

A partial success of trade cooperation within the '16+1' formula: the case of food exports to China

Jakub Jakóbowski

When in 2012 China approached the countries of Central and Eastern Europe (CEE) with a proposal of cooperation in the '16+1' formula, it declared it was willing to meet the needs of CEE countries. Beijing had been aware of the political importance of the problem of trade deficit (which has been ongoing for years) and launched cooperation with the governments of 16 CEE countries to boost imports from these states. The years 2011–2014 brought an improvement in the balance of trade between China and: Hungary, Latvia, the Czech Republic, Romania, Bulgaria and Croatia. The remaining ten CEE countries recorded an increase in their trade deficits. Changes in CEE countries' balance of trade with China resulted only slightly from political actions. Instead, they were due to the macroeconomic situation and to a deterioration of the debt crisis in the EU which, for example, caused a decline in the import of Chinese goods in some of these countries. Multilateral trade cooperation was successfully developed in the entire region only in the agricultural and food production sector – the area of greatest interest to China. The pace of bilateral cooperation with specific countries varied, with the fastest being Poland, Latvia, Romania, Hungary and Bulgaria. Actions by governments of CEE countries resulted in Chinese market opening up to hundreds of local companies which, in turn, translated into an increase in the volume of foodstuffs sold by 'the 16' to China from US\$ 137 million in 2011 to US\$ 400 million in 2014. The success achieved in the agricultural and food production sector has demonstrated the effectiveness of trade cooperation in the '16+1' formula. It is, however, insufficient to generate a significant improvement of the trade balance. At present, the sector's share in the total volume of goods sold to China by CEE states is a mere 3.7%, and any reduction of the trade deficit would require long-term and more comprehensive solutions still to be implemented by the governments of individual CEE states.

A 'new opening' in trade cooperation

The 'new opening' in China's relations with Central and Eastern Europe, in place since 2011, was connected with the creation of a new framework intended to extend economic cooperation. The major goals of the '16+1' cooperation for-

mula created in 2012 included: boosting Chinese direct and infrastructural investments in the region and deepening trade cooperation, including by increasing the turnover of trade with CEE countries to US\$ 100 billion in four years. CEE states hoped to use China's increased interest in cooperation to reduce their trade deficit. Since it emerged in the early 1990s, the trade deficit has become an issue of political importance and a measure of success in relations with China. China recognised the need to reduce the defi-

¹ Aside from China, this group includes: Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, Estonia, Latvia, Lithuania, Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Albania and Macedonia.

cit by increasing imports from CEE states and included it in the process of devising a diplomatic offensive in the region. This meant a clear change in China's position – in previous years, in response to the problem of the negative trade balance, which CEE countries emphasised, China encouraged them to support their local companies in their attempts to enter the Chinese market, the way other European countries did.

The economic crisis in the EU has severely affected imports from China, which caused a reduction of the trade deficit with China in some CEE states.

The escalation of the debt crisis in the EU in 2012 turned out to be a barrier to the expected development of the trade exchange. It led to recession in 8 of the 16 CEE states. Although in 2011–2014 the value of trade turnover between CEE and China increased by 8.2% in total, the dynamics of this increase were much lower than they had been prior to 2008 when annual increases in turnover of more than 25% were being recorded. A decline in demand for Chinese consumer goods (in particular electronic devices) recorded in the CEE region, resulting from the economic slowdown, caused a drop in imports from China of approximately 9% in 2012. Momentum failed to return to imports during the whole period between 2011 and 2014, with an increase of only 6.8%. It should be noted that, despite a major decline when compared to previous years, exports from CEE to China were less affected by the crisis – in that period the total volume of sales increased by almost 18%. The favourable economic situation in China at that time was one of the causes of this, as were attempts by some exporting companies in CEE states to re-orient their export to non-European markets. These attempts began in 2008.

