COOPERATION BETWEEN CHINA, EU AND THE BALTIC STATES – ECONOMIC BENEFITS AND RISKS

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Abstract: The study is aimed at exploring the ways to deepen and expand the cooperation between China, EU and the Baltic states within different partnership formats. The authors argue that the strategic political, economic and security risks should be carefully assessed. However potential risks should not be exaggerated and should not overshadow new opportunities of EU – Baltics - China cooperation for growth and jobs creation.

Keywords: *Economic cooperation, international trade, investment.*

JEL code: F1, F4, F5

Summary

The study is aimed at exploring the ways to deepen and expand the cooperation between China, European Union and the Baltic states within different formats.

On the European level the cooperation is growing rapidly in terms of trade, and investment remains significant, however are declining since 2017. Economic cooperation is a direct consequence of the EU policies, on one side, and China's 'Go Global' strategy, and the accelerated internationalization process of large Chinese corporations. With the U-turn in the US approach to multilateral system of trade relations and climate change, some of the ways for the EU and China to move forward are getting different in their strategies.

EU - China trade and investment dynamic is not reflected at the Baltic States level. Trade volumes remain insignificant, and progress in exploring new export opportunities is very limited. The Baltic states should keep in mind risks identified by the EU, which wants to ensure that China trades fairly, respects intellectual property rights and meets its obligations as a member of the World Trade Organization (WTO). Also, China's investment in European and Baltic countries raise a series of question marks. China has introduced capital controls and tightened investment rules for state firms in an effort to stop money moving out of the country and to stabilize its currency. At the same time, policymakers in Europe have become increasingly concerned that state-backed companies in China are gaining too much access to key technologies and sensitive infrastructure while Beijing still shields its own economy. The authors argue that the risks when carefully assessed (for instance, strategic investment screening) should not be exaggerated and should not overshadow new opportunities of EU – Baltics - China cooperation for growth and jobs creation.

The Baltic States are active participants of the 16[1]+1 framework and could take advantage of their geographic position at the crossroad between major axes of communication: between Russia and Western Europe, and between Northern and Southern Europe. The authors identify the new impetus of EU-Baltic States-China relations and give very concrete illustrations of where their potential future cooperation could be established, at the same time acknowledging that considerable uncertainty will still exist in the near future.

The authors conclude that the recent changes in the world order and EU approach to multilateral system gave new impetus to the EU- Baltic States-China relations.

Introduction

China and the EU have an extensive and growing economic relationship. On the European level the cooperation is growing rapidly in terms of trade and investment. However, this rapid growth in trade and investment in not reflected at Baltic States level.

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1 As in 2019 Greece has joined the framework, currently 16+1 format has been transferred into 17+1.

More can be done to capture the untapped trade and investment opportunities that exist between China and the EU. China's size and dynamism mean that these opportunities are likely to grow with time.

The state of EU – China economic relations is a direct consequence of the EU policies, China's 'Go Global' strategy, and the accelerated internationalization process of large Chinese corporations. However, the relationship is problematic because of the distortions caused by China's state capitalist system and the diversity of interests of the EU Member States.

In particular, China's investments in European and Baltic Sea Region (BSR) countries raise a series of question marks regarding international trade, the international decision-making process, the sustainability of large projects, managerial capabilities, and cooperation in innovation-driven sectors. The risks should be carefully assessed (strategic investment screening). At the same time, these risks should not be exaggerated and not overshadow new opportunities for growth and jobs creation. The Baltic States are active participants of the 16+1 framework and could take advantage of their geographic position at the crossroad between two major axes of communication: between Russia and Western Europe, and between Northern and Southern Europe.

The paper is aimed at exploring the ways to deepen and expand the cooperation between China and the Baltic states within different formats that exist between the European countries and China. Another aspect to explore is look at the success of some of the BSR countries (Germany, Poland and Finland) and see how the success could be spread to Baltic States as well. The study will identify the new impetus of EU-Baltic States-China relations and give very concrete illustrations of where their potential future cooperation could be established, at the same time acknowledging that considerable uncertainty will still exist in the near future.

