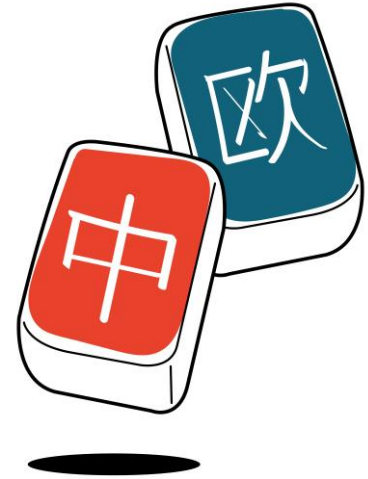


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# MERICS

## Europe China 360°



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## ANALYSIS

### Can China win back Central and Eastern European states?

By **Grzegorz Stec**

In the foreseeable future — doubtful. China's relations with many actors in the region have deteriorated significantly as a result of Beijing's tacit [support](#) for Moscow and its revisionist agenda towards the European security framework. A case in point is provided by the China-Central and Eastern Europe (CEE) cooperation framework. Despite celebrating its 10<sup>th</sup> anniversary this April, Beijing has been unable to find a CEE country willing to host the annual summit.

#### How we got here

China's engagement in the CEE was already faltering before Russia invaded Ukraine, primarily due to a sense of disenchantment with the economic performance of the 16+1 framework.

Although trade between China and the region has increased by 85 percent over the past decade according to Chinese [data](#), the trade imbalance has grown and Chinese investments have remained low compared to those in other parts of Europe. By the end of 2021, the cumulative value of transactions in the 10 EU states still in the 16+1 [totaled](#) EUR 13.8 billion — a sum similar to the level of investment in the Netherlands alone. And of this, EUR 0.1 billion was in Lithuania, which recently left the framework. Lithuania, Czech Republic and Slovakia, in particular, have expressed their dissatisfaction by turning more to Taiwan with which they also share democratic values. The ensuing economic coercion of Lithuania over this move is another factor making business engagement with China less appealing in the region.

China's alignment with Moscow resulted in a further, strategic dis-alignment with CEE. Security considerations have already been an important factor in many CEE states' outlook towards China — including following a joint China-Russia naval exercise in the Baltic Sea in 2017.

But China's support for the Russian invasion and the revision of NATO-based European security architecture has put Beijing at clear odds with the fundamental strategic interests of EU countries across the region. Consequently, their oftentimes tactical approach to China policy has now gained a strategic objective.

#### Designing damage control

To mitigate this, on April 18 Beijing dispatched its MFA Special Councilor for CEEC cooperation, Huo Yuzhen, to eight countries in the region. Her delegation was tasked with “eliminating misunderstandings regarding Russia-Ukraine conflict” (消除双方在俄乌冲突上产生的误解) and discussing ideas that could reignite CEE countries' interest in “pragmatic cooperation” (务实合作) linked to the Belt and Road Initiative.

## Beijing attempts to stabilise relations with CEE dispatching two damage control missions

Selected meetings by Chinese delegations to Central and Eastern Europe between April and May 2022

-  Huo Yuzhen (Special MFA Representative for CEE)
-  Ma Keqing (Former Ambassador to Finland and Czechia)\*



\*Followed by visits to Malta and Ireland.

Note: As the schedule of the delegations has not been publicly announced, the gathered data may not be complete.

Source: MERICS

Huo's team is accompanied by a group of Chinese entrepreneurs and think tankers, including researchers from the Institute of European Studies at the Chinese Academy of Social Sciences, which heads the China-CEEC Think Tanks Network.

Another delegation led by former Ambassador to Finland and Czech Republic, Ma Keqing, was dispatched to Greece and Albania, before continuing diplomatic engagements outside of the CEE.

