



Weekly Briefing

Slovakia external relations briefing:

The China-EU Summit, the 16+1 Summit and the Belt and Road

Forum

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The China-EU Summit, the 16+1 Summit and the Belt and Road Forum

April 2019 saw three events concerning China-CEE relations take place: first, the annual EU-China summit in Brussels, Belgium, on April 9th, then the eighth summit of the 16+1 Platform in Dubrovnik, Croatia, on April 11th and 12th, and finally the second Belt and Road Forum in Beijing on April 26th. Despite the fact that Slovakia is both an EU member and a 16+1 Platform member as well as a participating country (even if only marginally) in the Belt and Road Initiative (BRI), the reaction in Slovakia was scant to practically nonexistent. All three events were one-day stories with no follow up, and did not stir up any broader public debate in the country.

The EU-China Summit in Brussels received the least amount of media coverage of all three of these events. All reports on the summit in the Slovak media limited themselves to enumerating the issues which were dealt with and the positions of both partners, without any analysis of how they impact Slovakia's economy or citizens. Significantly, none of the reports mentioned any Slovak position toward these issues, nor any interests or stake in the topics or outcome of the summit, nor any reaction by Slovak institutions to its results. In effect, the coverage treated the EU as a third party, and the summit as a meeting of two foreign entities with no consequences for Slovakia.

In contrast, the 8th 16+1 summit in Dubrovnik got the largest reaction in the press and on the websites of government and other relevant institutions. The reason for this was the signing of an agreement enabling the export of Slovak dairy products to China. This news was announced after a bilateral summit between the prime ministers of Slovakia and China, Peter Pellegrini and Li Keqiang on the previous day. Slovakia was one of the last EU countries that did not have such a deal with China in place, something it had been trying to rectify for several years. Negotiations on this agreement had been going on for five years, with an important development at the previous 16+1 summit in Sofia, Bulgaria, in July 2018. At that summit, Chinese Prime Minister Li promised to finalize the certification of Slovak producers of milk and dairy products as fit for entry into the Chinese market within a year. The aim of this certification process was to ascertain the quality and lack of health risks of the Slovak milk and dairy products. The final agreement was signed on April 12th in Dubrovnik by Jozef Bireš, Director General of the State Veterinary and Food Administration of the Slovak Republic and a representative of the General Administration of Customs of the PRC.

According to Pellegrini, the signing of this agreement marks the end of the involvement of the Slovak government to aid and support the Slovak enterprises in this area, and it is now up to them to seize the opportunities that this agreement offers to them. Bíreš stated that the next steps is to certify the dairy enterprises that are interested in exporting their products to China and add them to the list of companies that fulfill the Chinese requirements, which should take less than two months. This final certification will be undertaken by his own agency based on a Chinese audit. After that the Chinese market will be fully open to Slovak dairy producers and exporters. From then on, it will be up them to seek out partners and strike trade deals in China. These companies will have to adjust their production capacities in order to be able to satisfy the demand of the huge Chinese consumer market. Slovak milk and dairy enterprises did express an interest in the opportunities opened up to them, with eleven enterprises declaring their readiness to export their products to China. Seven such enterprises expressed their intent to take part in the 2nd China International Import Expo in Shanghai, which is to take place on November 5th–10th of this year, to try to gain partners and contacts for future business dealings in China. The Slovak government has promised financial aid in this endeavor, and Minister of Agriculture and Rural Development Gabriela Matečná has stressed the importance of the expo. Prime Minister Pellegrini also declared an intention to work on a similar certification deal in the case of meat products, since Slovakia is also among the few countries that have not signed a certification agreement with China in this area. Bíreš informed that the two countries have already agreed on a technical audit of meat producing facilities.

The report on the website of the Office of the Prime Minister, as well as a press briefing by Minister Matečná on the signing of this agreement was picked up by the main media providers in Slovakia and it became the most important news story to come out of the summit and the most important foreign affairs story of the day, since it is seen as bringing tangible benefits to Slovakia, especially for those employed in the ailing agricultural and food-processing sectors. These sectors have been declining since the start of the economic transformation after 1989. They are suffering from low wages and investment, stiff competition from abroad and an inability to attract new generations of workers. The dairy sector in particular has been incurring losses for the past decade and it has had to rely on state aid to remain economically viable and competitive. This agreement is therefore seen as an important potential boost for the dairy industry, as well as an opportunity to decrease unemployment and the trade imbalance between Slovakia and China, as the trade deficit with China is the largest among Slovakia's trade partners, standing at 3.985 billion Euros in 2017.