Trade and Investment

EU – China. China and Europe have long been steady trading partners. The EU's trade with China hit a 10-year high last year. China is now the EU's second-biggest trading partner behind the United States and the EU is China's biggest trading partner. In time of technology developments, business innovations and decreasing trade costs, China has become a hub of global supply chains. The shift in global value chain puts economies heavily involved in the 'Asia value chain' under competitive pressure.

Despite the large volume of trade, mutual direct investment is still relatively low, with just over 2% of Chinese FDI in Europe and 4% of EU total FDI in China in 2016 according to the European Commission.

What has changed in the last decade is China's increased footprint in European investment. Chinese foreign direct investment (FDI) in the European Union (EU) has increased by almost 50 times in only eight years, from less than $840 million in 2008 to a record high of $42 billion (35 billion euro) in 2016, according to Rhodium Group statistics (Valbona Zeneli. Mapping China's Investments in Europe, 14.03.2019. thediplomat.com). For years, European companies sought to benefit from cheap labour by building factories in China, but today that trend is reversing. Chinese investors are now eyeing Eastern Europe and the Mediterranean, where the recent Eurozone crisis has pushed labour costs down and created hunger for foreign investment

China's Belt and Road initiative (BRI) aimed at building China-sponsored interconnected infrastructure around the world has been followed rapidly by a series of China-led infrastructure projects in Europe aiming at improving connectivity, investments and international trade. Along the BRI, the EU-China 'Connectivity Platform', which aims at promoting cooperation in hard and soft kinds of connectivity through interoperable maritime, land and air transport, energy and digital networks, contributed to investment increase.

Chinese foreign direct investment (FDI) in the EU has reached their peak of EUR 37 billion in 2016 and since then are declining: in 2018 the decline is amounted to 40 percent from 2017 levels and over 50 percent from the 2016 peak. This decline is very much in line with a further drop in China's global outbound FDI, a trend that can be attributed to continued capital controls and tightening of liquidity in China as well as growing regulatory scrutiny in host economies.

The EU and China both have an interest in supporting an open multilateral trading system. They are very much in the same boat as both have to deal with formidable challenges in their domestic environment. The EU faces challenges to boost growth, create jobs, overcome extremism and cope with a wave of refugees from a chaotic neighbourhood. China needs to come to terms with slowing economic development and at the same time ensure sustainable development and protect the environment. In response to its economic slowdown, China is seeking to achieve a 'new normal', characterised by economic and social reforms, leading increasingly to more service and technology-oriented economic growth, where market forces should be playing a more decisive role.

For the EU and China boosting growth is a domestic political responsibility, but in a world of complex interdependence it can only be successfully taken up in a stable and predictable international environment. The question is whether the EU and China are willing to jointly support the multilateral system as the US steps back from its hegemonic role and, if so, whether they can act in a coordinated manner as the EU and the US have done in the past (Geeraerts, 2018).

Coordinated efforts offer a prospect for the EU and China to demonstrate their shared commitment to safeguarding rules-based multilateral trading system and to conquering protectionism, while pressing forward with free trade, which is a powerful tool for sustainable economic growth and prosperity. Such an opportunity would be a successful conclusion of the long overdue negotiations on a comprehensive EU-China Investment Agreement. To this end, the BRI needs to be an open, transparent and all-inclusive initiative, which adheres to international and multilateral market rules, requirements and standards (European Parliament, 2018).

The EU has concerns about trade and investment relations with China, which include the lack of reciprocity and market access as well as the absence of a level playing field in China for foreign investors. No free trade agreement (FTA) can be considered before the conditions are right (Saarela, 2018). European Union and China intend to enter into an ambitious investment agreement by 2020.

Baltic Sea Region - China. Trade in goods and services between China and the Nordic and Baltic countries is small but steady increasing (table 1).

