

**THE UNIVERSITY OF LATVIA**  
**FACULTY OF BUSINESS, MANAGEMENT AND**  
**ECONOMICS**

**ECONOMIC COOPERATION BETWEEN CHINA AND**  
**BALTIC STATES**

**CURRENT TREND AND FUTURE SCENARIOS**

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## **Annotation**

China and Baltic States have developed economic cooperation under the format of “16+1” (later “17+1” when Greece joined in 2019), where both sides have taken more “open” attitudes and policies to establish closer cooperation in trade and investment. This paper is to research the current trends of the economic cooperation between China and the Baltic States as well as the future scenarios thereof combining economic and political analysis. The trade theory proves economic benefits of liberal trade and investment, therefore, the economic cooperation of China and Baltic States provides growth opportunities for both sides. However, Lithuania has withdrawn its membership of this format in 2021, making the other two countries take a cautious approach. The lack of trust between the EU and China is also not favourable for deepening economic cooperation between China and the Baltics. As the current political environment does not encourage the trade and investment between China and Baltic States, so there may be a decreasing trend of mutual trade expected, making the future scenario of the economic cooperation not that optimistic. However, the political risks should not be exaggerated as it is generally possible for China, the EU and Baltic States to find reasonable solutions and mutually beneficial cooperation formats to achieve in the future the common goals of growth and job creation which can be approached through open economic cooperation. Understanding and keeping synergies of the tripartite policies and initiatives among EU, China and Baltic States is always the good way to improve the trust and economic cooperation.

**Key words:** Economic cooperation, China-Baltic States, international trade, investment, political environment

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## INTRODUCTION

With China's strategy of "Go Global", Baltic States are active participants in the economic cooperation with China under the format of "16+1". Recently, Lithuania withdrew its membership, making the other two countries take a cautious approach. In this paper, it is researched the current trend as well as the future scenarios of the economic cooperation between China and the Baltic States. The topic is up to date as "16+1" is comparatively new to China-Baltic economic relations and the results can provide useful information on how to deepen the mutual economic cooperation in the future. However, the topic is broad, which shows the limits of this paper.

### **Research questions:**

What are the current trends and future scenarios of the economic cooperation between China and the Baltic States? Will there be less or more economic cooperation and under which conditions?

### **Research hypothesis:**

A pessimistic scenario of the economic cooperation can be expected as current political environment does not encourage liberal trade and investment; however, political risks should not be exaggerated as it is generally possible for China, the EU, and Baltic States to find reasonable solutions and mutually beneficial cooperation formats to achieve the common goals.

### **Research aims:**

Analyze the current trends and future scenarios of economic cooperation between China and the Baltic States, identify economic benefits and political constraints and justify preconditions for deepening trade and investment in the future.

### **Research tasks:**

- Analyze international trade theories and identify pros and cons of liberal policies versus protectionism.
- Analyze the political environment and the major happenings in EU, Baltic States and China.

- Analyze the political priorities of EU, China, and the Baltic States to find out the potential common goals
- Analyze the dynamic changes and economic achievements in the field of trade and investment between China and the Baltic States
- Discuss the future scenarios of China-Baltic economic cooperation

### **Research methodology:**

- Literature review
- Statistical data analysis: structure and dynamic of international trade and foreign direct investment

### **Data sources:**

*International Monetary Fund database "World Economic Outlook":*  
<https://www.imf.org/en/Publications/SPROLLs/world-economic-outlook-databases>

*Eurostat:* <https://ec.europa.eu/eurostat>

*Central Statistical Bureau of Latvia:* <https://www.csb.gov.lv/>

*Statistics Estonia:* <https://www.stat.ee>

*National Bureau of Statistics of China:* <http://www.stats.gov.cn/>

*OECD:* <https://oec.world/en/profile/bilateral-country/chn/partner/>

*UN Comtrade Database:* <https://comtrade.un.org/Data/>

- Comparative analysis of the economic indicators of China-Baltic relations
- Qualitative and quantitative justification of future scenarios

### **Research structure:**

The first chapter is theoretical part, the liberal trade theories and the pros and cons of liberal and protectionism policies are analyzed. The second chapter is to give a general information of current political environment and the formats of China-Baltic economic cooperation. The third chapter aims to demonstrate the dynamics of the trade and investment between China and the Baltics and analyze the economic benefits thereof. The fourth chapter centers on the future scenarios of China-Baltic economic cooperation by using political analysis to see the potential political constraints and common goals that can ease the political risks and provide opportunities for future cooperation.

# 1. THEORY: LIBERAL TRADE THEORIES

## 1.1 International trade theories and their application to China-Baltics economic cooperation

International trade is always discussed especially in today's process of globalization. More and more countries or regions have participated in various trade cooperation organizations, including WTO, EU, OPEC etc. Why countries trade? The reason is countries benefit from international trade compared to autarky. There are various theories relating international trade, however, the Ricardian comparative advantage theory can be regarded as one of the first cornerstones in international trade theories. As Ronald Findlay reported in the North-Holland Handbook of International Economics in 1984: "It is at least as true that all of the pure theory of international trade has emerged from chapter 7 of Ricardo's Principles" (Ronald, 1984). The key word in Ricardian Theory is comparative advantage. This concept was firstly pointed out by Robert Torrens in 1815 in his essay *On the External Corn Trade* (Torrens, 1815).

Ricardo formalized and developed it in 1817 in his book *On the Principles of Political Economy and Taxation*. In general, a country gets a comparative advantage in the if it can produce a certain good at a lower opportunity cost than another country. David Ricardo argued that international trade is beneficial because countries are different in technologies.

In the Ricardian model, there are two countries, England and Portugal, producing wine and cloth using labor as the sole input in production. Portugal has a comparative advantage in wine production while "England has an absolute disadvantage in cloth, but at the same time she has a comparative advantage in cloth" (Ricardo, 1817). He argued that, comparing with autarky, both England and Portugal could enjoy more benefits from the mutual trade of cloth and wine regardless of the prices and productivities of the respective industries in each country.

Ricardo assumed that as countries are different, each country has its own comparative

advantages in producing some goods than other goods. For example, country A is efficient in producing good a, while country B is efficient in producing good a, in order to meet the demand in each country. If country A specializes in producing product a, that is, exports and imports b; country B specializes in producing product b, that is, exports good b and imports good a, then the world efficiency and world average income level can be improved. Comparing with autarky, liberal trade improves the world efficiency and increases income level in both countries.

Understanding Ricardo's model, we assume that here are two countries—China and Latvia, two industries— textile and chemical, and labor (L) is the only factor needed in production. Labor productivity differs between countries (due to differences in technologies) but does not change over time. Labor supply in each country is fixed. No unemployment. Labor markets are competitive (wages are determined only by productivity). Workers are mobile across sectors (between producing textile and chemical), but not between countries. No transportation costs! (Transportation of goods between countries is free).

	Chemical	textile
China	$a_{LC}=4$	$a_{LT}=2$
Latvia	$a_{LC}=2$	$a_{LT}=4$

$a_{LC}$ : unit labor requirement in chemical production (hours of labor necessary to produce one unit chemical)

$a_{LT}$ : unit labor requirement in textile production (hours of labor necessary to produce one unit textile)

China:

Opportunity cost of producing 1 kg of chemical = 2 kg of textile  $a_{LC}/a_{LT}=2$

Opportunity cost of producing 1 kg of textile = 0.5 kg of chemical  $a_{LT}/a_{LC}=0.5$

Latvia:

Opportunity cost of producing 1 kg of chemical = 0.5 kg of textile  $a_{LC}/a_{LT}=0.5$

Opportunity cost of producing 1 kg of textile = 2 kg of chemical  $a_{LT}/a_{LC}=2$

China has comparative advantage in producing textile while Latvia has comparative advantage in producing chemical. Price of chemical is higher in China than that of Latvia, and price of textile in China is lower than that of Latvia.

China:

$$P_{CC}=2, P_{CT}=1$$

Latvia:

$$P_{LC}=1, P_{LT}=2$$

To better use the labor resources, free trade happens, each country specializing in producing its comparative advantage good: China exports textile and imports chemical while Latvia exports chemical and imports textile. And the prices of each good in each country begin to converge at a middle level before trade.

$$1 < P'_C < 2$$

$$1 < P'_T < 2$$

In general, people in these two countries end up consuming more of both chemical and textile. Trade increases the income level in both countries. Chinese workers earn a higher income from textile production because the relative price of textile increases. Latvian workers also earn more from the specialization in producing chemical as the relative price of chemical also increases. Trade increases income level, contributing to economic development.

Dimand has given a historical review of studies on international trade. Textbook discussions of international trade, from elementary principles books such as that by Lipsey et al. to graduate texts on trade theory, begin with the numerical example of comparative advantage from Ricardo's chapter "On Foreign Trade" Readers of these textbooks, of surveys of trade theory by Bhagwati (1964), Haberler (1961), Jones and Neary (1984) and even Chipman (1965), and of 'neo-Ricardian articles on Ricardo's trade theory by Steedman and Metcalf (1973) and Parinello (1988) receive the im-

pression that Ricardo' contribution to trade theory consists solely of that brief numerical example and its interpretation. The example is a major contribution, important beyond international trade for showing potential mutual gains from voluntary exchange (Dimand, 2000).

Later on, Heckscher – Ohlin (HO) developed Ricardian model and proposed theory of International trade that trade can occur also due to differences in resource allocation between countries: labor, capital, natural resources etc. Production technologies are assumed to be the same in the whole country in this theory.

HO model uses capital and labor as the two resources and define the ratio of the quantity of these two factors used in a production process as the capital-labor ratio. In this model, each country produces two products, for example steel and clothing, if steel consumes more capital per unit of labor in the production than clothing production, then the steel production can be regarded as capital intensive relative to clothing production and clothing production shall be labor intensive relative to steel.

In real world, many less developed countries are well endowed with labor force then their physical capital resources, and many developed countries are on the contrary are well endowed with capital than labor force. Based on the capital-labor ratio of HO model, we could also divide the countries in the world as relative capital-abundant or relative labor- abundant countries in regard to their aggregate endowments of these two factors. HO model suggests that a capital-abundant country tends to export the capital-intensive good, while the labor-abundant country exports the labor-intensive good. Free trade is beneficial for both countries since each country raises production of a good that is intensive in its abundant factor (Academy, 2012).

This theory could explain the trade structure between two countries. Based on the data from University of Groningen, we are able to obtain the information regarding capital stock and numbers of persons engaged of China, Estonia, Latvia and Estonia.

Based on the data of the University of Groningen, China's capital/labor ratio has been keeping increasing since 2000, China's capital/labor ratio has always been much more

smaller than the other three countries. China has greater population, therefore, the labor resources is also comparatively bigger than the Baltics. If we only look at the amount of capital stock, China ranks first. (University of Groningen, 2022)

In general, according to the HO theory, China is relative labor-abundant country while Estonia, Latvia and Lithuania are capital-abundant countries. For the Baltics, Latvia has the biggest capital/Labour ratio; Lithuania smallest. Latvia is comparatively more capital-abundant. Based on these results, if HO theory applies, then China mainly exports labor-intensive goods and imports capital-intensive goods, while the other three Baltic countries mainly export capital-intensive goods and import labor-intensive goods.

### **1.2. Pros and cons of liberal policies versus protectionism**

The discussion about liberalism and protectionism is always on the government's agenda. Either of these two have shown both advantages and disadvantages.

Liberal policies focus on liberalize the international trade, reducing or removing trade barriers. As many trade theories, for example, Ricardian comparative advantage theory and Heckscher-Ohlin model, have proved that trade liberalization benefits the economic development, most economies have chosen to build trading relations with other countries. Following the economic globalization in the previous decades, more economies have opened or further opened their markets for the outside world. The GATT, WTO, OECD are major results of trade liberalization. EU also has been promoting liberal trade within EU member states by reducing barriers and enhancing free movement of economic factors.

The international trade has grown remarkably since 1990, and more countries have turned to export-oriented economies. Recently, there is a downward trend as a consequence of policy uncertainty resulting from trade tensions. Flows of investments, however, have grown with even higher level thanks to the liberal policies and technological supports. Foreign exchange market activities continued to expand. In a number of countries, market structure became more sophisticated through the

inclusion of new instruments in the central bank's toolkit or liberalization in the forward exchange market. (International Monetary Fund, 2020)

Free trade of goods and services have promoted exchanges of ideas and technologies, having positive impact on innovation and technological advancements in the local industries, which promotes productivity growth. As Bustos studied, the increase in revenues gained from trade integration leads exporters to develop their technology. (Bustos, 2011).

As trade openness is able to promote economic growth, with the integration of the developing countries and least developing countries, trade openness helps to reduce poverty globally. Free trade allows countries to specialize in the industries where they have comparative advantages by increasing the efficiency of resource allocation within different industries. In the long term, it helps to maintain macroeconomic stability. If countries only pursue growth depending only on the domestic market have typically been unable to maintain a sustainable growth while countries can experience sustained growth together with increased participation in the global market (The World Bank and World Trade Organization, 2015). Based on stable economic development, developing countries are able to catch up. Currently, China has been the world's biggest exporter. Mexico, Vietnam, India are other developing countries but act as top exporters in the world.

Liberal trade could also have impacts on employment. Trading with goods and services enables the local industries to innovate and results in structural changes. This could lead to job reduction, reallocation and creation within and across industries. The relations between trade and jobs and wages are well studied in the famous paper written by Dorn and Hanson in 2013, "The China syndrome: Local labor market effects of import competition in the United States." They have found that the US's trade with China challenges the labor market as unemployment increased while wages decreased in the competing industries with China (David & Hanson, 2013). But this is only part of the total impact on local labor market. In general, foreign trade promotes firms to innovate and open business to some other industries or regions and these changes contribute to job creation. As Magyari pointed out in his studies regarding

Chinese increasing trade, Chinese trade promote US firms to diversify and reorganize production (Magyari, 2017). Besides, liberal policies allow flexible movement of the economic factors, for example, it is easy for EU workers to move from one country to another, the cost of unemployment in the competing industries will be minimized. Studies also show that liberal trade promote woman employment. United Nations Conference on Trade and Development analyzed the influence of the growing export-oriented apparel sector in Lesotho on women employment. They suggested that trade policy can create jobs for women, including unskilled women workforce that has difficulty entering working environment (UNCTAD, 2012).

Liberal policies allow the local customers to have more choices to choose goods and services. However, larger trade openness also means greater exposure to external shocks, especially in export-oriented industries (The World Bank and World Trade Organization, 2015). Under liberal policies, countries are more vulnerable to international crisis and external spillovers, which can lead to the country's economic volatility. Rodrik's studies show that Latin America's Gross National Product (GNP) volatility is driven by both national policy inefficiency and external shocks (Rodrik, 2001). Hnatkovska and Loayza also mentioned that openness and external shocks can leave effect on macroeconomic volatility, thus having bad influence on economic growth (Hnatkovska & Loayza, 2004).