However, it remains to be seen if the dairy enterprises will be able to make use of this opportunity. One problem in particular that is often brought up in discussions on the feasibility

of doing business in China is the huge size of the Chinese market compared to the limited production capabilities of Slovak companies. While there is demand in China for quality dairy products from Europe, it is questionable whether Chinese companies will be interested in committing to deals on imports in such small quantities as Slovak enterprises can offer. The same problem is expected to arise in the case of the planned certification of meat products as mentioned above. One possible solution that is frequently suggested is to focus on smaller markets within China, such as individual provinces or cities. The next few months, after the final certification of Slovak dairy companies is completed, will show whether this problem will pose a serious hurdle for these Slovak companies to establish themselves on the Chinese market.

This agreement on certification of dairy products overshadowed all the other developments of the 16+1 summit. At a briefing at the end of the 16+1 summit, Pellegrini outlined three areas where Slovakia envisages stronger cooperation with China in the immediate future. Apart from the dairy product certification agreement, the most important one was the development of cargo transit capacities in Slovakia. This is a permanent issue in talks between Slovakia and China since the 16+1 Platform was founded, yet so far progress has not moved past the signing of a memorandum of intent at the 16+1 summit in Riga in 2016. The most frequently brought up project in this regard, also brought up at this summit, is the construction of a broad-gauge railway through Slovakia, potentially all the way to Vienna in Austria. Currently the Soviet-style broad-gauge railway stops at Čierna nad Tisou in Eastern Slovakia, where the cargo has to be transferred to a train on a European-style narrow-gauge track before it can proceed further West. Construction of a broad-gauge railway would enable an uninterrupted journey for cargo trains to Austria, where their contents are distributed further. This project, however, has its detractors since it would deprive Slovakia of this transfer hub, and lead to an increase in unemployment in the already economically disadvantaged Eastern part of the country. The proponents of this project argue that it would be better for the railway to be built in Slovakia rather than in neighboring countries, which would mean that Slovakia would lose out on job opportunities in building the new railway and transport fees once it has been completed. Due to this controversy, another project has been proposed, namely the construction of a cargo terminal in Eastern Slovakia which would handle cargo traffic from Asia and back again. In effect, Slovakia would like to become the hub from which cargo from China is distributed further to European countries. However, as noted, these projects have been floating around for several years with minimal progress, and there is nothing to indicate that either this summit or the bilateral meeting between the two prime ministers have done anything to move them along.

The third area of cooperation discussed at the summit was the construction of a center of excellence in modern technology in Slovakia. Pellegrini however stressed that while Slovakia welcomes the interest Chinese companies in tenders and investment deals, any Chinese investment in major infrastructure development projects will be conditioned by the requirement to use Slovak workers (or those from the EU) in the construction itself. This is to avoid situations where the Chinese company transports workers from China to the construction site, and thus depriving the local labor force of job opportunities, as happened in Dubrovnik itself in the case of the construction of the bridge connecting the city and the surrounding territory to the rest of Croatia. The Slovak Prime Minister also emphasized the point that strategic investment projects into key sectors should remain in Slovak hands.

As for the third event, the second Belt and Road Forum in Beijing, coverage was almost as sparse as with the EU-China summit, though once again it did manage to become the top foreign policy story of the day on the prime-time news. The coverage focused on the Chinese plans as outlined by China's President Xi Jinping, on the closer relationship of China and the EU due to the protectionist economic policies of US President Donald Trump but also on the potential risk of a "debt trap" facing smaller and poorer nations along the BRI when accepting Chinese loans to cover infrastructure projects.

A possible signal of the relatively lower importance of the summit in the eyes of the government is the fact that Slovakia was represented by its Minister of Foreign and European Affairs, Miroslav Lajčák, rather than by the president or prime minister, as was the case with neighboring countries. It must be said that Lajčák is probably the most qualified senior government official that could be sent to represent the country. Lajčák is a globally respected diplomat a strong reputation and credit, having served as President of the United Nations General Assembly for the 72nd session on 2017-2018 and currently serving as the Chairperson-in-Office of the Organization for Security and Cooperation in Europe (OSCE). The sending of Lajčák could nevertheless be seen as a sign that Slovakia does not prioritize its relations with China to the extent of some of its neighbors, such as the Czech Republic or Hungary.