Table 1

Imports and exports of goods from/to China in 2018, EUR million

	Import	Export
Sweden	7672	6556
Denmark	6119	3798
Finland	2131	3579
Lithuania	864	189
Estonia	691	185
Latvia	491	152

Source: Eurostat (online data code: DS-018995)

One of the biggest concerns of the Nordic and Baltic countries is big trade imbalances. Imports from China in the region except Finland is much higher than exports.

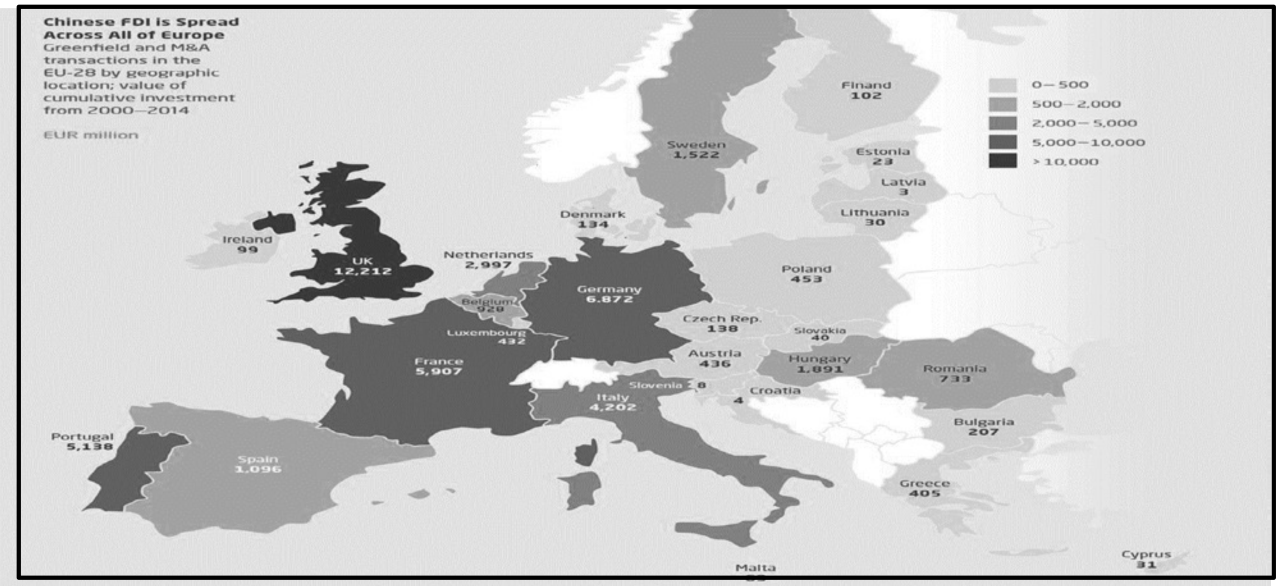
As far as investments are concerned, Scandinavian companies have developed a strong presence in China in the 1980s and the 1990s in the context of China's "open-door" policy announced by Deng Xiaoping in December 1978. Sweden and Denmark are the leading investors and together account for at least 95% of the inward investment from the Nordic-Baltic region. According to Eurostat data, most of the inward investment is in the manufacturing sector.

The opposite move - Chinese foreign direct investment (FDI) in Europe and the Baltic Sea region - is more recent. In 2017, Nordic and Baltic countries together received only 5 percent of overall Chinese investment in Europe according to Rhodium Group.

Most of the Chinese investment goes to the core European countries whereas none of the Nordic and Baltic countries belongs to them (Map 1). However, even small investments may be strategically important for the further development of trade and attraction of other investments. Chinese firms demonstrate a growing interest in opportunities for investment in the BSR region, especially in the fields of natural resources, energy, and technology.

Map 1.