However, it is unlikely that CEE countries will be responsive to these attempts. The idea of returning to "pragmatic cooperation" feels out of sync with current geopolitical reality. While Beijing seems to be aware of the waning interest in engagement across the CEE shown by [proposing](#) to downscale China-CEE summits from rank of top leadership to that of foreign ministers, it still is failing to appreciate how crucial its position towards the Russian invasion is for the region. It is unlikely that it will come up with an economic offer capable of reverting that trend, as it would have to be simultaneously very attractive for CEE countries, believable despite the history of disillusionment with China's promises, while at the same time acceptable to Beijing. Similarly unlikely is the possibility that Beijing shifts its position on the Russian invasion, though it might attempt to foster some goodwill among CEE countries by, for example, rolling out a substantial humanitarian aid package for Ukraine.

### **Carrot competition, sticks mitigation**

But Beijing's attempts to reignite practical cooperation face an uphill battle for other reasons, too. One of these is increased competition from Taiwan. As Huo's delegation tours the region, Taiwan has just [unveiled](#) a USD 200 million Central and Eastern Europe Investment Fund to support capital investments into such strategic sectors as semiconductors, bio, space, fin and laser tech as well as e-vehicles. The move builds on consultations with CEE counterparts carried out during Taiwanese delegations' [visits](#) to the region last autumn with Lithuania, Slovakia, and Czech Republic set to be key beneficiaries.

At the same time, the EU has been ramping up efforts to display its unity and limit the impact of China's economic coercion. It announced a EUR 130 million cushioning fund to support Lithuanian companies affected by China's trade restrictions. The fund will run until the end of 2027 and will grant loans to Lithuanian businesses seeking to diversify to other markets or reorient their business strategies.

### **Frosty landscape with warm spots**

However, the CEE is not a homogenous region. Russia-related considerations do not appear to be significantly affecting Beijing's relations with Hungary and Serbia — two countries that have consistently cultivated a Beijing-friendly stance. In April, Hungarian Prime Minister Viktor Orbán and Serbian President Aleksandar Vučić each secured a further term in office with comfortable support levels. This gives Beijing assurance that it will continue to find receptive partners for discussions in those states.

Still, for the majority of the CEE countries the strategic calculus seems to be clear and not in China's favor. Given the limited chance of Beijing meaningfully addressing the concerns of those states, or of them changing their outlook on the current geopolitical landscape,

China-CEE relations, which had already stalled, may now be entering a rather frosty period.

**Read more:**

- Global Times: [Veteran Chinese envoy heads CEEC visit, to clarify misunderstanding over Ukraine](#)
- China-CEEC Think Tanks Network [CN]: [What is the message of the Chinese delegation's visit to the 8 countries in CEE this week?](#)
- MERICS: [How China lost Central and Eastern Europe](#)

## BUZZWORD OF THE WEEK

# DETENTION

A Chinese staffer of the EU Delegation in China was detained in September 2021 in a rare case of an employee of a foreign diplomatic representation being arrested. The charge was “picking quarrels and provoking trouble” — a vague enough accusation but one that may cost the employee up to five years in prison. Despite numerous requests from the EU delegation, Chinese authorities have not provided further information on the matter.

**Read more:**

- South China Morning Post: [EU demands answers over employee arrested in China](#)
- Le Monde: [Un employé de l'Union européenne placé en détention par Pékin](#)
- France 24: [EU demands 'proper answer' over detained staffer in China](#)

## REVIEW

### Xinhua interviews Kuleba and Lavrov amid Global Security Initiative push

On April 30, Chinese party-state news agency Xinhua released — in quick succession — unedited interviews with the Foreign Ministers of Ukraine and Russia. The move, likely aimed at demonstrating China’s supposed neutrality toward the conflict between Russia and Ukraine, also highlighted Beijing’s interest in European security architecture.

**What you need to know:**

- **Twin interviews:** While Xinhua’s questions toed the government line, the two ministers each took a page out of Beijing’s diplomatic playbook with their answers — albeit different pages.

