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China and Central and Eastern European Countries within '16+1': Group or Bilateral Relations?

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ABSTRACT

Objective: The article focuses on developments within the '16+1' initiative: It aims to analyse whether the relations between China and CEECs are more multilateral or bilateral in nature and discuss the implications for business.

Research Design & Methods: We review the literature on the '16+1', overview international trade and investment between CEECs and China, development of institutional framework and examine the case of China-Slovenia economic relations in greater detail.

Findings: Highly intensive diplomatic relationships since the establishment of the initiative in 2012 have evolved into deeper, though unbalanced economic relations, resulting in net trade deficit and high concentration in trade and investment.

Implications & Recommendations: Formally multilateral platform, '16+1', kept the trade policies and business strategies predominantly still within bilateral relations strategies of national countries. Multilateralising the '16+1' remains an opportunity for CEECs and the EU. Secondly, in most countries strong bilateral cooperation with China is a part of efforts to diversify their international economic cooperation and a catching up process parallel with the growing role of China in the global economy.

Contribution & Value Added: Monitoring trade and investments between CEECs and China provides insights to describe CEECs patterns of economic globalisation, institutional framework for entrepreneurship and information how the '16+1' has influenced globalisation patterns in the EU trade and investment, rethinking of EU-China cooperation and competition and cooperation among CEECs.

Article type: research article
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JEL codes: F13, F21, F23

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INTRODUCTION

The new reality of tectonic changes in the global economy, increasing importance of emerging economies and structural changes transforming trade in a more intra-firm trade within global value chains influenced trade and investment policy changes in Central and Eastern European countries (CEECs). They also stimulated a new generation of trade and investment agreements generated as part of China's major globalisation Belt and Road Initiative (BRI) initiative. Their role in trade liberalisation and the distribution of costs and benefits is dramatically changing due to the changing structure of global trade with an increasing role of services and low level of tariffs on manufactured goods (Rodrik, 2018; Baldwin, 2011). One of such innovative approaches to regional cooperation, established in 2012, is the '16+1'[1]; the initiative that serves China's vision to increase its political influence in the world and on CEECs by promoting China-European Union (EU) relations. The '16+1' initiative is regarded by Chinese as 'one of the most important achievements of China' (Tianping, 2017; Pepermans, 2018). It can be regarded as part of One Belt One Road (BRI), a major long term China strategy of materialising China's advantages in the world, which aims to facilitate economic development in a vast region covering sub-regions in Asia, Europe and Africa and promote greater integration among the 60-plus countries along the Belt and Road (Huang, 2016). 'CEEc, providing a strategic link between Asia and West Europe, are vital to the success of the BRI' (HKTDC, 2016, p. 2).

Such cooperation supports core strategic Chinese interests in strengthening relations with the EU. The '16+1' has brought change, together with both great expectations and concerns. China may utilise the scheme for political gains. 'Some CEECs reiterated their ability to serve as China's gateway to markets in the EU, the world's largest economic block' (Tianping, 2017). It can be materialised through such a 'soft belly' of the EU, some say. 'Not surprisingly the EU has the lukewarm and reserved stance towards the '16+1' China-CEE cooperation' (Turcsányi, 2017). Some claim that 'the '16+1' scheme is a part of broader divide and rule Chinese policy' (Godement & Vasselier, 2017, p. 65), while others do not agree that 'European concerns over China's political objectives are justified'[2] and claim that so far they see little evidence of a strategic attempt on China's part to 'divide' CEECs from the rest of the EU (Hellström, 2016; Pepe, 2017). New formal 'friends' of the '16+1' (like Portugal from 2018) are increasingly likely. China has, on the other hand, also taken some risk and started developmental initiative, since CEECs still represent a region with a relatively slower catching-up process within Europe.

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[1] The '16+1' format is an initiative by the People's Republic of China aimed at intensifying and expanding cooperation with 11 EU Member States and 5 Balkan countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia) in the fields of investments, transport, finance, science, education, and culture. In the framework of the initiative, China has defined three potential priority areas for economic cooperation: infrastructure, high technologies, and green technologies. The initiative was inaugurated by the first 16+1 Summit held in Warsaw, Poland, in 2012.

[2] There are two main concerns. First, China may intensify efforts to use the influence it is building in CEECs to frustrate aspects of the EU's common China policy. Second, some 16+1 countries may use strong ties with China to buttress negotiating positions against Brussels, such dynamics could undermine Brussels' effectiveness in often fractious relations with its second-largest trade partner. One concern is that China's push for guaranteed contracts for its companies will undermine the EU's single market rules on public procurement.

Since 2012 developed world economies have experienced a relative stagnation in the value of their trade in goods, while China has continued progression as one of the world's leading trading nations. Its share in the world exports for goods and services rose from 9.0 per cent to 13.6 per cent during the period 2006-2016, while its share of imports grew at an even faster pace, increasing by 4.9 percentage points to reach 12.0 per cent in 2016 (Eurostat, 2017c, p. 28).

Political relations between China and CEECs were recently more intensive than with any other region. High frequency of '16+1' summits was accompanied by a number of lower-level gatherings, several sectoral coordination mechanisms across CEE and local cooperation between CEECs and Chinese cities and provinces. However, the general assessment after five years of existence was often summed up as '*hot politics, but cold economics*' (Turcsanyi, 2017). The initial expectations – to reach USD 100 billion trade by 2015 – were not achieved; in 2017 trade in goods reached EUR 57.3 billion, only 10 per cent of the total EU-China trade.