Chinese FDP in the EU-28



Source: Hanemann T., Huotari M., A New Record Year for Chinese Outbound Investment in Europe, MERICS/RHG Report, (February 2016), Retrieved at: http://www.merics.org/fileadmin/user_upload/downloads/COFDI_2016/A_New_Record_Year_for

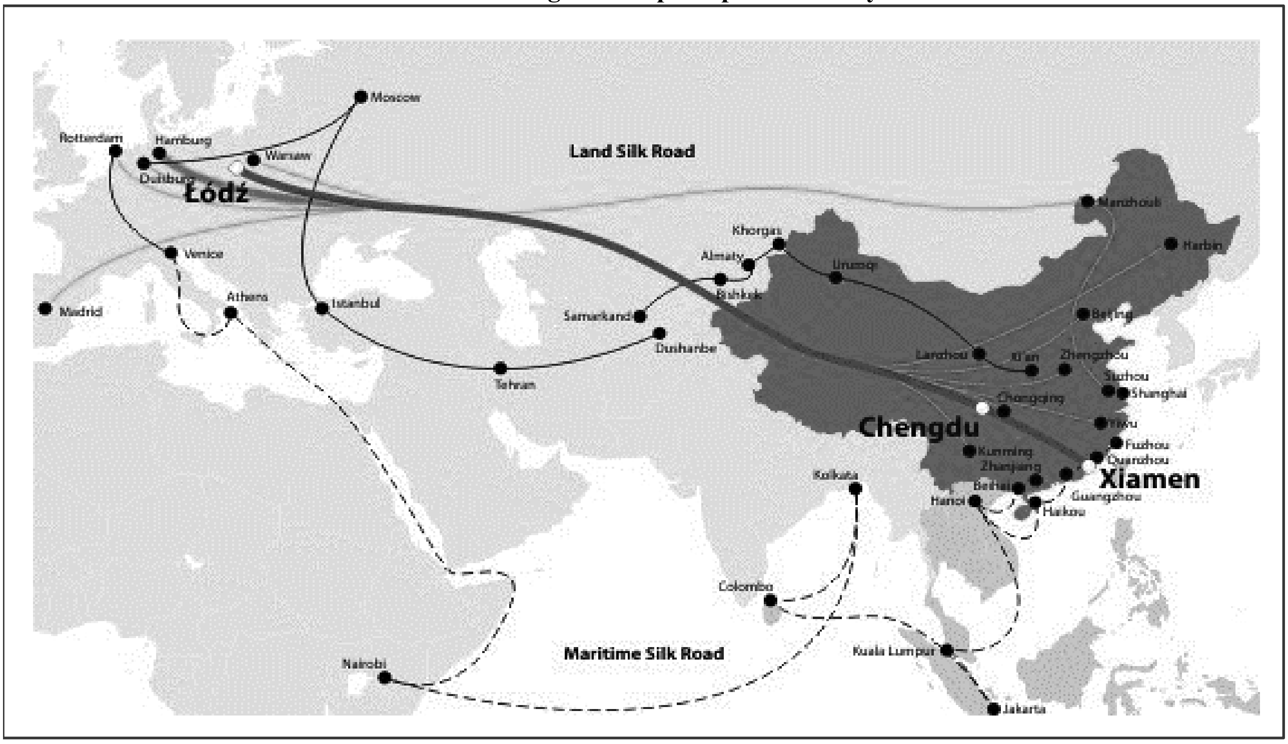
China's investments in the BSR raise a series of question marks regarding international trade, the international decision-making process, the sustainability of large projects, managerial capabilities, and cooperation in innovation-driven sectors.

Recent examples of controversial China's investments in the Baltic Sea Region include efforts to build a deep sea harbour in the Swedish town Lysekil and an airport in Greenland. Both projects were halted due to controversional nature and security concerns. Also, Norway has recently announced that is considering excluding the Chinese technology company Huawei from participating in the next generation telecommunications network due to security concerns (Brattberg, 2019).

The Baltic States and Finland plays a direct role in the China-EU rail connection. For example, the city of Kouvola in Finland, which offers a good train connection to the ports of Helsinki and HaminaKotka, has opened in 2017 a new rail link connecting Kouvola (Finland) to Xi'an (China) in 10-12 days.

Map 2.

The China Chengdu-Europe Express Railway Service



Source: Baltic Transport Journal

The implementation of the "Rail Baltica" greenfield project connecting Helsinki, Tallinn, Riga, Kaunas, Vilnius, and Warsaw, aiming at a better connectivity between Finland, the Baltic States, and Poland, could also contribute to intensifying trade and attracting investments.