Dmytro Kuleba referred to Beijing’s peaceful development narratives and drew a clear distinction between China and Russia. In an attempt to encourage China to

play a more constructive role in lobbying for a ceasefire and increasing humanitarian aid, Kuleba expressed gratitude to Beijing for “taking the stance of avoiding further escalation”. Still, he rejected several Chinese narratives, for instance rejecting the idea that his country plays the role of a “bridge between East and West”.

Sergey Lavrov’s message resonated with anti-US narratives currently being promoted by Beijing, blaming the United States and NATO expansion for the invasion while promoting the Kremlin’s narrative that Russia is “liberating” Ukraine. He also criticized the use of sanctions as well as what he described as the West’s attempt to revert the trend of multipolarity by promoting rules-based order.

Both ministers underlined that they would envision a key role for Beijing, in its capacity as Permanent Member of the UN Security Council, as a security guarantor for any potential peace.

- **Security context:** Xinhua released the interviews with the aim of highlighting Beijing’s role as a responsible stakeholder with regard to the Russia-Ukraine conflict. The timing came a week after President Xi Jinping unveiled China’s Global Security Initiative (GSI) at the economic Boao forum. The initiative does not include any major new proposals, but its announcement was intended to present Beijing as a force for stability. It represents a decision by Beijing to double down on its revisionist agenda (more in the last issue of [MERICS China Essentials](#)).
- **Looking for buy-ins:** On the same day as the interviews were released, Chinese Vice Foreign Minister Deng Li [spoke](#) with German State Secretary Andreas Michaelis, extending an invitation for Germany to join the GSI. Such invitations may become a more frequent part of Sino-European diplomatic exchanges. This is also demonstrated by [comments](#) made by the Chinese Ambassador to Cyprus that GSI may play a role in addressing the divisions in the country.

### Quick take:

The release of the twin interviews by Xinhua likely serves two main objectives. On the one hand, the articles hold value for domestic propaganda purposes, as both ministers praise Beijing and seek its support. Amid societal dissatisfaction caused by the Zero Covid policy, Beijing stands to benefit from such lip service by senior international figures. On the other hand, the release is part of the efforts by China to solidify the narrative of its supposed neutrality and to promote itself as a responsible stakeholder supporting international stability while representing interests of non-Western actors — as captured in Xi’s GSI announcement.

### Read more:

- Xinhua [CN]: [Ukrainian Foreign Minister Dmytro Kuleba gives an exclusive interview to Xinhua News Agency](#)
- Xinhua [CN]: [Russian Foreign Minister Sergey Lavrov gives an exclusive interview to Xinhua News Agency](#)
- MERICS: [Global Security Initiative: Beijing doubles down on its Russia position and revision of global order](#)

## The UK doubles down on China

In a continuation with the UK government's new direction towards China, the UK's Foreign Secretary Liz Truss delivered a speech at Manor House on April 24 in which she warned China of the consequences of its continuous support for Russia and its disregard for international rules.

### What you need to know:

- **The UK and China:** The so-called “golden era” of UK-China relations has long gone and been replaced by a policy of caution. Signs of this are the conclusion of AUKUS earlier in 2021, the increased presence in the Indo-Pacific and closer collaboration with likeminded partners like the United States. For example, the US and the UK recently held a so-called [Taiwan dialogue](#) together. Yet, despite this, economic relations between the UK and China continue to be strong. For example, in 2021 the UK was still the largest European [receiver of Chinese foreign direct investments](#).
- **The Integrated Review:** The 2021 [Integrated Review of Security, Defence, Development and Foreign Policy](#) enshrined the shift occurring in UK-China relations in all its aspects. It signaled a political change in the relationship, defining China as a “systemic competitor”. But it also clarified the complicated nature of the economic relation between the two, stating “...the UK will need to engage with China and remain open to Chinese trade and investment, but they must also protect themselves against practices that have an adverse effect on prosperity and security”.
- **The speech:** Truss's speech mentions the coordinated imposition of sanctions on Russia to show that access to the economies of democracies can be withheld if international rules are broken. China's economy may be large, but G7 countries “represent half of the global economy”. Nor does she stop at this, but further adds her support for a globally-minded NATO.

