rail Baltic and the Tallinn–Helsinki tunnel, which will solve the problem connected with the large section of the 'Organisation for Co-operation between Railways' (OSJD) rail gauge being 1520 mm. The corridor countries are: Belgium, the Netherlands, Germany, Poland, Lithuania, Latvia, Estonia, and Finland.
3. The Pan-European Transport Corridor I: an intermodal corridor which runs from Poland to Finland and includes rail and road infrastructure. Corridor countries are: Finland, Estonia, Latvia, Lithuania, and Poland. Major projects within the corridor are: Via Baltica, Rail Baltic, and the Tallinn-Helsinki tunnel.
4. The Pan-European Transport Corridor IX: an intermodal corridor which provides the transportation of transit goods between ports located on the shores of the Baltic Sea, the Black Sea and the Caspian Sea. This transport corridor provides external links of the EU with Russia and Turkey (via connection with the Pan-European Transport Corridor IV). Countries involved in the corridor are: Greece, Romania, Moldova, Finland, Lithuania, Russia, Ukraine, and Belarus.
5. The East-West Transport Corridor II (EWTC II): an intermodal corridor which runs from Denmark to Belarus, Lithuania, Poland, Sweden, and Germany.

There are two main transport modes included into the abovementioned corridors – road and rail. The rail chain is of special importance due to two EU projects: TEN-T project, Rail Baltic, and the Tallinn-Helsinki tunnel, which allow five countries of the BSR (Poland, Lithuania, Latvia, Estonia, and Finland) to cooperate not only in terms of building new infrastructure (to eliminate their isolation from West Europe by building the European standard gauge 1435 mm), but also in intergovernmental/formal promotion of the corridor on the global level (Nežerenko and Koppel 2015).

Thus, a formal cluster (based on the sharing and promotion of one rail corridor) and an informal railway cluster (based on business cooperation and common projects with China) will evolve into a strong macro-cluster, providing a stable competitive position of the BSR in the global transport and logistics market. In addition, Chinese initiatives will contribute to the liquidation of the main bottlenecks of the BSR transport system, including the lack of public and private investment resources for the rail sector, and the dominant tendency of transport and logistics clusters to only form on a national level (Nežerenko 2016). Thus, the OBOR initiative fills in the gaps in the existing international economic architecture helping build infrastructure projects for the developing and developed countries.

Hierarchical cluster analysis of the BSR railway sector

The authors address the BSR transport sector on a macro-regional level as a single formal transport macro-regional cluster, studied as a geographical concentration of transport actors in the region. The cluster is characterized by (1) formal regulation on behalf of the EU within the European Union Strategy for the Baltic Sea Region (EUSBSR); (2) homogeneity in the development of physical infrastructure; (3) homogeneity in transport sector performance; and (4) similar behavioral patterns at different stages of the economic cycle (Nežerenko 2016).

In accordance with the model of a single formal transport macro-regional cluster, homogeneity within its members (countries) must be provided. Previous analysis by Nežerenko, Koppel and Tuisk (2017) confirms the presence of heterogeneity in different transport sectors. However, sea transport tends to be a strong macro-regional cluster of informal maritime transport, due to numerous projects realized by business stockholders under the umbrella of the EUSBSR, launched by Sweden in 2009.

Macro-regional clustering experience in railway and road transport within the most isolated East part of the region is insignificant (Nežerenko and Koppel 2015). Taking into account the transport routes promoted by the OBOR initiative, the focus of the research is on the rail transport sector.

The authors apply qualitative research methods based on the statistical analysis of secondary quantitative data collected from the International Transport Forum database. The main tool in the analysis of the BSR railway transport activity is hierarchical cluster analysis (HCA), conducted by means of the SPSS software using Ward's method as a criterion that minimizes the total within-cluster variance. HCA is a statistical method for finding relatively homogeneous clusters of cases on the basis of measured characteristics (Tan et al. 2006). The idea of hierarchical clustering lies in the identification of each object initially as a single cluster (or country). Then, in multiple iterations, the two nearest clusters are merged into a larger one (micro-cluster). After a few iterations, the algorithm reaches the final cluster structure (macro-cluster/BSR). Thus, the goal of the clustering algorithm is to join objects together into successively larger clusters, using some measure of similarity or distance (Burns and Burns 2008; Nežerenko, Koppel and Tuisk 2017). The results of the analysis are presented by a hierarchical tree diagram, called a dendrogram.

In the scope of the HCA conducted in the study, transport activity is presented in cargo turnover handled by railway (in tonne-km) between 2004 and 2015 (see Table 1). The period of time was divided into three sub-periods: 2004-2007 reflects the economic growth stage of the economic cycle, 2008-2009 represents the crisis stage, and 2010-2015 the recovery stage.

Table 1: International transport of goods by railway, million tonne-km, 2004-2015

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EE	9973	9892	9741	7267	5236	5350	5918	5491	4469	4012	2654	2603
LV	16397	17412	14798	16360	17370	14384	12885	21114	21495	19246	19125	18453
LT	10163	9033	9739	11414	11093	8798	10054	11447	10560	9698	10794	10537
DK	1649	1549	1633	1633	1747	1574	2075	2417	2107	2249	1788	2401
FI	2908	3099	3685	2853	3189	2731	2835	2598	2471	2968	3260	2621
NO	777	850	895	919	905	770	763	724	714	992	1022	1205
SE	7667	7547	7378	7569	7141	7213	8636	8415	7653	7605	7855	7291
GE	46478	46864	56484	60832	62390	46956	52788	54278	53739	53590	56241	55692
PL	15527	13961	16133	16919	15676	9580	11684	12925	14658	14685	14694	14277

Source: International Transport Forum 2016

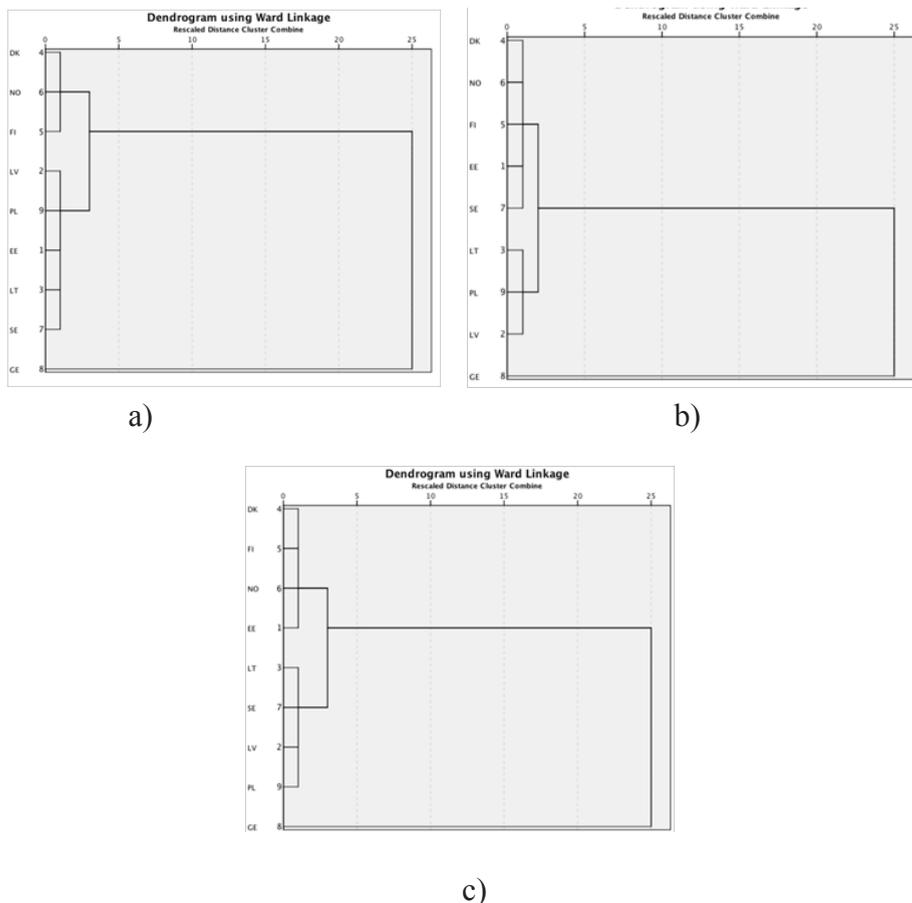
There are two limitations to the study: 1) the unavailability of statistical data on the origin of cargo flows via CEEC countries; 2) the lack of accurate statistical data on the transport performance of the northern parts of Poland and Germany. Only those parts of the countries are included in the BSR which conform to the definition given by the EC.

Results

Studies of Hätty and Hollmeier (2003), Bălan and Bălan (2010), and Franke and John (2011) confirm the cyclical character of the transport field. This cyclicity correlates with economic growth cycles measured by the gross domestic product. In the recent research of Nežerenko, Koppel and Tuisk (2017), this issue was specified and strong correlation was found between the GDP of the BSR and investments into road and rail infrastructures, as well as between imports and investments into rail and road infrastructure.

The purpose of the HCA was to identify the dynamics of the rail cargo turnover of the BSR countries and to compose so called micro-clusters consisting of countries with similarities in the dynamic development of the railway sector within three economic phases: economic growth (see Figure 2a), crisis (see Figure 2b), and recovery (see Figure 2c).

Figure 2: Dendrogram representing the formation of country clusters based on their railway transport flows during 2004-2007 (a), 2008-2009 (b), 2010-2015 (c)



During the economic growth period, Poland and the Baltic States composed a single micro-cluster and enjoyed the trade-creation effect (due to joining the European Union in 2004) via growing cargo flows of Russian export cargo and investments inflow.

At the beginning of the global economic crisis, Estonia left the cluster because of Bronze night and joined a more stable micro-cluster of Denmark, Finland, Norway, and Sweden. These countries had demonstrated relatively minor fluctuations despite the economic crisis unlike Estonia, which had already lost cargo because of the critical character of political decisions. In the post-crisis period, the biggest increase in cargo turnover (see Table 1) was demonstrated by the countries whose economies in

the crisis period were significantly weakened – Latvia and Lithuania who composed the micro-cluster with Poland and Sweden. Estonia was unable to recover its cargo turnover during 2010-2015 due to unfavorable relations with its largest transit ex-partner Russia. This fact confirms that the essence of bilateral relations is more important for the development of a strategically important sector for the country than economic fluctuations.

The development of physical infrastructure leads to the expansion of trade relations and to the intensification of countries' and regions' competitiveness. During China's reform period, the national investment program for infrastructure accelerated economic growth (Huang 2016). If investments inflow into rail infrastructure facilitates economic development, we can assume that Chinese financial funds can spread positive influence on the whole region via Poland. In addition to Poland's favorable geopolitical location (in the Eurasian Land Bridge), it is one of the driving force-countries in the Transport and Logistics sector in the region (Nežerenko and Koppel 2015).

Ketels and Pedersen (2016) report that the BSR is highly dependent on the global economy. They point out the following specific concerns for the Baltic Sea Region: 1) its weakening position in the world's exports and foreign direct investments markets since 2011 and 2) modest political action directed at enhancing long-term competitiveness of the region. Thus, economic policymakers need not only manage the current economic issues, but they also have to be ready for a possible slowing down of the economy in the future gaining from the advanced macro-regional economic cooperation.

The authors assume that a positive effect from the Chinese OBOR initiative can be derived if Estonia is in the same micro-cluster with Poland, Lithuania and Latvia. Positioned in the same micro-cluster and unified by common railway infrastructure, led by the driving force of Poland, the Baltic States will benefit from OBOR.

Conclusions

The authors conclude that the Chinese initiative will contribute to the liquidation of the main bottlenecks of the BSR transport system, such as the lack of investment resources for the rail sector and the absence of macro-cluster cooperation, providing favorable conditions for its sustainable economic development. Taking into account the favorable geographical position of Poland, its transport performance and its advanced relations with China, Poland has better conditions for the promotion of economic and transport integration with its closest neighbors – the Baltic countries. This cooperation must be based on the formation of the BSR transport cluster on the basis of the corridor approach, or within the Rail Baltic, to integrate it into the Silk Road Economic Belt as its secondary transportation artery.

Cohesion in the BSR can be achieved only at homogeneity in the cyclical development of the transport sector. The railway sector demonstrates the following important heterogeneities within the countries analyzed:

- Denmark, Finland and Norway form the most stable micro-cluster in terms of railway transport in all three economic periods. The demonstrated stability is not only based on their similar geographical location, but on the low share of international cargo in their rail freight transport as well.
- Germany, Sweden, Poland and the Baltic States are located in the key international transport corridors, and more fluctuations can be observed in the micro-cluster of Poland and the Baltic countries, especially the latter whose transport activity depends on transit demand.
- The railway transport of Latvia, Lithuania and Poland is the most vulnerable in the crisis period, also demonstrating the quickest recovery within the macro-region.

In order to stay in the same micro-cluster with Poland, the Baltic countries must exclude any premature political decisions that are highly likely to cause dramatic consequences for international transport activity.

Despite the fact that cargo turnover transported internationally by rail via the BSR is relatively low, it is obvious that the Rail Baltic corridor will make the region more attractive to Chinese investors and cargo. Due to the route of Rail Baltic and its potential for clustering freight traffic volumes, this corridor has great potential for developing cost-efficient services to China, offering better conditions and new delivery routes in addition to existing ones.

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Using Patent Development, Education Policy and Research and Development Expenditure Policy to Increase Technological Competitiveness of Small European Union Member States

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Abstract

The Chinese Belt and Road Initiative will open new trade routes between China and the European Union (EU) and increase competition pressures on smaller EU member states. This article ranks where states like Estonia stand internationally in terms of innovativeness (and consequent competitiveness) by conducting an econometric study of patent development, education policy and research and development (R&D) expenditure policy. The authors claim that small member states such as Estonia should follow the example of countries such as Germany and adopt policies which focus more on increased public spending on R&D and innovation in public universities of science and technology, and raise support for high tech startups with a strong focus on international patenting. Member States must go further and subsidise R&D activities by focusing, inter alia, on filing of foreign patents such as triadic patents.

KEY WORDS:

Chinese Belt and Road, Estonia, R&D, human capital, triadic patents, econometrics

Introduction

The Chinese Belt and Road Initiative will undoubtedly open new trade routes between China and the European Union (EU). As stated by Geiger (2016) it will reduce shipping times for Chinese goods and this will make them more competitive on the European market.

In order to understand the impact of the Chinese Belt and Road Initiative on the EU's economy, it is important to note that among EU member states there exist fundamental and structural economic differences. Index Mundi (2017) states that per capita incomes vary vastly and there are divergent national attitudes towards foreign trade, inflation, etc. According to Eurostat (2017) the Euro area accounted for more than 70 percent of the EU's gross domestic product (GDP) in 2015 in terms of purchasing power standards (PPS). Interestingly however, the economies of the five largest EU member states stood at 67.6 percent of the EU's GDP.

Drawing comparisons on the basis of PPS, one sees that in 2015 GDP in the 28 member states of the EU was ahead of that of the United States (US). However, although historically China has had a lower level of economic output than both the EU and the US, the situation is now different. This could be attributed to the rapid transformation and great expansion of the Chinese economy. Thus, in 2015 China's economic output exceeded that of the EU according to Eurostat (2017).

The rapidly growing and transforming Chinese economy (influenced by the policies of the Chinese State) has helped to convert it into an industrial giant. In 2015 China was the EU's top partner for imports and the EU was the second largest destination for all Chinese exports. EU-Chinese trade in goods saw a deficit of 180 billion euro. Trade was dominated by machinery and vehicles. Every member state (except for Germany and Finland) experienced a deficit with China according to Eurostat (2017). Thus, the impact of China's exports on small and medium sized EU member states (whose economies are predominantly based on low cost labour practices and their resulting advantages), is likely to be even more substantial once the Chinese Belt and Road Initiative becomes fully functional.

In order to overcome any underlying biases and to study the issue of competitiveness through the prism of objectivity and detachment, the authors want to study small EU member states like Estonia in the context of economic studies and particularly the utilisation of patents. The main research question of the paper is: how do investments in research and development (R&D) and education have specific effects on the competitiveness ranking of diverse EU member states, when compared internationally? Or, more specifically, the authors want to answer the questions: “What is the relationship between patent development, education policy and R&D expenditure policy when comparing small EU member states (with a focus on Estonia) with other countries which are members of the Organisation for Economic Co-operation and Development (OECD)?” And secondly, “How can the economies of small and medium sized EU member states escape any long term injurious consequences of the Chinese Belt and Road Initiative?” In this context, the authors want to understand and rank where small EU member states, like Estonia, stand internationally in terms of innovativeness (and consequent competitiveness). Next, the authors want to explore how such small EU member states can advance themselves by adopting a model of innovative growth, modeled after the most successful country in the EU (in terms of innovation and patenting). Finally, the authors will study the impact of Chinese economic trade in general, and the Chinese Belt and Road Initiative in particular, on the economies of small and medium sized EU member states. In doing so the authors will study how these states (especially Estonia) can prepare themselves to meet these challenges, and also transition from low wage and cost economies to highly innovative and competitive economies, by focusing on patent metrics.