The initiative has been thus evaluated as '*work in progress*' (European Parliament briefing, September 2018) and closer monitoring has started from both CEE countries within the initiative and a rising number of external observers. The Chinese influence in the CEE region – '*chinfluence'* [3]-is getting increasing attention. Discussions on the effects of cooperation and calls for a more balanced trade and reciprocity of market access emerged (among CEECs, the EU and observers) more intensively after the 2018 Sofia Summit. The EU, as a 'traditional observer' gets accompanied by Austria, Belarus, Greece, Switzerland, the European Bank for Reconstruction and Development. The fear is that the '16+1' is threatening the EU's one voice strategy in its relationship with China and Western Balkan membership 'candidate' countries, the impact on the EU's internal political dynamics and the process of catching-up new CEE members in their economic development with the 'old' EU Member States. Next, changes in institutional frameworks are also influencing entrepreneurial activity.

This contribution aims to identify trends and (potential) changes in institutional framework and economic cooperation between CEECs and China, which are relevant for entrepreneurship theory and practice. Monitoring trade and investments in CEECs provides insights to describe their patterns of economic globalisation and information on how the '16+1' has influenced globalisation patterns in the EU trade and investment. Our hypothesis is, that formally multilateral platforms, such as '16+1', kept the trade policies and business strategies predominantly still within bilateral relations strategies of national countries. Secondly, in most countries strong bilateral cooperation with China is a part of efforts to diversify their international economic cooperation (originating also from entrepreneurial initiatives) and the catching up process parallel with the growing role of China in the global economy. Using a multilevel and mix method approach we firstly review bilateral trade and investments of CEECs with China. Next, we examine the case of China-Slovenia economic relations, a country placed at the periphery of the '16+1' platform, but strongly connected with trade and investment in the EU and top innovating country among CEECs. In conclusions we sum up findings and implications.

[3] Chinfluence is a new project dedicated to analysing the Chinese impact in the region, mirroring similar research undertaken by think-tanks in the EU Member States not part of the 16+1 format (http://www.chinfluence.eu/)

MATERIAL AND METHODS

We review relatively scarce literature on the '16+1' and proceed with an overview of developments in international trade and investment of CEE with China. Analysing economic links between CEECs and China does not extend beyond trade and investment transactions into other domains, which may be impacted by '16+1', such as cultural relations, economic migration, income distribution or wage developments, financial flows, the application of information and communication technologies, environmental impacts or geopolitical aspects. The overview of formal institutions is, however, added. To capture the extent and diversity of CEE-China cooperation we use a multilevel and mixed method approach; the regional perspective of macro data is complemented by a case study of bilateral relations. Exploring the diversity of bilateral relations within the '16+1' framework and a case study of bilateral relations can improve the understanding of Chinese engagement in CEE. It can also explain the creation and functioning of the '16+1' platform, which is essential for understanding the Chinese foreign (trade) policy, an influence on entrepreneurial activity and business strategies of CEE firms.

The regional comparative overview is based on the Eurostat data, as 11 of countries within the 16+1 initiative are the EU-members (CEE-11) and five of them are Western Balkan countries, among them the EU candidates and potential candidates. The data draws on information from Eurostat's online database; based on the European Statistical System (ESS) and the European System of Central Banks (ESCB), as well as other official international sources, the United Nations (UN) and the World Trade Organisation (WTO).

A case study on China-Slovenia economic relations presents an example of a smaller peripheral country – of both the EU and the '16+1', but ranking high in innovation and trade integration. As such it can demonstrate the developments 'of a hub and spoke' effects of the '16+1'. The analysis uses multiple sources, such as the Bank of Slovenia, the Ministry of Finance and the Slovenian Chamber of Commerce, while we examine entrepreneurial barriers and problems by reviewing interviews and surveys carried by the Chamber of Commerce and some specific research (Raškovič, 2018; Polajžer & Turk, 2013; Ivančič, 2009).

LITERATURE REVIEW

The pace and the scale of China's economic transformation have no historical precedent (Zho, 2012, p. 103). Its economic growth of the previous three and a half decades was based on several key factors: a sequence of market-oriented institutional reforms, including openness to international trade and direct investment, combined with low wages and a favourable demographic structure (Wei *et al*., 2017). China has made tremendous changes in production, but also in the volume and structure of global trade in the last decade. The biggest change in the structure of global exports of goods was an expansion in the share of Chinese exports, which rose from 11.0 per cent of the total value in 2006 to 17.0 per cent by 2016. In 2016, China became the leading exporter of goods (EUR 1.9 trillion), while the United States was the largest importer of goods (EUR 2.0 trillion). In both cases the EU-28 occupied the second position, with both exported and imported goods valued at EUR 1.7 trillion. The EU-28, China and the United States have been the three largest players in international trade of goods since 2004 (when China outperformed Japan). In 2007, China surpassed the United

States as the second largest exporter of goods in the world and this pattern was reproduced again in 2014 when China overtook the EU-28 to record the highest share of exported goods, a position that was maintained in 2015 and 2016 (Eurostat, 2017c). In 2016 the EU adopted a new strategy on China (EC, 2016) promoting reciprocity and fair competition across all areas of cooperation. The strategy also includes a trade agenda with a strong focus on improving market access opportunities, including negotiations on a Comprehensive Agreement on Investment. It is also calling on China to engage with ambition at a multilateral level. China is now the EU's second-biggest trading partner following the United States and the EU is China's biggest trading partner. China and Europe trade is on average over EUR1 billion a day, bilateral trade in services amounts to more than 10 per cent of total trade in goods, and the EU's exports of services make up 19 per cent of the EU's total exports of goods. The EU has currently a trade deficit with China, however the EU's overall trade balance is positive.