### Quick take:

Since the imposition of sanctions on Russia, China has been worrying that one day it could share Russia's fate. Truss's warning adds to a series of similar statements coming from the United States and the EU. China has been taking these warnings seriously, but rather than opting to increase its adherence to international laws, Beijing [has been moving](#) to make sure it has the right tools to protect its assets in case of sanctions. One of the most immediate consequences could be further pressure to localize Western businesses, and the developments around [HSBC](#) potentially splitting its Western and Asian business could also be a telling example.

### Read more:

- MERICS: [Chinese FDI in Europe: 2021 Update](#)
- Reuters: [Britain's Truss tells China its rise depends on playing by the rules](#)
- Financial Times: [Truss warns China to 'play by the rules' or face consequences](#)
- UK Cabinet Office: [Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy](#)
- Financial Times: [China meets banks to discuss protecting assets from US sanctions](#)

## SHORT TAKES

On April 22 the EU and the United States held their High-level Dialogue on China and High-level Dialogue on Indo-Pacific. The two called on China not to circumvent their sanctions on Russia and called out Beijing's alignment with Russian disinformation efforts.

- European External Action Service: [Consultations between EEAS Secretary General Stefano Sannino and United States Deputy Secretary Wendy Sherman](#)
- SCMP: [EU, US slam China over Russia ties, alleged falsehoods on Ukraine invasion](#)

On April 25, the International Trade Committee at the European Parliament voted unanimously in favor of proposals for International Procurement and Foreign Subsidies Instruments, which will have significant implications for China. The proposals now head to plenary.

- European Parliament: [Trade MEPs back deal on new tool to open public procurement markets worldwide](#)
- European Parliament: [New trade defence tool to protect EU firms from distortive foreign subsidies](#)

The European Commission's DG Trade plans to unveil a proposal for an anti-forced labor mechanism by mid September.

- Twitter: [Post by SCMP's Finbarr Bermingham](#)

In a frank interview, the President of the European Union Chamber of Commerce in China Joerg Wuttke described the challenging position of the Chinese leadership and disruptions faced by foreign companies in China over the Zero COVID policy.

- The Market: [China's Leadership Is Prisoner of Its Own Narrative](#)

The EU and the United States will hold their second high-level Trade and Technology Council in Paris on May 16. While Russia is expected to be the key topic, China-related points are also expected to be placed on the agenda.

- PIIE: [Post-TTC event with DG Trade Director Sabine Weyand](#)

German authorities blocked exporting high-end submarine engines to China disrupting an export deal between China and Thailand. In a separate, domestic case, German authorities blocked a sale of medical devices from manufacturer Heyer Medical to China's Aeonmed Group citing public safety reasons.

- Handelsblatt [DE]: [The German government spoils an important arms deal in China](#)
- Reuters: [Berlin stops Chinese firm from buying German medical device maker](#)



Alibaba's Southeast Asian arm, Lazada, reportedly plans to expand its operations to Europe to target local European vendors. The company would join two other companies from Alibaba's ecosystem active in Europe – AliExpress and Cainiao.

- Reuters: [Alibaba looks to expand Southeast Asian arm Lazada to Europe](#)

Latvian intelligence services reported that Chinese intelligence activities in the country decreased last year but are expected to rebound. In contrast, Lithuanian intelligence reported a spike in China's cyberespionage aimed at the country.

- The Baltic Times: [Activities of Chinese intelligence decreased last year, but China's interest in Latvia will increase again in the foreseeable future - State Security Service](#)
- Delfi.lt: [China carries out cyber attacks in revenge for ties with Taiwan](#)

Addressing the European Parliament on behalf of High Representative Josep Borrell on May 4, Commissioner for International Partnerships, Jutta Urpilainen criticized the alleged forced organ harvesting practices in China.

- European External Action Service: [China: Speech by High Representative/Vice-President Josep Borrell in the EP debate on organ harvesting](#)

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