The Baltic States and China: Trends and Perspectives

China has emerged as a player in the Baltic in recent years. This is partly through its close military links and strategic partnership with Russia and Belarus, partly through the China and Central and Eastern Europe Countries ("16+1") mechanism and partly through its flagship initiative of the Silk Road Economic Belt. In turn the economic presence gives China more political leverage over Baltic policies. Win-win cooperation for mutual benefit continues to be a challenge for the Baltic countries, but yet there are concerns that the increasing economic links serves China's interests more.

Particular close cooperation between China and the Baltic States emerged in 2016 under "16+1" umbrella. The Riga Guidelines argued that "16+1" framework will complement wider EU-China Connectivity Platform, and concerted efforts will contribute to developing synergies between the Silk Road project and the relevant EU initiatives such as the Trans-European Networks. However, there is the risk that the Baltic States will be engaged into a China-shaped network, with increased trade primarily benefiting greater volumes of Chinese exports to Europe.

The Riga Declaration drawn up at the 2016 "16+1" summit made frequent reference to drawing Central and East European countries into closer participation in China's overland Silk Road Economic Belt project. A final "Northern Corridor" spur is envisaged to Riga. A milestone here was in November 2016 when a trial container train from Yiwu City in Zhejiang province in China arrived in Latvia after completing an 11,000 km journey over 12 days through North-eastern China and Siberia. A further milestone was in September 2017 with a Memorandum on Strategic Cooperation signed between the Freeport of Riga Authority and the Port of Lianyungang, with the goal to promote the development of multi-modal transport services along the Eurasian land transport corridor. Of course, as various Silk Road routes are mooted, the ongoing physical security of such infrastructure schemes (Bujak and Śliwa, 2016) becomes an issue not just for China but also for participating states like those in the Baltic.

The largest recipient of China's investment during the recent years was Lithuania - the biggest country of the Baltic States. According to Chinese national statistics it accounts for more than 75% of Chinese outward investment in the Baltic States.

China's investment in Lithuania has increased from 2.3 million EUR in 2013 to 440.3 million EUR in 2017 (Table 2). Most of it is concentrated in manufacturing and technical service. For example, in 2012 China's largest producer of ATM machines, CRGBanking that accounts for 23% of the Chinese market, made its first big investment in Lithuania.

Klaipėda – the important container port with its largest retail chain in Lithuania and the Baltic States - is one of the important factors that attract Chinese investment in Lithuania. One of the best examples of the importance of transportation sector is SF Express investment and cooperation with Lithuanian Post, the state-owned postal and shipping services company. Investment of SF Express is also one of the top 10 Chinese outward investments in transport and communications sector in the EU. This cooperation agreement and investment were a good injection into the state-owned company that had problems in sustaining profitable activities and maintaining a competitive edge with private courier companies.

In Lithuania, the authorities of the Port of Klaipėda are also studying the possibility of cooperation with China Merchants Group for the creation of a new deep-water port able to receive large container ships of the Baltmax class. The possibility of creating a trans-shipment centre for railway transport between China and Europe is also being considered. Currently only 50,000 containers are re-filled, which means less than 600 trains. Creation of a trans-shipment centre would be an alternative to the traditional, rather crowded corridor leading through Minsk and Brest towards Poland.

Klaipeda seaport in Lithuania, is in competition with Riga for Chinese investments. Riga's port authorities consider creating in Riga a terminal similar to the Sino-Kazakh terminal of Lianyungang.

The development of transport infrastructure is multidimensional. According to the Lithuanian Confederation of Industrialists (2015), China Merchant Group and Lithuanian Railways are going to set up a joint Lithuanian and Chinese company which will provide freight forwarding and logistics services between Lithuania, Belarus and China.

China's outward investment in the other two Baltic States (Latvia and Estonia) remains much lower.