Taking the distributional consequences of free trade, it is also recognized as a factor which increases wage and income inequality. Researchers Goldberg and Pavcnik reviewed the literature studying the consequences of trade liberalization in developing countries after 1970s. They found out that there were significant increases in inequality (Goldberg & Pavcnik, 2007). Globalization facilitates wage increase of skilled workers while unskilled workers may lose (Helpman, 2016), and this cause the wage gap between the worker groups in importing and exporting industries. Studies by Antràs also pointed out some evidence in reality that trade integration and inequality grow very much in parallel (Antràs, de Gortari, & Itskhoki, 2017)

To benefit from liberal trade, some factors have to be considered. Export

specialization, capacity of national authorities and production diversification play a role to gain the benefits of trade openness to be fully realized (Helpman, 2004).

Trade protectionism is a policy of a nation, or a group of to protect their domestic industries from foreign competition. The major types of protectionism are tariffs, quotas, subsidies, currency manipulation and standardization. This is opposite from free trade, when local people are allowed to freely purchase or sell products in the global market.

The advantages of protectionism can be concluded as following:

At first, protectionism provides national industries more growth opportunities. Some local industries may be not competitive with foreign ones with open market, but governmental intervention could give them protection or supports so they are able to compete. This works especially for those infant industries. In 18<sup>th</sup> century, Alexander Hamilton and Friedrich List firstly developed the concept of infant industry theory, stating that new industries have a difficult time competing against older, profitable and well-established companies in developed countries. In order to help them gain market share against older and well-established companies of developed countries, governments shall choose policies with protectionism until they become mature and able to compete (Hamilton, 1966)

Second, protectionism promote local employment. As domestic companies are able to compete and develop under policy benefits, their workplace can be also enlarged. Therefore, protectionism is likely to increase the country's Gross Domestic Products as national production is boosted regarding the contribution of domestic companies' existence and enlargement in the global market.

Third, protectionism reduces imports. Trade balance is mostly considered by all economies while trading with outside world. Protectionist policies reduce import values and amounts so the country could also reduce the trade deficit or even make it to trade surplus.

Forth, protectionism could ensure national security. For some national important sectors, for example, food, high-tech, defense, governments are more likely to apply specific protective policies. The standing point is that industries relating national defence are vital for national security. If these industries are mostly depending on foreign manufacturers, then there comes risks for the country to defense themselves timely and efficiently especially in the time of war. Protecting local manufacturers of defense items from foreign ones, namely, trade protectionism, is of great significance for a nation's existence (Guarino, 2018). Protectionism also helps to protect their citizens from unsafe imported food, so the local customers are able to be well prevented from foreign food unsafety.

However, the disadvantages of protectionism cannot be ignored. Understanding the risks created by open trade, there are more concerns towards globalization. As Draghi pointed out in 2017 that this understanding have led to a broader list of concerns of globalization (Draghi, 2017).

Protectionism has negative influence on the local industries' motivation to innovate. As local industries are more easily to compete with foreign ones, they tend to lose incentive to advance their technologies or pay efforts to research and development of new products.

Protectionism leads to higher prices of the goods for local customers. As there may be less amount of foreign goods in the local market, local customers have limited choices but likely with higher prices. Monopoly is also possible to happen, which means a higher price of the goods for customers. If intermediates are facing tariffs, local industries have to pay more to purchase the parts or materials for their final products, causing an increasing of the production cost, however, they also pass this extra cost on to the customer. And another method of protectionism is controlling the exchange rate of the national currency against foreign currency. By decreasing the value of the national currency, national manufactures can sell their goods with lower prices in the global market to make the goods more competitive abroad. However, for local customers, foreign goods are sold with increasing prices. Local customers are forced to pay more. In general, liberalism enables lower prices, and protectionism, on the

contrary, brings about higher prices.

Protectionism often leads to isolation, politically and culturally and, in turn, economically. In a short term, the country may enjoy economic stability or growth by reducing outside competition, but in the long run, the country seems to face isolation in various areas because outside world will act accordingly to get back nondiscrimination and fairness.

By applying protectionism in trade policies, including tariffs and non-tariff barriers, there is also risk provoking trade conflicts between countries, for example, China-US trade war. Tariffs and subsidies are able to be used to redistribute income among domestic groups. On the one hand, being properly used, it does good to the local citizens as it can ensure equality; on the other hand, it also can be used in arbitrary, and other welfare-reducing areas. Therefore, many international trade organizations and treaties limit the power of trade policy in order to increase transparency in policy making procedures, promote nondiscrimination, as well as protect the remedies and rights of the participants (Petersmann, 2020).

Currently, worldwide trade integration has slowed down while protectionism has been rising with the increase in non-tariff and tariff barriers. The landscape of trade policy has experienced a transformation during the last decade (Gunnella & Quaglietti, 2019).

Protectionism is increasingly recognized in the world both by economic shocks and political skepticism. In Europe, Brexit has challenged the basic rules of free movement and economic integration in EU. Besides, there are more voices on Euroscepticism, which also has had impact on the current economic integration of EU. The benefits of free trade have also been openly questioned in the United States. The US claimed their job lost in foreign trade, with President Donald Trump's statement "bring jobs back from China", trade war between the US and China started by applying or increasing various tariffs on mutual trade.

Because of rising protectionist measures including local content requirements, renewed expansion in global value chains, which has played an important role in

global trade integration and increasing over the last decades, is unlikely to materialize in the current environment. In conclude, the status of global trade showing a weakness with rising of protectionism could be maintained in the resent years, and it is called “new normal” for international trade based on the analysis of European Central Bank (OECD, 2016).

## **2. FORMTS, LEGAL ENVIRONMENT AND POLITICAL CONSTRAINTS OF ECONOMIC COOPERATION**

### **2.1 Global political environment**

Current political environment shows great uncertainties, which result in different implications of the global economy. The major players in the global political environment are United States, EU, China, Russia, United Kingdom and other independent economies. International organizations including United Nations (UN), North Atlantic Treaty Organization (NATO) also play an important role. Respectively focusing on development and security, the current world still is not in peace. For the nearest decade, conflicts or shocks have happened in various spheres such as territory, trading, human rights, independence etc. The major ones include Brexit; Barack Obama's failure to create North Atlantic Pacific trade blocs; the election of Donald Trump and trade war between China and the United States; the Covid-19 pandemic and Russia-Ukraine war. These shocks have reminded some expert of the idea that we may meet the end of economic globalization, which has been consistently reported by the world mainstream media. “We are at the end of economic globalization as we have experienced it for the past thirty years,” said Larry Fink, the chairman of BlackRock, the largest investment fund in the world (Frachon,2022).

The latest topic shall be the war in Ukraine. On February 24th of 2022, Russia announced the full-scale military operation towards Ukraine. Russia claimed “Ukraine, in violation of its own Constitution and law, launched a massive offensive against the Russian language, grossly violating the linguistic, educational and cultural rights of

Russian-speaking citizens in the process” (the Ministry of Foreign Affairs of Russia Federation, 2022), which Russia calls it as “Russophobia”. Russia then signed the Treaties of Friendship, Cooperation and Mutual Assistance with Donesk<sup>1</sup> and Lugansk<sup>2</sup> on February 22nd this year in order to recognize the independence of the Donesk People’s Republic (DPR) and the Lugansk People’s Republic (LPR); therefore, Russian military force is able to enter Ukraine. Since the cold war, many eastern European countries joined NATO, including Lithuania, Latvia and Estonia. Russia holds that the eastern expansion of NATO in Europe has threatened Russia’s security. Russia claimed that the red line is that Ukraine would never join NATO. Therefore, Russia considers it a real threat to their interests.

The Russia-Ukraine war has triggered various economic and social impacts as well as political changes. Russia-Ukraine war has caused refugee crisis in Europe, which can be regarded as the Europe’s largest one since World War II. According to UN High Commissioner for Refugees (UNHCR), around 7.7 million people have become displaced in Ukraine. It is estimated that about 13 million people could not leave the affected areas facing great security risks. Lacking resources and information for leaving also challenges their pursuing of safer life to find safety and accommodation (Operational Data Portal, 2022). Until now, more than 5.2 million Ukrainians has left their country for safer neighboring states, most of which are EU member states (United Nations High Commissioner for Refugees, 2022) .

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<sup>1</sup> Donesk: located in Eastern Ukraine with 56.9% Ukrainian ethnicity of the population and 38.2% Russian ethnicity. The native language of 74.9% of the population in this region is Russian, while 24.1% Ukrainian [2001 Ukrainian Census, <http://2001.ukrcensus.gov.ua/eng/>].

<sup>2</sup> Lugansk: located in Eastern Ukraine with 49.6% Ukrainians of its population and 47% Russians. The native language of 85.3% of the population is Russian, while 13.7% Ukrainian. [2001 Ukrainian Census, <http://2001.ukrcensus.gov.ua/eng/>].



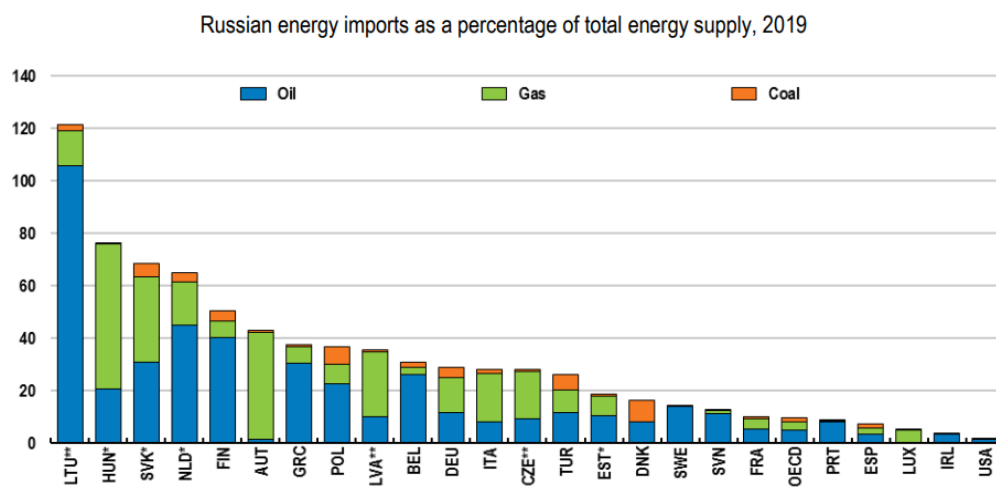
**Figure 2.1 Map of Ukraine refugees situation**

Source: *Situation Ukraine Refugee Situation*". United Nations High Commissioner for Refugees. <https://data2.unhcr.org/en/situations/ukraine> Retrieved April 25th, 2022.

Poland currently is the biggest Ukrainian refugee receiving country and around 2.9 million Ukrainian refugees have come into Poland. Romania ranks second, receiving about 0.78 million refugees. Russia is the third one, and other major host economies are Hungary and Slovakia. For these host countries, in order to help the refugees from Ukraine, additional spending is required, for example, social assistance, housing, food provision, medical assistance and childcare and schooling. EU as the major host area as a whole, may have to bare a direct first year cost at least 0.25% of EU GDP for each 3 million refugees (OECD, 2022). The war also caused challenges to global supply chain as Russia and Ukraine are major suppliers in some commodity markets. 30% of global exports of wheat are done by Russia and Ukraine, 20% in corn exports, mineral fertilizers and natural gas, and 11% in oil exports (OECD, 2022). Russia and Ukraine are considered the "breadbasket of Europe", but because of the chaos in Ukraine and international sanctions against Russia, the food supply chain is damaged, leading to great increase of food price. According to the Food and Agriculture Organization of United Nations, global food prices have been soaring under the war: Average FAO Food Price Index (FFPI)<sup>3</sup> reached 159.3 points in March of 2022, a record high since 1990 (Food and Agriculture Organization of United Nations, 2022).

<sup>3</sup> The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities.

North Africa and the Middle East import more than 50% of their cereal demand from Ukraine and Russia. Ukraine is also a key maize supplier the European Union and China, as well as several North African countries including Egypt and Libya (Glauber & Laborde, 2022). These countries buying wheat from Russia and Ukraine will have the hardest time paying as prices rise, and in the long term, this may result in food insecurity and even unrest in these countries. Russia is also the major exporter of natural gas, exporting around 20% in global market and 40% in the EU market (Glauber & Laborde, 2022). Based on Eurostat, Russia was the largest supplier of natural gas to the EU (Eurostat, 2022).

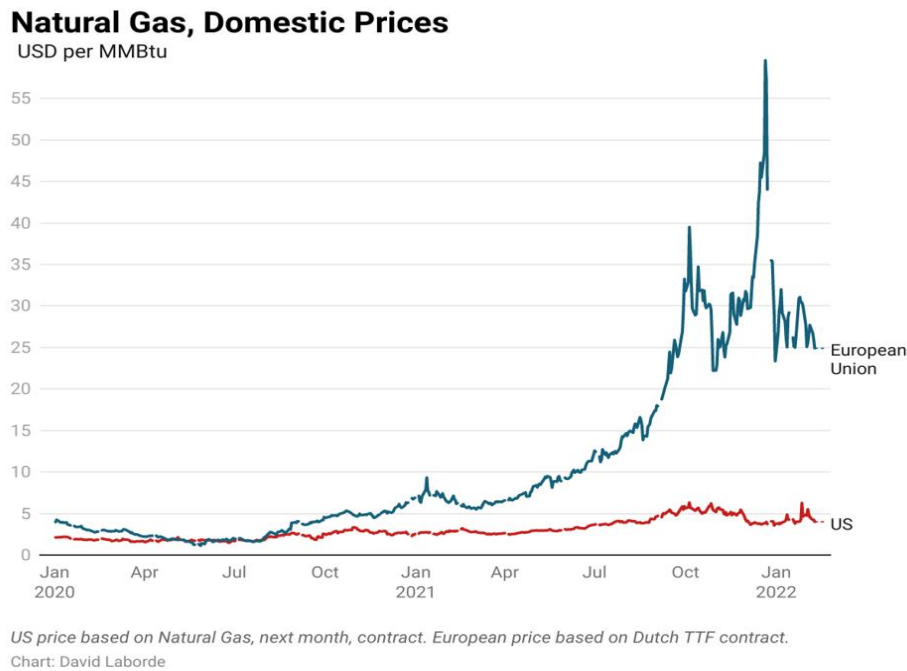


Note: \* Country imports include transit trade figures \*\* Figures include amounts that went to stocks.

**Figure 2.2 EU countries' imported energy supplies from Russia**

Source: OECD <https://doi-org.datubazes.lanet.lv/10.1787/4181d61b-en>.

Many European countries and other OECD members are heavily dependent on the energy supply from Russia. Under the Russian-Ukraine war, the prices of energy have grown quickly. Compared to the average price level in January of 2022, world oil price have grown by 33% and coal prices by 80%. Gas prices are even soaring in Europe with an increase by 865% (OECD (2022)). The war has caused the price of gas soaring in EU states. Gas is also the major source of electricity and fertilizers, whose increasing of price also leads to the increasing prices of electricity and farming, therefore, household expenses and farming costs are becoming higher, which influence EU citizen's normal life.



**Figure 2.3 European Natural Gas Evolution**

Source: <https://www.ifpri.org/blog/how-will-russias-invasion-ukraine-affect-global-food-security>

The European price of natural gas increased significantly when the Russian-Ukraine war started. German Chancellor Olaf Scholz stated that the west countries relied on Russia’s energy supplies, but the West has to work “very hard” to find alternative energy sources (CNBC, 2022). Although European countries could switch to other suppliers such as the U.S., considering the issues regarding logistics and facilities, add costs exist which may not relieve the situation in the short term.