Estonia as a case study of EU member states with small economies

Outside the top 5 EU economies (Germany, the United Kingdom, France, Italy and Spain), the picture of the economic and social setup of the remaining member states shows vast divergence. The authors have chosen Estonia for purposes of a case study. Estonia is a country situated in the

north west of the EU. It has had a chequered history and was, until less than 3 decades ago, part of the Soviet Union. Since the collapse of the Soviet Union, Estonia has worked hard to break free from its recent past. Estonia is currently a member of the EU, the Euro Zone, the North Atlantic Treaty Organisation, OECD, etc. The country has undoubtedly made significant progress since the 1990s and has made deep strides in new areas such as information technologies, eGovernance, etc. This has also made Estonia a role model for the countries of the Eastern Partnership (Kerikmäe and Chochia 2016). It has been often debated whether Estonia is a Baltic or Nordic state, or in the category of being developing or developed. There are as many views on this topic as there are people. According to Europa (2017) Estonia's GDP was at € 20.461 billion (2015) which is a small fraction of the GDP of the EU. In 2015, exports of goods from Estonia were approximately 11.6 billion euro, and imports were approximately 13.1 billion euro. Estonia's main trading partners were Finland, Sweden, Latvia and Germany. Almost 80 percent of total trade was with other EU member states. In 2015 exports from Estonia to EU countries was 8.7 billion euros. Imports from EU countries to Estonia were 10.8 billion euros. The Estonian Ministry of Foreign Affairs states that the main exports were machinery and equipment, wood (wood products), agricultural and food products, mineral products and miscellaneous manufactured articles.

Background history of innovation and competitiveness in Estonian society

The Estonian Patent Office provides the following information on its website, namely that it was established in 1919. The first Patent Act came into force in 1921 and focused on the protection of inventions, trademarks, patents, and models. Estonia joined the Paris Convention for the Protection of Industrial Property in 1924 and accepted all the rules and regulations conferred by the convention. Estonia also joined the Berne Convention for the Protection of Literary and Artistic Works in 1927. In 1937 a new Patent Act was adopted and came into force, together with the new Constitution in 1938. This act accepted the German patent system (Hoffmann and others 2012: 535-542). In the summer of 1940, after the occupation and annexation of the Republic of Estonia by the Soviet Union, the Patent Office was closed. After the end of World War Two Estonia was firmly in the clutches of the Soviet Union and communism.

In the late 1980s, Soviet President Mikhail Gorbachov introduced reforms under the banner of perestroika. Intellectual property rights (IPRs) in the Soviet Union were sought to be westernised in 1991, so that individuals, including corporations, could own IPRs, instead of the Soviet State which had enjoyed exclusive ownership previously. However, the Soviet Union disintegrated soon thereafter and several Soviet Republics declared their independence in the summer of 1991. Although the Russian republic subsequently adopted new patent laws which were similar to those of the European Patent Convention and American patent laws, the Baltic states including Estonia did not wish to have any association with the former Soviet states and tried to move ahead on their own. As the rest of the world had economically developed while the Soviet states had suffered economic stagnation during the last stages of the Soviet era, it was clearly visible that experience and resources which are associated with industrial revolutions were lacking (Pitta 1992: 499).

The Estonian Patent Office states on its website that it was re-established in December 1991. On 1 May 2004, the Republic of Estonia acceded to the EU. Before that, the Estonian legal system of industrial property protection was harmonized with the requirements of the EU. In addition to the Paris Convention for the Protection of Industrial Property, the Republic of Estonia is also member to various multilateral international treaties in the field of industrial property. Regarding the future, the Estonian Patent Office is focusing mostly on efficiency and integration with international patent systems, rather than taking on new, large projects of their own.

Literature review

When it comes to the realm of studying relationships between patent development, education policy and R&D expenditure policy, one can thankfully access detailed empirical literature in this field (Zhang 2011).

a. Measuring technological change in society with the use of patents

In today's modern paced societies, rapidly growing technologies, and especially fast evolving information and communications technologies, play a major role (Dutt and Kerikmäe 2014). One of the challenges with regard to patent data is as to how to utilise it as an information source for the purposes of measuring technological changes in society. It should be noted that almost all the available methods for measuring technological change are by their very nature an indirect measure of the process. There also exist heterogeneous metrics in this regard which can further complicate matters (de Rassenfosse and others 2013).

A patent can serve the twin objectives of being both a source of information of a technical nature and also as an indicator of technology. Some researchers have studied the relationship between technological change (as measured by patent statistics) and economic development, and have concluded that this can throw up some insightful observations about progress in society (Basberg 1987: 131). There is no doubt that patent statistics can be of great interest despite the difficulties which arise in their interpretation and usage (Griliches 1998). There has also been a greater integration of the university and industry sectors, where the emergence of intermediaries (incubators, science parks and technology transfer units) has led to increased knowledge and technology transfer (Kuttim 2016). This is of course distinguished from the relationship of trade and commerce with other types of IPRs such as trade marks, copyrights, etc., where the considerations (and outcomes) can be very different (Dobrin and Chochia 2016).

The analysis of the innovation process necessarily entails a deep study of the relationship between R&D, patents and productivity (Nyman-Metcalf and others 2014). Such analysis can help us in the assessment and consequent evaluation of the output, which is linked to our study. Of course the use of patent statistics is not accidental. Patent statistics can be reasonably assumed to serve as a reflection of activities of an inventive nature and consequently leading towards innovation. Another factor of significance is the fact that there is no dearth of copious data in this regard. Patent statistics, by their very nature, lend themselves well to the act of comparing a wide spectrum of, not just industries, but also nations. Necessarily, this would hinge upon the basic question regarding the uniformity of the patent systems in these countries, or the amount of

the uniform use of the patent system by the various industries which are to be compared against each other. One must not forget that an invention can very often be protected by using different techniques or facets of IP law (for instance by patenting the invention or simply maintaining it as a trade secret). Furthermore, the attitude towards the perceived utility of patents can also vary between different industrial sectors. When it comes to using patents for comparing countries, the principle of “like should be treated alike” is important. If diverse national patent institutions are not comparable amongst themselves in the first instance due to significant variances in practice or key legislative features, then to compare them may lead to faulty or invalid conclusions. In view of the above pitfalls, the use of patenting as a barometer for the observation and measurement of innovative processes must be undertaken carefully if it is to lead to substantial results (Basberg 1987: 132).

When it comes to considering whether patent filings or patents granted should be considered, then the former is preferred by some scholars on the grounds that different countries follow different criteria for patentability and also have different grant rates. Furthermore, patent offices are also known to undergo cycles of inefficiency which impact their “output” (de Rassenfosse and van Pottelsberghe de la Potterie 2009: 783).

It should be noted that there exists a factor known as technological specialisation. It is obvious that different industries will have different propensities towards patenting. Hence, if a country exhibits preferences for a particular set of technological specialisations then that may have an impact on the observed number of patent filings (de Rassenfosse and van Pottelsberghe de la Potterie 2009: 788).

Patenting has been successfully related in many models to the development phase as an output of R&D activity. A positive relationship between R&D and patenting has been the subject matter of various empirical studies (Basberg 1987: 133).

There exists a belief among some scholars that patent counts are reflective of a propensity to patent rather than being a variation in performance on an innovative level. Therefore in order to fully comprehend and decode the variations of patenting performance across national boundaries,

would require a keen grasp of the varied factors that affect research productivity as well as the propensity towards patenting (de Rassenfosse and van Pottelsberghe de la Potterie 2009: 779). Different periods and fluctuations often also impact the economy (Männasoo and Meriküll 2014; 2011).

b. Studying research productivity or patent propensity

Empirical results show that in order to determine the number of patents per researcher one must study the twin components of productivity and propensity, which in turn are influenced by the manner in which education, intellectual property and science and technology policies, are designed.

Research productivity

The conundrum of measuring research productivity is hard to solve, especially since the codification of a researcher's output is, by its very nature, intangible and not codified in a systematic manner.

i. One way of studying this problem has been forwarded by researchers such as Griliches, who has simplified the innovation process in order to measure the ultimate impact of innovative activity in terms of profitability or total factor productivity growth. However, such a study does not rely on a direct measure of the output obtained through innovative means, and is therefore inherently disadvantageous (de Rassenfosse and van Pottelsberghe de la Potterie 2009: 780).

During the course of his seminal work on this subject in the 1950s, Griliches noted that thanks to ever increasing funding by public and/or private bodies, expenditure on R&D has grown at a rapid rate. However, it is not easy to judge in a quantitative manner what the results of such investments have been. An attempt to estimate the realised social rate of return on funding of hybrid-corn research in the 1950s showed some interesting results (Griliches 1958: 419).

Griliches determined that calculation of such a "rate of return" has been shown to be very similar to an approach based on the benefit-cost ratio

method (Griliches 1958: 424). Furthermore, he devised that the rate of return of a successful innovation is calculated best if divided into two components: namely, in the first instance, the calculation of the rate of return if the development turns out to be a success and secondly, the calculation of the probability that it will be successful (Griliches 1958: 427). He stated that there is also the notion that there exists a difference between social and private rates of return, which must be adequately calculated in order to argue whether public investments trump private investments in R&D or vice versa. For instance, in the field of hybrid-corn development, it was shown that the incentive for participation by private actors was restricted, since getting patents for the valuable ideas in this area was difficult, the short lifespan of the patents was a problem and the difficulties in procuring long term monopolies in this field were very high. Hence the social rate of return (as calculated) overshadowed the return on private investments in this sector. On the other hand, when nylon is studied as an example, then the private profits of its creator, DuPont, although not on par with the social returns, were nonetheless high enough to encourage the private sector to fund the R&D of nylon (Griliches 1958: 430).

Griliches continued this line of research into the 1960s, where he determined that there existed different ways to measure output of R&D. The "output" based on returns was further studied in later research, where an estimation of the aggregate agricultural production function based on US data, covering some years between 1949 up to 1959, to show the significance of education as a factor affecting output, indicated that public expenditures on agricultural research and extension (the dissemination of research results) affected the level of agricultural output significantly, resulting in a very high social rate of return. This study result was achieved by estimating an unrestricted production function of the Cobb-Douglas type, using separate variables for five major input categories plus a measure of education per worker and a measure of public expenditures on research and extension per farm, into the estimating equation. Studies such as these have served to define and measure different variables to show the contribution of public expenditures on agricultural research and on the dissemination of its results on the level of agricultural productivity (Griliches 1964: 961 – 962, 965).

One of the calculations in the above study found a very high gross rate of return of 1300 percent for social investment in agricultural research and extension (Griliches 1964: 968).

In the 1970s, Griliches deduced that productivity and its growth can be discussed in the context of a "production function" (Griliches 1979: 93). He showed that the measurement of "output" in research and development intensive industries is affected by the fact that the products or services of those industries are themselves often measured inaccurately. Thus, for example, in the field of space exploration output is measured by mandays and expenditures on equipment and is not affected by success as such (Griliches 1979: 96). Furthermore, he stated that the measurement of research and development "capital" is in turn affected by the lag (i.e., the time, often in terms of years, taken by the R&D process). Also of interest is the fact that past R&D investments can be subject to depreciation and obsolescence. And very often knowledge from other sectors or industries is often borrowed or stolen. Thus one can see that the results of investments into R&D are very often not observable in direct terms. Thus it could be considered that R&D capital is something which can be viewed as an input measure (Griliches 1979: 100).

Calculation of relative returns to basic versus applied research, similarities/differences between publicly and privately financed R&D, measurement of the spillover effects of public R&D spending, and the differences between economies of scale and productivity growth induced by R&D are also of relevance (Griliches 1979: 109). He emphasised that questions also arise about the functional form of the production function, namely whether the different types of research are substitutes (where inputs are added together) or complements (where inputs are considered separately) (Griliches 1979: 110).

ii. A second approach is through reliance on innovation surveys in order to attempt to measure the output as a consequential share of a new or improved product or process innovation. The renaissance of manufacturing and re-industrialization on the Western economic agenda highlights the industrial sector as a special source of innovation and new product development, especially in the context of Industry 4.0 and smart factories, since industry generates 80% of the EU's private innovations

and 75% of its exports (Prause 2015). Consequently, the assessment and benchmarking of innovation outputs will play an increasingly important role for smart manufacturing.

iii. Thirdly, patent based metrics have been used as an indicator. Studying patents often results in interesting outcomes since such a study is theoretically based on the view that effective research results in inventions, being an offshoot of the “productivity effect”. In turn, such inventions could potentially lead towards patents if there exists, within the system, a propensity to patent. However one must be cautious about this approach since regarding research efforts as “inputs” into the invention production function, and viewing patents as necessarily being the “output”, is often subject to empirical complexity, especially when one tries to separate the component of propensity to patent, from the component of research productivity (de Rassenfosse and van Pottelsberghe de la Potterie 2009: 780).

Propensity to patent

This is often determined by IP policy design. A classic example of this would be the fact that what is a patentable subject matter can often depend upon jurisdiction. Thus, certain technologies are unpatentable in Europe (eg. software alone without any technical effect, or certain gene related inventions) while on the other hand in the US the Supreme Court held in the *Diamond v. Chakrabarty* case that a large variety of inventions are patentable under the doctrine of “*anything under the sun made by man*”. Furthermore, Science & Technology policies influence institutions by determining whether their research is funded publicly or through private means, and/or whether they indulge in basic versus applied research. Thus the propensity to patent is affected if publicly funded basic research is oriented towards publications while business funded applied research and development is aimed towards the effective use of patented inventions. On the other hand, research productivity could also be affected by factors such as a high level of education in a country, since this is perceived as resulting in increased productivity of research activities, being an offshoot of stronger values of creativity, markedly improved skill sets or an increase in the overall capabilities to absorb new and trending technologies (de Rassenfosse and van Pottelsberghe de la Potterie 2009: 781).

c. *Accounting for secret inventions which are not patented*

It should be noted that not all inventions end up being patented. This is an issue which can depend not only upon the particularities of the sector being studied but also the point of time when the investigation is undertaken. Thus, an invention can be protected either openly (by the use of the patent system) or secretly. This may be the case because the invention is not patentable itself due to specific legal considerations under patent law. Furthermore, there could be a variance in patent laws of different countries, despite the TRIPS agreement. Further new technologies (and inventions thereunder) - such as microelectronics or bio-technology - may be subject to ambiguity regarding factors such as novelty, inventive step and industrial applicability, which would therefore affect their chances of patentability (Basberg 1987: 133).

In view of the above, it is easy to see why some inventors prefer to maintain secrecy in respect to their inventions. Economic expectations can also play a role in this regard. If the process of patenting is deemed to be too expensive or the expected income in the form of sales, royalties, etc. are tinged with uncertainty or far less than the costs involved, then the incentive to patent would be lacking. Another reason which should be considered is that in certain cases a competitor may easily "invent around" the patent. Hence, a patent may only be successful in delaying an imitation of the invention by a short period of a few months, thereby rendering infructuous the option of patenting itself. The expected economic life of an invention also invariably plays a role in deciding whether the owner should go in for patenting or to maintain it as a trade secret. If the economic life of the invention is expected to last for longer than 20 years (the span of a patent) then obtaining a patent would not be a rational choice. Furthermore, in the case of new fields such as microelectronics, an invention gravitates towards obsolescence even before the patent application has proceeded towards being granted. In both cases maintaining secrecy thus becomes the preferred route in respect of protecting the invention (Basberg 1987: 134).

Recently, the importance of innovation communities for contemporary innovation management has grown due to increasingly complex, fast and interactive innovation needs, which requires the connection of

external and internal knowledge bases (Prause and Thurner 2014). The phenomenon of “user-driven innovation” has to be taken into account as well. In contrast to the traditional practice that companies maintain their proper research facilities developing patentable innovation (or, in practice even more importantly, that they refer that to their pool of employees), “user-driven innovation” practices access the abundant consumer-related knowledge pooled among consumers themselves. Consumers can be integrated into the innovation process mainly via information technology (Web 2.0) in the form of online communities. Consumers contribute in the form of comments, feedback or recommendations, to the company’s profit, and “related topics like the protection of IPRs and the participation of user innovators in additionally generated company profits have recently been a major issue in the field of employee’s inventions and non-affiliated private innovation contributions of any kind” (Hoffmann and Prause 2015: 134).

d. The value of foreign patents

There are many pros when it comes to studying patents which have been filed abroad. On the one hand this could have obvious implications for a business strategy which covers export markets (existing or potential). Licensing terms (in the context of production of goods) very often requires the contractual precondition of having a patent dealing with that particular product or process of manufacturing. More interestingly in our study, foreign patents serve the utility of being good indicators of technology. They are generally of a higher quality than domestically filed patents. In fact, one could even draw the conclusion that only those inventions which fulfill the criteria of high profit returns (or reasonable expectations thereof) are patented abroad. This would be necessarily so because of the time, effort and money spent on obtaining such patents (Basberg 1987: 136).

An important dependent variable is the number of patents filed and in which jurisdiction they are filed. Thus, the number of patents filed by the applicants from one country is sought to be utilised as a proxy for measuring the innovative performance of that country as a whole. This step requires careful choosing of the place of application for a patent. It would be usual for an Estonian applicant to apply for a patent in Estonia.