The changes in the structure of trade which were related to the crisis in the EU halted the

increase of the deficit in CEE's trade with China. The intensity of this effect was different in individual CEE countries. In 2011–2014, a drop in the deficit was recorded in only six of the region's countries; the remaining ten recorded an increase in the deficit. This was mainly due to the differences in the macroeconomic situation and in the share of specific categories of goods in the trade with China. For example, Poland recorded an increase in the deficit of approximately 27%, while Slovakia recorded a major increase of 76%. On the other hand, in 2011–2014 the deficit shrank by nearly 27% in Hungary, by approximately 20% in Romania, and by approximately 11% in the Czech Republic. However, data compiled for 2014 indicates that the balance of trade with China began to decline again in all CEE states and the changes connected with the debt crisis failed to make a permanent difference to the long-term negative structure of trade exchange². China has remained a relatively insignificant export market for CEE states – in 2014 goods worth US\$ 10.6 billion were sold to China, which accounted for a mere 1.3% of the total volume of exports from the 16 CEE states. On the other hand, China continues to be one of the CEE region's main partners in terms of imports. In 2014, the total value of imports stood at US\$ 64.9 billion, which accounted for approximately 7.8% of total imports to CEE.

Alongside the 'new opening' in political relations with China and the growing economic importance of China in the context of the declining economic situation in the EU, the governments of CEE states began to view China as an alternative sales market and a source of capital which could replace Western Europe. As a consequence, China began to be included in

² The economic slowdown currently observed in China has had an impact on trade and is expected to further increase the negative trade balance recorded by CEE states. According to the Chinese customs office, in the first seven months of 2015 trade turnover with the CEE region declined by 14.3% year-on-year. Imports from CEE were more badly affected by the economic slowdown (a drop of 11%) than exports from China (a drop of approximately 7%).

strategic documents concerning the economic policy of some CEE states. Similarly, governments of CEE states devised dedicated 'China programmes' to support and promote their activity in the Chinese market. Despite this, in 2011–2014 in bilateral and multilateral contacts between CEE states and China, trade-related issues were given relatively low priority. Most CEE states focused on attracting Chinese direct and infrastructural investments which were considered an important aspect of cooperation in the '16+1' format, and later of the New Silk Road. As a consequence, the extent to which new opportunities to support local exporters have been used in collaboration with China partner was different for each CEE state and remained relatively insignificant³.

The numerous scandals over the quality of foodstuffs, combined with the low efficiency of Chinese agriculture, have contributed to an increase in the volume of foodstuffs which China imports. However, these imports are strictly regulated.

The new Chinese agenda to actively develop trade cooperation with the CEE region particularly emphasised one sector of trade – the sector of agricultural produce and foodstuffs. Around 2010, the Chinese government launched diplomatic activities aimed at boosting the import of foodstuffs from the CEE region. These activities intensified in 2014–2015. Using newly created platforms to foster dialogue with CEE, China expressed it was prepared to open its food market to exporters from this region. These initiatives were welcomed by CEE states. The sector of agriculture and food production turned out to be

³ One interesting example involved Hungary which managed to develop advanced cooperation with Chinese state-run financial institutions to open a credit line for exporters worth US\$ 200 million. It also signed a currency swap agreement with China to reduce the risk involved in trade-related transactions.

the only sector in which China and the CEE region launched wide-ranging activities to boost trade and strengthen institutional cooperation in both the bilateral and multilateral formulas.

The Chinese food sector – large potential, restrictive regulations

China's involvement in boosting imports of foodstuffs from CEE results from the profound structural problems which the Chinese sector of agriculture and food production faces. The limited availability of arable land combined with an inefficient structure of farms (a large proportion of which are small and medium-sized farms) and the low efficiency of agriculture all mean that local production is barely competitive and relatively expensive. The difference in prices of Chinese and foreign foodstuffs is up to 30–40%, depending on the category of products. Additionally, due to the high level of air pollution and several cases when contaminated food was passed as being fit for human consumption, Chinese consumers prefer foreign-made foodstuffs. This is particularly evident in the dairy sector. As a result of a series of scandals which received extensive media coverage and which involved for example contaminated infant formula, this sector has been undergoing a serious crisis. As a consequence, providing the Chinese middle class with safe foodstuffs has become an issue of political importance. By fostering more advanced cooperation with CEE in the agriculture and food production sector, China is likely to secure supplies of high quality processed and non-processed food for itself such as meat, dairy products, powdered milk-based infant formula, jams, vegetable oil, honey, processed fish products, wine and grains. The Chinese press has emphasised the fact that products imported from CEE are produced according to the strict quality standards applied in the EU, but are also considerably cheaper than products made in Western Europe which have so far dominated the EU's food exports to China.