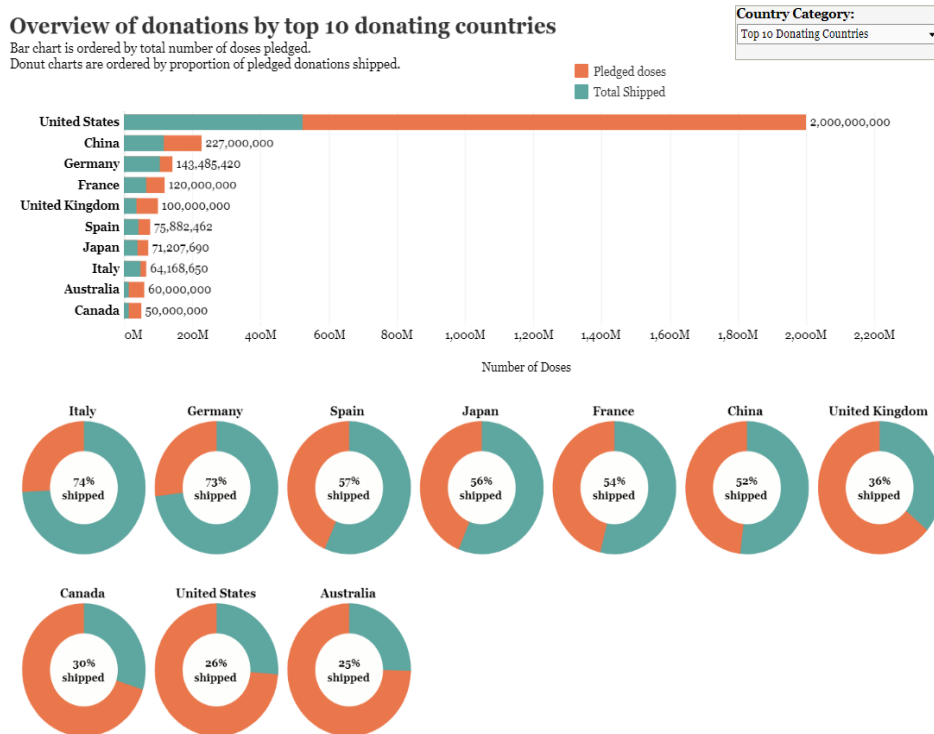
Russia-Ukraine war has also caused policy changes in the globe. Many economies have imposed sanctions against Russia, such as United States, Australia, Canada, New Zealand, United Kingdom, Japan, EU and other countries in the world. EU has implemented a serious of sanctions against Russia since 2014 because of Russia’s actions in Crimea. Russia’s full-scale special military operation in Ukraine in the early 2022 has made EU to expand its sanctions. Util Aril, EU has imposed five packages of sanctions against Russia’s continuing military operation in Ukraine including individual sanctions, economic sanctions, restrictions on media, diplomatic measures and restrictions on economic relations with the non-government-controlled areas of Donetsk and Luhansk oblasts (European Council, 2022). Many European countries also stared to implement sanctions against Russia. To some extent, this same

position against Russia consolidates EU. On February 28<sup>th</sup> of 2022, President Zelenskyy of Ukraine signed an official request for Ukraine to join the EU. Following the war, the Presidents of Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia and Slovenia issued a joint statement calling on the EU member states to work together to support Ukraine so that EU is able to grant Ukraine a status of EU candidate country as soon as possible, then starting negotiations. (President.pl, 2022). International companies and organizations have also adopted actions against Russian market or products, for example, Apple has paused all products sale in Russia, BMW has stopped exports to Russia, and Rio Tinto was the first mining company to announce cutting all ties with Russian business.

The world has been watching the things happening in Ukraine for months with great concerns and fear. Western countries, the United States and other NATO member states providing Ukraine with military support like weapons and advanced systems. Russia's foreign minister Sergey Viktorovich Lavrov warned the world the possibility of a third world war and that the threat of a nuclear conflict should not be underestimated (CBC, 2022). The war has negatively impacted the international peace and security system, causing humanitarian crisis and damages to the global economy. Global political environment shows more uncertainty and changes in this period of time. The bilateral or multilateral relations between or among the major powers, the United States, EU, China, Russia, are expected to face different challenges.

Besides the Russia-Ukraine war, pandemic is still threatening people's lives worldwide. According to World Health Organization, 508 million people have confirmed cases of COVID-19, including 6 million of deaths, and a total of more than 11 billion vaccine doses have been used (WHO, 2022). Prior to the war, thanks to the global vaccination progress and favorable macroeconomic and financial policies, many economies are expected to return to normality over 2022-23 (OECD, 2022). Russia-Ukraine war has shocked the recovery plan for Covid-19 pandemic in most countries as the recovery can be hindered by the current inflation and refugee crisis. The Covid case has provoked concerns regarding public health security of those countries who are dependent on imports of medical items from other countries. The voice of "vaccine diplomacy" can be heard time to time, which also reflects the political trust issues among governments. Hotez, the Dean for the National School of

Tropical Medicine has described the term “vaccine diplomacy” as “almost any aspect of global health diplomacy that relies on the use or delivery of vaccines and encompasses the important work of the Gavi, the Vaccine Alliance, as well as elements of the WHO, the Gates Foundation, and other important international organizations” (Hotez, 2014). As the demand of vaccines were huge when the Pandemic started to spread worldwide, some countries were able to donate or export a large amount of vaccines to other countries, providing opportunities for these countries to increase their soft power. In this case, it is a chance for a country to strengthen friendships with old partners and build new relations, showing their political strength and economic markets (British Foreign Policy Group, 2021).



**Figure 2.4 Vaccine donations of Top 10 donating countries**

Source: Launch and Scale Speedometer, <https://launchandscalefaster.org/covid-19/vaccinedonations>

In vaccine diplomacy, China and Russia were the first leaders, and later the United States, European countries and other economies also join the stage. Currently the United States is donating the biggest number of vaccines to outside world. China ranked the second in terms of total amount of donated doses, mainly to Asia, Africa

and Latin America, which are consistent with China's economic diplomacy as these areas are sometimes neglected or deliberately isolated, because of their repressive regimes, by the U.S. and Europe (Lee, 2021). EU has overwhelmingly been sending vaccines to its Balkan neighbors in the worries of Russia's growing influence there.

The importance of advancement and independency of health and medicine sectors is increasingly recognized by the world. Bourne (1978) argued that health and medicine can serve "as a means for bettering international relations" because it gives chances for dialogues as it "transcend traditional and more volatile and emotional concerns" ( Bourne, 1978) Some countries tend to change their positions towards Hong Kong, Taiwan, Tibet, and Xinjiang issues after receiving huge amount of doses from China (Kiernan, Tohme, Shanks & Rosenbaum, 2021).

World-leading economies, either chasing for their geopolitical opportunities or avoiding the geopolitical risks, are competing with each other. For China and the United States, Covid pandemic has given new chances for them to deepen relations with Latin America through vaccine diplomacy. China-US competitive dynamics in Central America can be evidently seen regarding vaccine diplomacy. The US announced \$310 million for humanitarian assistance to El Salvador, Guatemala, and Honduras in April last year (US Embassy in El Salvador, 2022). China keeps donating its state-owned vaccines to Central America and has sold millions of Sinovac doses to El Salvador, providing cheaper prices than US vaccines. China also announced \$1 billion in financing to Trinidad and Tobago to help them purchase Chinese vaccines (State Council of People's Republic of China, 2022). These vaccine assistance and diplomatic engagements of China and US have had implications of two dimensions: helping to shape citizens' perceptions of US and Chinese support; and potentially improving perceptions of US and Chinese support during future global events and disasters. (Ávila, Insanally, Trevisan and Marti, 2022).

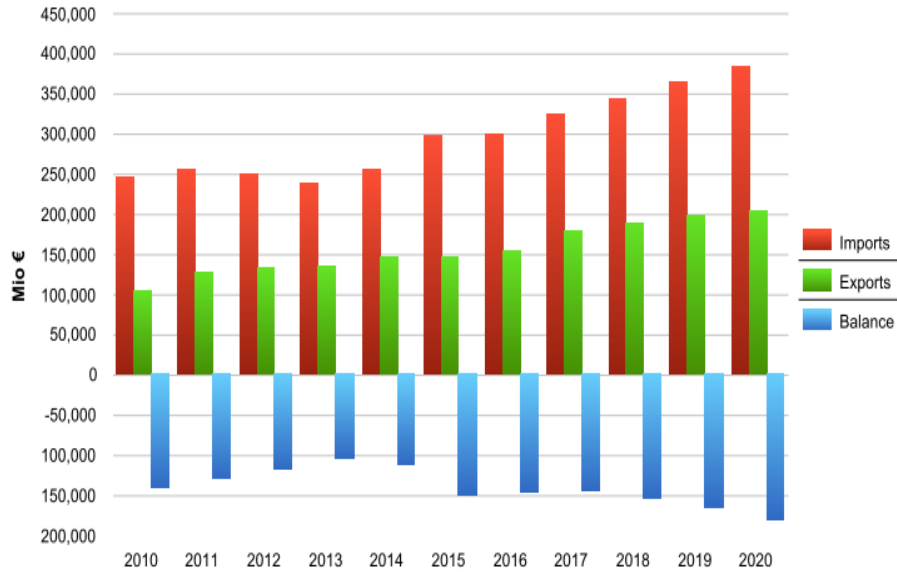
China-US relation is worsened by the trade war resulting from increasing trade protectionism. In 2017, The US International Trade Commission reported that imports of solar panels (October 31, 2017) and washing machines (November 21, 2017) have bad impact on the local solar panel and washing machine industries. In January of the

year 2018, President Trump approves tariffs on USD 8.5 billion imports of solar panels and USD 1.8 billion of washing machines. Chinese government reacted accordingly by announcing antidumping duties of 178.6 percent on imports of US sorghum. Then the trade war started and continued with tariffs and other trade barriers in steel, aluminum, machinery and other products. Situation was relaxed until 2020 when China and the US reached phase one agreement. The Biden administration reinstates 352 product exclusions from the US Section 301 tariffs imposed under the Trump administration. Following through on its October 2021 announcement, the exclusions apply retroactively, from October 12, 2021, and extend through December 31, 2022 (Bown and Kolb, Peterson Institute for International Economics, 2022). Although the tension is eased by mutual dialogues, international society is still questioning whether there will be growing hostility between China and the United States. US and other countries take more cautious approach towards China's allocation of resources in its local economy (Gonzalez & Bruegel, 2019).

Current political environment is keeping changing overtime as international society is facing different shocks. The great uncertainties cause unforeseen implications on the international relations and global economy.

## **2.2 EU trade policies vis-a-vis China**

China is a major trade partner for EU in the world, ranking first in imports and third in exports following USA in the year of 2020. At the same time, EU is also China's major trade partner of both imports, ranking first, and exports, ranking second after USA in the year of 2020.

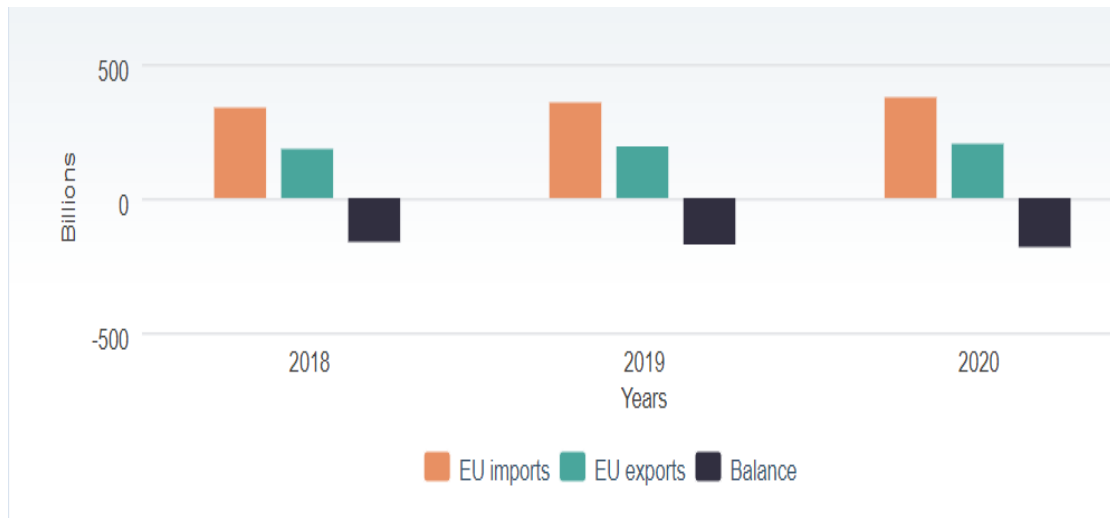


*Figure 2.5 EU-China trade dynamics of goods*

Source: European Commission

[https://webgate.ec.europa.eu/isdb\\_results/factsheets/country/details\\_china\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_china_en.pdf)

On trade in goods, in general, EU’s imports from China and exports to China are both showing an increasing trend; however, imports grows more rapidly than ex-ports in recent years. EU keeps the trade deficit with China, and the deficit is increasing in the latest years. Based on the statistics shown by European Commission (2021), in the year of 2020, EU’s imports from China have accounted for 22% of all EU extra-partners (excluding trades within EU Member States), while exports, 10.5%. Although COVID-19 pandemic slowed down the mutual trade between China and EU during the first months of 2020, in the following months both exports and imports quickly recovered. In 2021, the EU’s exports and imports both reached the new highest (Eurostat, 2022).



**Figure 2.6 EU-China trade dynamics of services**

Source: <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>

On trade in services, the EU currently has enjoyed a positive trade balance, but compared to trade statistics of goods, this surplus cannot compensate the deficit. China is a huge market, which is necessary for EU to exporting its products, and China is an important source for EU's imports, especially critical raw materials. EU is trying to expand their export volumes to China and simultaneously reduce their dependence on China to change the current situation.

EU trade policies vis-à-vis China are changing and developing with time going by, but the core appeals from EU side to China are always "Open" and "Cooperation".