This is known as a “home bias”. Reliance on such a patent filing in Estonia is fraught with questions about its true value. Usually most studies are aimed at investigating patents filed either at the European Patent Office (EPO) or the United States Patent and Trade marks Office (USPTO), since they are perceived to be high quality patent applications with a higher market value. It should also be noted that patents filed there are subject to higher fees and translation costs. Hence the presumption that only the most valuable patents would be filed there. However, American or European patent applicants would have a higher propensity to file their respective patent applications in the USPTO or EPO, which would mean that their “home bias” is likely to skew the international comparisons which our study hopes to analyse. One way forward, as suggested by the OECD, is to utilise triadic patent families. These include only the patents that were filed simultaneously at the USPTO, EPO and the Japan Patent Office (JPO), and are thus a reliable measure of a perceived global protection strategy on the part of their applicants. The OECD database provides adequate and readily available coverage on such patent applications. Since they are translated and prosecuted in three different systems they are considered to be of high value and less susceptible to any potentially damaging “home bias” (de Rassenfosse and van Pottelsberghe de la Potterie 2009: 782).

In recent years, due to the availability of data, triadic patent families are being seen as especially useful for measuring patent data and drawing comparisons between different countries. By comparing multinational patenting activities in a third country, it is possible to delete those factors arising due to different national legislations, which cause difficulties concerning patents and their treatment thereof (Basberg 1987: 136).

Development of the Model

The empirical model chosen by the authors builds on the R&D based growth model of Romer (Romer 1990). As Romer emphasizes, all types of knowledge share one essential feature: they are nonrival. Although all knowledge is nonrival, it is heterogeneous along a second dimension:

excludibility. His model states that technology changes and this affects growth. Technology changes because people take recourse to actions intentionally as a response to incentives posed by the market. Replication of the designs for new products incur no additional costs.

The final output is produced according to a Cobb-Douglas production function which exhibits increasing returns to scale in all three inputs (because of the nonrivalrous nature of ideas):

$$Y_t = K_t^\alpha (A_t L_{Yt})^{1-\alpha} \quad (1)$$

Where K is the capital, A is technology, L is labour. Capital accumulation as in the Sodel:

$$\dot{K}_t = s_K \dot{Y}_t - \delta K_t \quad (2)$$

Where δ is the depreciation rate and labour input grows at a constant rate $g(L) = ng(L) = n$. Labour is divided into production L_Y and R&D L_A . Romer assumes that the growth rate of new ideas is proportional to the number of people trying to discover new ideas:

$$\dot{A} = \bar{\delta} L_A$$

Where $\bar{\delta}$ is the rate at which new ideas are discovered.

This model shows that to achieve perpetual economic growth, countries must focus on spending time, effort and money on activities such as R&D. Human capital investment is also very essential.

Selection of data

Patent data is obtained from the OECD database on Patents by Technology. This paper studies the role of education and R&D on patents for a group of 26 countries that are members of OECD for years 1990-2015.

Countries studied are Estonia, Latvia, Finland, Sweden, Norway, Denmark, Germany, France, Italy, the United Kingdom, Luxembourg, Austria, Belgium, the Czech Republic, Greece, Hungary, Iceland, Ireland, the Netherlands, Poland, Portugal, the Slovak republic, Slovenia, Spain, Switzerland and Turkey. Some data concerning China has also been collected. The study mainly focuses on the triadic patent with priority date, which is the indicator for assessing technological strengths of nations. Triadic patents are those patents registered in the triad regions, i.e. in North America, Europe, and Asia with "priority date" where priority date means that when a first application is submitted in a country – the priority – is then extended to other offices.

The definition of the triadic patent family as per the OECD is "*A patent family: the same invention in order to be protected is registered in various countries as a set of patents. Triadic patent families are a set of patents registered in the EPO, the JPO and the USPTO. Numbers and per million inhabitants express triadic patent families.*"

The authors have a panel data. This can also be called longitudinal data or cross sectional time series data. This is data where multiple cases (for example people, countries, etc.) can be observed in different time periods (two or more in number). The information contained in such kind of data is of two types. The differences between the subjects are shown in the cross-sectional information. The time series are shown in the changes that occur within subjects over a period of time. With the help of panel data regression techniques one can take advantage of these various forms of information.

In this paper, the variables the authors are interested in are: the number of patents for each country "oecd_pat" which represent the dependent variable in our final model; the population level "pop"; the education level mainly as tertiary education expressed in thousands "ed3_1000", and as per cent "ed3_pcent" as an indicator for education policy and highest level of education completed by each person; the expenditure for each country in R&D (in thousands and per cent) as gross domestic expenditure on R&D "rd_mpps", and as a percentage of GDP "rd_gdp"; and the expenditure for R&D personnel total "rd_per_tot", and only personnel researchers "rd_per_re".

The patent stock “stock_pat” is computed using 5 percent, 10 percent and 15 percent depreciation rate (“stock5_pat”, “stock10_pat”, “stock15_pat”) and not using 20 percent as suggested in the literature. The patent stock for subsequent years – after the initial patent stock – is calculated using the formula $Ps_t = P_t + (1 - \delta)Ps_{t-1}$ from 1990 to 2015 (1990 is the initial year). Descriptive statistics are presented in Table 1.

Table 1: Descriptive statistics

Variables	Estonia				Germany				OECD countries			
	Mean	S.D.	Min	Max	Mean	S.D.	Min	Max	Mean	S.D.	Min	Max
oecd_pat	2.37	2.09	0	7.11	5536.72	1392.88	1912.93	7637.78	572.01	1195.42	0	7637.78
ed3_1000	253.68	16.16	227.4	273.4	11613.83	650.08	10761.1	12563.7	2797.23	3459.43	33.3	13716.40
Ed3_pcent	29.93	2.40	26.4	33.3	22.5	1.80	20.1	25.2	23.83	7.22	8.4	39.60
rd_mpps	219.68	124.61	69.40	457.43	53934.15	10037.73	41015.75	71842.57	9068.56	13733.64	56.45	71842.57
rd_gdp	1.17	0.53	0.57	2.31	2.45	0.24	2.13	2.87	1.59	0.83	0.33	3.91
rd_per_tot	8444.69	1490.08	6531	10284	755525.5	82501.59	664731	860842	114287.6	145783.1	2180	860842
Re_per_re	6145.69	1242.58	4458	7646	46616.3	62659.83	397130	549283	73047.12	84862.04	1321	549283
Stock_pat	20.57	18.24	0	54.46	65143.02	41412.44	4132.85	127344.6	6619.41	16455.15	0	127344.6
Stock5_pat	15.32	13.32	0	38.92	36058.28	17189.79	3926.21	54096	4405.49	9250.50	0	54096
Stock10_pat	12.30	10.11	0	29.68	35979.05	17244.98	3719.57	54070.88	3668.92	8435.31	0	54070.88
Stock15_pat	10.15	7.99	0	23.60	28350.38	12167.23	3512.92	40944.64	2896.96	6504.78	0	40944.64

Notes: OECD Dataset 2015

Research Design (or empirical analysis)

The estimation of innovation has been carried out using a fixed-effects estimator. The fixed-effects (FE) regression analysis accounts for country fixed effects. It brings forth consistent estimators of the coefficients. It assumes that the intercepts change along with the countries. The model used is the following:

$$\log \dot{P}_{i,t} = \beta_0 + \alpha \ln H_{i,t} + \beta_1 \ln R_{i,t} + \gamma \ln SP_{i,t} + \varepsilon_{i,t}$$

Where $\log \dot{P}$ is the level of patents, $\log H$ is the level of tertiary education, $\log R$ represents the R&D and $\ln SP$ is the stock of patents. The subscripts i,t refer to country and time level.

The authors pooled the above data to estimate the fixed effect model. In addition, the authors present results using the linear regression model and random effect model (RE). The authors test their models by the Hausman test and the significance of the p-value shows them that the model they should prefer is the FE model. Results of the authors' estimations are presented in Table 2. The authors also proceeded to estimate the level for the variables that are described in columns 1-3, while the relative values for the variables are presented in column 4 and column 5.

Results

In this section the authors present their results for the panel regression of 26 countries that are members of the OECD, for the years 1990 - 2015. The authors estimate the linear regression model, FE and RE models, using for the "variables in level" and "relative variables". The main variables the authors are interested in are the level of tertiary education, the R&D and stock of patents and how they affect our dependent variable "oecd_pat". The education level is strongly significant but with a negative effect on the number of patents.

The covariate related to R&D shows a positive coefficient that is what the authors expect from their study: they interpret this result as the more R&D and innovation there is in a country, the more patents the country has. The level of stock patents shows a negative coefficient and are also not statistically significant. The goodness-of-fit is expressed by R-squared for the overall model, within and between countries, and tell the authors how the model is good to explain their prediction.

From the authors' study, the R-squared is quite low and this means that the model is poor at explaining the number of patents. However, the overall R-squared and between R-squared are quite high (0.47 and 0.59). The authors interpret these results as the most obvious explanation: bigger countries invest more and then they have more patents.

The authors can also add that the education level, mainly tertiary education level, has a negative impact on the number of patents as they can see from the negative value of their estimations, while R&D shows a positive coefficient. The authors' conclusion about those values can be related to the increase of the number of students in universities during the last decades.

The authors proceeded to test their FE and RE models by the Hausman test and as they already mentioned, p-value is significant so they reject the null hypothesis that it is related to using the random effect model (Prob > chi2 = 0.0000).

Table 2: Estimations for level and relative variables

Variables	OLS (1)	FE (2)	RE (3)	FE (4)	RE (5)
Education level	-0.605*** (0.087)	-1.585*** (0.359)	-0.566** (0.200)	-1.477** (0.521)	-0.347** (0.139)
R&D	1.667*** (0.084)	0.727** (0.240)	1.417*** (0.180)	0.730* (0.380)	-0.000 (1.124)
Stock patent depreciated 5%	0.000** (0.000)	-0.000** (0.000)	0.000 (0.000)	-0.280 (0.379)	0.911*** (0.041)
Constant	- 4.761*** (0.374)	10.551*** (2.016)	-3.018** (0.921)	-9.923* (4.760)	-2.124** (0.704)
R2 (overall)	0.88	0.46	0.88	0.47	0.90
R2 within	----	0.17	0.00	0.10	0.03
R2 between	----	0.50	0.93	0.59	0.99
N. obs	215	215	215	222	222

Notes: * 10%, ** 5%, *** 1% level. Level variables are in columns (1)-(3) while relative variables are in columns (4)-(5)

The paper shows graphically the number of patents for all countries (Fig. 1) and for each country (Fig. 2). The highest number of patents belong to Germany, France, United Kingdom and Sweden.

For the purpose of the authors' study which focuses on small member states such as Estonia, it is visible how the number of patents is quite low, but Estonia is on the bottom of the graph with other European countries such as Finland, Italy, or Luxembourg for example.

Analysis

Education is strongly significant but negative. R&D and the stock of patents are both significant and positive as expected. Overall r-squared is very high. Between is also incredibly high (maybe because countries are just too different). R-squared within is incredibly low (when making countries comparable, the model is poor at explaining the number of patents). This suggests that the model is good at explaining the obvious: bigger countries invest more, and then have more patents.

Prior belief with the pooled model: more education leads to more patents. More R&D leads to more patents. But data analysis shows that more education leads to less patents (educ coef is -2.42392 , 0.002 in table is significant). One possible explanation is that there has been an expansion in the number of students in universities, and more are studying soft sciences. 50 years ago access to universities was restricted. Now everyone can access higher education. Therefore there is need to improve the quality of science taught in universities.

To have more patents (especially for high quality inventions) small member states such as Estonia need a university education system which leads to inventions which lead to patents. Quality of education matters. Patent acquisition assistance and guidance is needed – especially from a comparative perspective, in which the Baltic States and further East face an urgent need from various perspectives, as outlined by Hoffmann (2014). The data analysis shows that in the Baltics plus Finland, the bigger share of spending on R&D is good for patents. Of course, already having a stock of patents makes it easier to get more patents.

As has been stated by some scholars, a higher level of education can theoretically mean that more productive researchers are created. That same study also indicates that assessment of relative innovation performances of countries can be better assumed when one takes into account international patent filings. Another key feature is to focus on issues related to technological specialisation, since the propensity to patent varies on the type of industry. There is no denying that education policies contribute towards generating high quality researchers and equally high quality productivity. This is a result of the positive impact of the human capital index (Gaetan de Rassenfosse and Bruno Potterie 2009).

When one looks at the dismal situation in Estonia with regard to triadic patenting activities, it is apparent that international patenting activities need a push to prevent R&D and the economy from languishing/stagnation. The ranking system developed by the authors shows that Estonia is at the bottom as far as triadic patents are concerned. To corroborate the findings in the authors' present study, one can look at the recently published Industry Level Analysis Report, dated October 2016, compiled by the EPO and EUIPO. Chapter 7.4 reveals Member State by Member State analysis. Table 37 reveals that Estonia is ranked 22nd out of 28 countries when it comes to patent filings. This is marginally better than what the present study shows about Estonian triadic patent filings. There are no surprises that Germany occupies the first place for patents, trade marks and designs, followed by France, the Netherlands, the UK, etc. As the Report acknowledges that large countries tend to have more IPR filings, the table also shows IPR filings per 1000 employees. Estonia fares at 0.06 patents per 1000 employees in contrast with Germany which has 0.68 patents per 1000 employees.

This raises the question as to what exactly is going on within Estonia. On the one hand, it is easy to discredit the present research by stating that Estonia is a small country and more reliance should be placed upon per capita numbers. However, the triadic research data indicates that bigger (and richer) countries such as Denmark, Finland, Norway, Luxembourg, Belgium, etc. are similarly ranked as Estonia in this regard. So perhaps it is not a question of size or wealth, but rather some other characteristics.

This has been the question of several research projects conducted locally within Estonia, who seem to indicate the following:

a. Some Estonian researchers blame this sorry state of affairs regarding patenting activities in general in Estonia upon the legacy of the occupation by the Soviet Union. Since Independence Estonia has adopted a liberal stance but is saddled by a poor economy which cannot afford to support startups (especially technology based startups) as vigorously as neighbouring Western countries. Furthermore, in small countries like Estonia, IPR is perceived as a barrier to internationalisation or as a blocker for constraining competitors while its role as a supporter towards the market and knowledge leverage is grudgingly acknowledged. The use of clever business models (as adopted by Skype, etc.) and a happy combination based very often on luck is seen as the path forward (Mets and others 2010: 387, 388 and 393).

b. Interesting research based on case studies further revealed that while a few Estonian startups do make heavy use of IPR protection, this is rare and is affected by local attitudes within businesses towards a lack of flexible IPR reward regimes, being based more on rigid imperative legal norms instead of contractual arrangements with the employed scientists and engineers (Mets and Kelli 2013: 101-103).

c. Other researchers have shown Estonian statistical data points towards the fact that Estonian entrepreneurs, as a rule, tend to be SMEs in low-tech sectors. This is also a key reason why the level of patenting by Estonian entrepreneurs is generally low and the focus tends to be more towards protecting proprietary knowledge by using inefficient trade secrets. This approach, in turn, is harmed by the trade secrecy protection strategies adopted by Estonian businesses (Kelli and others 2010: 318, 322-324).

Conclusion

Countries like Estonia have very small economies and mostly trade in

goods. In 2016, Statistics Estonia states that Estonian exports were mainly of electrical equipment, wood, agricultural and food products. Small EU member states such as Estonia and also medium EU member states, need to shift focus towards high technology services and new areas of Information and Communication Technology (ICT) and software applications. The policy implications that one can draw are similar to those stated by other researchers (de Rassenfosse and van Pottelsberghe de la Potterie 2009: 788), namely:

a. Small member states such as Estonia and also medium sized EU Member States should adopt a more coordinated approach when it comes to influencing researchers and their productivity vis-a-vis the propensity to patent, especially in high technology areas.

b. In view of the high costs incurred to acquire international patents (especially triadic patents), the governments of small and medium sized Member States should look towards ways to reduce the cost burden on their companies (especially start ups).

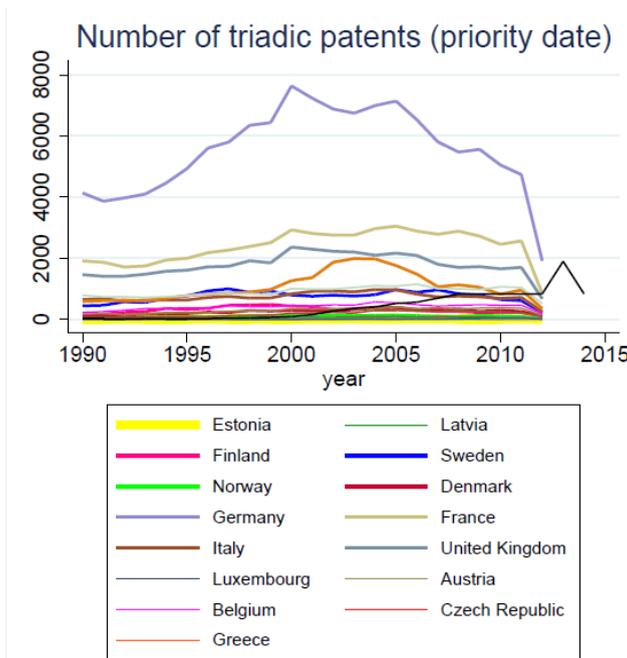
c. The triadic patent statistics provided by OECD are the least biased indicators of innovation performances and help in deducing international comparisons easily. Furthermore, the authors claim that small member states such as Estonia and also medium sized member states, should follow the example of countries such as Germany and adopt policies which focus more on increased public spending on R&D and innovation in public universities of science and technology, and raise support for high tech startups. In this connection one could see details of Project Management Jülich which is one of the leading project management agencies in Germany, which integrates national and European funding measures with the aim of enhancing Germany's competitiveness as a prime location for research and innovation in the common European Research Area. It allocated € 1.41 billion of funding during the 2015 financial year.