Estonia is among the leading countries in the Eastern and Central Europe regarding foreign direct investment per capita. In 2013 Estonia was also the leading country in the Baltics to attract Chinese investment. Despite a good geographical location and favourable infrastructure for maritime roads (there are nearly 30 ports in Estonia), there have been only a few initiatives for China's investment in the transport sector. Most of the Chinese outward investment in Estonia is concentrated in electrical machinery manufacturing and business service sectors. In 2017, Estonia is lagging behind its Baltic neighbours, however a significant increase of Chinese FDI can be observed in Estonia in the last years: from 42.7 million EUR in 2015 to 76.3 million EUR in 2017.

Table 2

Chinese FDI in the Nordic (EU Member States) and Baltic Countries in 2013-2017 (Million euro)

Country	2013	2014	2015	2016	2017
Germany	2 281.0	2 842.0	3 928.0	4 877.0	2 657.0
Poland	264.9	384.0	584.6	477.6	475.2
Sweden		29.6	27.1		478.5
Denmark	39.7	162.7	227.3	674.3	755.9
Finland			-44.0	-43.0	-365.0
Estonia	7.6	39.4	42.7	60.1	76.3
Lithuania	2.3	3.0	14.6	300.8	440.3

Latvia	6.0	62.0	73.0	78.0	80.0
EU28	96 758.9	113 185.6	137 910.9	154 963.8	215 555.4

Source: Eurostat

Source: Statistical bulletin on China's outward direct investment

Estonia is a leader in a number of start-ups among the Baltic States. Start-ups are usually very funds-consuming. Chinese investors may find an opportunity here as some of them already did by supporting Estonian start-up Testlio - a global community of test engineers focused on bug finding and quality assurance. More cooperation opportunities between China and Estonia in educational, medical and health issues were confirmed since 2015.

China's outward investment in Latvia are slightly above Estonian level. China ranks 51st among the foreign investors and 44th by the contributions to the share capital in Latvia. At the beginning of 2016, 166 companies had Chinese capital in the country.

Latvia's strength is its geographical position. It is a natural transport hub with three largest ports and the biggest airport in the Baltics. Therefore, there are more negotiations taking place between China and Latvia under the framework of the "One Belt One Road" initiative. Recent investment project of China in the field of life sciences of Latvia has opened the new chapter in the Latvian -China economic relations.

China's "One Belt One Road" Initiative provides a great opportunity for the Baltic countries to get integrated into the global trade-investment-transport network that could generate growth and jobs.

The Baltic States are still under negotiation with China on long-term investment projects related to the Road and Belt Initiative. One of the biggest threats is the competition among Lithuania, Latvia, and Estonia. Being a very integrated and small region, the Baltic countries should make more efforts on cooperating rather than competing.

The world's largest DNA gene sequencing corporation with headquarters in Shenzhen, China – BGI recently has chosen Latvia as the main base for the production of gene sequencing equipment and reagents, as well as a research and development centre serving the whole Europe. This investment project of China is perceived with cautious optimism as a "success story".

BGI shares are listed on the Hong Kong Stock Exchange; BGI employs more than 5,000 researchers in several countries around Europe, Asia, Australia and North America and project in Latvia – Latvia MGI Tech, a company founded by Hong Kong, is the corporation's largest project outside China. This project is a serious step towards the development of an infrastructure for the Life sciences and technology genome in the scale of Europe, thus allowing Latvia to become one of the European leaders in the field of life sciences. Simultaneously, the BGI/MGI investment project in Latvia is one of the key tangibles and substantial results of "16+1" cooperation.

The BGI/MGI is a multi-annual project with several stages of development: BGI Life Science Centre (2019 Q1), Latvia BGI Wuhan Life Science and Technology Park (2020 Q3) and BGI GC Centre (2022). In August 2019, it is planned to put into operation the production and laboratory premises at the "Lidostas parks" in Mārupe and to start the production of equipment and registers from September 2019. The expected investment volume is 2.5 million EUR by August, plus an additional 12 million EUR will be provided for working desks and other equipment.