Firstly, we examine the developments and diversity within the '16+1' and proceed with a case study of China-Slovenia cooperation.

Developments and Diversity in '16+1'

China engaged 16 CEECs under the '16+1' cooperation in 2012 when the consequences of the 2008 financial crisis were still strongly present in the region. CEECs enthusiastically embraced this form of cooperation as a chance to diversify their EU-focused economic relations and strengthen the resilience of their economies to 'next' crises. The '16+1' format, considered CEECs' advanced stage of development and evolved in a slightly different way from other China-led regional platforms. The idea of a multilateral approach and multilevel governance is manifested in high frequency of '16+1' summits[4] along with a number of lower-level gatherings, several sectoral coordination mechanisms across CEE and local cooperation between CEECs and Chinese cities and provinces. Over the last five years, the frequency of multi-level and sector-specific meetings or other consultations has increased. Nevertheless, China has kept intensive bilateral ties. '*Looking for the future, the bilateral cooperation under the framework of the '16+1 Cooperation' still has huge potential and opportunities and will be one of the major points of growth*.' (Ping & Zuokui, 2017, p. 6). Most of the actual business though is transacted bilaterally, like in FOCAC and summits are largely venues for strings of bilateral meetings between Chinese officials and leaders from participating countries although CEECs basically discard such an '*African'* approach (Godement & Vasselier, 2017, p. 66, p. 73; Buckley & Liu, 2009). This reflects huge differences among CEECs in many dimensions. Among them there are the EU members and those aspiring to be ones. Next, there are huge differences in their development level and structures of the economies. Lastly, all the countries have also their own individual agendas for such a cooperation. Although the '16+1' looks like a multilateral scheme it is basically primarily a framework facilitating bilateral cooperation.

Such an approach resulted in a modest cumulative change in 2012-2017 period and very diverse and unbalanced bilateral economic relations of individual CEE economies with China. Trade in goods between China and all CEECs reached EUR 57.3 billion in 2017, while the total EU-China trade was EUR573 billion. Between 2012 and 2017, China-CEECs trade

[4] Past annual summits were held in Warsaw (2012), Bucharest (2013), Belgrade (2014), Suzhou (2015), Riga (2016), Budapest (2017) and Sofia (2018), (which took place only eight months after the 2017 Budapest summit, shortly before the 20th EU-China summit in July 2018).

in goods increased only by EUR7 billion, at a much slower pace than during the three preceding years[5], when it grew by EUR 20 billion. Trade between China and CEECs faced high growth already before 2012, and since then increased at a much slower pace. Trade flows are unbalanced since Chinese exports to CEECs are expanding much faster than CEEc exports to China. Based on the Eurostat data, all CEECs run a trade deficit with China.

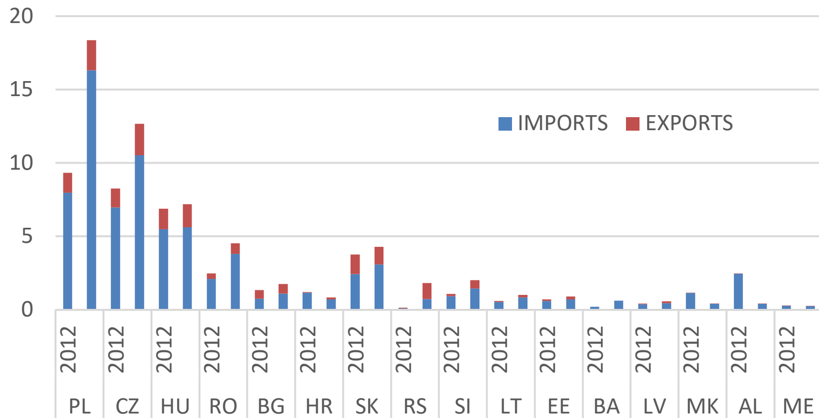

Figure 1. China- CEECs trade in goods in 2012 and 2017
Source: Eurostat (2017b) (http://madb.europa.eu/madb/statistical_form.htm). Grieger & Claros (2018).

The second characteristic is a huge variation in bilateral trade relations (Figure 1) and the third is strong concentration on few partners. Trade in goods with larger EU members, such as Poland, Czech Republic (these two have also made the highest growth in the studied period). Their trade rose much faster than trade with the Western Balkan countries, apart from Serbia, which dramatically increased imports from China. It could demonstrate that Serbia as a candidate for the EU membership is regarded by China as a one of the bridges to the EU, reflecting historically and culturally embedded long term China's policy. In general, China's trade with the Western Balkans is still insignificant. Size matters, as lager countries within both groups (Poland, Czech Republic, Hungary, Serbia) trade more than smaller countries (some, like Macedonia, Albania and Montenegro have even faced a decrease in trade). CEECs' trade with China exhibits not only high geographical, but also product concentration, with few changes in product specialisation over time. CEE economies increasingly import higher technology products from China, while exports to China remain largely low-tech. Overall, CEECs have so far failed to export more value-added and high-technology goods to China (Éltető & Szunomár, 2016; Simurina, 2014).