China is increasingly catching up with the West in regards to research, development and innovation, as well as international patenting. Chinese domestic laws are fully WTO compliant and are rapidly assuming a global influence (Hoffmann and Wang 2016). Furthermore, the trade deficit

between China and the EU is growing rapidly in respect of goods, but not in respect of services according to Eurostat. If the markets of small and medium sized Member States fail to allocate sufficient resources towards generation of knowledge because their start-ups are financially unable to establish or defend/enforce their IPRs, then it becomes a classic case of the private rate of return to innovation becoming less than the the social return, which would then imply that the governments of such Member States must go further and subsidise R&D, especially in public universities and university spin-offs (Pessoa 2005). This would be the only way for member states such as Estonia to become proficient in high technology applications and ICT services, thereby avoiding becoming economically irrelevant. This is especially important since they cannot possibly hope to compete economically against the flood of more competitively priced Chinese goods imported into the EU (which to a certain extent still depend upon cheap labour and are mass produced) thanks to, among others, the Chinese Belt and Road Initiative.

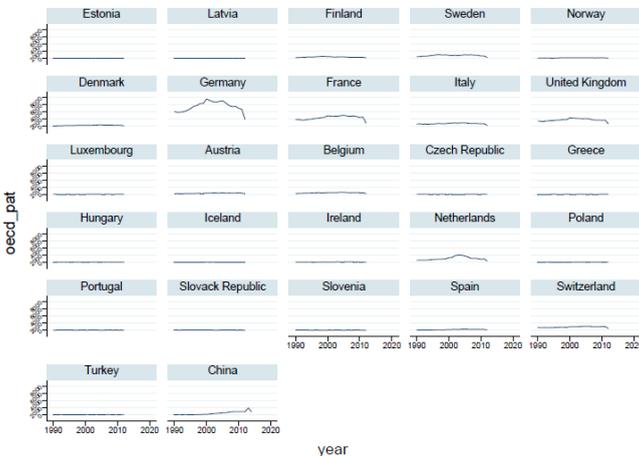
ANNEXES:

Figure 1: The number of triadic patents for all countries together. Note the colours in the graph:



1. Estonia: Yellow	15. Greece: Orange red
2. Latvia: Green	16. Hungary: Navy
3. Finland: Pink	17. Iceland: Sand
4. Sweden: Blue	18. Ireland: Forest green
5. Norway: Lime	19. Netherlands: Dark orange
6. Denmark: Cranberry	20. Poland: Teal
7. Germany: Lavender	21. Portugal: Cranberry
8. France: Khaki	22. Slovak Republic: Lavender (not visible because low part of the graph)
9. Italy: Sienna	23. Slovenia: Khaki (idem as Slovak)
10. United Kingdom: emidblue	24. Spain: Sienna (same as 23 and 24)
11. Luxembourg: Navy8	25. Switzerland: Olive teal
12. Austria: Brown	26. Turkey: Emerald
13. Belgium: Magenta	27. China: Black
14. Czech Republic: Red	

Figure 2: The number of triadic patents for all countries individually



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Discussion Papers

The Security Challenges of the “One Belt, One Road” Initiative and China’s Choices

Liu Haiquan

Abstract

The Silk Road Economic Belt and the 21st Century Maritime Silk Road initiatives (“One Belt, One Road”) are of significance in enhancing China’s open economy. This article explores the dual security challenges faced by the “One Belt, One Road” initiative. These challenges include both traditional security challenges, such as great power competition, territorial and island disputes, and political turmoil in the region, as well as non-traditional threats such as terrorism, piracy, and transnational organized crime. This article analyzes the present situation of security cooperation in the region covered by “One Belt, One Road” and also suggests that China needs to pay special attention to three issues, namely the supply of public security goods, the interests of the United States and Russia, and the pivot of Pakistan, besides developing its own strength.

KEY WORDS:

“One Belt, One Road” (OBOR) initiative, security cooperation, China’s choice

Introduction

During Chinese President Xi Jinping's visit to Kazakhstan and Indonesia in September and October of 2013, he proposed the initiative of building the Silk Road Economic Belt (hereafter referred to as "One Belt") and the 21st Century Maritime Silk Road (hereafter referred to as "One Road"), which links China with South-east and South Asia, Eurasia, Africa and Brazil through trade, investments, transport and energy infrastructure projects, tourism, education, culture and other areas of cooperation (Mitrovic 2016: 76). The "One Belt, One Road" (OBOR) initiative was included as the focus of the year's work in the Chinese "Government Work Report" in 2015. It is of great strategic significance for China to comprehensively improve its open economy level, and to explore deeply the current situation and challenges of its security cooperation, which is of great practical significance to ensure the realization of the strategic interests of OBOR.

The status quo of OBOR regional security cooperation

As early as 2012, the idea to "promote all-round improvements to China's open economy" was put forward at the 18th National Congress of the Communist Party of China (CPC). At that congress, calls were put forward for coordinating bilateral, multilateral, regional and sub-regional cooperation, and promoting interconnection with neighboring countries. In 2013, the decision of the CPC Central Committee (CPCCC) on 'Some Major Issues Concerning Comprehensively Deepening the Reform', proposed that China should accelerate the construction of infrastructure connecting China with neighboring countries and regions, and work hard to build a Silk Road Economic Belt and a Maritime Silk Road, so as to form a new pattern of all-round economic opening. In 2015, the CPC Central Economic Work Conference proposed to "do a good job of OBOR initiative construction and implementation". OBOR involves three continents including Asia, Europe and Africa. In terms of the spatial

scope, the “One Belt” area across the Eurasian continent can be divided into three parts: the core area, extension area and radiation area.¹ The “One Road” through Southeast Asia, South Asia, the Persian Gulf, the Red Sea and the Indian Ocean West Coast routes, can be divided into three sections: Southeast Asia routes, South Asia and the Persian Gulf routes, and Red Gulf and the Indian Ocean west coast routes.² At present, OBOR regional security cooperation presents a multi-level cooperation pattern, including bilateral cooperation, multilateral cooperation and regional cooperation. The current situation of security cooperation discussed in this paper is limited to the various security mechanisms (organizations) formed by multilateral and trans-regional cooperation.

“One Belt” regional security cooperation

Core area (Central Asia) security cooperation

The Shanghai Cooperation Organization (SCO), established in 2001 to resolve regional border disputes and create border military trust, has evolved over the past decade and more. The SCO now participates in the fight against terrorism, separatism and extremism at its core, combating drug smuggling, transnational organized crime and other trans-border criminal activity requiring security cooperation. In recent years, its cooperation in the fields of economy, trade, culture and other non-traditional security areas has been continuously expanded, especially in the economic field, which has enhanced the overall competitiveness of the region through regional cooperation. In addition, the “Collective Security Treaty Organization” (CSTO), signed by Russia and Central Asian countries³ in 1992, was a security cooperation mechanism and military alliance in Central Asia. But with the influence of the United States in the 21st century extended to Central Asia, this mechanism is increasingly related to security-oriented cooperation.

1 The core area includes China, Russia and five Central Asian countries; the extension area includes India, Pakistan, Iran, Afghanistan, Mongolia, Belarus, Armenia, Ukraine and Moldova; the radiation area includes Western Asia, the European Union, and can be connected to Japan, South Korea and other East Asian countries.

2 The Southeast Asia routes includes China and ASEAN as a whole; the South Asia and the Persian Gulf routes includes Bangladesh, Sri Lanka, India, Pakistan, Iran, Iraq, Kuwait, Saudi Arabia, Qatar, Bahrain, the United Arab Emirates and Oman; the Red Gulf and the Indian Ocean west coast routes includes Yemen, Egypt, Sudan, Eritrea, Djibouti, Somalia, Kenya, Tanzania and Mozambique.

3 The countries include Kazakhstan, Tajikistan, Kyrgyzstan and Uzbekistan.

Expansion area security cooperation

This area mainly includes two sub-regions in South Asia and Eastern Europe.⁴ After the Cold War, the South Asian countries gradually abandoned the idea of seeking security alone⁵ and embarked on a regional security-oriented cooperative path. Through friendly exchanges, the countries in the area initially formed a regional security environment of peace and mutual trust. The South Asian Association for Regional Cooperation (SAARC) proposed strengthening intraregional security cooperation to combat terrorism and piracy at its 17th Summit in 2011.

Security cooperation in the Eastern European region is based on the Commonwealth of Independent States (CIS) security system, focused on the relationship with Russia, without a complex network interaction model. With a strong security dependence on Russia, Belarus and Armenia have built an exclusive military-political alliance with Russia through the CSTO. But there are large conflicts of interests in the region, specifically between Russia and Ukraine and Moldova. Therefore, these countries had such a strong tendency of de-Russianization that they did not join the collective security system, and established the "Guam Group".⁶

Radiation zone (Europe) security cooperation

The long-standing historical interaction between European security actors and security threats has resulted in the formation of three major regional organizations for European security cooperation. The North Atlantic Treaty Organization (NATO), which responds to changes in the security environment in Europe, proposed a new strategic concept in 1991, 1999 and 2010 successively, and has played an important role in intervening, resolving and participating in the process of European security governance. The European Union (EU) has built up its security and defense capabilities through more than half a century of unremitting efforts, and is playing a growing role in resolving regional conflicts. The Organization for Security and Cooperation in Europe (OSCE) seeks to prevent and resolve conflicts and to restore the damage caused by war.

4 Here Eastern Europe is the region of the former Soviet republics, including Belarus, Armenia, Ukraine and Moldova.

5 These modes include the nonalignment mode represented by India, the alliance mode represented by Pakistan and the "protectorate" model represented by Nepal.

6 The "Guam Group" is an informal regional coalition formed in 1997 by Georgia, Ukraine, Azerbaijan and Moldova. Uzbekistan joined in 1998 and withdrew from the organization in 2005. The organization was renamed the Community of Ethnic Communities at the Kiev Summit in May 2006.

“One Road” regional security cooperation

Regional security cooperation in the Southeast Asian route

In order to make up for the weakness of each country in the Association of Southeast Asian Nations (ASEAN), the organization tried to establish ASEAN-dominated security and non-traditional security cooperation. This cooperation came in a context of drastic change in the security situation in South-East Asia, the weakening of ideology, and the gradual emergence of specific peripheral security issues after the Cold War. The various forms of security mechanisms in Southeast Asia include the ASEAN Regional Forum (ARF); the Council for Security Cooperation in the Asian Pacific (CSCAP) and others, which enhance their status and influence in regional security affairs. In the new century, ASEAN has actively consolidated and expanded security cooperation, built a security community, strengthened cooperation in cross-border crimes such as anti-terrorism and combating drugs, and at the same time promoted the establishment of a mechanism for the meeting of defense ministers to address the shortcomings of the ARF in building a regional security order. In addition, it is an important feature of security cooperation in the region that the security cooperation mechanism dominated by Western powers will become the leader of regional security cooperation.

Regional security cooperation in the South Asia and Persian Gulf route

Security cooperation in the South Asian region has already been discussed, and will not be repeated here. The security cooperation between the Middle East and the Persian Gulf mainly focuses on the six countries' security communities.⁷ The six countries of the Gulf have given priority to military cooperation and defense cooperation since the establishment of the Gulf Cooperation Council (GCC). At the end of the 20th century, on the one hand these countries sought to form an alliance with the West to achieve self-protection during the Gulf crisis and war, and on the other hand, they continued to strengthen security cooperation amongst themselves to remedy their shortcomings after the war. In the 21st century, these countries continued to increase their security identity and strengthened their communication and collaboration in the face of

7 The six countries refer to the United Arab Emirates, Oman, Bahrain, Qatar, Kuwait and Saudi Arabia.

the situation in Iraq, the Iranian nuclear issue and other complex areas of pressure. This security cooperation has been able to play a certain role in maintaining stability.

Regional security cooperation in the Indian Ocean West Coast routes

Security cooperation in this region focuses primarily on piracy off Africa's east coast. The pirate threat extends from the Red Sea and the Gulf of Aden to Kenya, Tanzania, the Seychelles, Madagascar and Mozambique. Piracy is especially a threat in the Gulf of Aden which is one of the busiest waters in the world and where at least 20,000 ships carry 12% of the world's oil every year (Chalk 2010: 96). In response to the threat of piracy, the Indian Ocean West Coast countries and the international community have launched active cooperation through the formation of a multi-level anti-piracy system. The United Nations Security Council (UNSC) has adopted resolutions 1816, 1838, 1846, 1851 and 1897 to combat piracy. Under the authorization of these resolutions, the international community, including China, has implemented multinational naval escort missions. With the concerted efforts of all parties, this anti-piracy work has achieved remarkable results.

OBOR initiative of the dual security challenges

In this vast territory, the OBOR initiative not only deepens regional economic cooperation, but also faces a huge security risk. This paper divides that risk into traditional security and non-traditional security.

Traditional security challenges

Great power geopolitical games

In recent years, the world's great powers in the area of the OBOR have put forward their own regional initiatives, seeking to enhance their regional influence.

Based on "The New Silk Road: Transport and Trade in Greater Central Asia", edited by scholar Frederick Starr in 2007, Secretary of State Hillary Clinton, in July 2011 in Chennai, India, proposed the "Greater Central Asia" idea and "new Silk Road" concept. Clinton (2011) advocated for the establishment of a link between South Asia, Central Asia and West Asia, and a transport and economic development network. She further described the "new Silk Road" program to the international community at the UN General Assembly meeting in September. The program proposed that Afghanistan's neighboring countries should make investments to maintain the leading position of the United States in Eurasian hinterland development. China's influence has been weakened in the region, which has influenced economic cooperation between Central Asian countries and China, thus leading to the reduction of cohesion of the SCO. The United States has also continued to promote the "Asia-Pacific rebalancing" initiative by: actively creating the Indo-Pacific⁸ concept; extending the Asia-Pacific borders to the Indian subcontinent; continuously strengthening the Asia-Pacific military force; using the territorial disputes surrounding China's maritime territories to vigorously support its allies in that and related disputes; and finally by implementing the offshore initiative of balancing China with its neighbors.

In 2009, the EU proposed the "New Silk Road Plan" to strengthen links with Central Asia and neighboring countries in energy, commerce, personnel and information, through the construction of the "Nabucca Natural Gas Pipeline". The EU has actively invested to ensure its own energy supply security at the same time as enhancing its influence in Central Asia. In addition, the EU is concerned about the worsening of regional disputes and demands that all parties settle their disputes through dialogue and cooperation within a multilateral framework. The involvement of the EU, on the one hand, is conducive to balancing the influence of the United States and Russia in Central Asia. On the other hand, the situation in Central Asia is becoming more complicated and therefore not conducive to regional cooperation promoted by China's "Silk Road Economic Belt".

In 2002, Russia, India and Iran co-sponsored the "North-South Corridor Project", proposing that Europe's international transport corridors run

8 This concept was first proposed in 2010 by US Secretary of State Hillary Clinton in Hawaii (U.S. Department of State 2010).

through India, Iran, the Caucasus and Russia, to maintain their traditional regional influence. In recent years, Russia has proposed the initiative of the integration of Central Asia, namely the "Eurasian Union" vision, aiming at accelerating the process of economic integration of the CIS. After the Cold War, Russia has always regarded Central Asia as its traditional sphere of influence. Despite the support of the "Silk Road Economic Belt" program during the Sino-Russian summit meeting in May 2014, during the Conference on Interaction and Confidence-Building Measures in Asia (CICA), Russia was suspicious of China, which then influences all-round cooperation between China and Central Asian countries.

Japan put forward the "Eurasian diplomatic initiative" in the Cabinet of Ryutaro Hashimoto as early as 1997, and proposed the establishment of the "Central Asia + Japan" dialogue mechanism in 2004, followed by proposing the establishment of a "freedom and prosperity of arc" in 2006. Japan has enhanced its political and economic influence in this region by strengthening economic cooperation with the Central Asian countries while promoting economic development and the internationalization level of these countries. At the same time, Japan has made use of the rich oil and gas resources in the region to ensure the security of its energy supply. In October 2013, Abe's cabinet intensified its concern with Asia and Europe, pointing out that Tokyo is the starting point for the new Asia-Europe Silk Road, and a geopolitical trader. Japan is also actively developing Pacific and Indian Ocean coastal countries to strengthen their military presence. These initiatives are intended to enhance a "line of defense" to contain China.

India, Iran and Afghanistan promote the South Asian "Southern Silk Road" construction project together, trying to link the "Maritime Silk Road" and "Land Silk Road" together. India, based on its geographical advantages, is seeking to dominate the Indian Ocean and has guarded against the existence of external forces in the Indian Ocean. In particular, the Chinese so-called "string pearl initiative" is viewed by India as a strategic siege. Raja Mohan doubts whether India will allow China's maritime Silk Road to be implemented through the Indian Ocean because geopolitical and security factors are too strong (Mohan 2014). This has a negative impact on China's cooperation with countries in South Asia. In particular, India's strong marine initiative is bound to affect China's energy channel security.