Latvia MGI Tech will be a regional base in Europe, built up on the corporation's extensive development experience in Wuhan, China. The Chinese side has taken into account that Latvia is relatively well developed in the field of life sciences, has a good reputation, and the field of life sciences has special support from the government of Latvia. BGI wants to implement in Latvia – to "copy" or repeat – the success story of Wuhan that was launched about 10 years ago (growing from a small company to a huge one), because there are very suitable conditions in Latvia, also in terms of infrastructure, besides there are no Western specific queues (waiting) – in overall, many advantages comparing to DE, FR. The project will be implemented in Latvia, however, will be the platform from which the whole Europe is going to be covered.

Economic Relations of the Baltic States and China: Perceived Risks

In the opinion of some political and economic analysts, the danger for the Baltic States is that Chinese initiatives like the China and Central and East Europe Countries grouping (16+1), and the Silk Road Economic Belt project become mechanisms to leverage greater space for Chinese economic penetration into the European markets. If "Germany has become aware that the growing number of economic ties with China may bring in tandem with the many benefits also certain threats" (Poplawski, 2017), then the situation for much smaller and weaker Baltic economies presents even more risks.

On one hand, "Chinese enterprises can leverage their full-fledged experiences and technologies in infrastructure building to help the CEE countries where demands of the kind are increasingly rising" (Zhang, 2017). On the other hand, it is not clear what sort of leverage this will give. It is true that the Baltic countries as 16+1 framework members, look to China for designated credit lines and investment for various infrastructure projects. However, Chinese investment in the Baltic States would be a mixed blessing (Scott, 2018). Chinese financing may build up a disadvantageous "debt model" (Jakobowski and Kaczmarski, 2017) for the small Baltic countries, given disadvantageous rates that are further tied into using Chinese companies and Chinese workforce to deliver.

This raises the question of reciprocity. While Chinese companies find an open-door environment in Europe, it is quite difficult, if not impossible, for a European company to succeed in winning a contract to build an infrastructure project in mainland China (Casarini, 2015; also Le Chorre and Sepulchre, 2016). This lack of "reciprocity" is an issue for the Baltic States as such projects leave the region at "risk" (Heijmans, 2017; also Jacobowski, 2015). Local industry can be undercut by greater volumes of cheaper Chinese imports which transport costs have been reduced through these infrastructure projects.

The analysis shows that China is strengthening bilateral relations with only some of the 16 and paying more attention to them than to others. China seeks "leverage" in which Beijing is ready to advance its own agenda in the region. A related challenge for the Baltic countries is to preserve EU solidarity within the "16+1" framework, which in general is not serving the solidarity purpose in trade negotiations with China. Chinese officials make reassurance on this issue. At the Riga Summit in November 2016 China's Prime Minister Li Keqiang argued that "we have all along stressed that the '16+1' cooperation is a part of and useful complement to China-EU cooperation […] and has injected new vigour into the China-EU comprehensive strategic partnership" (Li, 2016; also Liu, 2014 and Zhang, 2015); but actually in the world of 'power politics' the "16 + 1" format enables China to exert increased leverage on the small Baltic countries, and to also weaken the bloc advantages for the EU in its wider negotiations with China.

Economic security is an issue as there is an ongoing large trade imbalance, in which Chinese exports to the Baltic States increasingly outweigh Baltic exports to China (Kalendienė et al., 2017). Furthermore, Baltic exports to China are strongly in the food area (particularly dairy produce); while Chinese exports to the three Baltic States are strong in finished industrial products (machinery, technology). Terms of trade give China's exports increasing price rises, while Baltic raw resources' price rise less quickly. Consequently, a gap in value increasingly opens up in China's favour and against the Baltic States. The pattern of China-Baltic trade also threatens to establish a neo-colonial pattern between primary resources and finished industrial products (Scott, 2018). Such structural imbalances are compounded by imbalances in relative importance: economic links with China are of rising significance for the three Baltic countries but economic links with the Baltic countries are of much less significance for China (Martyn-Hemphill and Morisseau, 2015). This also gives China greater power in negotiations with the Baltic States, who operate in structural terms from a position of relative weakness.