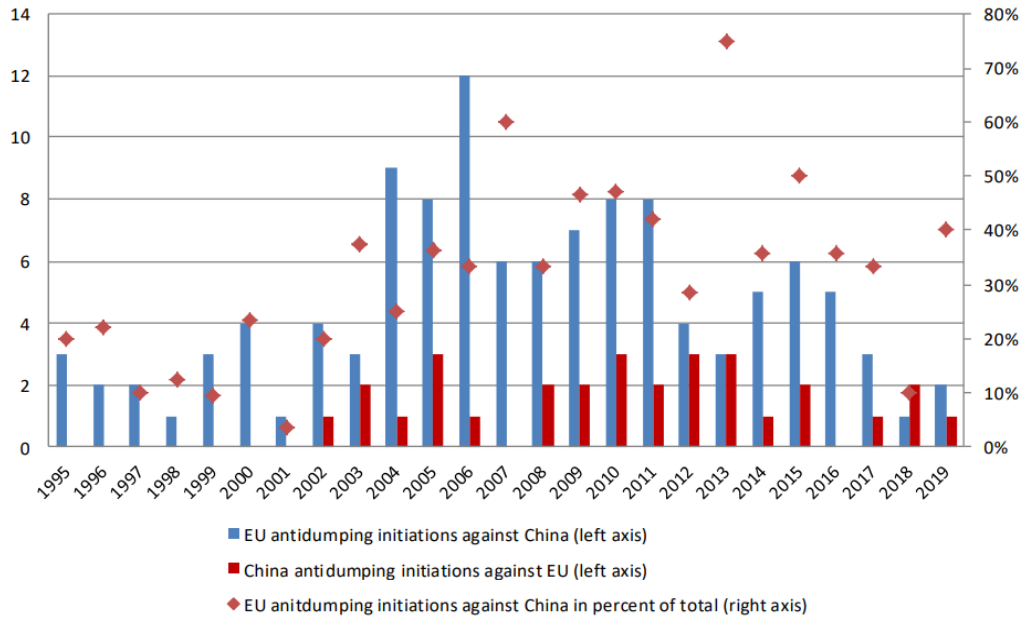
China joined World Trade Organization in 2001, since when China further reforms and liberalizes its economy to the whole world. EU-China trade also developed significantly after China's opening. EU and China agreed on Comprehensive Strategic Partnership in 2003. In 2013, China and EU are committed to further develop the comprehensive strategic partnership to build a world economy where all have opportunities for development and innovation. Therefore, China and EU are willing to enhance their trade and investment relationship in a spirit of mutual benefit, by promoting open, transparent markets and a level-playing field (EUEA, 2013).

In recent years, China's quick economic development has been seen by the world, and EU is concerning that the shifts of trends in trading and investments will bring about the potential risks for EU's economic status in global market. Studies show that after approximately 15 years since China joined the WTO, EU faced a general decline of its contribution to world trade from 37% to about 31% between 2005 and 2015, while China's corresponding contribution doubled from 5.5% to about 11% during the same period (Karkanis, 2018).

For years, European companies benefited from the cheap labor source in China by establishing factories there, but the trend has also been shifted recently. Chinese investments are more willing to come to Europe and now eyeing Central and Eastern European countries, who have comparatively cheaper labor in Europe and are hunger for foreign investments. However, there is generally a lack of internal synergy for EU to balance the business interests of member states with EU strategic interests. (Sprūds, 2017).

Trading with China, there is significant trade deficit for EU and EU side reported the issues in China's trade transparency, industrial policies and non-tariff measures, government intervention and intellectual property rights. EU holds that China has benefited more from open markets in most developed economies, but at the same time foreign firms face various tariffs, non-tariff barriers and other limitations in the Chinese market (BDI, 2019).

Actually, the EU has been actively implementing trade policy, especially with regard to China. The major instruments EU applies is trade defence instruments (TDI) including antidumping (AD), anti-subsidy (AS) and safeguards (SFG) measures. Chinese government has kept strategy for making Chinese goods and capital "Go Out". In 2013, China launched BRI to further promote "Go Out" policy by developing trade routes and investing in infrastructure and industry projects around the world. By financial support to exported-oriented industries and state-owned companies, China's governmental intervention leads to EU's great concerns thus initiating trade defence measures.



**Figure 2.7 EU AD initiations against China and Chinese AD initiations against the EU**

Source: European Parliament,

[https://www.europarl.europa.eu/RegData/etudes/STUD/2020/603492/EXPO\\_STU\(2020\)603492\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/603492/EXPO_STU(2020)603492_EN.pdf)

While the total cases initiated by EU is decreasing, the share of EU AD cases initiated against China has kept high, reaching 40 % in 2019. China, meanwhile, has not active in using AD measures against the EU. AD duties are efficient to reduce EU imports of targeted products from China by as much as 84 % (Sandkamp, 2020).

Anti-subsidy measures are also used often by the EU when trading with China. In the period 2011 – 2020, China accounted for 14 (44%) out of 32 cases of the EU’s AS initiations. (European Commission, 2020). In June of 2020, the European Commission issued “White paper on levelling the playing field as regards foreign subsidies” to against foreign-subsidized services and investments. In 2021, the Commission also proposed for a regulation to tackle foreign subsidies distorting the internal market.

The EU is turning to a more innovative way of using the trade defence instruments to keep its commitment to rules-based, open and fair economic cooperation. Regarding these issues, EU claims for greater reciprocity, non-discrimination and

openness of system from China, and for China's taking more responsibilities considering its increasing status as a leading global power (European Commission, 2019). Therefore, a further establishment of an agreement for China and EU is needed and is already negotiated since 2013, Comprehensive Agreement on Investment (CAI), in order to strengthen economic relations, trade and investment for sustainable development of both countries. On December 30th of 2020, EU and China have agreed on major principles of Comprehensive Agreement on Investment (CAI). One of the major focuses of the CAI is the opening-up of market access. In this agreement, both sides agreed to promote investment with regards to environmental and human rights' protection. China agreed to waive limitations on European investments in certain areas and take more obligations for the behavior of state-owned enterprises, comprehensive transparency rules for subsidies and commitments related to sustainable development. EU side will preserve the sensitivities in CAI, such as in the field of energy, agriculture, fisheries, public services, etc. (European Commission, 2020).

Furthermore, China-EU bilateral trade and investment policy are likely to be indirectly shaped by third party, namely, the US. Sino-US trade war has seen US tariffs against China grow from an average of 3.8 % at the beginning of 2018 to 21 % in the summer of 2019 (Bown, 2020). The turning point took place on 14 February 2020, when the US-China Economic and Trade Agreement came to force. This agreement will most likely also impact EU exports to China and could affect Chinese trade and investment policy with its trade partners (European Parliament, 2020).

Overall, EU's trade policies vis-à-vis China are centering on "Open" and "Cooperation". EU is using different methods to ease or remove trade deficits against China. EU appeals for further opening-up of Chinese market and building a more reciprocal and fairer environment for trading and investments. The EU is also moving to a more innovative way of using the trade defence instruments to keep its commitment to rules-based, open and fair economic cooperation with China.

### **2.3 Formats of China-Baltic economic cooperation**

China is among the first countries to establish diplomatic relations with Estonia, Latvia and Lithuania after the restoration of independence of these three Baltic States in 1991, since when the mutual relations between China and Baltic States have shown ups and downs, influencing the economic cooperation of both sides.

There are different levels of economic cooperation between China and Baltic States.

At first, the Baltic States are all EU member states, so the relations and cooperation between China and Baltics are reflected under the formats of China-EU level. The economic relations between China and EU have kept tight. China is a major trade partner for EU, and EU is also China's major trade partner. Both sides have an interest in open and multilateral trading system. EU and China are also holding discussions of CAI to build a more open and rule-based investment environment.

Nevertheless, there is also beyond direct China-EU cooperation format, Asia-Europe Meeting format (ASEM). ASEM, established in 1996, serves as an informal forum for political dialogues and economic cooperation of 51 Asian and European countries plus 2 institutional partners, EU and ASEAN (Association of Southeast Asian Nations) Secretariat. EU is willing to further engage with China through ASEM, as the EU-China 2020 Strategic Agenda for Cooperation calls to enhance ASEM format by stating that "reinforce cooperation in all relevant trans-regional and regional for a, in particular ASEM and the ARF..." (European External Action Service, 2018).

China also believed that ASEM can be a more convenient platform for China to engage with the EU, which shows no major controversies in the agenda thus minimizing the political risks. Working primarily for individual countries of Europe and Asia, ASEM seems to be the major channel of China-European exchanges, as it is under the overall theme of "strengthening multilateralism for shared growth", Connectivity meeting was held to deal with connectivity issue, since when, multiple meeting have been organized (European External Action Service, 2017). In 2021, during the 13<sup>th</sup> ASEM Summit with the overall theme of "strengthening multilateralism for shared growth", members issued a joint statement, The Way Forward on ASEM Connectivity, which sets out recommendations that members could implement voluntarily concerning the organization of meetings, information

sharing, as well as connectivity promoting via the ASEM InfoBoard (European Council, 2021).

The Baltics also build economic cooperation with China through China-proposed initiative “Belt and Road” (BRI) for Eurasian area. China started this BRI in 2015 by issuing “Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road” (National Development and Reform Commission, People’s Republic of China, 2015). BRI aims to encourage the countries along the Belt and Road to coordinate on economic policies, and jointly create an open, inclusive, balanced, broader and more in-depth regional economic cooperation with higher standards to benefit all. In general, BRI provides opportunities and promote connectivity for Eurasia area, especially for Europe and China. They have been regarded as instruments for win-win vision of China and Europe.

As a major composition of BRI, Central and Eastern Europe (CEE) is regarded as a critical cooperation region by China on the route of BRI. In order to build broader and more in-depth cooperation between China and Central and Eastern European Countries (CEEC), “16+1” (later “17+1” with the participation of Greece in 2019) cooperation format has been further promoted, which firstly positioned in 2012, but now has been working as the leg of BRI. On the one hand, Chinese companies hope to “go global” and enter new markets, transfer productivity of high-quality industries to CEEC, the links between Asia and Europe, and promote domestic economic development. At the same time, by investment, Chinese enterprises also hope to obtain European technology and markets in CEEC, enhance and even upgrade the position of Chinese export-oriented products in the global value chain (Zhu & Yan, 2020). On the other hand, the countries of Central and Eastern Europe have interests to bring in Chinese investment, increase mutual trade and domestic employment, and promote interconnection between the Europe and Asia. China and the CEEC have the common goals of economic cooperation under “16+1” format, under which, it can be seen more high-level visits regarding political, economic and people-to-people exchanges. “16+1” helped to build partnership between China and CEEC, becoming a new highlight in the economic coordination and cooperation for China's “Belt and Road” initiative. Util now, China has established comprehensive strategic

partnerships with Serbia, Poland and Hungary, strategic partnerships with the Czech Republic, Macedonia and Bulgaria, and a comprehensive friendship partnership with Romania.

During the period of 2012-2019, China and CEEC have agreed on the “Medium-Term Plan for China-CEE Cooperation”, published 8 outline documents and established more than 20 institutionalized exchange platforms regarding investment, trade, production, infrastructure, agriculture, climate, tourism as well as talent exchange. By the end of December in 2017, the cooperative agreements signed between China and the CEECs, and the main cultural and educational exchanges reached 233 items in total, focusing on promoting economic cooperation on trade and finance (Huang & Liu, 2018). There are some successful cases under “16+1”, for example, the Serbian steel mills acquired by Chinese companies turned losses into profits in less than a year; the port of Piraeus in Greece has once again become one of the major European ports; and the building and developing of China-Europe express trains. In 2020, the China-Europe express trains executed 3673 times, reaching 36 cities in 13 European countries, more than the sum of the past 6 years.

With the promotion of “16+1”, the integration of CEE and China on economic cooperation has been increased, repairing some deficiencies of China-EU cooperation and further promoting the sustainable development of the CEE countries (Liu, 2016).

Estonia, Latvia and Lithuania are among the first in Europe to sign BRI memorandum with China in 2016. The Baltic three are also included in “16+1” format, however, Lithuania dropped out from “16+1” in 2021. Under “16+1”, China-Baltic economic cooperation in terms of trade and investments has been promoted further. The Baltic States, as the links of Asia and Europe, as well as the crossroads between Northern and Southern Europe, could take better advantages of their geographic position, for example, the first China-Europe train, Yiwu-Riga route, starting from China’s city Yiwu, running 12 days, and reaching Latvia’s capital city Riga, which has increased the interests of Baltic businessmen and producers in export opportunities in China. China and the Baltic States have also signed intergovernmental economic and trade agreement, investment protection agreement, and agreement on avoidance of double

taxation to further open and regulate the markets for both sides. Recently, China and Estonia have also agreed on multiple protocols relating China's import of Estonia's herring, whey powder, poultry and salmon (Embassy of People's Republic of China in Estonia, 2021).

Although there are fruits of BRI and China-CEEC "16+1" for both European countries and China, these cooperation formats are still controversial for the west. Macaes argued that BRI is formidable initiative that transforms perceptual maps and policy agendas (Macaes, 2018). Most of the European countries which joined BRI are EU member states, however, EU does not appear in the fundamental documents of BRI, making BRI works more for individual countries, thus demonstrating risks for EU to balance the divergence among the cooperation of EU-China, CEEC-China or even EU member States and China. "16+1" is frequently emphasized by Chinese leaders as the facilitator for BRI and one mechanism for China-EU cooperation, but some may argue that increasingly China-CEEC economic cooperation will make these countries become more dependent on China, therefore, it will be more difficult for EU to apply a common strategy to China, and China's continuously growing economic influence in CEECs will have negative effect on EU overall economic development and integration. However, some argues (Turcsányi, 2014) that CEEC actually help China's Silk Road Economic Belt reaches its final destination—Western Europe.

Furthermore, Baltic States and the five Nordic nations including Denmark, Iceland, Norway, Finland, Sweden, have established Nordic-Baltic Eight (NB8) framework since 1992. This regional cooperation format has shown interests to cover also transatlantic, broader EU and UN contexts (Ministry of Foreign Affairs of the Republic of Latvia, 2017). In 2018, the speakers of NB8 paid a visit to Beijing, meeting Xi Jinping, the president of China, who stated that NB8-China cooperation can be "conducive to pushing forward the development of the comprehensive strategic partnership between China and the EU" (Xinhua news. 2018). China has also been strongly appearing on the agenda of the NB8+V4 (Visegrad countries) format. Although theses formats with China's participation are not certain, China-Baltic economic have also potential to be further promoted by them.

China-Baltic economic cooperation takes place within different multilateral formats of EU-China, Europe-Asia cooperation, but is more based on business-to-business mutual interest. The Baltic States not only have market potential for Chinese products, but also have comparatively cheaper labor resources comparing with other European countries and easy access to other European market, which attract the Chinese international corporations to invest. For example, Chinese multinational corporation, BGI Group, the world's largest genome research organization, has invested in Latvia to build its subsidiary company, Latvia MGI Tech SIA. MGI Latvia has been the largest foreign investment in the biotechnology sector in Latvia and the Baltics to date, exceeding 15 million euros. MGI Latvia acts as a hub of research and development, production, logistics and specialized training for MGI's business development in Europe and other international regions.