In addition, India actively pursued the “Eastward” initiative, is involved in the South China Sea issue in economic, political and military competition with China, and enhanced the influence of Asia-Pacific affairs radiation, thus increasing China's strategic pressure in the direction of Southeast Asia.

Territorial and island disputes

For historical reasons, there are various territorial and island disputes in the OBOR area and the results of dispute settlement directly affect the security guarantee of the implementation of the initiative. The current disputes include:

On the ocean, disputes include: the “South China Sea dispute” between China and some Southeast Asian countries; “China National Offshore Oil Corporation (CNOOC) 981” drilling rig caused the so-called Sino-Vietnamese “Paracel islands sovereignty” dispute in May 2014; China, the Philippines and Vietnam intensified the “Spratly islands sovereignty” dispute; there exist disputes over the Diaoyu islands and an exclusive economic zone in the East China Sea between China and Japan. The essence of these maritime disputes is the dispute between the leaders of regional order and their followers, and the rise of China. In the short term, China cannot find a solution acceptable to most of the disputing parties to ease the tense situation. This will not help deepen the all-round cooperation between China and ASEAN, thus affecting China's overall right to formulate a new round of trade rules.

On land, after World War II the Kashmir dispute between India and Pakistan, the Sino-Indian border dispute and the Palestinian-Israeli territorial dispute have still not been resolved. After the Cold War, with the disintegration of the Soviet Union, in the “One Belt” area a number of sovereign states have emerged. Border demarcation between these countries has not been completed. Tajikistan's enclave, Vorukh, lies in Kyrgyz territory. The border between the two countries is 911 kilometers long, with only 567 kilometers delineated and more than 70 disputed areas. On 11 January 2014, the two countries entered an armed conflict in the border area. Between Tajikistan and Uzbekistan, twenty percent of the border is not defined. Between Kyrgyzstan and Uzbekistan, the Fergana border is also not clearly defined. Kyrgyzstan has in Uzbekistan an enclave village of

Barak, while Uzbekistan has the enclaves of Sokh and Shakhimardan in Kyrgyzstan. These enclaves have clashed with local residents. In addition, the three countries are not compromising on the sharing of water resources. These border territories, enclave disputes and water disputes have become an important factor in the worsening situation in the region. The disputes in Central Asia directly negatively affect the SCO's future of political mutual trust, security and economic cooperation, and is not conducive to maintaining the stability of the western region of China.

Regional political turmoil in individual countries

Most of the countries in the OBOR area are developing countries which are affected by complicated factors such as social class contradictions and ethnic and religious problems. These countries generally practice party politics. However, due to the struggle for government, the political situation in some countries is vulnerable and uncertain. Integration of national interests and recognition of a common sense of belonging is more difficult, which leads to continuous lack of formulating important internal and foreign policy. For example, political developments in Kyrgyzstan and Tajikistan have been through ups and downs. In particular, Kyrgyzstan's North-South contradictions are still sharp and seasonal protests are becoming normalized. Kyrgyzstan announced that it will actively participate in the construction of the "One Belt", while in December 2013 it announced its withdrawal from the construction of the China-Kyrgyzstan-Uzbekistan Railway, which increases the difficulty of project coordination. In addition, Somalia along the Indian Ocean, Yemen, Iran, and Pakistan are increasingly becoming potentially dangerous countries or regions. As the OBOR initiative to promote China's future is bound to increase investment in the region, increase imports, frequent personnel exchanges, these countries will increase the economic cost of investment and reduce co-operation efficiency, and thus affect China's overseas interests.

Non-traditional security challenges

The terrorism threat

The destructive activities of the "three forces" (terrorist forces, religious

extremists, and national separatist forces), which are the core of terrorism, are an important factor threatening the implementation of the OBOR initiative, increasingly becoming the largest non-traditional security threat in the region. Despite the differences between extremist organizations' political aims, organizational forms, personnel composition and activities, their common feature is that they oppose secular regimes and advocate the establishment of an Islamic state with political and religious unity. As a result of changes in the international anti-terrorism situation, and changes in the regional security situation, extremist organizations in the region are characterized by a cross-cutting of personnel, guiding ideology, decentralization, fragmentation, and other links with international terrorist organizations. The United States withdrawal of troops from Afghanistan in 2014 is likely to lead to an escalation of the conflict within that territory, resulting in Islamic extremism and terrorism which may "overflow", affecting regional stability. In addition, in recent years East Turkistan Islamic Movement (ETIM) terrorist forces, linked to each other at home and abroad against Chinese targets, from time to time to carry out attacks which are a threat to Chinese people's personal and property safety.

Sea channel safety

Maintaining secure access is an important consideration in the implementation of the OBOR initiative, which will make sure the sea channel stays open rather than cut off. Ninety percent of global commercial trade and sixty-five percent of the world's total oil volume go through ocean shipping, with the Indian Ocean providing half of the world's container shipments and seventy percent of the transportation of petroleum products from the Middle East to the Pacific. The Indian Ocean routes are strategically important for global trade such as the Strait of Mendoza, the Strait of Hormuz and the Strait of Malacca, with forty percent of the world's trade flowing through the Strait of Malacca and forty percent of crude oil trade flowing through Hormuz Strait (Kaplan 2009: 19-20). Most of China's ocean-going oil trade is concentrated in the Straits of Malacca, the Indian Ocean to the Middle East and North Africa. If oil is the blood of the industry, then the channel connecting the Indian Ocean from the Middle East, and through the Malacca Straits channel, has actually become the lifeline of China's economic growth. Therefore, it is very important to maintain the secure passage of the Malacca Strait,

the Strait of Hormuz and the Mande Strait on the “One Road”. Regarding the Malacca Strait, the challenge mainly comes from the United States, which also tries to control the Strait. The Strait of Hormuz is beset by a deteriorating security situation within the region, while the Mande Strait is challenged mainly from the pirate threat. According to the Global Piracy Report of the International Maritime Bureau (IMB), in 2013 piracy off the coast of Somalia declined significantly; it has fallen from 237 events in 2011 to 15 in 2013 (ICC 2014). However, the threat of attacks still exists, especially off the Somali coast and the Gulf of Aden.

Regional economic integration pressure

The purpose of China's OBOR initiative is to establish closer economic and trade ties with Southeast Asia, Central Asia, the Middle East and Europe, to further develop mutual cooperation and a broader space for development, to promote regional development and prosperity through technology and investment, and to promote China's economic upgrading and rebalancing. The United States has proposed to construct the Trans-Pacific Partnership Agreement (TTP) to hinder the process of regional integration in East Asia and to divide the ASEAN-led Regional Comprehensive Economic Partnership (RCEP), which has gradually formed in the Asia-Pacific region. At the same time, Europe and the United States work hard to build the Transatlantic Trade and Investment Partnership agreement (TTIP), advocate more liberal international economic and trade rules, and hinder the process of economic and trade cooperation between Asia and Europe. TTP and TTIP build on the interests of the West's own network, thus blocking the strategic objectives of OBOR.

Transnational organized crime

China has been promoting economic and trade relations among countries in the OBOR initiative. At the same time, transnational organized crime, one of the “three major world catastrophes” according to the United Nations General Assembly, has become increasingly rampant and has seriously affected the economic development and social stability of all countries involved. Current types of transnational organized crime include: a) drug smuggling, specifically the spread of opium production in Afghanistan to the world. The “drug economy” and religious extremism in Central Asia

combined, impact on China's western security; b) illegal immigrant crime, China's labor export and overseas employment at the same time, resulting in a variety of crime with foreign labor service; c) transnational economic crime, such as money laundering and telecommunications fraud.

China's choices regarding OBOR security issues

Through the implementation of the OBOR initiative, China can form a new pattern of opening up in all directions along its coast, inland and border areas. Such openings will also raise the level of economic development and economic share in China's western inland areas. It will ensure the safety of maritime transport and strengthen political mutual trust. In the future, in order to achieve "policy communication, transportation connection, trade facilitation, currency circulation, [and] community consensus", China must manage its security risks, China not only needs to strengthen its own power, but also needs to build on and pay attention to three points: 1) provision of safe public goods; 2) managing the interests of great powers; 3) Recognizing Pakistan's 'pivot' role.

Cooperation to achieve the provision of safe public goods

Traditional and non-traditional security in the OBOR region is intertwined, involving a large number of sovereign state disputes which no country can face and resolve on its own. Therefore, China need only to establish a more open and cooperative concept in order to mobilize the region to actively participate in the implementation of OBOR, and ultimately achieve a mutual beneficial and win-win situation. In fact, China's presence in the region has been to uphold security cooperation. As of August 2016, China has sent 24 fleet escort missions, and carried out security escorts for more than 6,000 Chinese and foreign ships. Moreover, it has successfully assisted and rescued more than 60 Chinese and foreign ships. Ahudul Sahibi, former mayor of Kabul, Afghanistan, argues that China attaches great importance to the development of the Silk Road with regard to energy efficiency and safety, having initiated the Silk Road Initiative in 2000 and reintroduced a multilateral initiative in Central Asia.

In the future, China not only needs to put forward the concept of security, but also needs to further implement specific practices. This paper argues that China needs to understand the needs of the countries in the region and actively provide public goods for regional security governance. Despite China's limited defense capacity in the traditional security field, China's current maritime military power is nothing more than a "counter-interference" (Rourke 2012) force vis-a-vis the United States. But China's advantages in non-traditional security areas will be obvious. In addition to its increasing economic strength, China can advocate for the establishment of a variety of regional security funds for national security cooperation, based on the principle of economic profit-making, so as to ensure economic security and achieve the desire of a "community of common destiny". Once the idea of public goods is put forward, measures and plans should be followed in a timely manner, and the implementation requires consideration and dedication. On many occasions, China has repeatedly proposed to promote the South China Sea maritime security order and ecological protection action, and has set up a 3 billion RMB yuan "China - ASEAN Marine Cooperation Fund" in 2011, but ASEAN is still not clear how to apply and use these funds.

Being sensitive to the interests of countries in the region, especially the interests of great powers

The OBOR initiative is mainly facing security issues related to domestic factors specific to particular countries, and territory and island disputes more based on historical reasons. In this regard, China should pay attention to the interests of the region's countries. Specifically regarding China's territorial and island disputes, the country should continue to adhere to the "sovereign to me, shelving differences and seeking joint development" principle, to take into account the economic interests of the other parties to the disputes and actively resolving it through bilateral consultations. China should adhere to the principle of "non-interference in internal affairs", play a constructive role in bringing relevant parties together, and resolve and maintain regional stability peacefully when facing the political turmoil in the countries concerned.

In addition, regional security issues introduce the great power factor. Great power competition in the OBOR region will follow a normal trend, the essence of which is the shift between emerging powers and conservative powers.

Therefore, China should address the security risks in the region while bringing in great powers as “stakeholders”, to strengthen cooperation with each other and properly coordinate relations. The United States and Russia play an essential role here. As a hegemonic country, the US has a wide range of interests in the region, while Russia, as a regional, traditional country, still has a certain influence on the various security issues in the region.

At present, China, the US, and Russia can make full use of existing bilateral and multilateral cooperation mechanisms, adopt flexible and diverse forms of cooperation, promote cooperation at different levels, strengthen political trust and seek points of common interest. Russia is closer to China than to the US, sharing with China the common mission of national rejuvenation. China and the “Eurasian Union” need a certain degree of “docking” to jointly safeguard the “Silk Road Economic belt” in the field of security. At present, there is a structural “security dilemma” between China and the United States in the traditional security field. China’s development is “zero-sum” next to US global hegemony. Sino-Russian coordination can easily be regarded as a mechanism to “exclude the US”. Moreover, there is a strong factor for the United States to become involved in territorial and islands disputes: avoiding political unrest in the region. Therefore, Sino-US security cooperation should be more related to anti-terrorism, anti-piracy, cracking down on transnational organized crime and other non-traditional areas. Gradually, as confidence is built, the two countries can deal with common challenges through a variety of existing dialogue and communication mechanisms.

Recognizing Pakistan’s “pivot” role

In geographical distribution, the OBOR initiative of security assurance in the south and north depends on the effective interaction between “One Belt” and “One Road”. Although the strategic concept of the Bangladesh-China-India-Burma (BCIM) Economic Corridor and the China-Pakistan Economic Corridor (CPEC) can link “One Belt” and “One Road”, the “two corridors” are too broadly connected to each other. Facing security challenges here is not obvious, but the real effective interaction lies in playing the role of a “pivot” state. The “One Belt” and “One Road” have common areas, mainly including India and Pakistan in South Asia. China and India have long-standing disputes over territory, so China must pay attention to Pakistan’s “pivot” role. To this end, China-Pakistan all-weather strategic cooperative partnership can ensure that this role can be played.

In the “One Belt”, China can use Pakistan's influence on Afghanistan and its own geopolitical conditions, including ETIM forces in the Central Asian region and various terrorist organizations, to ensure the safety of western China. China can use the traditional relationship between the United States and Pakistan to “bridge” and strengthen security cooperation between China and the United States. China can use the belligerence between India and Pakistan to contain India and to reduce its security pressure from the southwest direction. In the “One Road”, China is not a coastal state of the Indian Ocean and also subject to the naval force constraints. China can use the media to participate in Indian Ocean affairs in Pakistan, to ensure the safety of sea lanes. Although China has repeatedly stressed that it will not set up military bases overseas, this does not affect China's rational use of the Gwadar port in Pakistan. Its location is important for the fight against piracy in the Indian Ocean west coast ensuring energy security in the Gulf region.

Conclusion

The OBOR initiative requires that China should work together to strengthen balanced development of a comprehensively open economy, involving both land and sea. However, in implementation, “One Belt” seems to take priority, and the Chinese government promotes high-speed rail and other equipment manufacturing “going out” as an opportunity to actively promote land-based transport infrastructure construction, which is quicker than transporting goods over sea. But I believe that we need to give priority to the use of marine resources in the future. Several cities in China opened the China Railway Express, but the traditional maritime transport trade will remain in a dominant position for a very long period of time. The time advantage of land transportation is also affected by various security risks - the security challenges facing the OBOR initiative mentioned above - wherein land security challenges account for the vast majority of security risks. Through the international community's efforts in recent years to combat piracy, control the ocean and resolve island disputes, the risk to sea-lanes has been greatly reduced.

In the future, China will work with all the countries in the region to actively respond to various security risks and challenges, and successfully implement the OBOR initiative. Eventually, China and other countries will become a “community of destiny” and a “community of interests”, which will help safeguard China's national interests, including security, build a responsible image of China, enhance China's soft power, and create a favorable international environment for China's modernization drive.

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The Challenge of Different Perceptions on the Belt and Road Initiative

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Abstract

This article¹ focuses on the perceptions of the Chinese and its partners on the Belt and Road Initiative. The author summarizes the existing foreign opinions about the initiative, one “inequality” of the market, three goals that China wants to achieve and two ways in which China wants to create domestic stability. In fact, the difference between foreign and Chinese perceptions is based on the relative national condition of the two sides, the perception of great powers, and the combination of domestic needs and foreign policy. Finally, the author points out that there are three paradoxes which exist in the differences between China and its partners, which is the biggest challenge of the Belt and Road Initiative.

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Belt and Road Initiative, China, Europe, perception, paradox

Since the Chinese President, Xi Jinping, first announced the Belt and Road Initiative, it has developed for almost 5 years. Under this initiative, China and its partners have achieved many projects, for example, X-Xin-Ou trans-continental railways, which are important to the transportation of goods between Asia and Europe.² The Greek Piraeus port is also another successful case, which will help to shorten transportation times, together with the China-Europe Land and Sea Express line through Macedonia, Serbia and Hungary. In Asia, China, Indonesia, Thailand and other related countries have achieved deep cooperation on high-speed rail. These big projects have drawn the world's attention to China and its Belt and Road Initiative. Considering the big size of China and the quick development of its economy in recent years, many world elites hold the view that China is a threat to the current world order, or that it will buy the world, conquer and divide Europe and so on. Responding to this situation, the Chinese government and elites from different areas did a lot of work to create opportunities for communication and exchange. However, the author thinks that China still has not grasped the way in which other countries are thinking. China is just working as a propaganda machine by repeating the same words everywhere. They are coping with problems without deeply understanding them. Accordingly, this article tries to summarize the characteristics of foreign perceptions towards the Belt and Road Initiative, mainly from the points of view of European countries. Most of the data is collected from the records of the author during conferences and private interviews, and a part of the data is from public papers. The author will point out the different ways of thinking between China and other countries, especially European countries. Lastly, the author points out the paradoxes behind the perceptions of China and its partners on the Belt and Road Initiative.

Existing opinions from foreign partners on the Belt and Road Initiative

2 The X-Xin-Ou trans-continental railway refers to several railways from Chinese mainland cities, to European cities such as Madrid and Berlin. All of these railways pass through Xinjiang province. Up to now, there are six of these kinds of railways, Yi-xin-ou, Rong ou, Shaan-xin-ou, Zheng-xin-ou, Han-xin-ou, and Yu-xin-ou. The author thinks that the Yu-xin-ou railway works better than the others, since it brings more goods, especially high value added goods, back to China.