Aware of the growing demand for foodstuffs in China and of the import pressure, the Chinese government has been trying to reduce the country's dependence on foreign-made food, including by implementing protectionist solutions. At present, a reform to alter the structure of farms is being implemented in China. The reform favours big farms. Additionally, the state offers subsidies to the production of cereals and has introduced strict regulations on the import of foodstuffs. Some observers claim that the various embargoes imposed by China, justified by sanitary reasons, are in fact motivated by the intention to support local companies by limiting the access foreign companies have to the Chinese market. This is important from the point of view of CEE – currently several countries of the region, including Poland, are subject to an embargo on the export of pork due to African swine fever⁴.

The agricultural and food production sector has become the main area of trade cooperation between China and CEE. This resulted in the creation of several multilateral and bilateral platforms for inter-governmental dialogue.

In China, certain restrictions on the import of cereals have been introduced, and in order to gain access to the Chinese market for meat, dairy and fish products, companies are required to undergo a complex certification procedure. From the perspective of CEE, it is important that the current system of regulations applied to trade in foodstuffs is two-step – if it is to be able to launch export activities a specific state needs to have signed a bilateral agreement with China and to have made official relations with Chinese food safety institutions to launch the procedure of certification of individual compa-

⁴ It should be added, however, that a similar embargo was introduced by other East Asian states such as South Korea and Japan.

nies. Due to this, the political relations and contacts between relevant food safety institutions in the partner countries have become issues of key importance for the opening of the Chinese market to foreign companies.

The Chinese offer to the region

In the documents prepared during '16+1' summits in Bucharest (in 2013) and Belgrade (in 2014) agriculture is the only explicitly indicated sector of the economy in which the parties have committed themselves to developing trade cooperation. The scope of this cooperation has been described as very broad – the fields of cooperation mentioned in the document include the coordination of food safety regulations, fostering trade in agricultural produce, cooperation in animal breeding and food processing. In bilateral and multilateral meetings, the Chinese side repeatedly declared its intention to develop cooperation in the field of agricultural technology and mutual investments.

At the multilateral level, several platforms were created to foster cooperation in agriculture on an ongoing basis. Since 2013, meetings of the China-CEEC Agrottrade and Economic Cooperation Forum have been organised in Europe. The forum was established in 2010 as a platform for cooperation between representatives of veterinary services, ministries responsible for trade and agriculture, local government and entrepreneurs. In June 2015, an 'China-CEEC Association for the Promotion of Agricultural Cooperation' was established under the leadership of the government of Bulgaria. It serves as a platform for exchanging information and for promoting multilateral and bilateral institutional cooperation in the field of food production and processing, the development of agricultural technology, bilateral investments and the establishment of joint venture companies to operate in this sector. In 2015 cooperation in agriculture was included in the project of the New Silk Road under which a multilateral forum for food safety regulations was established.

Alongside coordinating institutions, China is taking the initiative in the creation of direct instruments to support imports of agricultural produce from CEE. International fair of goods imported from CEE, organised as part of an annual fair of consumer goods in Ningbo, has become China's flagship project developed in 2014–2015. The city of Ningbo is intended to play a significant role in China's relations with CEE. The creation of a dedicated special economic zone is being planned there, and products imported from CEE are expected to be granted preferential status during customs clearance at the local port.