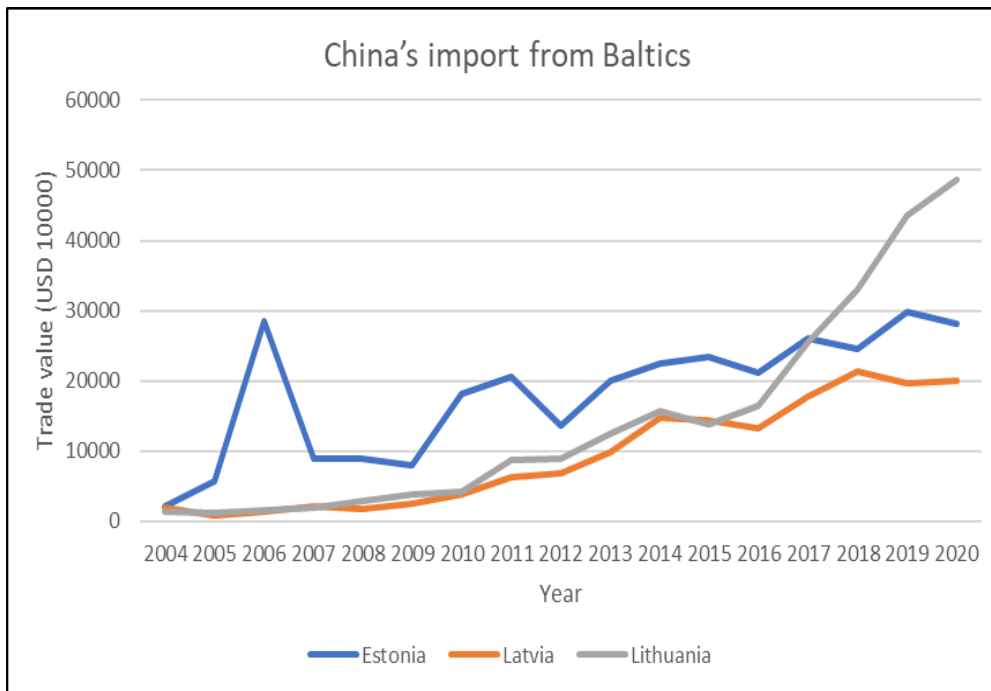
Formats of economic cooperation between the Baltic States and China are various in different levels based on mutual interests. The Baltic States see the opportunities in the engagement with China, however, the core is that Baltic-China cooperation happens in a rule-based order following up EU-China relationship. Importance of rule-based order, respects of EU and Transatlantic solidarity have become the cornerstones of the Baltic perspective on international partnerships. (Šteinbuka, Bērziņa-Čerenkova, & Sprūds, 2019)

### **3. Current China-Baltics Economic Cooperation**

#### **3.1 International Trade**

##### **3.1.1 Trade dynamics of China and Baltic States**

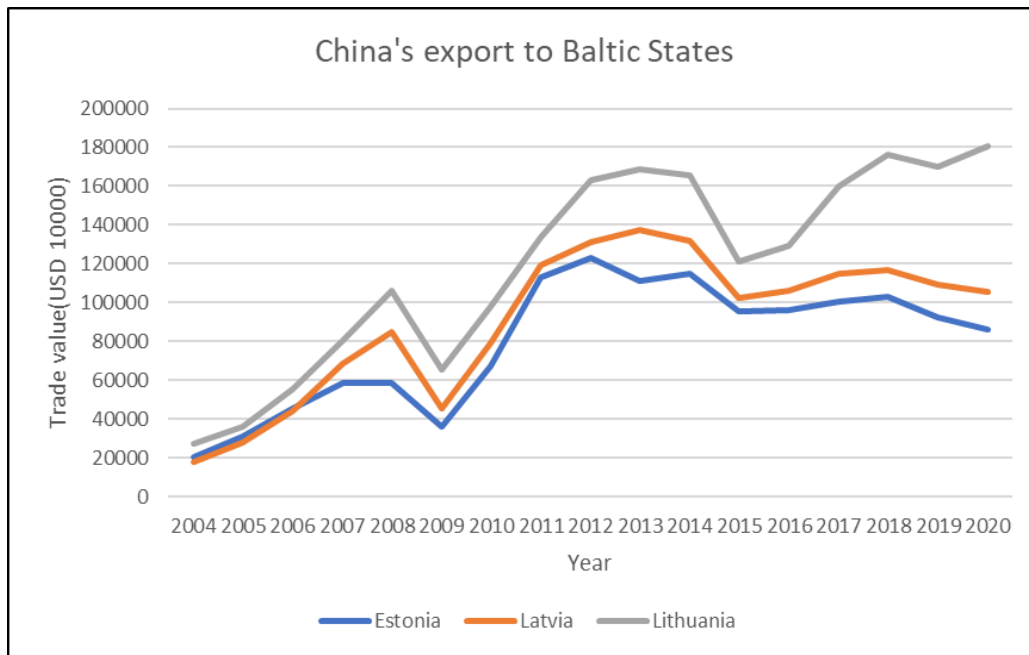
In order to observe trade dynamics of goods, data are collected from National Bureau of Statistics of China (Hong Kong is excluded in the Statistics).



**Figure 3.1 China's import from Baltic States**

Source: Created by author, data collected from National Bureau of Statistics of China, <https://data.stats.gov.cn/english/easyquery.htm?cn=C01>

There is a general increasing trend can be seen for China's imports from Baltic states after 2009, the year of European debt crisis. China generally has imported more from Estonia comparing to the other two countries while Latvia shared least imports among three. However, after 2016, China's imports from Lithuania increased significantly, making Lithuania ranked the first among three with 487610000 USD. The import of Latvian goods and products has decreased by around 17360000 USD in 2019. Comparing with the whole EU, Baltic states only share a small part of China's imports from EU, but the share is increasing in recent years. Based on the table, in 2004 China's total imports from Estonia, Latvia and Lithuania only accounted for 0.06% in the trading with whole EU, while this share has been increasing in recent years to 0.26% in 2020.

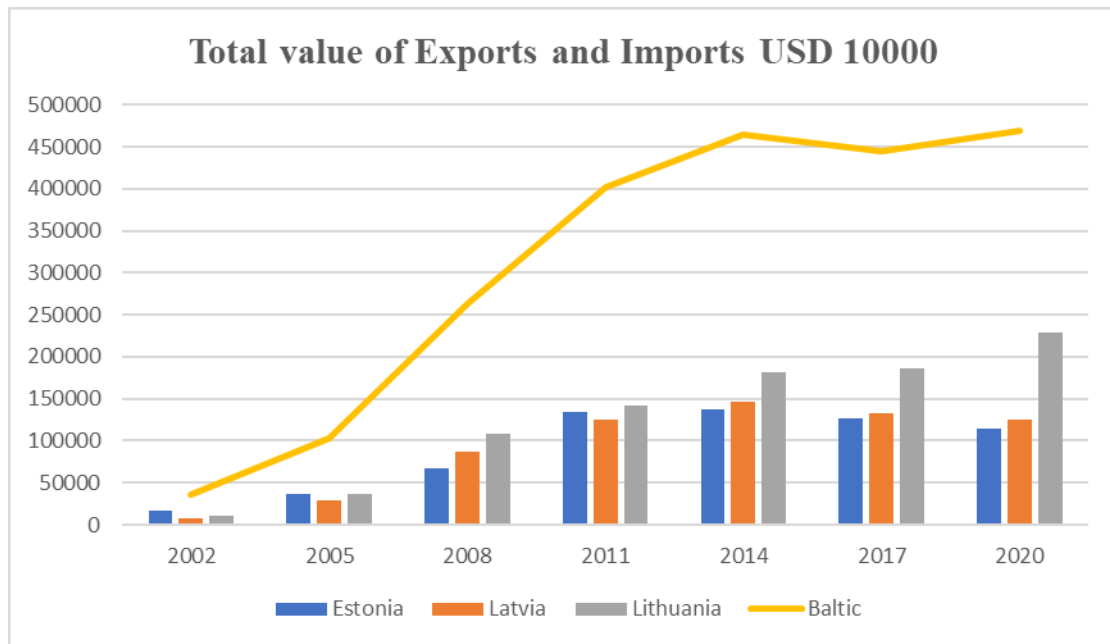


**Figure 3.2 China's export of goods to Baltic States**

Source: Created by author, data collected from National Bureau of Statistics of China, <https://data.stats.gov.cn/english/easyquery.htm?cn=C01>

China's exports to Baltics are different from imports. After global financial crisis and European debt crisis, China's exports to Estonia, Latvia and Lithuania have similar trend: quickly increasing during 2010-2012, maintaining the similar level during 2012-2014, facing an evident drop in 2015, gently growing during 2016-2018, and slightly decreasing in 2019. Within the period of 2009-2020, Lithuania kept the biggest value of imports from China, while Estonia, smallest. Comparing with the whole EU, Baltic States also share small part of China's exports to EU. Based on the table, in 2004 China's total exports to Estonia, Latvia and Lithuania accounted for around 0.53% in the trading with whole EU. This share has been increasing since 2004 and reached record high in 2012 with around 1.05%. In recent years, this share reduced, and in 2020 it was around 0.69%.

In terms of the total value of China-Baltic bilateral trade, it has kept the general increasing trend.



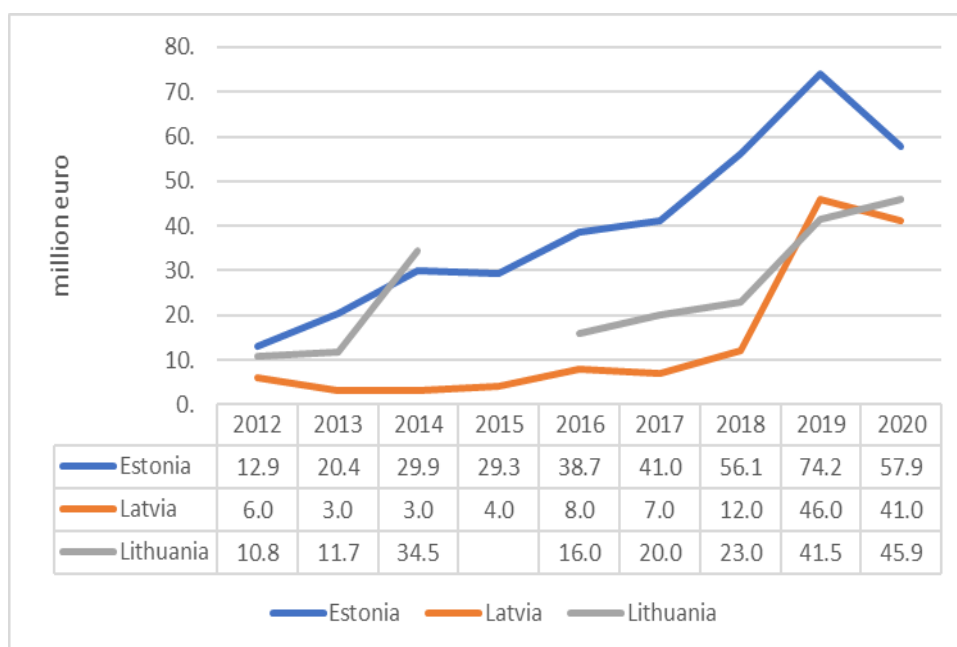
**Figure 3.3 Total value of Exports and Imports of goods USD 10000**

Source: Created by author, data collected from National Bureau of Statistics of China, <https://data.stats.gov.cn/english/easyquery.htm?cn=C01>

The fast-growing year can be seen from 2002 to 2014 of China and Baltic States total value of exports and imports. Lithuania maintains the increasing trend while Latvia and Estonia show no significant increase or decrease in recent years. During pandemics, trade development shows some upsets, but as the global recovery works, there are some successes. Based on the data from OEC, from January until November of 2021, China has exported \$92.4 million and imported \$23.1 million from Estonia with a positive trade balance of \$69.4M. Between November 2020 and November 2021 China exports to Estonia have increased by 23.6% while imports decreased by 28.8%. As for China-Latvia trade, from January of 2021 until November of 2021, China has exported \$107 million and imported \$22.6 million from Latvia, with a positive trade balance of \$83.9 million in total. Comparing with the number of November 2020 and November of 2021, the exports of China have increased by around 11.5%, while imports increased by near 48%. Regarding China-Lithuania trade, during the same period of above, China has exported \$202 million and imported \$42.8 million from Lithuania, with also a positive trade balance of \$160 million. The exports have increased by 34.5% while imports increased by 12.6%. (OEC, 2022)

Basically, in the mutual trade of goods between China and Baltic States, there are general increasing trends for both China's imports from and exports to the Baltics States. But in recent years, China's exports to Estonia and Latvia decreased. Taking the Baltic States as a whole group, the mutual trade in goods also demonstrates a growth. Besides, China enjoys trade surplus, and the Baltic States face trade deficit. This status has made the Baltic States to further request China's market openness to the local products.

As for mutual trade in services, we can observe the dynamics based on the data from Eurostat (Hong Kong is excluded under Eurostat Statistics).



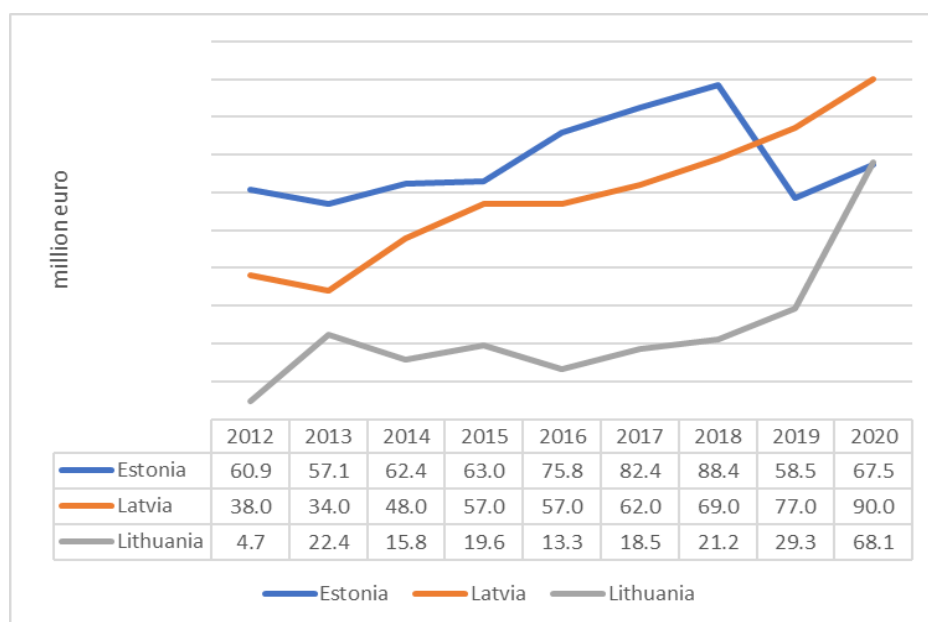
**Figure 3.4 Baltics exports of services (credit) to China**

Source: author created, data collected from Eurostat, <https://ec.europa.eu/>

Note: The number for Lithuania in 2015 is not available.

During the period of 2012 to 2019, before pandemic, we can see the increasing trend of the Baltics' service export to China. Estonia shows the most significant increase with the record high in 2019 at 74.2 million euros, while Latvia maintains modest increase before the year 2018 with a sharp growth in 2019. After 2016, Lithuania's

export of service to China is consistently increasing even during pandemic. Estonia and Latvia show a slight decrease in 2020 facing the economic shocks of pandemic.