This section summarizes the main foreign opinions on the Belt and Road Initiative. The author organizes these into: one “inequality” between China and its Partners; three goals that China wants to achieve; two ways in which China wants to create domestic stability. These opinions focus on the goal of the Belt and Road Initiative and the ways to implement it.

One “inequality” between China and its partners

The imparity of the Belt and Road Initiative is the “inequality” in the relationships between China and its partners, that is, the “inequality” of the market. According to this opinion, many countries still suffer from the financial crisis and/or with the refugee crisis, which leads to the slow recovery of their economy. China needs to upgrade its industries and enlarge the market for its products through a great number of mergers and acquisitions, under the name of the Belt and Road Initiative. This process can easily open the internal market of another country to China. On the other hand, when these countries enter the Chinese market, they cannot do so effectively, due to the complicated situation in China, despite the fact that Chinese markets are more open than before.³ Foreign countries urge China to reduce the limitations to market access and improve intellectual property rights protection. Public procurement especially needs to be open to foreign companies. For foreign countries, the best way to achieve this is to sign an investment protection agreement with the Chinese central or local government (Brockova and Gress 2016). Moreover, the form of Chinese investment cannot meet its partners' needs. Nowadays, Chinese investment is merger and acquisition-oriented. For example, in Hungary, the only greenfield investment is the Wanhua chemical group. This investment happened in 2009, and 7 years have passed since then. On the issue of infrastructure, the Chinese investment mode is Build-Transfer (BT), which is also not preferred by other countries. According to Chinese partners, they need greenfield-investment, Engineering Procurement Construction (EPC) or Public-Private-Partnerships (PPP) models, which can use local materials, hire local labour, and boost the local economy.⁴ What China is doing now is totally different. In their view, traditional

3 Interview with official from the Polish Embassy in Beijing, China. Date: 5 June 2015.

4 Interview with official from Chinese Ministry of Foreign Affairs. Date: 26 January 2016.

BT investment can maybe improve local infrastructure, but the future owner will face more risk.

These phenomena cause the impression that China wants to use the Belt and Road Initiative to maintain and enlarge the openness of others' markets to its investment and products, but at the same time, close or tighten the openness of its own market to foreigners, especially in the areas of finance, construction or communication. For those of this opinion, it means China does not want to sincerely cooperate with others when it initiated the Belt and Road project.

Three goals that China wants to achieve

The three goals that China wants to achieve are widely considered as the direct goals of the Belt and Road Initiative. This perception holds the view that the Chinese Belt and Road Initiative will directly serve the reconstruction of world order. It is also a strengthening and active signal of Xi's foreign policy in order to create a stable international environment. Nowadays, China promotes relations both eastward and westward. Eastward, China promotes relations with the USA; Westward, China enhances cooperation with Eurasian countries through the Belt and Road Initiative, especially with Germany and Russia. If these countries maintain cooperation with China, then China will avoid many difficulties during its development (Weissmann 2015). Concretely, under this perception, there are three kind of goals that China aims to achieve:

Firstly, through the Belt and Road Initiative China seeks legitimacy in the international economic and financial order. China always aims to enhance its own place in global economic management and demonstrate its ability. On the one hand, China gets a more important place in the International Monetary Fund (IMF) or the World Bank. On the other hand, China has established the New Development Bank and Asian Infrastructure Investment Bank (AIIB), which are parallel and compatible with these financial institutions. Such a goal needs the support from other countries, especially from the European Union. The EU's recognition of China's place in the international economic order is quite essential.

Secondly, China seeks support, or less interference, on sensitive issues. To

many partners, a bilateral relationship with China is much more important than a multilateral one. They think that, through bilateral negotiation, China could decrease its dependency on one country while at the same time, gain importance in China's foreign policy. This phenomenon is well illustrated in the Central and Eastern Europe (CEE) region. Every CEE country describes itself as the gateway to Western Europe or Northern Europe, to attract Chinese investment. They are worried that China will invest in its neighbors. Due to this competition for Chinese attention, many think that China will use this chance to leverage others to overlook the issue of human rights in China, or other sensitive issues. For example, the Czech Republic's official attitude towards China and 16+1 cooperation has altered due to this reason. Under the Belt and Road Initiative, pragmatic cooperation becomes more vital.

Thirdly, China uses multilateral cooperation to gain political support in the EU. Up to now, China has been actively pushing for multilateral cooperation. The 16+1 is a focus of Chinese foreign policy towards EU. The motive behind 16+1 is that China plans to use trade and investment in areas such as infrastructure, energy and agriculture, to serve the objectives of the Belt and Road in the West. Many elites who share this view think that after the EU does not admit the market economy status of China, China will take CEE countries as a way to broaden its diplomatic tools and form a lobby inside the EU. This is the political support that China plans to gain through the Belt and Road initiative.⁵

Two ways in which China wants to create domestic stability

Domestic stabilization is the final goal of the Chinese Belt and Road Initiative, shared by most Chinese elites. The biggest challenge China has faced in recent years is the structural reform of its economic model, from investment and export, to domestic consumption. Earlier in its economic history, China depended a lot on export and low-wage labor, which is unsustainable under current economic trends. The high-speed growth of GDP brought about corruption, a gap between urban and rural development, environmental pollution and so on, which makes structural reform harder. Besides that, private enterprises have large debts, and

5 This view is shared by many scholars and officials from CEE countries. However, according to the study of a scholar from Corvinus University, Hungary, the votes in the European Parliament from CEE countries have not changed a lot, which needs to be studied further.

banks try to hide large-scale bad debts (Rudzki 2016). Another factor is that the Chinese welfare system is not effective and consistent enough to support structural reform, especially on the local level. These are the negative factors which affect domestic stabilization in China. Based on these factors, the Chinese Belt and Road Initiative serves the goal of achieving domestic stability. Elites consider that the root of Chinese foreign policy are domestic problems. There are two ways to create domestic stabilization.

One is nationalistic sentiment. China proposed the Belt and Road Initiative to fulfill the need of Chinese people's nationalistic sentiments, which is very helpful in uniting the Chinese people suffering a depressed economy. It can build a strong, investment-oriented China, which shows great interest in infrastructure, industrial parks, etc. This impression of the nation will stimulate nationalistic sentiment, which makes Chinese people focus more on long-term, strategic goals, rather than short-term profit. However, others think that nationalistic sentiment is the Sword of Damocles. China should cautiously balance, because if nationalistic sentiment is stimulated too much, then it will affect its neighbors and its own minorities. The throat of the Belt and Road Initiative is Xinjiang province, where conflicts of nationalism are serious and it will be hard to eliminate them only by economic growth. Regarding Chinese neighbors, some Islamic groups from Central Asia constantly support separatists in Xinjiang, so nationalism is a very dangerous tool with which to achieve a goal (Sørensen 2015).

The second way China might achieve domestic stability is through the Chinese government's strong role in many aspects of daily life. China uses the Belt and Road Initiative to enhance the government's effect on the economy and capacity production. Some say the Chinese government repeatedly stresses its decisive role, rather than basic role, which means government intervention will continue. Like in Chinese investment in other countries, state-owned companies play a central role. Under the capacity production cooperation plan, the Chinese government is also the main stimulator. Domestically, China uses the Belt and Road Initiative to link the provinces to the central government. Local governments try every means to define their role in the Belt and Road Initiative and boost their reputation, to get more attention from the central government.⁶ However, the pessimists

6 Interview with a scholar from the University of Ljubljana, Slovenia. Date: 12 August 2016.

hold that the efficiency of intervention is low, which sets back economic innovation and the market economy. For foreign investors, it is an uncertain signal with which to predict the direction of the Chinese economy.

In short, foreign opinions on the Belt and Road Initiative are not just limited to the initiative itself, but broadened to include speculation on the Chinese domestic market, its economic situation, its domestic stabilization and China's political ambition in the world. Additionally, the above views are not just limited to the quoted materials, they always occur during conferences, seminars, and interviews with some government officials or scholars.

The root of the perceptions of China and its partners towards the Belt and Road Initiative

The difference in the overall condition of the two sides

The “inequality” of the market is the first thing that the two sides understand differently, and it is often mentioned at every occasion about the Belt and Road. However, it is rooted in the different need and condition of the two sides.

For China, on one hand, its industries face the problems of overcapacity and low added-value, which hinders the Chinese economy. Although Chinese GDP is now increasing slowly, according to official data, these real structural problems are unsolved. It is an urgent task for China, and its biggest need. On the other hand, since the global financial crisis high-tech enterprises, mainly in Europe and the USA, are suffering from a break of the capital chain, and at the same time Chinese enterprises are waiting to upgrade themselves, with a lot of money seeking investment. This is, to an extent, a historical coincidence. From this point of view, China did not “invade” or “buy” Europe. China is just acting according to the current situation and is taking advantage of historical opportunities.

As for the method of investment, Chinese sides need to learn technological skills and produce higher added-value products as soon as possible. So, generally speaking, mergers and acquisitions are the fastest way to achieve this goal, which is a reasonable and lawful way all over the world, except for some certain areas which involve national security. Besides, Chinese enterprises will face unfamiliar regulations and markets just as foreign enterprises face in China, especially regarding the process of investment to the upper section of the industrial chain. This is unlike big western groups, who just invest in the lower part of the industrial chain, to find low-cost labor. So for the Chinese side, they will face more risk. Under this situation, mergers and acquisitions are also the safest way. To avoid risk is the common concern of companies worldwide. So we can see that the Chinese need to upgrade is not different from the needs of other companies, and its way of seeking opportunities is also common in the field of business. The USA also invested a lot and bought a lot of European companies during the financial crisis (EY report 2015). It seems that it did not catch as much attention as China did. In fact, the author thinks that the method of investment is not the real concern for European and other partners. Rather, what is of concern is a Chinese industrial upgrade by one big leap, which means China does not need to go step by step, and can just go directly from 2.0 to 4.0 through mergers and acquisitions.

Foreign partners all seek protection of knowledge, know-how, technology, and investment from the Chinese government, due to its complicated market and lack of related regulation. Or they urge China to increase its agricultural quota for imports. These are the main complaints when they come to China. It is true that the Chinese market is not so transparent or regulated as the European one, and the supervision of the quotas on agricultural products is strict and time-consuming. However, China is improving its market environment and foreign partners cannot take China as a mono-natured market. In the southern part of China, the trade environment and the government is more open. The market is more regulated and policies are more transparent, since this part of China was the pilot for the Chinese private economy during the "Reform and Open" era. Consumers there are also very open to new products. Contrary to that, the north-eastern part of China is more closed since they are still suffering from overcapacity of their industries, which was deeply influenced by the former Soviet Union style economy. In this part of China people

and government are more closed, even to the Chinese themselves. The western part of China is now developing very fast with the support of the government, since it is an important part of the Belt and Road. So the Chinese market is large and divergent, and not in total chaos as foreign partners imagine it. As for the agricultural quotas, this is hard to get from the Ministry and State Quality Inspection Administration. Partly, this is because the paperwork and bureaucracy in these bodies is complicated and time-consuming. Partly, this is because of the small amount of agricultural products from foreign countries that enter the Chinese market. The Chinese population is large, and a small amount of product cannot even meet the needs of market promotion, and the administration is not willing to go through complicated and time-consuming procedures for a small quantity of products. This phenomenon is more common in Central and Eastern Europe. Many high-quality agricultural products from the CEE cannot enter the Chinese market, not because of quality, but because of quantity, which does not arouse the interest of the Ministry and State Quality Inspection Administration. This is why Poland and other countries always complain about a trade deficit with China. So it is the different internal conditions of China and its partners that causes the “inequality” of the market, and some misunderstanding about Chinese market.

The perceptions of great powers

The second feature of foreign opinion are the perceptions of the great powers. They consider China as a global and regional great power. This is the root of the view that the Chinese Belt and Road Initiative will directly serve the reconstruction of world order and the creation of a stable international environment and multi-polar world. Their logic is that China must be a great power now, and therefore China is capable of changing the current world order and definitely will change it. This logic, to most Eurasian countries, expresses their two concerns or expectations of great powers. Firstly, they expect China, as a great power with global influence, to not only be the motor of the world economy, but also an active actor in global geopolitical crises. Like Polish Foreign Minister Witold Waszczykowski said in a public speech in China: “Although [the] EU’s Foreign and Security Policy really pays a lot of attention to the neighbors’ geopolitical issues, [the] EU needs to build strategic partnership with countries beyond the EU’s border. China is in the first place. Any strategic partnership, especially

EU-China partnership, should not be limited to economic cooperation. [the] Chinese Belt and Road Initiative should go beyond the connectivity between Eurasian countries" [sic] (Waszczykowski 2016).⁷ In fact, other countries share the same view as the Polish minister's. In the Ukrainian and Syrian crises, there are always voices urging China to choose a side to stand with. Secondly, most Eurasian countries are small countries, compared with Russia or the USA. In their history, they are deeply influenced by these traditional great powers. Even today, this influence has not stopped. So in the eyes of these countries, the phrase "great power" does not have a good connotation. Great powers will use their soft power to penetrate into local politics through NGO training, government official training, religious recognition or other tools. This kind of influence can even arouse serious security issues, like in South-Eastern European countries, Islamic groups supported by some great power or another, are a great concern for both society and governments. One of the Assistants of the Serbian Foreign Minister once said during a meeting, "Serbia is surrounded by [the] EU and NATO. Germany also pushed Northern Europe and Baltic countries for sanction to Russia. All of these harm Serbian interest and all of these are the results of big powers' influence" [sic].⁸ This is how Eurasian countries think of great powers. In their eyes, China is a new great power on the rise, and definitely will use tools to get the support of international society. The Belt and Road Initiative is the tool that China chooses to utilize. To them, China's goal is legitimacy in the international economic order, and the support, or less interference on sensitive issues, from the EU. However, these goals are just in the imagination of China's foreign partners. They are neither realistic, nor appropriate for today's China.

China is indeed rising in the world, which will draw global attention. But at the same time, China is weak due to many structural problems. The rise of China is different from the time of the USA's rise, or Germany's rise. So for China, the essential principle is that it should rise peacefully, which means it should not cause problems with other countries. As mentioned above, China's final goal of the Belt and Road Initiative is to solve domestic problems, which means China knows itself well, and knows its weakness, so it will not put a global rise in the world as a priority, it just seeks a reasonable place in today's world. From this point of view, the New

7 Meeting during the author's visit to Serbia. Date:18 June 2016.

8 Meeting during the author's visit to Serbia. Date:18 June 2016.

Development Bank and AIIB are designed to fill the investment gaps of existing financial institutes. These two new institutes cannot be compared with the IMF, or World Bank, since the latter are designed with many goals, not just investment, and their funds are linked with many political reform conditions. Such conditions are things China does not want to be get involved with.

What is more important is that in fact China is very cautious to avoid the effects of Western ways of thinking. In the history of Europe, Britain, Germany and France have been balancing each other for centuries, any alliance between two caused the third country to be suspicious. Any other country's rise will also cause the same thing. To these countries, power is an unchangeable fact, no matter with what kind of goal. Germany before World War One invested a lot and was very active in Europe and Africa, which caused other countries to form an alliance to balance against it. This is because they believed that in the future or some unpredictable time, Germany would develop hegemonic ambitions and become a threat. They had to defend against that threat in advance. Now, China is spreading its culture and investment all over the world, which to Europe, must be backed by great power. This great power will then change into a political and economic threat, like Germany in history.

But the facts are not like this. China knows exactly the logic behind this opinion, and to the greatest extent tries not to get involved in security problems in the world. Because China does have the ability to affect a country. Under these conditions, if China still actively participates in the Ukraine crisis, or the Syria crisis, and chooses a side to stand with, what will happen? If China begins to affect South-Eastern European politics, particularly when Russian influence is decreasing and Turkey's is increasing, what will happen? What would Germany, France or other countries think of China? If China gets involved in these issues, the Chinese action would be considered a way to drive Russia further away and block Turkey. That would be a really serious problem as China would no longer be able to implement the Belt and Road Initiative. So, China does not want this to come true and tries to stay far away from the politics of its foreign partners, and just focus on pragmatic cooperation. This is what China is doing now. Besides, China understands that investments or funds cannot change political trends or systems of its partners, and China does not want to do

either. The EU must understand well the Chinese position considering the domestic political situation in Hungary and Poland. These two countries are still enjoying the EU's funds, but the funds cannot change Mr. Viktor Orbán's and Mr. Lech Kaczyński's attitude. The same thing goes for China. Chinese investment cannot change its partners' attitudes towards some sensitive issues, like Tibet, Xinjiang or the South and Eastern China Sea. Chinese partners have their own opinions on these issues. China does not intend to change them. In this sense, CEE countries cannot be used as a way to broaden China's diplomatic options, to form a lobby inside the EU. Moreover, a lobby is a typical Western political tool. China prefers to exchange on the official level. Western countries still place their own concepts upon Chinese behaviour.