Large variation is also seen in terms of foreign direct investment (FDI) (Figure 2). Though BRI resulted in increased Chinese outward FDI (Du & Zhang, 2018; Kang *et al*. 2018), the 16 CEECs as a whole did not receive a substantial FDI inflow during the 2012-2016 period since the global economic crisis hit them with a delay and more than the rest of Europe. In 2016 CEECs attracted a small share of the global FDI (1.5 per cent), much lower than in 2002-2008 (with shares of 3.8 per cent – 6 per cent of the world total)

[5] It may reflect that CEECs have regarded the expansion of export with China as part of their crises exit strategy.

(UNCTAD, 2018). China reacted as other investors, and contrary to its large inflows into the 'old' EU Member States, Chinese investment in the CEEC-16 was more moderate. Only a small portion of 297 Chinese FDI projects in Europe in 2016, about 25 per cent, landed in CEECs. CEE attracted low share of total FDI stock although globally the attractiveness of the region is improving, and coming third after Western Europe and North America and before China (EY's Attractiveness Survey, 2017). The favourite destinations of FDI in CEE in 2016 were Poland, Czech Republic and Romania, in contrast to Hungary, Slovakia and Lithuania, with negative flows in that period, but large FDI inflows before the economic crisis. Often, particularly in the Western Balkans, investment took the form of loans for infrastructure construction (in transport and energy) rather than FDI.

China was not among top five foreign investors in any of the 16 countries. Figure 2 highlights trends and variation in FDI stocks among CEECs-16 in 2012-2016 period. Chinese FDI is highly concentrated on the biggest CEECs, especially the EU members. The agglomeration effect and the role of previous Chinese investments had already been identified along BRI (Kang *et al.*, 2018a). Serbia is the only Western Balkan country that has attracted sizeable FDI from China. Until 2015, Hungary had been the leading FDI recipient, ahead of Poland and Romania, also due to its close political ties with China and its large Chinese diaspora. In the Czech Republic, FDI stock surged in 2015 and 2016, after a diplomatic U-turn since the elections in 2013, when the country shifted from being China's biggest critic among CEECs to one of its most vocal proponents. A comparatively high level of Chinese FDI stock in Latvia is likely to be linked to the country's golden visa schemes and to real estate investment by Chinese citizens.

Some smaller CEECs have started to attract Chinese FDI as well, although at comparatively low levels. Some of China's infrastructure construction projects (although mainly financed by loans) in the CEECs are lagging behind plans. CEECs, as the EU members, have to follow the EU norms and regulations. The EU candidates also have to take them into consideration not to become a barrier to their EU membership.

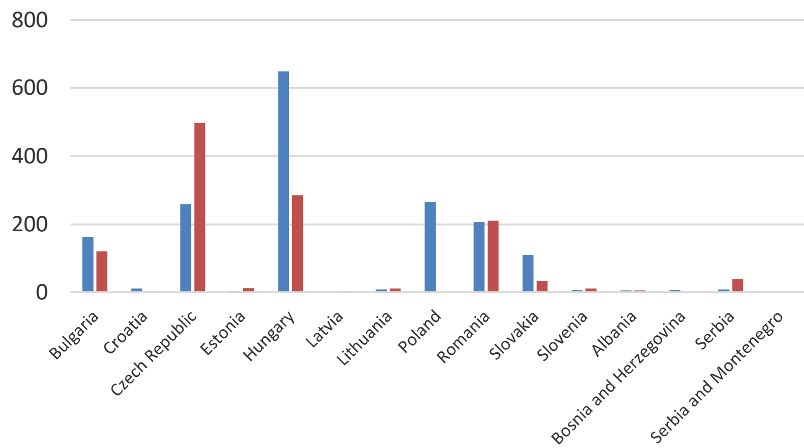

Figure 2. China's FDI stock in the CEECs, 2013-2016

Source: Eurostat (2017b). (no data are available for Bosnia and Herzegovina; only 2013 data exist for Montenegro), Grieger & Claros (2018) UNCTAD.

China's investments are primarily guided by its interest within BRI in the region to better connect to the EU market through new intermodal transport channels as time and cost saving alternatives to existing longer ones. Chinese firms were found to invest more along the 'Belt and Road' route after the BRI was launched (Kang *et al*., 2018a); especially large state-owned listed firms (Liu, 2018). Hence, transport and energy investment and infrastructure construction have been China's priorities for the CEECs. This matches the CEEC' interest in improving transport and energy infrastructure. The 2017 IMF report (Atoyan *et al*., 2018) on the infrastructure gap in the Western Balkans states that with the present annual public investment rates it would take the region about 33 years to catch up with the EU level of capital stock per capita. As for the entry mode of FDI, since 2011 Chinese greenfield investment has decreased in favour of acquisitions and has been more common in the EU-11 than in the Western Balkan countries. However, as wages have risen significantly in China but have remained comparatively low in the CEECs, this has created incentives for China to relocate production to the EU's periphery, which may serve increasingly as an assembly base of products for the EU markets (tariff-jumping FDI). In the manufacturing and services sectors, China's market-seeking and efficiency-seeking motives have led to both greenfield investment and acquisitions.