**Figure 3.5 Baltics imports of services (debt) from China**

Source: author created, data collected from Eurostat, <https://ec.europa.eu/>

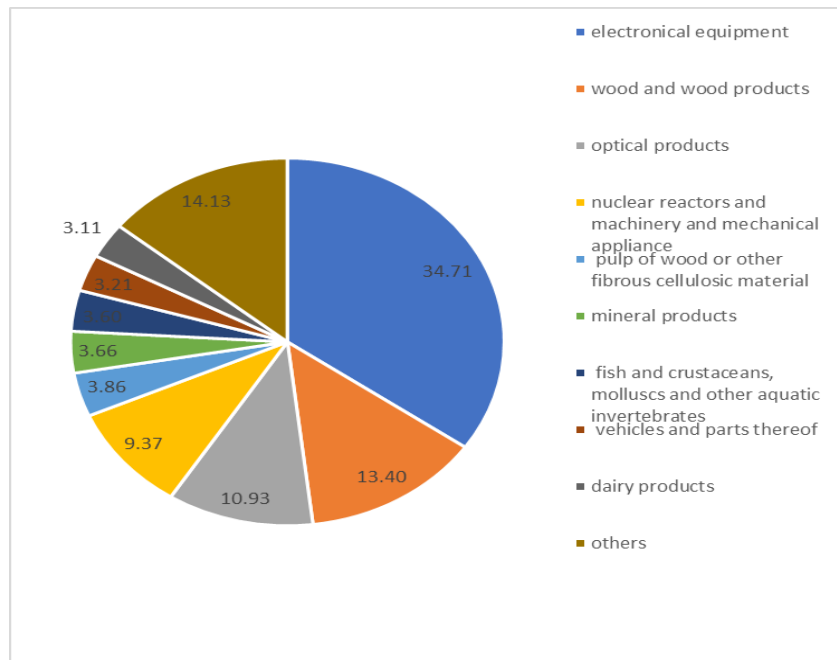
Note: The number for Lithuania in 2015 is not available.

Latvia has obviously increased imports of Chinese service in the period of 2012-2020, reaching 90.0 million euros. Lithuania also shows a consistent growth after the year 2016. Estonia maintains the amount of imports during 2012 to 2015, with a gentle increase during 2015-2018, a significant decrease in 2019 and slight growth in 2020. From 2012 to 2020, the total imports of services from China in the whole Baltic three regions have generally increased.

### 3.1.2 Trade structure of China and Baltic States: what are imported and what are exported

In the part, it is used the data of year 2020 for trade of goods, as this is the latest year that have all numbers available. Note here that the statistics regarding China from Statistics Estonia, Central Statistical Bureau of Latvia and OEC organization exclude China's Hongkong and Taiwan. For trade in service, it is used the latest data available

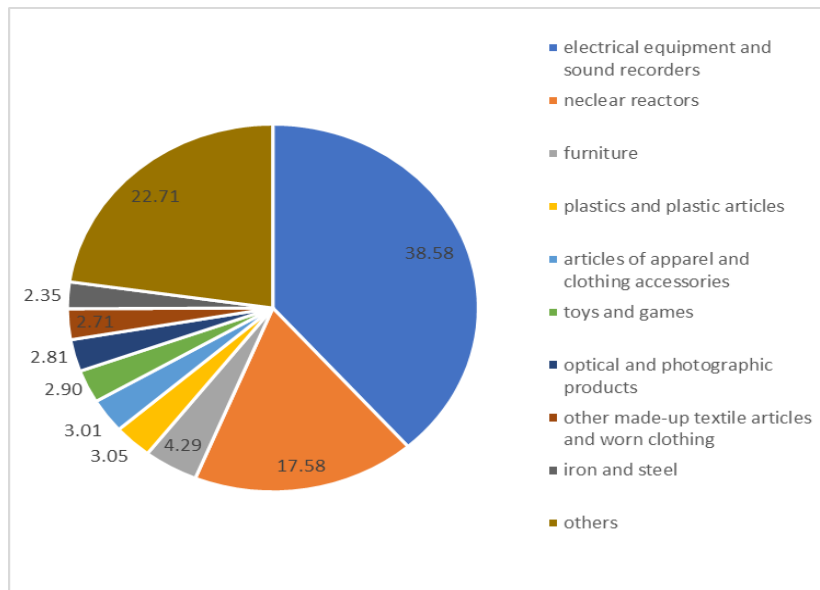
from UN Comtrade Database which separates China with Hongkong and Macao



**Figure 3.6 Estonia's top exported goods to China**

Source: author created; data collected from Statistics Estonia <https://www.stat.ee>

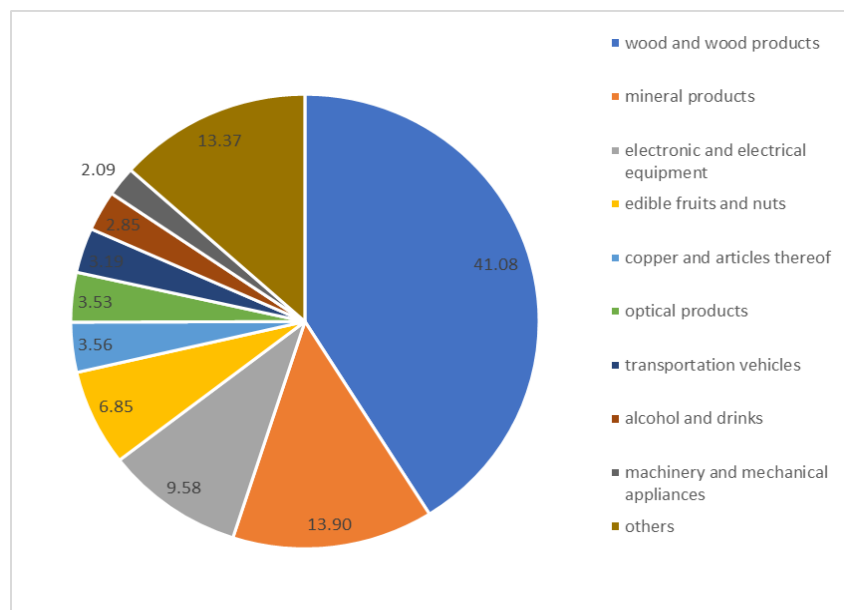
The top 5 Estonia exported goods to China are: electrical equipment and sound recorders at 84852922 euros (34.71%), wood and wood products at 32767309 euros (13.40%), optical products at 26714668 euros (10.93%), nuclear reactors, machinery and mechanical appliance at 22903529 euros (9.37%) and pulp of wood or other fibrous cellulosic material at 9445108 euros (3.86%).



**Figure 3.7 Estonia's top imported goods from China**

Source: author created; data collected from Statistics Estonia <https://www.stat.ee>

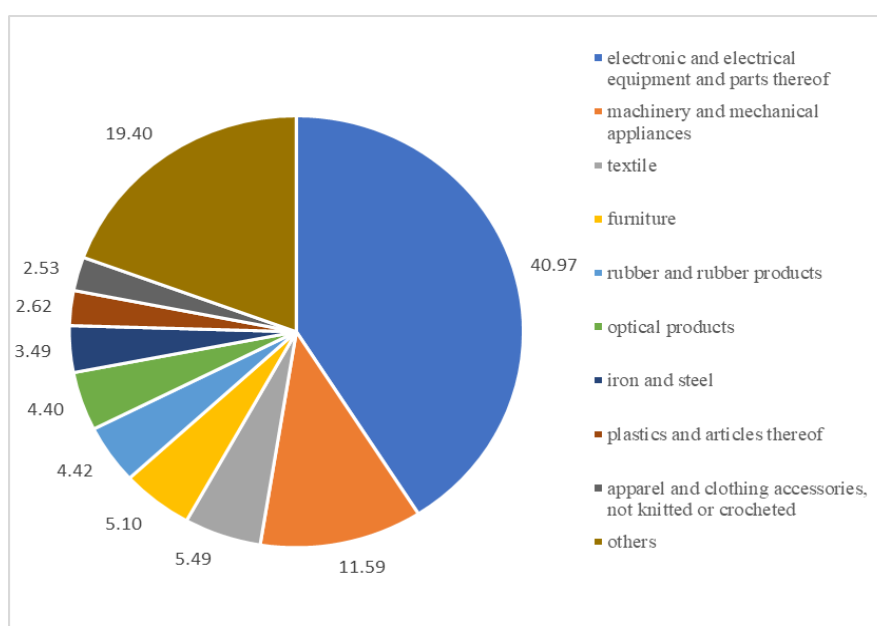
The top 5 Estonia imported goods from China are: electrical equipment and sound recorders at 513361118 euros (38.58%), nuclear reactors, machinery and mechanical appliance at 233894410 euros (17.58%), furniture at 57117318 euros (4.29%), plastics and plastic articles at 40570812 euros (3.05) and articles of apparel and clothing accessories at 40011117 euros (3.01%).



**Figure 3.8 Latvia's top exported goods to China**

Source: author created; data collected from Central Statistical Bureau of Latvia, <https://data.stat.gov.lv>

In 2020, the top 5 groups of Latvia's exported goods to China are: wood and wood products at 63804937 euros (41.08%), mineral products at 21587102 euros (13.90%), machinery and electrical equipment at 14878168 euros (9.58%), edible fruits and nuts at 10632610 euros (6.85%), and copper and articles thereof at 5521827 euros (3.56%).



**Figure 3.9 Latvia's top imported goods from China**

Source: author created, data collected from Central Statistical Bureau of Latvia, <https://data.stat.gov.lv>

The top 5 groups that Latvia imports from China are electronic and electrical equipment and parts thereof at 260061562 euros (40.97%), machinery and mechanical appliances at 73549032 euros (11.59%), textile at 34832801 euros (5.49%), furniture at 32391496 euros (5.10%) as well as rubber and rubber products at 28078247 euros (4.42%).

As for Lithuania, based on OEC data, in 2020, the main products that Lithuania exported to China were: wheat with USD 76.8 million, furniture with USD 43.1

million, and wood and wood products with USD 28.2 million. During the last 25 years the exports of Lithuania to China have increased at an annualized rate of 26.1%, from USD 1.16 million in 1995 to USD 380 million in 2020. As regard to Lithuania's imports from China, the major products were other cloth articles (USD 100 million), broadcasting equipment (USD 54.4 million), and vehicles and the parts thereof (USD 41million). During the last 25 years, Lithuania's imports from China have increased at an annualized rate of 29.5%, from USD 2.44 million in 1995 to USD 1.58 billion in 2020. (OEC, 2022)

China-Baltic trade in services focus more on transport and logistics sector, tourism sector, communication sector and other business service sectors.

Based on the UN Comtrade Database, for Estonia in 2017, the total service imported from China was 91648959 USD, of which transportation service accounted for 82.88%, followed by other business service at 7.26%, computer and information service at 4.67% and travel at 3.44%. at the same year, the total Estonia export of service to China was 46163084 USD, of which transportation accounted for more than 50%, followed by travel at 34.71% and computer and information service at 7.57%.

For Latvia, the most important trading sector is transport and logistics service as the volume of transport and logistics services has increased by 98% during the period of 2016-2020 (China-CEE Institute, 2021). In 2018, the trade in transportation sector accounted for more than 92.85% of Latvia's total imported services from China around 29.41% of Latvia's total exported services to China. The other major sectors for Latvia's exports are communication service and travel, accounted for 29.41% and 11.67% respectively.

As for Lithuania, situation is similar. In 2018, the imports from China were mainly transportation with 16869291 USD, followed by travel and other business service at 2831210 USD the same. For exports to China, transportation ranked first at 19818468 USD, other business service ranked second at 4364782 USD and travel ranked third at 1533572 USD.

Overall, China mainly export labour-intensive goods to the baltic States, including furnitur, textile, plastics and other miscellaneous manufactured products. Estonia, Latvia and Lithuania show their advantages in resources such as wood and mineral. Mutual cooperation and trading in services are more into transpot and logistics sector as the Baltics enjoy benefical geographic locations to connect Asia and Europe. Besides, travel and other business services also play a role in mutual economic cooperation.

### 3.1.3 Economic benefits from liberal trade

#### 3.1.3.1 Applied methodology

Based on Ricardian model, trade openness contributes to the economic development of the trading country.

With the development of China-Baltics economic cooperation, we can see China and Baltic States have reached more trade agreements with “open” strategies. Here we use Ricardian model to check whether China-Baltics economic cooperation in foreign trade has positive impact on local economic development.

Regression

Data to be used:

Trade openness: the sum of Exports and Imports

GDP per capita: measured in internationally comparable prices (adjusted by Purchasing Power Parity - PPP: GDP PPP per capita in current prices), from International Monetary Fund database "World Economic Outlook"

International Monetary Fund database "World Economic Outlook":  
<https://www.imf.org/en/Publications/WEO/weo-database/2020/October/select-country-group>

*Table 3.1*

**China-Baltics import and export value (USD 10000)**

Trade value USD10000	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Estonia	22266	36910	74101	67450	67682	44187	85865	133627	136932	130940	137160	118825	117597	126669	127670	122105	114528
Latvia	19881	29026	45313	70604	86699	47832	83305	125638	138154	147343	146361	116709	119493	132548	137914	128928	125273
Lithuania	28588	37219	57146	82183	108911	69381	102449	142271	171992	181096	181578	134969	145568	185543	209299	213415	229522
SUM	70735	103155	176560	220237	263292	161400	271619	401536	447078	459379	465099	370503	382658	444760	474883	464448	469323

Source: National Bureau of Statistics of China,  
<https://data.stats.gov.cn/english/easyquery.htm?cn=CO1>

Table 3.2

**Income level of China and the Baltic States (Gross domestic product per capita, current prices; Purchasing power parity; international dollars)**

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
China	4383,41	5004,05	5780,737	6747,16	7503,96	8231,85	9163,416	10194,58	11179,47	11962,31	12575,26	13007,48	13525,4	14253,9	15522,15	16708,69	17205,65
Estonia	18012,3	20452,8	23256,37	25807,3	25037,4	21628,51	22520,49	24777,49	26190,6	27642,59	29117,97	29397,16	31573,9	33937,44	36139,9	38540,11	37032,82
Latvia	13485,5	15582,8	18139,18	20667,7	20522,9	17972,58	17715,36	19647,39	21181,95	22567,47	23752,73	24723,79	26278,21	28373,89	30546,6	32013,65	30578,82
Lithuania	14625,6	16513,4	18567,04	21432,8	22655,7	19663,7	20615,46	22823,94	24645,64	26679,99	28156,22	28823,79	30924,84	33821,01	36239,38	38586,9	38604,76

Source: author created

Based on the GDP data, we could estimate the income level of the country in each year by using natural logarithm (ln) of GDP per capita PPP, then check whether there is a linear regression between the dependent value “income level” and independent value “trade openness”.

3.1.3.2 Impact of trade between China and Baltic States on economic development in each country

**Estonia**

**Confidence level is 95%**

Table 3.3

**Linear regression analysis of China-Estonia trade and Estonia’s economic development**

## SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,760819284
R Square	0,578845983
Adjusted R Square	0,550769049
Standard Error	0,146360357
Observations	17

## ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance</i>
					<i>F</i>
Regression	1	0,441631717	0,441631717	20,61642392	0,00039048
Residual	15	0,321320311	0,021421354		
Total	16	0,762952028			

	<i>Coeffi- cients</i>	<i>Stand- ard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower</i>	<i>Upper</i>	<i>Lower</i>	<i>Upper</i>
					<i>95%</i>	<i>95%</i>	<i>95,0%</i>	<i>95,0%</i>
Inter- cept	9,784605 4681	0,099603 4969	98,235561 7220	0,0000000000000000 0000002	9,572305 6398	9,996905 2963	9,572305 6398	9,996905 2963
Trade value USD10 000	0,000004 3157	0,000000 9505	4,5405312 376	0,000002 0,0003904800	0,000002 2898	0,000006 3415	0,000002 2898	0,000006 3415

Source: author created

Significance F is really smaller than 0.05, P value is rather smaller than 0.05 as well, Coefficient of determination R square is comparatively big and near 1, more than 0.55, t Statistics is more than 2, so all these data information gives us the summary that this regression is significant., trade openness of Estonia and Income level of Estonia has a linear relation. Based on the value of “Lower 95%” and “Upper 95%”, therefore, trade openness of Estonia and China has a positive impact on its income level.