The combination of domestic needs and foreign policy

The third feature of foreign opinion is the combination of domestic needs and foreign policy. In fact, this can hardly be considered as a different perception between China and its partners, since foreign partners exactly understand this as the point of Chinese foreign policy. A popular Chinese political phrase is that we should combine two policies, the domestic and international. However, the perception of this point is different. To foreign partners, this is a relatively new perception. In the early days of the Belt and Road Initiative, almost all of them concentrated on the challenges of a certain country along the Belt and Road, such as the Central Asian countries or Russia. They said heterogeneity between China, Russia and its neighbours is the biggest problem in cross-border cooperation. But now, they have started to realize that the real challenges derive from China itself. China is surrounded with problems: on the sea there are the disputes of the southern and eastern China Sea; on land, there are the Tibet and Xinjiang separatists, and so on. These factors make people turn their attention to Chinese domestic problems. Now they are suspicious of Chinese national ability and sustainability. They think that China needs its domestic economy to support the go-out strategy, but inefficient reform lowers the ability to invest. This puts the prospect of the Belt and Road Initiative less likely than before. After publishing the thirteenth five-year plan, China stated clearly that investment will be further enhanced, which means it needs more capital and stronger domestic

manufacturing ability. It makes the situation worse. That is why many foreign partners think that nationalistic sentiment and the Chinese government's large role are very dangerous or ineffective tools to gain domestic stabilization.

As for China, it is a totally different picture. Domestic stabilization is indeed the final goal of the Belt and Road Initiative, as propounded by most of the Chinese elites. The biggest challenge China faces is indeed the structural reform of its economic model from investment and export, to domestic consumption. But these cannot bring about negative effects on the Belt and Road Initiative. What is more, nationalistic sentiment and the strength of the Chinese government's role are still useful tools. Firstly, China initiated the Belt and Road Initiative to upgrade its industry, in the context of the 'world's factory' moving from China to other countries. China is not just an investor to pour out money, but also plans to learn high-tech and management experience at the same time, during the so-called fourth industrial revolution. Reform of the economy needs technology and management experience, so China will unite the whole country's strength to implement this initiative, by concentrating government and non-government resources. Although it suffers from its economic situation now, for long-term profit, it is worthwhile. Hence, the Belt and Road Initiative is not backed by the domestic economy, it is the tool with which to reform the domestic economy.

Secondly, to unite the Chinese people and government, to implement the Belt and Road Initiative, nationalistic sentiment and the Chinese government's large role are very helpful and not more dangerous than those in Europe or any other region, as people have imagined. The most important thing is that Chinese nationalism is not the "nationalism" described by western language. It is not about the majority nation and minority communities; it is about China itself. In the western description, other religions or other nations cause the problem, like Muslim refugees or Roma people. But when Chinese talk about nationalism, they mean China as a whole, or the Chinese people. There are 55 minorities and the Han nation in China, which is really rather complex when compared with other countries. The central government's minority policy focuses on tax-cuts, education priority and so on. The life of minorities really

changed a lot since 1949. The Han nation as the biggest nation in China, and also shows an inclusive attitude towards minorities. So discrimination, or other western-style nationalisms is rare in China. However, the author cannot deny that indeed there are some cases of discrimination.

As for the Chinese government's role, the author thinks that it is very helpful to the implementation of the Belt and Road Initiative. The author even judges that without the strong role of government, the Belt and Road Initiative cannot be implemented smoothly. As we all know, the main feature of the Belt and Road Initiative is infrastructure projects, since China has much more experience in this area. It is hard to profit from these kinds of projects in the short term due to large initial costs. It is more like a social welfare project, rather than a pure market-oriented project like food trade. So, we cannot expect many private companies to invest in projects like this, the only way is for government or state-owned companies to get involved. Only these actors can focus on long-term profit, and are capable of handling a long capital chain. Besides, investing in another country is a risk. For Chinese private companies, especially under the current situation, they can hardly take risks, and they are not familiar with foreign laws, environments, and markets. Compare that situation with Europe, where it is easy for a German company to invest in Hungary, because they are both EU Member States, they are familiar with each other's laws and have had contact for centuries. That is the biggest weakness of Chinese investment. Under these circumstances, private companies will think it over and over again to avoid risks before investing. If the main Chinese actors of the Belt and Road Initiative are private companies, then this initiative cannot be implemented so fast and broadly. Or maybe, at that time, foreign partners will criticize the Chinese side as an unreliable partner, because the Chinese (private companies) would always want to find the most profitable projects. With these criticisms, how could China learn high-tech and management skills from the outside?

The role of the government is also another guarantee for the implementation of the Belt and Road Initiative. Contrary to foreign opinions on the role of the government as a low-efficiency phenomenon, it is a highly efficient actor. Take the process of railway construction, for

example. In China, if the government plans to build a railway between two long-distance cities, which passes through several provinces, then central government will gather the heads of these provinces and formulate a plan, then assign tasks to these provinces. When a section of the railway is finished, all they need is a connection, the whole thing could be done in around one year. Compared with China, this kind of project is slow in foreign countries. Take the Baltic railway for example, this line was firstly proposed very early on to the EU, but work on the railway has not even started. Lithuania changed transition stations twice and the EU changed its commissioner for transportation, who moved this project from the top of the agenda. This can also be well illustrated by many cases in Central and Eastern Europe. More than 20 years have passed since, but connectivity in this region has still not improved by much. Every country has a large number of projects to change this situation, but either because of cost, or because of coordination between countries, many projects have just failed. From this point of view, the Chinese government shares its experience to its partners and uses its experience in cooperation with other countries. It can make sure that projects can be carried out without hesitation and delay, which is the basic pillar of mutual trust.

From the above, we can see that a combination of domestic needs and foreign policy is a common opinion about the Belt and Road Initiative. However, due to differing national economic conditions, China and its partners have different understandings of this point. According to Chinese economic conditions, the tools of nationalist sentiment and central government are useful tools which can help China to carry out its foreign policy, while this situation is different in foreign countries.

All in all, we can see from the above analysis that the difference between the perceptions of China and its partners towards the Belt and Road Initiative is based on their own experiences. Their different experiences of history, development, transition and other things, color their judgement of the Belt and Road Initiative, from which derive their different perceptions. The influence of great powers makes Chinese partners skeptical of its 'real' goal in this initiative. The transformation experiences of western-style economies makes them pessimistic to the Chinese domestic situation, and Chinese methods of implementation

of this initiative. All of these factors cause different perceptions. Another factor is that although many Chinese elites do propagandize the Belt and Road Initiative, they always focus on “what this initiative is not”, rather than “what this initiative is”. It makes people more confused, and makes the meaning of this initiative more opaque. This makes the situation worse.

Conclusion

In this article, the author tried to explain the reasons and logic behind the different perceptions of China and its partners. As you can see from the above, the main reason is that the two sides cannot understand each other well enough. That is also why the Chinese side proposed five kinds of connectivity as part of the Belt and Road's goals, that is: trade links; capital flows; infrastructural investment; policy coordination; and people to people exchange. However, the author takes people to people exchange as the first priority. When we really see things from the point of view of others, we can find that there are some paradoxes as hard obstacles for mutual understanding, which the author has shown in the above sections.

The first paradox is about market need, trade volume and investment modes. Many western countries always express concern about the Chinese way of investment and trade, as mentioned above. For example, in the CEE region, Poland complains about the trade deficit, Hungary complains that there has been no more greenfield-investment since 2009. However, firstly, trade is decided by the needs of the market. Poland has a big trade deficit with China, which means Polish products export less to China. The fact is that the Chinese market needs less Polish products. The famous Polish apple is not tasty for Chinese people. The EU and some European countries always stress the market economy status is not proper in China and that the Chinese economy is not open enough. But it seems that on the issue of trade deficit, they never realize what the market needs. If China will subsidize imports from Poland, the trade deficit will improve, but China will be faced with more critics. Secondly, the author has said in the

second part of the paper that the mode of investment of mergers and acquisitions is much safer for Chinese to invest in. Besides, mergers and acquisitions is a reasonable method in global business. So the first paradox is that when China behaves according to international rules or norms, its partners still criticize China. When China behaves in another way, they criticize even worse.

The second paradox is about ideology and Chinese intentions. These factors are combined together. Chinese partners take China as a big new power in the world, a status which requires China to take a role in some issues of global conflict. For example, in the Ukraine crisis, China chose a neutral position, which makes many countries unsatisfied. They consider it an irresponsible action by China. The deeper reason for this is that as a different ideological body, China's choice is important. In the cooperation with EU and European countries, the issue of ideological difference is always the first thing, like the cooperation with the Czech Republic, or with the European parliament. China has realized that avoiding the use of ideological words as much as possible in the international society alleviates this issue. China also puts pragmatic cooperation on the top of its agenda to make its partners not focus on ideological topics. China wishes to make a pragmatic environment to ensure the development of itself and its partners. But for Chinese partners, they perceive all moves by China as ideological ones, and their conclusion therefore is that of growing Chinese geopolitical ambition. They cannot split Chinese ideology and government policy, including in the Belt and Road Initiative, and 16+1 cooperation. Here is the paradox, if China chose to take part in the Ukraine crisis, or the Syria crisis, and condemn Russia, the USA or the EU, international society will definitely perceive this choice as a manifestation of ideologically charged Chinese geopolitical ambition.

The third paradox is about efficiency and the Chinese way of cooperation. The Chinese way is government-oriented. The government drives state-owned companies and its policies drive people. In China, a high-level official visit is the most important thing that can happen to a region. It is even a signal to businesses and an opportunity for cultural exchange. This is the impression of western countries to China. But the western way is totally different, where the influence of government is less. All of these factors make Western countries think that the Chinese way of cooperation is hard

to accept, since big companies are backed by Chinese government and not driven by the market. However, as the author mentioned above, Chinese government-led cooperation is highly efficient and short-term profit is not the main focus of this kind of cooperation. So, this is the main worry of Western countries but, at the same time, the biggest advantage of cooperation with China. If the body of cooperation is private enterprise, which concentrates on short-term profit, it can hardly invest in a power plant, highway, railway and so on, of course, except for several big multinational groups. If left to private companies, then the whole of the Belt and Road Initiative and 16+1 cooperation will never come to fruition. Under such circumstances, efficiency is low and foreign partners will complain more about the Chinese side. This is the third paradox, the role of Chinese government and the method of cooperation in the western imagination.

These paradoxes are the problems which, it seems, cannot be solved. According to the author's opinion, they are deeply rooted in the definition of "development". In China, economic development, the material improvement of people's lives is the first priority in "development". If people's lives improve and its economy blooms, all problems will be solved. However, in European countries, or in the western way, economic development is just part of "development". Human rights, democratic reform, and other related issues should be developed at the same time. Economic development does not necessarily bring about improvement in these areas. That is why China intends to focus on pragmatic cooperation under the Belt and Road Initiative and 16+1 cooperation, but its partners criticize the Chinese on other issues not related to pragmatic cooperation. In the future, how the two sides perceive each other's ways of thinking is the biggest challenge on the Belt and Road Initiative and 16+1 cooperation.

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SWOT Analysis and Related Countermeasures for Croatia to Explore the Chinese Tourist Source Market

Wang Qian

Abstract

Croatia is a land endowed with rich and diversified natural and cultural tourist resources. Traveling around Croatia, I was stunned by its beauty. However, I noticed that there were few Chinese tourists in Croatia. How can we bring more Chinese tourists to Croatia? How can we make them happy and comfortable in Croatia? And, at the same time, how can we avoid polluting this tract of pure land? Based on first-hand research work, I make a SWOT analysis of the Chinese tourist source market of Croatia and put forward related countermeasures from the perspective of a native Chinese. The positioning of tourism in Croatia should be ingeniously packaged. I recommend developing diversified and specialized tourist products, various marketing and promotional activities, simple and flexible visa policies and regulations, and other related measures to further explore the Chinese tourist source market of Croatia.

KEY WORDS:

SWOT analysis, Croatia, Chinese tourist source market, sustainable tourism, direct flight

Introduction

I worked in Zagreb, the capital of Croatia, for three years. During my stay, I walked almost all around Croatia. I travelled in Dalmatia for two weeks, visiting Zadar, Šibenik, Skradin, Trogir, Split, Hvar, Korčula and Dubrovnik. I toured Istria for a week, visiting Opatija, Pula, Rovinj and Poreč. I have also been to Plitvička jezera, Varaždin, Karlovac, Slavonski Brod, Osijek and other scenic spots in and around Zagreb. I also experienced the carnival in Rijeka. I was stunned by the beauty of Croatia. I was respected and trusted by the kind and friendly Croats.

However, I noticed that there were few Chinese tourists in Croatia. Most tourists were European. Only a few were Asian, and they mostly came from the Republic of Korea and Japan. How can we bring more Chinese tourists to Croatia? How can we make them happy and comfortable in Croatia? And, at the same time, how can we avoid polluting this tract of pure land? These questions are worth thinking about. I made a search for relevant information and data online, went to the Croatian National Tourist Board to get the statistics, and consulted academic experts, industry figures and local residents. Based on first-hand research work, I make a SWOT analysis of the Chinese tourist source market of Croatia and put forward related countermeasures from the perspective of a native Chinese.

Strength analysis

Tourist resources

Rich and diversified natural and cultural tourist resources of Croatia

Legend has it that when giving out land God forgot about Croatians. He had to compensate them with the most beautiful land on Earth which he had kept for himself. It is a land endowed with rich and diversified natural

and cultural tourist resources. The mysterious land is full of alien appeal, amazingly dotted with lavender, agave, olive grove and vineyard, which is most attractive and stimulating.

Nautical tourism along the Adriatic Sea is most significant. The west coast along the Adriatic Sea is picturesque and blue, featuring sea, sunshine and sand. Opatija was the first holiday resort. Later a large number of resorts sprang up along the coast and numerous islands. Hvar is rated as one of the ten most beautiful islands in the world. There are a total of 99 Blue Flag beaches (a world-renowned eco-label trusted by millions around the globe) and 19 marinas in 2017, the number of awarded sites ranking the 10th in the world (Blue Flag 2017). Croatia is world famous for naturism. It was the first European country to develop commercial naturist resorts. Quite a few visitors are involved in the industry of naturism.

Inland areas offer mountain resorts, agro-tourism and spas. The mountains in the middle are tranquil and green. The plains in the eastern part are fertile and golden. Zagreb is also a significant tourist destination.

Croatia boasts 15 UNESCO intangible cultural heritages¹, ranking the first in Europe, such as lacemaking, gingerbread craft, the festivity of the patron of Dubrovnik, and the Procession following the cross in Hvar. Croatia has 8 UNESCO cultural sites, such as the old city of Dubrovnik,

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1 Namely,

Community project of safeguarding the living culture of Rovinj/Rovigno: the Batana Ecomuseum
Mediterranean diet

Klapa multipart singing of Dalmatia, southern Croatia

Bećarac singing and playing from Eastern Croatia

Nijemo Kolo, silent circle dance of the Dalmatian hinterland

Ojkanje singing

Gingerbread craft from Northern Croatia

Sinjska Alka, a knights' tournament in Sinj

Two-part singing and playing in the Istrian scale

Festivity of Saint Blaise, the patron of Dubrovnik

Traditional manufacturing of children's wooden toys in Hrvatsko Zagorje

Spring procession of Ljelje/Kraljice (queens) from Gorjani

Procession Za križen ('following the cross') on the island of Hvar

Annual carnival bell ringers' pageant from the Kastav area

Lacemaking in Croatia

Source: United Nations Educational, Scientific and Cultural Organization: Intangible Cultural Heritage 2017.

Diocletian Palace in Split and the old city of Trogir. Besides, it has ² UNESCO natural heritages, namely, Plitvice Lakes National Park and Ancient and Primeval Beech Forests.² This is especially outstanding, miraculous and incredible, for Croatia is indeed a small country, both demographically and geographically.

In addition, Croatia has set up 8 national parks (for example, Brijuni, Krka, Mljet and Plitvička jezera) and 11 nature parks, such as Medvednica, Papuk and Kopački rit (Croatia: Full of life 2017). Ancient and medieval architecture of diversified styles are well preserved here, imbued with profound historical and cultural insight. Croatia offers gastronomical delights, especially seafood, such as salmon, squid, octopus, shrimp, seabass and cuttlefish, all really fresh and tasty. Moreover, people can enjoy trekking, hiking, sailing, diving, parasailing, sea kayaking and adventurous rock climbing.

Developing diversified and specialized tourist products and souvenirs

It is recommended that Croatia strengthen cooperation with Chinese travel agencies, establishing long-term strategic partnerships. General group sightseeing products are traditional and can be further expanded. Local Croatian travel agencies may apply to be qualified as travel agencies which can receive Chinese tourist groups. Also, an attempt should be made to include one or two top Croatian scenic spots (for example Dubrovnik, Split or Plitvička jezera) in the itineraries of major Chinese travel agencies in Europe (such as Panda, Mandarin Voyages, even Omega and Wang Dynasty), most possibly, to be included in their sightseeing itineraries in Southern Europe, together with Spain, Italy, Greece, Hungary etc. Furthermore, attempts should be made to cooperate with certified organizing travel agencies in China, to include one or two top Croatian

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2 Namely,
 Historical complex of Split with the Palace of Diocletian
 Old City of Dubrovnik
 Plitvice Lakes National Park
 Episcopal Complex of the Euphrasian Basilica in the Historic Centre of Poreč
 Historic City of Trogir
 The Cathedral of St James in Šibenik
 Ancient and Primeval Beech Forests of the Carpathians and Other Regions of Europe
 Stari Grad Plain
 Stećci Medieval Tombstones Graveyards
 Venetian Works of Defence between the 16th and 17th Centuries: Stato da Terra – Western Stato da Mar
 Source: UNESCO 2017.

attractions in their sightseeing itineraries in Southern Europe.