The diversity of bilateral ties of 16 CEECs with China has been classified by Oehler-Şincai (2017, p. 13) The matrix has four different groups with regards to the position of the country in the EU and its attitude to cooperation intensity in the '16+1' format:

1. Active participants ('champions', 'leaders') include the Czech Republic, Hungary, Poland, and Serbia. All are Euro-sceptic and all are China's strategic partners.
2. Ambitious partners include Bulgaria, Latvia, FYR Macedonia, Romania and Slovenia. Most of them are Euro-optimists or Euro-moderates (apart from Bulgaria, which is Euro-sceptic).
3. Followers include Croatia, Estonia, Lithuania and Slovakia. These countries are known as Euro-optimists or Euro-moderates.
4. Laggards involve Albania, Bosnia-Herzegovina and Montenegro, known as Euro-optimists/Euro-moderates.

Oehler-Şincai (2017, pp. 13-15) further concludes that a higher degree of dependency on the EU market and capital does not ensure a positive attitude towards the EU. The highest growth in trade was namely reached with Euro-sceptic countries (Visegrád group, Bulgaria and Serbia), while the Euro-optimists and Euro-moderates represent less than a half of the CEECs in the 16. Even more recent Chinese initiatives, meant to consolidate the economic ties with CEE-16 through direct lending (especially for infrastructure), trade and investment have not ensured automatically a positive attitude towards China, though, however, these countries are ready to intensify their cooperation with China, as a complementary factor for their economic growth.

CEECs' relations with China are not formally coordinated (and do not seem to be informally coordinated either); though the initiative has offered the opportunity to create a new CEEC '*growth pole club*' (Ping & Zuokui, 2017, p. 11), they only modestly upgraded 'previously weak partnerships' and rather reacted as competitors. China is an increasingly influential actor and is active in shaping the foreign relations of other countries (Shen & Watters, 2016; Zhang & Hao, 2018). A platform of 16 CEE countries is therefore too weak to advance these countries' interests vis-à-vis China and a more powerful EU platform may be complementary. However, the platform generates a networking pushing effect, which stimulates the CEE participants to keep the pace with the active players in order not to be left behind. Their efforts to institutionalise economic cooperation (through a variety of Councils, Contact Mechanisms and Secretariats across different sectors and associations) thus also vary greatly (Table 1). Poland is the most active member among the CEECs, and eight other countries have one institutionalised area of cooperation, often in line with their recognised priority by each participant, which provides more efficiency in organising the '16+1' activities.

As a big country the Chinese think big, they prefer to deal with large countries or groupings to small ones. They regard CEEC partners in the '16+1' on the one hand as a homogeneous group (which is not the case), and on the other hand they differentiate their approach to different countries (or groups within). Instabilities in the EU can potentially provoke competition among the '16' for China's attention, however, it is in China's interest to maintain the region's stability in order to achieve its own economic interests. Beijing quickly realised that successful implementation of projects under the '16+1' framework would require endorsement from the EU and compliance with the EU regulations. For that reason, the 2014 Belgrade Guidelines pledged that all 11 EU members would act 'in accordance with EU legislation, regulations and policies', whereas the EU-China Connectivity Platform initiated in September 2015 and the Riga Declaration issued at the last 16+1 summit in November 2016 recognize the need towards finding synergy between CEE-China and EU-China relations (Istenič, 2017, p. 13).

China is becoming more important and a strategic partner for CEECs and strong bilateral cooperation with China is a part of efforts to diversify their international economic cooperation parallel with the growing role of China in the global economy. In the majority of CEEC-16, however, the EU integration process remains the central element of the economic policies. In spite of the EU weaknesses, most of the CEECs remain strongly dependent on the EU markets and capital. This supports the findings of Nölke and Vliegenthart (2009), who labelled the countries in this region as Dependent Market Economies. However, this does not prevent 11 EU member countries, especially Visegrád Group (V4), but also the candidates such as Serbia, to find a balance between the EU decisions and their own national interest. In their view, the '16+1' and intensified bilateral economic relations with China reduce the dependency on the EU and support the process of catching up in their economic development with 'old' EU Member States.[6] In spite of new complexity within the region and in the EU-China relations (Yu, 2018), CEECs perceive the 16+1' as an opportunity for more economic cooperation and deeper regional integration. Similarly, as BRI programmes and projects that have emerged as an internal and external policy framework for an openly inclusive 'win-win' cooperation model based on shared development and on communities of shared interests (Kang *et al*., 2017b).

[6] The EU engages in the 16+1 as a summit observer, adheres to the principles of its 2016 strategy for China and works towards cooperation with China on physical and digital infrastructure - through the EU-China Connectivity Platform. It has added the Berlin Process to its Western Balkans policy and has issued a new strategy providing for a credible enlargement perspective for and an enhanced EU engagement with the Western Balkans.

Table 1. Institutions established within the 16+1 initiative

Established institutions	Year	Country
Business Council	2014	Poland
Secretariat for Investment Promotion	2014	Poland
New Silk Road Institute (NSRIP)	2015	Czech Republic
Center for Dialogue and Cooperation on Energy Projects	2016	Romania
Regional Center of the China National Tourism Administration	2016	Hungary
Coordination Mechanism on Forestry Cooperation	2016	Slovenia
Association for the Promotion of Agricultural Cooperation	2017	Bulgaria
China-CEE Institute	2017	Hungary
CEE Federation of Chinese Medicine Societies	2017	Hungary
Virtual '16 + 1 Cooperation' Technology Transfer Centre	2017	Slovakia
Secretariat on Logistics Cooperation and Virtual Information Platform	2017	Latvia
Secretariat for Maritime Issues	2017	Poland
Association on Transport and Infrastructure Cooperation	TBA	Serbia
Cultural Cooperation Coordination Center	TBA	Macedonia
Inter-Bank Association	TBA	Hungary
Small and Medium-sized Enterprises (SMEs) Association	TBA	Croatia
Veterinary Science Cooperation Center	TBA	BiH
Environmental Protection Association	TBA	Montenegro

Source: own study.