The Ministry of Foreign and European Affairs put out a brief report on the bilateral meeting of the foreign ministers of Slovakia and China. Apart from the standard promises on strengthening bilateral contacts and cooperation, especially at the level of the UN, the report focused on two main topics, connectivity and education. Lajčák once again opened the potential of Slovakia in the sphere of transportation infrastructure and its prime geographic location in the context of the BRI. He also praised the fact that 60 students are studying Slovak language at Chinese universities and 37 students from China are studying in Slovakia. Both countries promised to support each other candidacies for positions in multilateral institutions. As for the

forum itself, Lajčák took part in a panel organized by the National Development and Reform Commission of the PRC, where he appealed for closer policy coordination between the relevant actors, which would help in infrastructure construction. He also stressed the importance of exchanging experiences concerning the implementation of the BRI to achieve synergic effects, and he called for cooperation based on the equality of conditions and on international norms and standards. This could signify that Slovakia shares the EU's worries that China is using unfair trade practices and investment in sensitive sectors of the economy of EU member states to obtain an undue position in EU markets and thereby gain leverage within the EU bloc. More importantly, Lajčák said that Slovakia was planning to increase investment in its railroads to maximize the transit potential of the country, and make it an important link in the connectivity chain between Europe and Asia. The emphasis on the railway connection was also seen in his statement on the Slovak prime-time news, where he made clear that it is in Slovakia's interest to be part of a BRI railway corridor, claiming that his greatest worry is that the BRI will bypass Slovakia. He stated that the TRI does not need Slovakia, but Slovakia does need the BRI. This shows the importance that the government continues to see railroad connectivity as its greatest priority in the BRI and its geographical position as its greatest asset for the initiative. The news report also mentioned the rivalry of the USA and China over 5G internet, highlighting the benefits of the Chinese 5G system. This is in keeping with the official position of the government which rejects the growing calls for the exclusion of Chinese 5G internet provider companies from markets in the EU and developed nations in general.

The most important think-tank that focuses on the discussed subject, the Institute of Asian Studies, increased its scholars' output on China in April, showing that the professional scholarly community did reflect on the summits. However, their analyses were not focused on the position of and consequences for Slovakia or the opportunities these events might bring to the country, but rather on the positive and negative aspects of the role of China in the CEE region, the pros and cons of the 16+1 Platform and the position of the EU towards China, both in general and particularly with regards towards the 16+1 Platform. This lack of focus on the Slovak angle can be explained as being due to the perception that the reality for Slovakia has not changed, i.e. that Slovakia has not especially benefitted from either the 16+1 Platform or the BRI, and there is not much new information to suggest that this will improve in the near future.

The reason for the low coverage and absence of debate in Slovakia concerning these three events can be understood in the context of the cooling of enthusiasm towards the 16+1 Platform and the BRI due to a lack of tangible results for the Slovak economy and citizenry even after several years of existence of these initiatives. The government and certain media outlets oversold the potential for trade opportunities with China and Chinese investment in Slovakia to

a level which was unrealistic and could not be reasonably satisfied. When several Slovak proposals, such as the aforementioned broad-gauge railway, fell through in negotiations with potential partners from China, it was only inevitable that a certain sense of disappointment or disillusionment set in, which has not been overcome so far. The certification agreement on dairy products might be an important step to reverse this trend, although once again the government is hyping up the potential benefits of this deal. If the agreement does not live up to these expectations, it will only further drive down the enthusiasm for further cooperation with China. This is a trend which is not unique to Slovakia, but also to many other countries of the 16+1 Platform. Such a development would work against Chinese goals of increasing trade and investment connections with the Central and Eastern European (CEE) region.

Slovakia is also continuing to pursue the project of railway connectivity within the scope of the BRI, as part of a “middle” corridor, between the main “Northern” railway corridor in use today, which goes from Russia through Poland to Germany and beyond, and the “Southern” corridor under construction from Piraeus in Greece to Budapest in Hungary. The chances for Slovakia’s vision to be realized are slim, yet it is still the main hope of the government for finding a place for the country in the BRI and benefitting from the opportunities it presents.