Meanwhile, explore and develop diversified, specialized and customized tourism products. I'd like to suggest some high-end tourist products here.

A photographic tour is highly recommended. Croatia is a beautiful country for photographers. There are so many picture-perfect scenes, the blue Adriatic Sea, the imposing medieval city of Dubrovnik, and the vast expanse of purple lavender in Hvar. Moreover, there are rare European storks. The migratory birds perch beside the river Sava from April to June, and then fly to their old nests in South Africa. The endangered species is definitely appealing to photographers. The photographic tour is lucrative, as it takes time to wait for the sunset, the ice wave, and enough light.

The honeymoon tour is also alluring and profitable. Croatia is reputed as a vacation hotspot. The newly-weds may stay in Hvar, Rovinj or Brač, and enjoy the sea, sand and sunshine. They have a lot to do, swimming, eating, sailing, diving, even parasailing, sea kayaking, or just relaxing, enjoying the leisure and pleasure of life. In Starigradsko Polje of Hvar Island, they may appreciate the champaign (open country) in a hot balloon. They may experience the colorful folk culture as well.

The island-hopping tour is unique, chic and trendy, derived from classic nautical tourism. Here I'd like to introduce an itinerary in which the guests depart from Split, jump to the island of Brač, hop to the island of Hvar, then to the island of Korčula, and finally arrive in Dubrovnik. Covering major attractions of Croatia, the itinerary is both fascinating and feasible.

Food is an indispensable part, as Chinese people enjoy eating. Croatia is rich in gastronomical offer, grilled seafood, grilled meat, čevapčići (a type of kebab, with minced meat), black beer, to name just a few. Local restaurants had better prepare English menus.

Souvenirs cannot be ignored as Chinese people are crazy about shopping. Although Croatia does not have world-famous brands, it does have specialties, such as necktie, wine, olive oil, cheese, honey, lace and lavender. The souvenirs must be uniquely explored and developed, nicely packaged, and reasonably and attractively priced.

Tourist facilities and service

Agreeable infrastructure, tourist facilities and service of Croatia

The tourist attractions in Croatia are easily accessible. They can be reached conveniently by boat, plane, car, bus or train.

The accommodation is cozy and inexpensive. Some people put the sign "sobe" in front of their house, indicating that they offer "private rooms" for tourists. The private accommodation is cheap, yet clean and pleasing, sort of a home away from home.

There are information centers in every attraction, which is very informative and helpful for tourists.

Further improving tourist amenities and service

In terms of facilities, it is a good idea to provide some self-help touring gear such as bicycles for tourists, as China is a kingdom of bicycles. Also, set up English road signs and put on more English explanations in attractions. I also visited Istanbul, and we can make a comparison between Dubrovnik and Istanbul. In Istanbul, we can find an English introduction, either long or short, in almost every scenic spot. However, in Dubrovnik and other classic attractions in Croatia, very few English explanations can be found. The rich tourist resources in Croatia are not well exploited yet.

Besides, cooperate with Chinese hotels, encouraging Chinese hotel companies to invest in Croatia, providing high quality service for Chinese tourists.

With regard to service, more English-speaking guides are needed. It is also necessary to begin to train some Chinese-speaking guides. Local Chinese can serve as temporary guides. As far as I know, Croatian people do not usually keep the time. In order to provide good service, the Croatian guides must be punctual, while meeting, receiving and seeing guests off.

Tourist environment

Favorable natural and human environment of Croatia

Croatia is blessed with a mild climate, warm in winter and pleasant in summer. It is sunny, not windy, thus very agreeable. It is a virgin land, with blue sky, fresh air, big trees, and an unpolluted environment. It is very safe in Croatia. You don't have to worry about the safety of food, air, property, or your personal life. Croatian people are very kind, warmhearted and friendly. They are quiet, refined and well-educated. Most of them can speak good English.

The prices are competitive and reasonable. Croatia joined the European Union in July 2013, but it has not joined the euro zone yet. When we do shopping in Germany, we have to multiply the price tag by 8. In Great Britain, multiply by 9. While in America, multiply by 7. However, the Croatian currency Kuna is almost the same as Chinese currency in exchange rate. I feel like I am just paying with RMB. The cost-performance ratio is rather high.

Adhering to sustainable tourism to protect the vulnerable environment

Many Chinese cities are shrouded in thick haze now. To take warning from it, sustainable tourism development is a must for Croatia. The bearing capacity of attractions in Croatia is very limited. We must be environmentally sensitive concerning the position-setting of Chinese tourists to Croatia, so as not to spoil the pure environment.

In my opinion, the Chinese tourist market of Croatia should be positioned as high-end customer sources, specifically, for those well-off and well-educated people who have already been to France, Italy, Germany and other major European countries and are seeking for specialized tourist products. They have strong consumption capacity, capable of bringing tourism income to Croatia. Meanwhile, as they are small in number, they do not pose huge pressure on the delicate environment. And the tourists must be reminded to protect the vulnerable environment. Take nothing but photos, leave nothing but footprints.

Weakness analysis

Spatial distance

Long distance between China and Croatia with no direct flight

Croatia is far away from China, while Chinese people prefer to go to nearer and cheaper resorts like Thailand, the Philippines, Bali Island in Indonesia, even the Maldives. There is no direct flight between China and Croatia. To go to Zagreb from Shanghai, I usually transit in Istanbul, or Moscow, or Doha, or Frankfurt, which is tiring, troublesome and time-consuming. We can compare Croatia with Turkey. Geographically speaking, Istanbul is just a little closer to China than Zagreb. However, every year Turkey attracts many more Chinese tourists than Croatia. And one of the major reasons might be the opening of direct flight between China and Turkey, which greatly facilitates the exchange of tourists.

Cooperating with Chinese airlines and open direct flight between China and Croatia

Croatian airlines may strengthen cooperation with relevant civil aviation enterprises in China, and endeavor to open a direct flight between China and Croatia. At the beginning, there may not be enough passengers, but the word-of-mouth advertising will definitely bring lots of Chinese people to Croatia, thus ensuring the economic profits of airlines while benefiting the Chinese tourists to Croatia.

Visa formalities

Croatia not a Schengen state yet and inconvenience for Chinese people to go through visa formalities

Croatia is not a Schengen state yet, which is most obstructive. To enter Croatia, Chinese people have to go through visa formalities, which is rather complicated and inefficient. However, according to the regulations

on the website of the Croatian Embassy in Beijing, "All visitors who are holders of valid Schengen documents, as well as of the national visas and residence permits of Bulgaria, Cyprus, and Romania do not require an additional (Croatian) visa to enter Croatia" (Ministry of Foreign Affairs of the Republic of Croatia 2017). So, for those Chinese tourists who originally plan to apply for Schengen visas, they can visit Croatia by the way, without an additional Croatian visa, which is somewhat encouraging.

Striving to become a Schengen state and simplifying or waiving visa formalities for Chinese people

Croatia joined the European Union on 1 July 2013. And it will, in due time, accede to the Schengen Convention and become a Schengen country, which can strongly facilitate the trip of Chinese tourists in Croatia and other Schengen states.

Easy, simple and flexible visa policies and regulations are strongly recommended. Thus, it is essential for Croatia to make great efforts to join the Schengen zone in the near future, and moreover, to grant Chinese tourists a visa waiver program or visa on arrival, thereby further simplifying or waiving visa formalities for Chinese people.

Payment mode

Croatia not in the euro zone yet and China UnionPay card still not accepted in Croatia

Croatia joined the European Union on 1 July 2013, but it has not joined the euro zone yet. The Croatian local currency is called Kuna, which is almost the same as Chinese RMB in exchange rate. The price level of consumer goods and services in Croatia is comparatively lower than that of euro zone countries. In addition, China UnionPay (China UnionPay 2017) card is still not accepted in Croatia. As a result, Chinese tourists usually have to first convert RMB to euro, then change euro into Kuna. If they haven't used up all of their cash, they will have to convert Kuna back to euro, which is somewhat troublesome, but not really disturbing. Anyway, the price is acceptable.

Looking forward to the opening of China UnionPay service in Croatia

Due to the continuous economic depression and high unemployment rate, Croatia is not in a rush to join the euro zone. We might as well wait and see. Meanwhile, China UnionPay is likely to open payment services in Croatia in the future, so that Chinese tourists can enjoy the convenience of paying with credit cards in Croatia. We may look forward to the opening of the China UnionPay service in Croatia.

Opportunity analysis

Tourism statistics

Continuous economic depression and significance of tourism industry in Croatia

In accordance with the 2015 Statistical Yearbook of the Republic of Croatia, the annual gross domestic product of Croatia has been continuously decreasing, reflecting the on-going economic depression and recession in Croatia (See Table 1). Yet the gross domestic product per capita in 2014 still exceeds 10,000 euros, indicating that Croatia is rated as a developed country as before.

Table 1: Gross Domestic Product, Annual Calculation

	2010	2011	2012	2013	2014
Total population	4 296 000	4 283 000	4 269 000	4 254 000	4 236 000
Gross domestic product, market prices (unit: million euro)	45 022	44 737	43 959	43 516	43 045
Gross domestic product per capita (unit: euro)	10 479	10 446	10 297	10 228	10 162
Growth rates (unit: %)	-1,7	-0,3	-2,2	-1,1	-0,4

However, in the meantime, the total tourist arrivals have been steadily on the rise, reaching more than 13 million in 2014 (See Table 2). The number of foreign tourists is more than 10 times that of domestic tourists in 2014. The total number of tourists is 3 times as many as its population in 2014. And the percentage of receipts from the tourism industry accounted for 17.2% of total GDP in 2014 and up to 18.1% in 2015 (See Table 3). Therefore, the tourism industry is really crucial and significant in Croatia, especially inbound tourism.

Table 2: Tourist Arrivals by Country of Residence

	2010	2011	2012	2013	2014
Total	10 604 000	11 456 000	11 835 000	12 434 000	13 128 000
Domestic tourists	1 493 000	1 529 000	1 466 000	1 485 000	1 505 000
Foreign tourists	9 111 000	9 927 000	10 369 000	10 948 000	11 623 000
Germany	1 525 000	1 661 000	1 853 000	1 932 000	1 989 000
Slovenia	1 017 000	1 100 000	1 054 000	1 067 000	1 102 000
Italy	1 018 000	1 150 000	1 051 000	1 017 000	1 061 000
Austria	810 000	893 000	946 000	968 000	1 019 000
Czech Republic	606 000	638 000	647 000	652 000	661 000
Poland	454 000	495 000	544 000	636 000	630 000
France	388 000	395 000	418 000	449 000	441 000
United Kingdom	241 000	256 000	307 000	389 000	429 000
USA	133 000	151 000	174 000	220 000	256 000
Korea, Republic of	18 000	33 000	47 000	74 000	264 000
Japan	147 000	132 000	155 000	159 000	177 000
China	13 000	22 000	43 000	42 000	61 000

Source: Croatian State Bureau of Statistics 2015.

Table 3: Travel related revenues

	2014	2015 (Preliminary data)
GDP (in million euro)	43 060	43 845
Travel related revenues (in million euro)	7 402.3	7 949.8
Share of tourism in overall economy in %	17.2	18.1

Source: Ministry of Tourism of the Republic of Croatia 2016.

In 2014, the most numerous foreign tourist arrivals come from Germany, Slovenia, Italy, Austria, the Czech Republic and Poland. These countries are mostly located in Europe, close to or adjacent to Croatia. Distance is a critical element. There are less tourist arrivals from America and Asia. Although Chinese tourists are growing continually, the absolute figure is far from satisfactory. In 2014, the total Chinese tourist arrivals in Croatia were estimated at 61 000, accounting for just 0.46% of total tourists that year. By contrast, Japanese tourist arrivals were 177 000. And tourist arrivals of South Korea increased drastically in 2014 and amounted to 264 000, outnumbering Japanese tourists for the first time.

Attaching much importance to the exploration of potential Chinese tourist source market

The State Council of China issued a significant document "On Speeding up the Development of Tourism" in 2009. For the first time tourism was positioned as the strategic pillar industry of China. It is quite a favourable policy.

China is a sizable customer market, with a population of 1.4 billion people. According to the "Annual Report of the Development of China's Outbound Tourism in 2016" (China Association of Travel Services 2016), China's outbound tourists reached 117 million person times in 2015. In terms of absolute number, China has become the world's largest outbound tourism market.

China is a huge strategic tourist source market to be explored and cultivated. However, the current situation of Chinese group tourists and

individual tourists in Croatia is not inspiring.

The Republic of Croatia and the People's Republic of China signed a Memorandum of Understanding between the Ministry of Tourism of Croatia and the State Tourism Administration of China in 2003. As a result, Croatia was listed as a tourist destination country for Chinese citizens going abroad at their own expense in 2003.

At present, the sightseeing or holiday trip to Croatia takes the form of group tourism, organized only by certified travel agencies. It is not open for individual tourism yet. China has made a list of agencies that are certified to organize group tourist travel, and there is a list of Croatian agencies that are certified to receive Chinese tourist groups in Croatia.

However, the above stated rule does not apply to tourist agencies in Taiwan. They can cooperate with any Croatian agency. I do find some Taiwanese in Croatia.

Limea Travel (Limea Travel Zagreb D.O. 2017) is the only local Chinese travel agency in Croatia, focusing on sightseeing trips in Eastern Europe, mainly Croatia and Hungary. Its classic 8-day itinerary in Croatia includes Zagreb, Pula, Poreč, Opatija, Plitvička jezera, Zadar, Trogir, Split and Dubrovnik.

The individual Chinese tourists are mainly those who are living, studying, working, visiting relatives or friends in Croatia or in Europe. Some are backpackers. They usually travel to the surrounding countries, such as Italy, Austria, Hungary, and then they would like to visit Croatia. Therefore, they visit Croatia just by the way, not specially and deliberately.

Croatia is usually not included in the itineraries of renowned Chinese travel agencies in Europe, such as the Panda of Germany, Mandarin Voyages of France, Omega and Wang Dynasty of Great Britain.

Consequently, much importance should be attached to the exploration of potential Chinese tourist source market.

Threat analysis

Brand popularity

Chinese people knowing very little about Croatia

Chinese people know very little about Croatia, or even misunderstand Croatia. In their mind, Croatia has just been separated from former Yugoslavia after the War of Independence, and is now still in chaos, and thus somewhat turbulent and unsafe. However, those who have been to Croatia all like it, with no exception. Hence, above all, we must let Chinese people know that there is a beautiful country called Croatia. Croatia boasts 15 UNESCO intangible cultural heritages, 8 UNESCO cultural heritage sites, and 2 UNESCO natural heritages, which is fantastic and can be a selling point indeed. It is peaceful and picturesque. And it is very safe. The importance of marketing and promotion, therefore, can never be overstressed.

Positioning accurately and doing much promotion and publicity in China

Obsessed and enlightened by the positioning theory of Jack Trout (Wikipedia 2017), one of the founders and pioneers of positioning theory, I think the positioning of tourism in Croatia must be rather unique, characteristic and differentiated. However, the tourist resources of Croatia tend to be rich and diversified. How to ingeniously package Croatian tourism? Here I suggest one simple, direct and easily understandable marketing slogan, "the most popular resort of Europeans", which can cater to the group psychology of Chinese consumers.

Besides, I'd like to recommend differentiated activities for Croatia to intensify tourism promotion and publicity in China.

The Croatian National Tourist Board³ may establish its representative and branch office in China, and set up an official Chinese website, making it

3 More information is available at <http://business.croatia.hr/en-GB/Croatian-national-tourist-board/Representative-and-branch-offices>

easier for Chinese tourists to acquire updated tourism information about Croatia.

Traditional print media is direct and practical. More brochures, pamphlets, picture albums, and other promotional literature in both English and Chinese should be placed in tourism information centers and travel agencies both in China and Europe.

I toured all over Croatia independently, with the help of a book, "Croatia, secret garden of Europe (Hrvatska, tajni vrt Europe)", written by Mr. Xu Huili. It is a helpful and informative book for Chinese self-service tourists in Croatia. The tourism bureau concerned in China may have it published in China and cooperate with the author to arrange a book launch to publicize Croatia to more Chinese people.

The publicity of TV programs is most intense. The Croatian National Tourist Board may finance a reputable TV station in China to come to Croatia to shoot scenic films, collaborating with well-known Chinese film directors to shoot movies in Croatia. Besides, cooperate with Chinese celebrities, film stars, sports stars and talents, inviting them to hold weddings or other events in Croatia, thus well popularizing Croatian local conditions and customs. In addition, work on special television programs together with Chinese counterparts. For example, the renowned engineer and inventor Nikola Tesla was born in Smiljan, Croatia. And the famous merchant and traveler Marco Polo was born in Korčula, Croatia. Both can be incorporated into scientific and educational programs and documentaries, thus broadening the audience. If possible, provide scenic films for Chinese TV stations, have video clips transmitted in China, and broadcast TV commercials in China.

Promotion on the internet cannot be underestimated either. Post the promotional materials and tourism advertisements onto the destination exploration section of Chinese tourism websites, such as www.ctrip.com, www.tuniu.com, www.lvmama.com, www.springtour.com, etc.

Furthermore, try to attract big Chinese companies to reward their employees with a trip to Croatia. Being a high-end product, the incentive tour is most lucrative and promising.

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