Case Study: China-Slovenia Economic Relations

The case of China-Slovenia relations offers an opportunity to understand how the '16+1' challenged developments in trade and investments for a small economy, which is strongly embedded in the EU economy and started at the periphery of this regional platform but has historical ties with China and highlights ambitions for intensified cooperation.

Cooperation between China and Slovenia can be traced back to as early as the 18th century, mostly with knowledge exchange and science. Increased attention and the sympathy to China was next traced with Boxer rebellion (1900), as independence and nation building was of high importance for both nations. More intensive economic relations started to develop during the socialist period. As a part of Yugoslavia, Slovenia started cooperation with China soon after Yugoslavia recognized China in 1949[7]. The relations intensified by the end of 1970s, with the Chinese Open Door Policy and economic reforms that opened gates for the cooperation of Yugoslav republics with Chinese provinces.[8] President Hua Guofeng's visit in 1978 was a further incentive to establish a consortium of Slovene companies for cooperation with China. In 1980s Slovenia became the strongest economic partner of China from Yugoslavia (approx. 60 per cent of all Yugoslav industrial projects in China), though cooperation intensity was decreasing with rising economic crises in China and instabilities within CEECs and former Yugoslavia by the end of the 80s. These relations supported revival and institutionalisation of bilateral ties started in the nineties; China recognised Slovenia as independent state in 1992, though it was against

[7] China, did not recognize Yugoslavia until 1955 when diplomatic relations were established.

[8] Ljubljanska banka opened a representative office in Singapore covering also China and Hong Kong in 1970s.

the disintegration of Yugoslavia. Efforts for cultural and academic cooperation overweighed those for economic relations during the nineties, the first economic strategy towards China was developed only in 1999 by the Ministry for Economic Cooperation and Development (MEOR) and the Slovene Chamber of Economy. The EU integration was central orientation in foreign trade strategy of Slovenia. Only 2015-2020 *Program* for *Internationalization*[9] gave special attention to diversification of economic ties, to increasing export to non-EU members and China is of course included. The last strategic document, adopted by the government of Slovenia, was Development Strategy of Slovenia 2030. China is mentioned in the global context chapter only implicitly by a statements that 'economic power is moving towards Asia, which influences the global changing power relations'.[10] Contrary to modest state-level/governmental relations[11], the interest of entrepreneurs and business sector is growing constantly.

The knowledge about China is limited, however the awareness and the capacity to do business with China is continuously increasing in the last two decades, which is also reflected in bilateral trade data (Table 2, Figure 3). The volume of bilateral trade is growing, however the share of China in total foreign trade remains small and trade deficit for Slovenia is growing.

Table 2. The share of export and import from China in total Slovenian export and import (in per cent)

Category	1994	2000	2008	2012	2017
Export	0.6	0.16	0.39	0.65	1.12
Import	0.5	0.39	1.91	2.79	3.14

Source: Bank of Slovenia.

Foreign trade with China increased 15 times from 2000 to 2017: export from 2.2 million EUR to 32.5 million EUR, while import from 53 million EUR to 801 million EUR. Since 2004 (with more reliable data due to harmonisation with Eurostat monitoring) the export to China increased by almost 9 times and the import by 4.4 times. Trade deficit increased from 27 million EUR in 1994 to 502 million EUR in 2017. From 2012 to 2017, since the '16+1' was established, Slovenian exports to China rose 1.9 times and imports increased 1.2 times. The Slovenian trade surplus with China thus remained almost the same. The '16+1' framework has not influenced trade flows in a big way. Export was basically stagnating until 2015 when it started to increase substantially, more than the overall Slovene export. The scheme can have a moderate influence on promoting export to China. The import initially dropped and then rose more than export after 2013. The '16+1' has also not influenced the structure of trade in a substantial way. Manufacturers dominate in export and import (over 90 per cent). Value added has slightly increased as the share of chemicals has risen, again on both sides[12].

[9] Programme for internationalisation 2015-2020, (2015).

[10] China showed interest in boosting cooperation with Slovenia in sports and sports infrastructure particularly in the context of the preparations for the 2022 Beijing Winter Olympics. Next, two memoranda of cooperation in infrastructure and sports were signed in 2018.

[11] The absence of bilateral top-level diplomatic meetings in 2012-2018 confirms this statement. Slovenian Prime Minister met Chinese Prime Minister only within the '16+1' initiative.

[12] Initially, textile represented rather high share in Slovene imports from China. Its share in 2000-2017 decreased almost 4 times. Just the opposite trend was in export, where machinery and equipment (capital goods) share

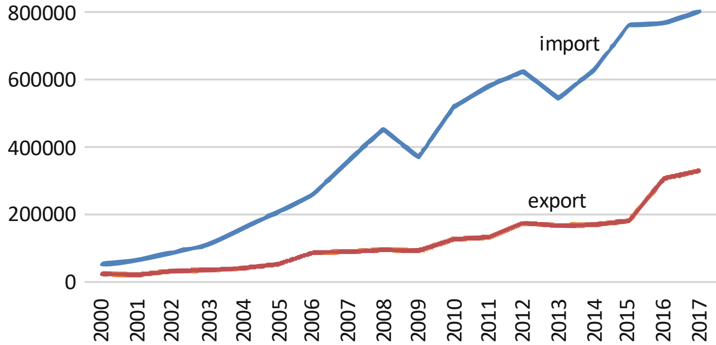

Figure 3. Dynamics of Slovenian trade with China 2000-2017 (value in millions EUR)
Source: Data from the Statistical Office of Slovenia (SURS).