Latvia’s greater embrace of the Silk Road initiative also poses the danger of weakening Baltic solidarity. In part this is shown through Latvian competition with Lithuania, in which both push their respective ports, Riga vs. Klaipeda, as the main terminus for the Northern Corridor. Consequently, “at multilateral summits like the one in Riga there is a sense of competition” as the two countries “vie to become the main regional hub for the Chinese goods” (Mackocki, 2016).

Initially Estonia remained rather “cautious” (Veebel, 2016) about China’s Silk Road initiative. In part this is because of its trade deficit with China, in part because while Latvia has Riga and Lithuania has Klaipeda, Estonia’s main port of Tallinn is not particularly on the Silk Road route. Nevertheless, Estonia signed a Silk Road Initiative Memorandum in November 2017, in which the Minister of Entrepreneurship and Information Technology Urve Palo argued that “for Estonia, the agreement means prospects for foreign investments and provides additional opportunities for connecting the Rail Baltic rail link with the East-West transport corridor” (Estonia Radio 2017). A degree of competition seems to be emerging with Riga, as Tallinn “tries to entice China to use it as a transit corridor” (Estonian World, 2017) to the rest of the Nordic countries. A danger is that this may reflect Estonia running after China too much and opening up divides between Riga and Tallinn that China. Further hopes of increased Silk Road use were announced in the Cooperation Agreement signed between the Estonian Chamber of Commerce and Industry and the Beijing Chamber of Commerce in February 2018.

Conclusion: How to Enhance Economic Cooperation

Slowing down economic growth in the EU and the Baltic states in the years to come provide a clear precondition for exploring the ways to deepen and expand the cooperation with China, in particular in attracting investments for growth.

The Baltic countries have strong interest in exploring synergies between EU and China flagship initiatives, namely the "Investment Plan for Europe", the "Belt and Road Initiative" and “16+1” platform. These initiatives are creating new opportunities for the Baltic countries in terms of development transport connectivity and collaboration in the high-tech sector.

The potential risks linked to strategic investment should be carefully assessed by screening, however should not be exaggerated and not overshadow new opportunities for growth creation.

To enhance cooperation with China and attract its transit flows the Baltic countries should give priority at exploring the “North Sea-Baltic Corridor” connecting the ports of the eastern shore of the Baltic Sea with ports of the North Sea, situated in Northern Germany, Belgium and the Netherlands, including roads, railways and inland waterways.

The implementation of the “Rail Baltica” greenfield project connecting Helsinki, Tallinn, Riga, Kaunas, Vilnius, and Warsaw, aiming at a better connectivity between Finland, the Baltic States, and Poland, could also contribute to intensifying trade and attracting investments.

Direct air links between China and the Baltic countries could also give additional impetus to cooperation at different levels including business, people to people and could also advance tourism.

High-tech and advanced manufacturing industries accounted for a significant share of total Chinese investments in 2017. Technology investments in the BSR provide illustrations of where potential future cooperation could be established in the Baltic. Analysis of the “success stories” of some of the BSR countries (Germany, Poland and Finland) provides ideas how the success could be spread to Baltic States as well. Given the changing China's attitude towards climate issues, green economy, green investments to tackle the climate change could become increasingly important and could also be explored in the context of Baltic Countries and China cooperation.

Despite some reservations we consider the “16+1” mechanism as “golden opportunity” for the Baltic states in attracting investments to enhance innovation and productivity growth. The resent investment project of China – BGI, the world's largest DNA gene sequencing corporation, is an illustration of the "success story". Latvian has been selected as the main base for the production of gene sequencing equipment and reagents, as well as a research and development centre serving the whole Europe.

Growing joint research activities between China and the Baltics' Universities, exchanges of students and other people-to-people contacts create new opportunities in economic partnership and promote ideas about potential start-up projects in various fields.

The recent changes in the world order and EU approach to multilateral system gave new impetus to the EU- Baltic States-China relations. The Baltic countries should seek to play an increasing role in shaping a common BSR and European strategy toward China that would balance concerns with commitments to maintain free and open trade and investment policies.

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