The intensive development of multilateral cooperation observed in 2014–2015 was combined with a revival of bilateral cooperation between CEE states and China in the agricultural and food production sector. Over the last two years, representatives of the Chinese Ministry of Agriculture and from food safety institutions visited 10 of the 16 countries of the region. In 2014 (in Romania) and in 2015 (in Estonia) relations between the ministries of agriculture became institutionalised in the form of regular meetings of working groups. A similar cooperation scheme had previously been established with Poland and Hungary. Most CEE states have signed bilateral agreements with China regarding the development of cooperation in agriculture.

Multi-speed cooperation

Instruments intended to support trade in agricultural produce and foodstuffs, created under China's multilateral initiatives, were targeted at all the '16+1' partners. However, the nature of Chinese regulations regarding the import of foodstuffs has emphasised the role of bilateral relations. The pace of development of relations with individual states depends on several economic and political factors which determine the country's attractiveness in the eyes of their Chinese partner. These factors include: EU membership, their industrial potential, the structure of agriculture, the current climate in the coun-

try's political relations with China. Of equal importance is the level of activity of the governments of specific CEE countries in their relations with Chinese food safety institutions and the Ministry of Agriculture. This activity determines the chances of them obtaining certificates for the import of foodstuffs. Due to differences in the potential and the level of this activity, only a few countries have obtained access to the Chinese food market. At present, these countries make up a major proportion of the export of foodstuffs from CEE to China.

Bilateral trade cooperation between China and CEE states in the agricultural and food production sector has been developing at various speed. This mainly results from differences in the industrial potential of specific countries and in the level of activity of individual governments.

Firstly, the development of cooperation with China in the agriculture and food production sector which has been observed over recent years has largely bypassed the Western Balkan states. Contacts at the ministerial level have been limited to meetings in multilateral fora and to relatively infrequent bilateral meetings. None of the Western Balkan states has obtained the certification required to enter the regulated portion of the Chinese food market, and the total volume of exports of this group of states accounts for a mere 1.8% of the value of foodstuffs which 'the 16' exports to China⁵. China's limited interest in cooperation can be justified by the low industrial potential of these states, as well as by security reasons – most of the region's states are not EU members and the foodstuffs produced there usually do not meet EU standards.

The intensity of trade also depends on the climate of political relations with China. This is

⁵ For detailed data on the volume of exports of individual '16' CEE states to China see Appendix.

evident in the case of Baltic states which have tried to gain access to the Chinese meat and dairy products market. Following the 2011 meeting between President Toomas Ilves and Dalai Lama, Chinese-Estonian relations were suspended for three years. High-level talks were resumed only in late 2014 and immediately after that the government of Estonia launched negotiations regarding possible access to the Chinese dairy product market. Similarly, Lithuanian-Chinese relations were temporarily limited as a result of the meeting between President Dalia Grybauskaitė and the Tibetan leader in 2013. Both Estonia and Lithuania have been trying to obtain certificates for the export of dairy products for several years now, so far to no avail. Unlike Lithuania and Estonia, Latvia has managed to develop a stable cooperation with China and to obtain certificates for the sale of dairy products to China. At present, 11 Latvian companies have been allowed to operate on the Chinese market. All three Baltic states have access to the processed fish products market. Political reasons have, to a certain degree, played a hand in the development of cooperation between the Czech Republic and China, which has not been particularly intensive over recent years. As a consequence, since the granting Czech companies access to the Chinese dairy products market in 2008 (at present 17 companies hold the relevant certificates), cooperation in agriculture did not progress until the 'restart' in bilateral political relations in late 2014 and early 2015.

The biggest progress in developing cooperation, both in terms of the number of markets accessed and of the value of exported foodstuffs, was achieved by states which have the greatest industrial potential, which makes them the most attractive partners for China. Over recent years, as a result of successful negotiations, Poland has gained access to the Chinese markets of: dairy products (71 companies), fish products (14 companies), meat (17 companies), and to the strictly regulated market of pow-

dered milk-based infant formula (1 company). As a consequence, in 2014 the total value of Poland's exports of foodstuffs to China stood at US\$ 219 million and accounted for nearly 55% of total exports from the '16' states. In 2014, the government of Hungary managed to gain access to the Chinese meat market, mainly frozen beef, pork and poultry – at present, eight producers hold the relevant export certificates. The case of Bulgaria has been particularly impressive. Bulgaria's export structure is dominated by cereals, in particular corn which is sold as animal feed. In 2013–2014, the value of exports in this category of products increased from US\$ 2.5 million to nearly US\$ 49 million.