A survey among Slovenian enterprises on Chinese-Slovenian business relations (Ivančič, 2009) demonstrated that a small minority of Slovenian enterprises reacted to the growing Chinese market in the nineties. Although they recognised great business opportunities, China was treated as an 'extremely difficult' market and most of firms suffer the lack of information and institutional support. Consequently, they enter the Chinese market slowly and sequentially. Cooperation was mostly limited to those (large and publicly governed/owned) enterprises with experience and knowledge (and relational capital) from the socialist period. Slovenian enterprises started to intensity business ties with China after its entry to the World Trade Organisation, especially since 2002, (often also as a reaction to their German business partners' intensification of their economic ties with China at that time; induced cooperation of suppliers to German firms). Since then also some smaller and medium-sized private firms excluding manufacturing have established business cooperation. However, according to a survey, most of them became involved in imports from China (47.9 per cent), and for most of them this was the only business activity with China. Exports and outward foreign direct investments to China were reported less frequently (10 per cent of the surveyed firms export to China, about 5 per cent of reported joint ventures in China and 6 per cent of wholly owned subsidiaries in China, and few (4 per cent) of them combined more than two entry modes (see more in Ivančič, 2009). Unbalanced structure in trade and investment has not changed; according to the latest available data (2011) there are about 8,000 Slovene firms importing from China and 270 exporting there.

With regard to FDI, Slovenia is a net investor in China (Figure 3). Chinese FDI in Slovenia, although growing, is also very modest (so small that the Bank of Slovenia report on it among 4 most important Asian investing countries). In 2016 the Chinese FDI stock in Slovenia amounted to 11.22 million EUR. Among CEECs only Estonia, Macedonia, Latvia and Montenegro host less Chinese FDI. While some investment proposals given before the '16+1' agreement (for infrastructural projects such as railway network) did not develop into projects, two larger investments came in Slovenia only recently, in 2017; the Chinese

increased more than 4 times. Consumer goods initially formed a high share in Slovene import from China, but it almost halved in 21 years, partly as a reflection of higher standard of living in Slovenia and enhanced awareness of the importance of health and environmental standards, where Chinese firms are still not following all the European standards.

acquired TAM Durabus and the Hisense acquired Gorenje, the largest household appliances producer. The largest Chinese FDI in Slovenia was the purchase of Outfit 7 bought from Slovene owners for 1 bn dollars by Zhejiang Jinke Peroxide[13], after the acquisition with a new name of Zhejiang Jinke Culture Industry. Chinese investors see Slovenia as attractive due to its strategic location and well-educated workforce. Their investments in Slovenia serve them to acquire new modern technology and knowledge. Recent targets demonstrate that China is well on the way toward more innovative economy (Wei *et al*., 2017). The experiences of investors on both sides clearly show that the preferred way is a two-way (investment) cooperation; Chinese firms in Slovenia and Slovene firms with the same partners in China. Cases of such cooperation are Pipistrel[14], Arctur[15] and Elaphe.[16] Next, concentrating cooperation in specific niches, particularly hi-tech, is the best strategy for smaller Slovene firms (not able to compete on economies of scale or scope).

Direct investments to China are also low, but are rising steadily. The share of outward FDI in China in total Slovene investments abroad increased from 0.3 per cent in 2012 to 0.8 per cent in 2016. In terms of value, they gradually increased (although oscillating annually)[17] from extremely modest 0.1 million EUR in 2002 to 7.7 million EUR in 2006 and finally to 44 million EUR plus 4.4 million EUR in Honk Kong in 2016 (Bank of Slovenia, 2017). This is far from what other EU countries are doing in China being, after USA, the number two location for FDI in the world and considered as the most promising FDI home economy for 2017-2019 (UNCTAD; 2017; 9)[18]. Main activities of Slovenian companies in the Chinese market are: production of footwear, products and semi-products for thermoplastics electronics and electromechanical industry, products and components for the automotive industry, sales promotion and market operations, support for the purchasing activities of the parent company. Only recently more technology intensive investments started (Krka; pharmaceutics). More than thirty Slovenian companies have representative offices and companies in the field of automotive, electro, chemical, footwear, textile, trade and transport, operating in China. Among them there are Le-technika, Gorenje, Domel, Etol, Cablex, Letrika, Kolektor, Krka, Cosylab Alpina, Unior, EURO PLUS engineering, Cablex and Gostol.

Enterprises still lack knowledge and skills to overcome all the risks involved in international operations successfully. They are increasingly aware of different mind-sets and have started to articulate needs for learning and understanding the background of Chinese tradition. Different philosophical frameworks between China and the West are reflected in diverging concepts of managing relations with the outside world (Lajčiak, 2017). The importance of understanding an institutional change and ongoing transition in China becomes not only a key challenge to theory makers and business strategists (Child & Tse, 2001, p. 5), but also to enterprises. Slovenian enterprises, although used for transition, (still) have to learn a lot on doing business with China (Polajžer & Turk, 2013; Ivančič, 2009).