## Latvia

Table 3.4

## Linear regression analysis of China-Latvia trade and Latvia's economic development

## SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,803590221
R Square	0,645757243
Adjusted R Square	0,62214106
Standard Error	0,152105226
Observations	17

## ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0,632627164	0,632627164	27,34384394	0,000101918
Residual	15	0,347039995	0,023136		
Total	16	0,979667158			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	9,5337246967	0,0958140451	99,5023713131	0,0000000000000000	9,3295018937	9,7379474997	9,3295018937	9,7379474997
Trade value USD1000	0,0000046212	0,0000008837	5,2291341481	0,0001019180	0,0000027376	0,0000065049	0,0000027376	0,0000065049

Source: author created

Significance F is really smaller than 0.05, P value is rather smaller than 0.05, Coefficient of determination R square is comparatively big and near 1, more than 0.64, t Statistics is more than 5, so all these data information gives us the summary that this regression is significant., trade openness of Estonia and Income level of Estonia has a linear relation. Based on the value of “Lower 95%” and “Upper 95%”, therefore, trade openness of Latvia and China has a positive impact on its income level.

## Lithuania

Table 3.5

**Linear regression analysis of China-Lithuania trade and Lithuania's economic development**

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,942066529
R Square	0,887489344
Adjusted R Square	0,879988634
Standard Error	0,101544861
Observations	17

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	1,220047252	1,220047252	118,3207054	0,0000000163
Residual	15	0,154670383	0,010311359		
Total	16	1,374717635			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	9,5466610024	0,0589374840	161,9794459274	0,0000000000000000	9,4210387289	9,6722832759	9,4210387289	9,6722832759
Trade value USD1000	0,0000043406	0,0000003990	10,8775321395	0,0000000163	0,0000034901	0,0000051911	0,0000034901	0,0000051911

Source: author created

Significance F is smaller than 0.05, P value is rather smaller than 0.05, Coefficient of determination R square is comparatively big and near 1, more than 0.88, t Statistics is more than 10, so all these data information gives us the summary that this regression is significant., trade openness of Estonia and Income level of Estonia has a linear relation. Based on the value of “Lower 95%” and “Upper 95%”, therefore, trade openness of Lithuania and China has a positive impact on its income level.

**China**

Table 3.6

## Linear regression analysis of China-Baltic trade and China's economic development

### SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,936954171
R Square	0,877883118
Adjusted R Square	0,869741993
Standard Error	0,153044108
Observations	17

### ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	2,525721622	2,525721622	107,8331399	0,0000000304
Residual	15	0,351337487	0,023422499		
Total	16	2,877059109			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	8,273353	0,097182	85,132060	0,0000000000000000	8,066213	8,480493	8,066213	8,480493
Trade value	3190	5803	6688	0000015	5525	0856	5525	0856
USD10000	0,000002	0,000000	10,384273		0,000002	0,000003	0,000002	0,000003
	8079	2704	6807	0,0000000304	2315	3842	2315	3842

*Source: author created*

Significance F is much smaller than 0.05, P value is also much smaller than 0.05, Coefficient of determination R square is near 1, more than 0.87, t Statistics is more than 10, so all these data information gives us the summary that this regression is significant., trade openness of Estonia and Income level of Estonia has a linear relation. Based on the value of “Lower 95%” and “Upper 95%”, therefore, trade openness between China and Baltic States has a positive impact on China's income level.

Based on the results above, the economic cooperation between China and the Baltic three countries have brought out economic benefits for both sides.

### 3.2 Foreign Direct Investment

Foreign Direct Investment (FDI) is the other important economic indicator for researching the economic cooperation.

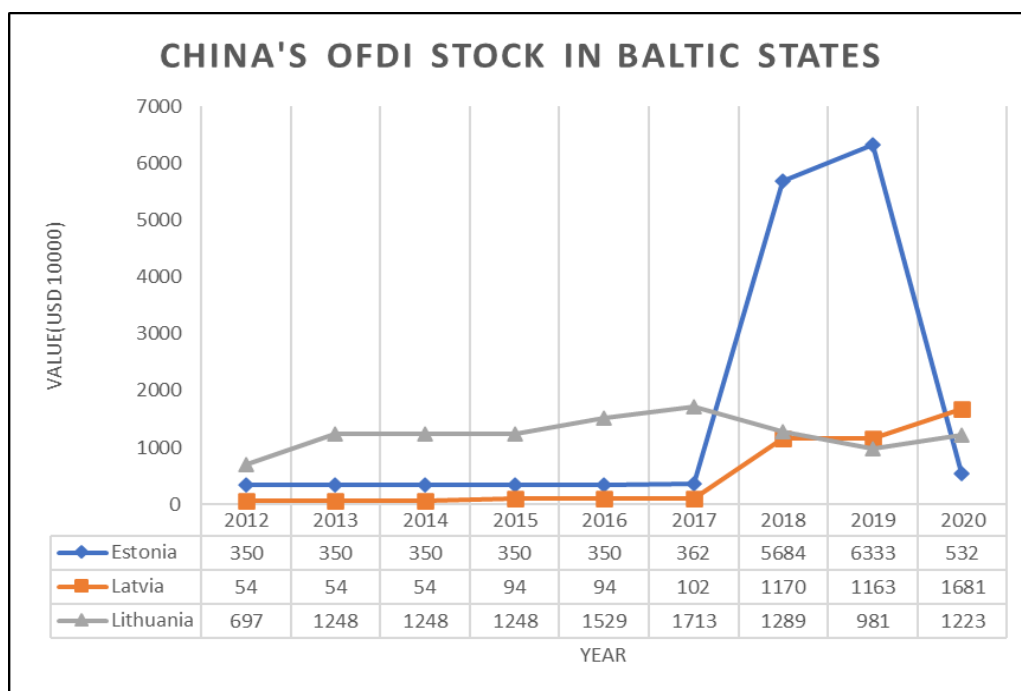


Figure 3.10 China’s FDI Stock in Baltic States

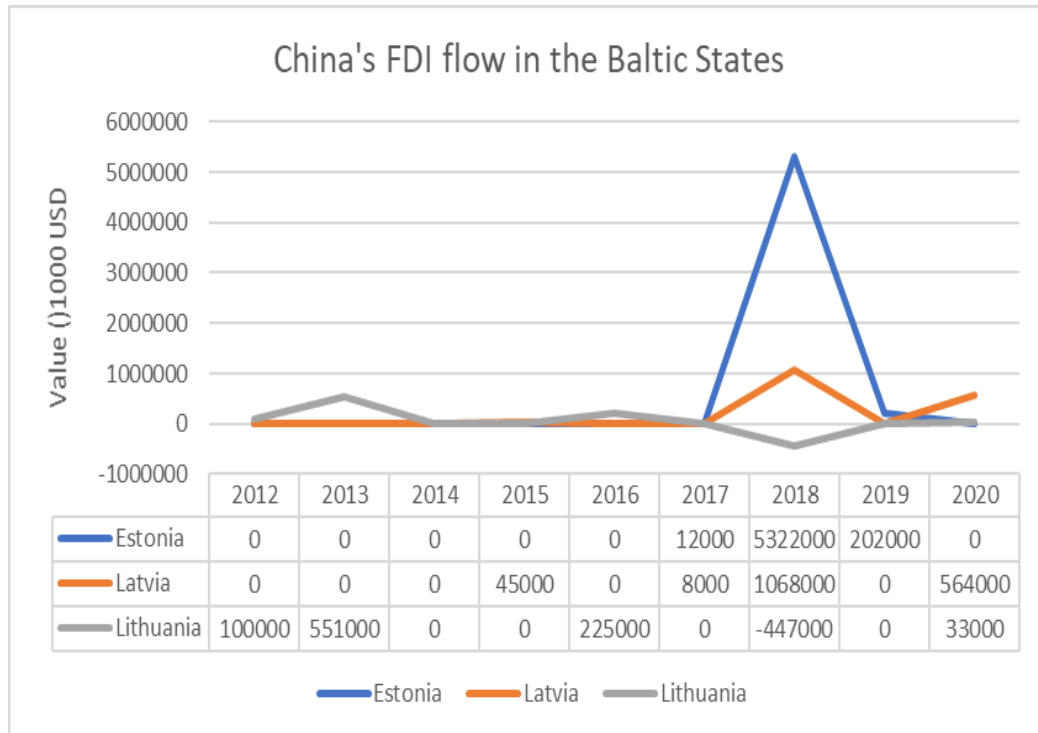
Source: created by author, data collected from

<http://hzs.mofcom.gov.cn/article/date/202110/20211003207274.shtml>

In general, before 2017, Lithuania attracted more investment from China then Latvia and Estonia, with a gentle increasing trend; Estonia attracted more investment from China then Latvia, but the stock in both two countries did show any significant changes.

However, year 2017 can be regarded as a turning point when each country has different situation. Estonia enjoyed a soaring tendency from 3620000 USD in 2017 to 56840000 USD in 2018, more than 15 times’ increase. This increase continued until 2019, reaching a peaking point at 63330000 USD. Then there was a sharp decrease in 2020 to only 5320000 USD. Since 2017, Foreign Direct Investment form China to

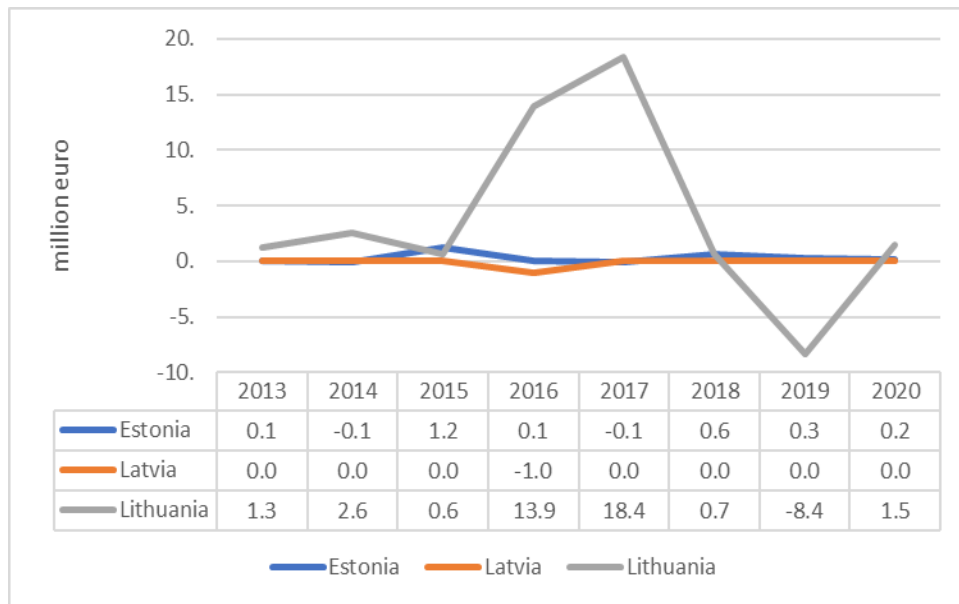
Latvia has shown a gentle growing trend, reaching record high at 16810000 USD in 2020. As for Lithuania, the stock slightly decreased from 2017 to 2019 with a small recover in 2020.



**Figure 3.11 China’s OFDI Flow in the Baltic States**

Source: created by author, data collected from 2020 Statistical Bulletin of China’s Outward Foreign Direct Investments <http://hzs.mofcom.gov.cn/article/date/202110/20211003207274.shtml>

China’s FDI flow into the Baltic States fluctuates but not that frequent. There are less significant dynamics can be observed in this period. It is obvious that in the recent period, the Baltic States are not the significant destinations for Chinese OFDI as the scale of flow is comparatively small and unstable.



*Figure 3.12 Baltics OFDI Flow in China*

Source: created by author, data collected from Eurostat, <https://ec.europa.eu/eurostat>

Regarding the Baltics FDI flow to China, Latvia and Estonia have not shown significant dynamics. Lithuania has different situation. Lithuania’s FDI flow to China fluctuates, showing great increase from 2015-2017, reaching the highest volume of 18.4 million euros in 2017, followed by a continuously decrease during 2017-2019. More Lithuania FDI came to China in 2020, but still not huge.

Baltic’s interests in cooperation with China also lie in attracting Chinese FDI especially in high value-add sectors. It can be concluded that China-Baltic economic cooperation shall be further deepened by improving investments as currently the FDI flows show that mutual investors are not willing or have difficulties to invest in the market of each other’s.

### 3.3 Catch-up effect

It can be also argued that China-Baltic or China-CEEC economic cooperation can facilitate Baltic countries’ economic catch up with other European countries, thus promoting the development of EU Integration.

More developed EU countries are EU14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. 16 Central and Eastern European Countries are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Lithuania, Greece, Hungary, Latvia, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia.

Table 3.7

**2005-2020 European countries gross domestic product per capita, current prices;  
Purchasing power parity; international dollars**