Hundreds of producers from CEE states have been granted access to the Chinese market. As a consequence of this, the value of exports of foodstuffs to China has tripled within three years. However, the share of foodstuffs in the total export volume remains insignificant – in 2014 it was 3.7%.

In 2014, the value of exports from Romania to China was a mere US\$ 13 million, however, the case of Romania is interesting due to the cooperation model adopted. As a result of attempts by the government of Romania to obtain access to the Chinese meat market, in March 2015 China granted the first Romanian company, Smithfield Romania, a licence to export frozen pork. The company had previously been owned by the American company Smithfield, the world's largest producer of pork. In 2013, Smithfield was acquired by the Chinese food company Shuanghui International. As a consequence, the only Romanian company to export frozen pork to China is *de facto* owned by Chinese capital. This cooperation model involving China making investments in the food production sector in order to deliver food to the Chinese market is likely to be copied in other countries of Central and Eastern Europe.

'16+1' and the development of trade

The deepening of economic cooperation in the agriculture and food production sector translated into an increase in the value of exports in this sector. This confirms the success of initiatives involving the development of trade which were carried out after the 'new opening' in relations between China and CEE. Over the years 2011–2014, the volume of sales continued to grow to reach an aggregate increase of 164% in the category of agricultural produce and as much as 204% in the category of processed foodstuffs. These increases were more than ten times faster than in other product categories. This rapid increase in the export of foodstuffs was possible in part due to the very low baseline level resulting from the lack of access to the Chinese market in previous years. In 2014, the value of foodstuffs sold to China was approximately US\$ 400 million, whereas in 2011 that figure was US\$ 137 million. This indicates that at present the share of foodstuffs in the total volume of exports from CEE to China is slightly more than 3.7%. Trade cooperation between CEE and China prioritised agricultural produce and foodstuffs, and has so far turned out to be successful when viewed from the perspective of this sector. However, it should not be seen as an adequate response to the trade deficit which has been in place for years and which has deep structural causes. In order for this to be eliminated, long-term actions targeted at all branches of the economy are required.

The usefulness of the '16+1' format for the development of multilateral instruments to boost exports to China remains limited. In 2011–2015 in trade cooperation between CEE and China, the

emphasis was placed on bilateral relations. This was due, in part, to the above-mentioned characteristics of the agricultural and food production sector. However, the strong focus of the governments of CEE states on bilateral cooperation with China and on individual support for local exporters was of equal importance. The intensification of multilateral cooperation in 2014–2015 resulted largely from a major expansion of the group of CEE states which were actively developing the export of their foodstuffs to China. The reason behind this is that the institutions created under the '16+1' formula and the New Silk Road have played the role of coordinating institutions, and this is convenient for China.

China's policy involving development of trade with CEE has been pursued in two directions. Instruments to coordinate and support import, targeted at the whole region, are being created. Nevertheless, specific agreements still require bilateral dialogue. The Chinese government offers favourable conditions for cooperation in areas where it intends to boost imports. It is important to correctly identify these areas to foster the opening of selected markets and to include the Chinese partner in the development of imports from CEE states. However, the degree to which specific instruments will be used will depend on the activity of individual governments. One precondition of this is maintaining good political relations with Beijing. This form of cooperation is favourable for CEE states, as they continue to prefer their individual initiatives of developing cooperation with China and of supporting their exporters. It remains the task of the specific governments of CEE states to fill in the framework of trade cooperation created by Beijing.