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[13] A Chinese firm located in Cyprus. As the ultimate owner was outside Slovenia, transaction is not seen in bilateral FDI statistics.

[14] A producer of super light aircrafts.

[15] This high technology firm active in high-performance computing, can also promote Hi-Tech export goods from China to Europe having exclusive rights to export to Europe.

[16] It Is a leading firms producing in-wheel electric motors which are considered as the future in electric cars.

[17] In 2013 and 2014, however, some Slovenian firms even relocated production facilities back to Slovenia; (Finance, September, 2015).

[18] UNCTAD (2017): World Investment Report 2017, UN, New York and Geneve, 9.

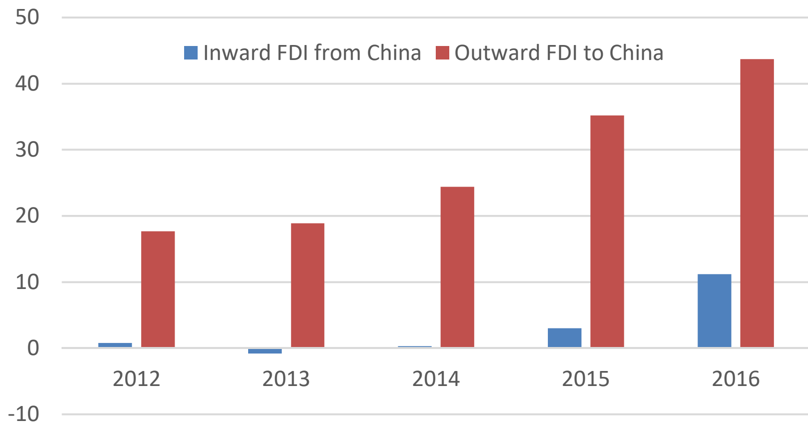

Figure 4. Chinese FDI in Slovenia and Slovenian FDI in China (stocks, in millions EUR)
Source: Bank of Slovenia, 2017.

The establishment of the '16+1' has not dramatically changed China-Slovenia economic relations which remained largely unbalanced, however, it has intensified economic cooperation and ambitions. The '16+1' scheme has obviously not influenced much either the flows or the structure of trade which oscillate more as a result of some major firms' activities there[19]. However, the initiative strengthens the awareness of business opportunities within China-Slovenia relations and stimulate firms' more proactive approach.

The analysis highlights that economic relations between China and Slovenia require both intensive political relations and a high level of business-government cooperation in order to attract more Chinese investments and seize the opportunity to enhance export to China as a regional diversification and resilience strategy. An entrepreneurial initiative alone is not sufficient. Often, Slovene companies do not pay enough attention to macro political/economic plans China is making for the future development, such as China's national economic development plan for 2016-2020. It unveils the development concept of 'Innovation, Coordination, Green Development, Opening Up and Sharing', as well as the action plan 'Made in China 2025' and 'Internet+', which show that the Internet, ocean and green economy are becoming key development points (Fister, 2016). In short, Slovenian firms still lack a long-term visionary approach needed to prelist where the future consumption will come from.

CONCLUSIONS

Integration agreements are typically a long term project and thus rarely become fully effective in the first five years (Baier & Bergstrand, 2007). But in spite of (relatively) small changes in trade and investment the '16+1' influenced not only the CEE trade and investment but

[19] The export will substantially increase after the 2018 Pipistrel's 350 million EUR deal involving export of small planes, airport construction, aircraft production, airport management, aviation training and construction of business and housing work.

also the globalisation patterns in the EU trade and investment. The initiative started as a sort of 'South-South' multilateral scheme reflecting very diverse bilateral trade and investment ties between China and individual CEECs. Not only has it modestly intensified the '16+1' co-operation but also stimulated more fundamental rethinking of the EU-China cooperation and internal competition and cooperation among CEECs. For the majority of CEECs-16 the EU integration process remains the central strategy while the '6+1' a regional diversification and resilience enhancing complementary internationalisation strategy as part of their catching-up process and global integration. The boosting effect of the '16+1' on institutional cooperation is noticed, as it was with OBOR (Kang *et al*., 2018; Du & Zhang, 2018).

Trade and investment in the first five years of the existence of the '16+1' framework have not (yet) changed substantially either in terms of volume or in structure, but remained relatively modest and largely country diverse. The concentration of FDI and trade flows is related to CEE countries' size, the EU membership or candidacy of it, but also political relations and consensus between Chinas' strategic interests regarding big infrastructural projects as a part of BRI and CEEC national or regional (EU) infrastructure strategy. The latter seems to be even more important determinant in the future.

The case of China-Slovenia economic relations revel the perspective of small CEE economy, which is strongly embedded in the EU economy and Western Balkan countries, and where the business sector tries to move from the periphery of the '16+1' initiative. It shares most of the strategic objectives all CEECs have, i.e. to diversify economic cooperation and try to take advantages of the large and growing China market also by upgrading economic cooperation more and more in favour of long term/investment projects.

The question whether the '16 +1' has stimulated the development in CEECs and enabled them a wider access to larger and more diverse markets; higher living standards; lower prices and a greater choice for consumers or a widespread adoption of new technologies is yet to be explored in the coming years. Satisfaction with the rise of acquisitions and investment in infrastructure project in CEECs and hopes to stimulate development by diversifying their trade and investment pattern go in line with concerns for a more balanced trade, reciprocity of market access and more open tenders in the infrastructure construction. Multilateralising the '16+1' remains an opportunity for CEE and the EU.

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