APPENDIX

The volume of trade between Central and Eastern Europe and China

The main problem in the analysis and assessment of changes in the trade exchange between China and CEE involves the selection of trade-related statistics. There are discrepancies in the statistical data compiled by the region's states and those prepared by China involving both the size of trade turnover and its structure. For example, according to the Chinese Statistical Office, in 2014 the total volume of trade with the 16 CEE countries was approximately US\$ 60.2 billion. According to statistical offices from CEE states, this figure stood at approximately US\$ 77.6 billion. As far as the structure of trade is concerned, the Chinese sources indicate a lower volume of exports to CEE (US\$ 43.7 billion as compared to US\$ 64.9 billion) and a higher volume of imports from CEE (US\$ 16.4 billion vs. US\$ 10.7 billion). Detailed statistics regarding the trade exchange between China and individual CEE states frequently contain major discrepancies. The most striking example is Slovakia. According to Slovak statistics, in 2014 the country recorded a US\$ 4.5 billion deficit in its trade with China. According to Chinese data, though, Slovakia recorded a trade surplus amounting to US\$ 0.54 billion. As far as the total volume of trade in agricultural produce and foodstuffs is concerned, in both cases the volume of exports of foodstuffs from the 16 CEE states to China in 2014 was calculated to be approximately US\$ 400 million. Discrepancies have also been identified in data compiled for specific states. For example, according to the Chinese Statistical Office the value of Hungary's exports of foodstuffs in 2014 was approximately US\$ 21 million, while its Hungarian counterpart puts the figure at US\$ 36.6 million. For Romania, the figures were US\$ 12.6 million and US\$ 15 million, respectively.

The discrepancies in trade data most probably result from the fact that different methodologies were adopted to compile them, including different categorisations of re-export within the EU and that from Hong Kong. These discrepancies, however, do pose problems in assessing the volume of trade between CEE and China. The differences in the methods of measuring trade between China and its CEE partners may result in conflicting assessments of the development of trade cooperation and of new Chinese economic initiatives. Bearing this in mind, for the purpose of this analysis the perspective of Central and Eastern Europe was adopted and the statistical data quoted herein were taken from OECD data sources published by the individual countries of the region.

**The volume of trade between Central-Eastern Europe and China in 2011–2014,
in US\$ millions**

State	Export of foodstuffs		Total exports		Total imports		Trade balance	
	2011	2014	2011	2014	2011	2014	2011	2014
Poland	61	219	1 861	2 251	18 116	22 993	-16 255	-20 742
Hungary	15	36	1 688	2 156	6 076	5 362	-4 388	-3 205
Czech Republic	26	40	1 668	2 033	18 905	17 252	-17 237	-15 219
Slovakia	4	1	2 075	1 825	4 644	6 348	-2 568	-4 523
Romania	4	13	544	759	3 525	3 150	-2 981	-2 390
Bulgaria	3	59	407	709	945	1 147	-538	-439
Estonia	8	13	304	204	1 395	1 500	-1 091	-1 296
Slovenia	3	4	127	186	1 601	1 725	-1 474	-1 539
Latvia	4	8	56	140	414	468	-358	-328
Lithuania	4	4	81	135	628	884	-548	-749
Macedonia	1	1	127	93	355	432	-227	-339
Albania	0.2	0.0	49	83	345	382	-296	-299
Croatia	1	1	55	68	1 605	589	-1 550	-521
Serbia	1	1	15	14	1 488	1 561	-1 473	-1 547
Bosnia and Herzegovina	0.1	0.2	6	9	552	922	-546	-913
Montenegro	1	1	1	3	144	176	-143	-173

Source: OECD

EDITORS: Adam Eberhardt, Marcin Kaczmarski
Katarzyna Kazimierska, Anna Łabuszewska
TRANSLATION: Magdalena Klimowicz
CO-OPERATION: Nicholas Furnival
DTP: Bohdan Wędrychowski

Centre for Eastern Studies
Koszykowa 6a, 00-564 Warsaw
phone: +48 | 22 | 525 80 00
e-mail: info@osw.waw.pl

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