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Albania	6615.81	7264.04	7965.46	8796.66	9222.98	9724.48	10207.74	10526.27	10570.98	11259.26	11662.00	12077.60	13088.31	13982.67	14534.11
Austria	36793.29	39013.73	41418.61	42705.16	41311.83	42461.30	44469.20	46477.67	47936.69	48813.54	49955.45	52614.37	54531.11	56741.34	58849.55
Belgium	35215.44	36975.22	39092.61	39722.10	38901.80	40157.98	41082.42	42409.30	43755.16	45043.18	46365.19	48696.21	50829.93	52607.44	54028.79
Bosnia and Herzegovina	7238.31	7877.60	8586.57	9262.92	9301.99	9564.51	9971.44	10292.31	11003.76	11410.81	12013.85	13069.49	13836.66	14828.09	15603.62
Bulgaria	11068.29	12241.51	13463.09	14624.68	14312.27	14675.73	15706.30	16289.17	16626.27	17608.52	18404.10	20082.70	21525.92	22884.88	24247.00
Croatia	17406.43	18838.56	20381.71	21153.28	19768.17	19748.41	20741.62	21134.14	21767.62	22064.04	23011.44	24874.00	26697.45	28322.39	29827.60
Czech Republic	23118.14	25368.03	27418.37	28455.04	27120.68	28007.23	29027.24	29269.60	30812.68	32542.45	33933.43	36136.77	39031.09	41118.32	42669.92
Denmark	39769.32	42449.75	43827.29	44218.39	42095.78	43199.11	44482.80	44892.72	46829.47	48039.69	49264.51	52159.80	55220.17	57572.40	59719.02
Estonia	20452.77	23256.37	25807.28	25037.39	21628.51	22520.49	24777.49	26190.60	27642.59	29117.97	29397.16	31573.90	33937.44	36139.90	38540.11
Finland	34931.57	37303.25	40171.81	41090.99	37876.45	39353.04	41015.79	40969.21	41587.16	41835.88	42569.55	44995.38	47544.07	49335.68	50748.17
France	33587.18	35199.20	36784.29	37389.83	36398.56	37361.38	38789.62	39036.96	40951.51	41576.11	42289.11	44421.74	46369.70	48260.69	49798.55
Germany	33946.50	36380.61	38557.94	39797.27	37948.58	40096.56	42541.38	43359.41	44993.53	47011.28	47622.33	50574.37	53254.66	55058.92	56226.22
Greece	26378.06	28621.68	30266.67	30682.60	29496.78	28143.45	26097.87	25190.07	26006.75	26753.93	26810.46	27803.30	29052.56	30401.88	31572.12
Hungary	19987.28	21466.89	22121.12	22837.67	21500.06	21932.25	22861.63	23121.00	24458.82	25577.69	26632.94	27654.61	29499.07	31811.03	33991.88
Ireland	42618.67	44821.17	47229.56	45217.00	42975.82	43919.52	44802.66	46166.85	47749.24	51005.53	68860.08	71338.63	78208.61	86444.36	91958.85
Italy	33593.02	35077.31	36415.55	36458.87	34554.01	35401.90	36248.53	36105.28	36148.87	36198.74	36869.83	39897.89	41748.23	43166.92	44160.77
Latvia	15582.85	18139.18	20667.73	20522.87	17972.58	17715.36	19647.39	21181.95	22567.47	23752.73	24723.79	26278.21	28373.89	30546.60	32013.65
Lithuania	16513.35	18567.04	21432.83	22655.74	19663.70	20615.46	22823.94	24645.64	26679.99	28156.22	28823.79	30924.84	33821.01	36239.38	38586.90
Luxembourg	79621.63	84834.15	92983.51	92106.78	87018.84	90740.66	93174.54	92685.87	96715.55	102520.81	104975.61	111756.58	113905.41	118003.91	120490.33
Montenegro	10485.17	11718.16	12832.43	13998.91	13259.57	13751.80	14471.96	13863.94	14870.35	15371.39	16336.11	18197.60	19703.46	21207.89	22347.92
Netherlands	39085.22	41588.94	44252.64	45960.03	44394.48	45269.15	46703.31	47341.62	49314.47	49337.71	50418.74	52440.79	55509.26	57846.71	59693.37
North Macedonia	8458.79	9139.65	9976.92	10709.50	10730.95	11195.74	11682.80	11908.50	12716.66	13423.77	13884.95	15127.59	15640.30	16438.79	17313.01
Poland	15315.48	16761.39	18437.82	19600.27	20295.90	21336.34	22850.97	23832.82	24704.75	25608.14	26842.72	28285.85	30154.23	32526.72	34483.87
Portugal	23677.11	24745.32	25995.88	26547.83	25890.54	26635.02	26769.43	26438.15	27936.01	28742.32	29668.81	31604.42	33086.08	34829.77	36246.02
Romania	12818.77	14351.23	15897.40	18139.97	17434.70	17071.37	17861.93	18895.82	19761.34	20577.69	21566.48	24244.39	27219.98	29279.10	31218.02
Serbia	10076.65	10954.87	12022.21	13004.42	12796.82	13093.11	13742.30	13929.19	14624.10	14657.08	14922.10	15832.20	16599.41	17841.76	18971.85
Slovak Republic	17866.94	19970.15	22726.89	24447.42	23262.42	24842.85	26078.49	26949.65	27980.46	29005.99	29937.69	29676.38	30929.57	32859.37	34202.35
Slovenia	23938.48	26005.09	28467.95	30041.84	27681.65	28177.93	28968.84	29066.33	29990.16	30883.45	31646.80	33882.35	36659.55	39067.16	40716.55
Spain	29218.09	30844.62	32179.13	32558.75	31308.77	31593.85	31872.36	31724.63	32452.66	33544.36	34938.58	37350.76	39733.60	41608.07	43153.55
Sweden	36823.08	39421.03	41554.57	41837.41	39962.77	42494.09	44450.32	45258.81	46098.79	46936.61	48857.88	50061.58	52413.09	54130.06	55264.97

Source: <https://www.imf.org/en/Publications/WEO/weo-database/2020/October/select-country-group>

Based on the tables above, it can be calculated the annual income level (natural logarithm of average GDP per capita) and income growth rate of EU-14 as a whole and CEE-16 as a group as well as of the Baltic-3 group.

Table 3.8

**2005-2019 income growth rate**

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
CEE-16	GDP per capita average	14808.97	16369.99	18012.86	18955.54	17872.06	18373.32	19463.88	20068.56	21048.63	21938.57	22733.71	24244.90	26044.83	27818.38	29329.27
	income level	9.60	9.70	9.80	9.85	9.79	9.82	9.88	9.91	9.95	10.00	10.03	10.10	10.17	10.23	10.29
EU-14	income growth rate annual, (*1000)	/	10.44	9.86	5.21	-5.98	2.83	5.87	3.10	4.81	4.16	3.56	6.42	7.09	6.48	5.17
	GDP per capita average	37518.44	39805.43	42195.00	42592.36	40723.93	41916.21	43035.73	43432.61	44891.13	46239.98	48533.29	51122.56	53671.89	56143.44	57993.59
Baltic-3	Income level	10.53	10.59	10.65	10.66	10.61	10.64	10.67	10.68	10.71	10.74	10.79	10.84	10.89	10.94	10.97
	income growth rate annual, (*1000)	/	5.62	5.50	0.88	-4.21	2.72	2.48	0.86	3.09	2.76	4.51	4.82	4.49	4.13	2.96
Baltic-3	GDP per capita average	17516.32	19987.53	22635.95	22738.67	19754.93	20283.77	22416.27	24006.06	25630.02	27008.98	27648.25	29592.32	32044.11	34308.63	36380.22
	Income level	9.77	9.90	10.03	10.03	9.89	9.92	10.02	10.09	10.15	10.20	10.23	10.30	10.37	10.44	10.50
Baltic-3	income growth rate annual, (*1000)	/	13.51	12.57	0.45	-14.02	2.67	10.08	6.84	6.49	5.16	2.29	6.64	7.73	6.58	5.61

Source: Calculated by author

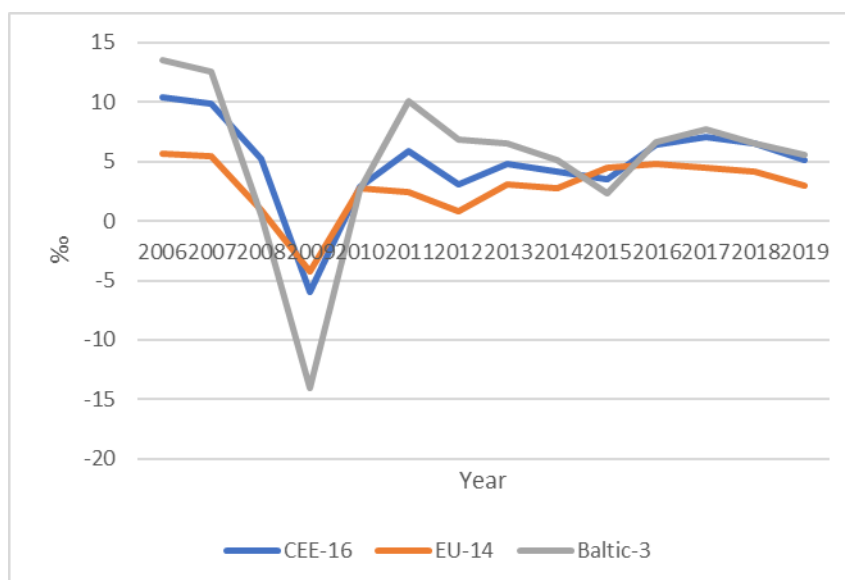


Figure 3.13 2006-2019 CEE-16, EU-14, and Baltic-3 income growth rate

Source: Made by author

We can see CEECs are always catching up EU-14, although there was a failure in 2009 because of the European debt crisis. The catch-up speed is even more significant of the Baltic States. “16+1” format was put forward in 2012, which became mature in the following years. China and CEECs started to deepen economic cooperation in recent years. The income gap between the Baltics or CEECs and EU-14 is continuously narrowing after 2012 except year 2015. After 2015, the “catch up” effect

has become more obvious. Therefore, deepening economic cooperation does not show negative impact on the economic convergence of the European countries.

China-CEE Institute has also developed a model to analyse China-CEEC economic cooperation can promote EU economic integration. They hold that the trade cooperation between China and the CEECs can drive the trade development between EU14 and CEECs and promote the economic convergence, it means that the cooperation between China and CEECs will have a convergence effect on the EU integration [China-CEE Institute, 2018]. They conclude that, the in-depth development of trade cooperation between China and CEECs can drive the increase in trade volume between CEECs and EU14 and improves the speed of economic convergence of EU (Cheng, Fan and Wang, 2018).

## **4. Future Scenarios**

### **4.1. Current political trends and potential development of China, Baltic States and EU relations**

Current political relations of the China-EU are facing some challenges. In recent years, China's quick economic development and behaviors have attracted attention from across the world. Europe holds that the balance of challenges and opportunities presented by China has shifted as China shows ambitions to become a leading global power (European Commission, 2019). According to PEW research, skepticism and awareness of certain threats stemming from China have been growing almost everywhere over the past years (PEW Research, 2020).

There are some arenas currently demonstrating the tensions of relations between the Europe and China.

The EU is criticizing China's policies relating Hongkong, Xinjiang and Tibet. At the same time, EU has adopted the Global Human Rights Sanction Regime, allowing EU to impose sanctions on countries that violate human rights. EU also stated their

concerns relating human rights situation in China during China-EU summits. The EU parliament passed a resolution criticizing the China's treatment to Uyghurs and actions in Hong Kong. EU then punished some Chinese individuals, and China introduced sanctions to EU individuals after EU's sanctions. This tension led to the frozen of the ratification of the CAI.

EU's concerns also extend to the digital front with regard to cybersecurity. EU is complaining that China's policies in the digital market limit how foreign companies can do business in China. Besides, EU also show concerns with regard to China's increased foreign investment in some critical sectors, including systems and digital infrastructure, such as 5G networks, is associated with security concerns. These concerns are well manifested in Europe when dealing with Chinese technological giant Huawei in recent years. Many EU members' approach to Huawei started to follow what the EU laid out in the Toolbox and risk assessment report for cybersecurity, providing guidance for members to prevent from potential risks in the European 5G rollout. For example, many Central and Eastern European countries, including Bulgaria, Czech Republic, Estonia, Latvia, Poland, Romania, Slovakia and Slovenia, have signed memoranda of understanding with Trump administration to cut Huawei out of their 5G market.

Although EU recognized that China's active participation in the world economy created and will continue to open new significant opportunities for European companies, both the member states and the whole EU have become increasingly critical in their pronouncements about China. Generally, China is still primarily a strategic partner and a source of growth and jobs, but the EU has moved to a more nuanced and occasionally hawkish framing of its approach to China (Legrain, 2019). Under German leadership, it is added the notion of "systemic competitor" to the previously announced "comprehensive strategic partnership" with China as there is an increasing apprehension in EU with China's ambitious investment and protectionist policies (Smith & Taussig, 2019). 2019 EU-China strategic outlook points out that China can no longer be regarded as a developing country. At the same time, it is concluded by EU that, for EU, China is a cooperation partner, a negotiating partner, an economic competitor and a systemic rival.

Therefore, EU lists its basic rules for policy making regarding China:

- Based on clearly defined interests and principles, the EU should deepen its engagement with China to promote common interests at global level.
- The EU should robustly seek more balanced and reciprocal conditions governing the economic relationship.
- Finally, in order to maintain its prosperity, values and social model over the long term, there are areas where the EU itself needs to adapt to changing economic realities and strengthen its own domestic policies and industrial base.

(European Commission, 2019)

However, current Russia-Ukraine war also shows uncertainty of EU-China relations as EU is pushing China to make clear position. Most of the western countries, including the Baltic States, have chosen to implement sanctions against Russia while some countries have chosen not to do so. Regarding Ukraine issues, China's position is consistent and remained unchanged: respecting each country's sovereignty and security, appealing solving conflicts by political dialogues and opposing unilateral sanctions. China's spokesman of Foreign affairs Wang Wenbin claimed that "The purposes and principles of the UN Charter should also be jointly upheld. China maintains that all should discard the Cold War mentality and eventually put in place a balanced, effective and sustainable European security mechanism through dialogue and negotiation." (Foreign Ministry of China, 2022). China's position unsatisfied European countries, and this may cause tensions also for China-EU relations and also China-Baltic relations. On April 1<sup>st</sup> of 2022, EU and China held the 23<sup>rd</sup> EU-China Summit via videoconference, when the President of European Commission, Ursula von der Leyen stressed that the Ukrainian issue "is also a defining moment for our relationship with the rest of the world". She also mentioned that "No European citizen would understand any support to Russia's ability to wage war. It would lead to a major reputational damage for China here in Europe." (European Commission, 2022).

EU-China relations is also complicated by the fact that the EU member states do not have a common position on China, who are conducting bilateral negotiations with the PRC according to their own interests (Godement & Wacker, 2020). According to a recent survey, near half of the Germans think Germany should align its China policy

with the whole EU, while 20% think Germany should shape an independent policy. More than one third of the French hold that France should go it alone, compared with only around 1/4 wants France to align its policy with the EU (Central European Institute of Asian Studies, 2020). However, Germany and France both call for a more ambitious European industrial strategy considering China's growing role in the international arena and its competitive impact on the European market, while Denmark and Finland may not be willing to move to an economic competition with China as trade is essential in the relations with China (Beridze, 2021). The world is well aware of tensions of relations between China and US especially rising during trade war by implementing trade barriers. From EU side, EU shows similar concerns in certain areas, but China and EU still have common goals and interests, therefore, EU has not completely followed US's way. Brussels also continues to reiterate that it wants to work with the US when that suits the EU's goals, but that the goals of both parties-specifically regarding China-are not completely aligned, and that there should be room for diverging actions (Wijffelaars, 2021). However, as 21 out of 27 EU member states are also NATO member states, it is difficult for EU side to reach a consensus between China and US (Barkin, 2019). The Baltic States hold the same with many of EU and US concerns and complains regarding China, but do not follow the confrontational strategy of US, considering that this can lead to a "muscle-led" international order (Otero-Iglesias & Esteban, 2020). Baltic States are NATO member states, who are dependent on NATO and American military forces. The Baltic States are trying to shape national positions on the premise that the US is the primary and indispensable ally, but China should be dismissed as an economic partner, if the relations are properly managed, they can provide profitable economic engagement (Šteinbuka, Bērziņa-Čerenkova, & Sprūds, 2019).

However, recently Lithuania has showed more aggressive attitudes towards China. It pushed EU and other members to develop a shared strategy towards China (Politico, 2021). Lithuania also decided to dropped out from China-initiated China-CEEC "16+1" format in 2021, as well as work more closely with Taiwan, by announcing Vilnius and Taipei would open reciprocal, unofficial representative offices in the respective capitals, and China has highly condemned this action as it violated "One China" principle. Beijing in reaction, has lowered diplomatic relations with Vilnius

and demanded that the Lithuanian ambassador to China leave the country (Thomas, 2022). As China-Lithuania relations deteriorated, Taiwan sent business delegation to Lithuania, and Lithuania sent a lawmaker delegation to Taiwan. Beijing, in reaction, imposed economic restrictions on Lithuanian products by revoking its status as a “country of origin” to stop Lithuanian products entering China (Reuters, 2021). In China-Lithuania case, the US, EU, and some other individual European countries, have supported Lithuania. The U.S. Export-Import Bank supported Lithuania with USD 600 million export credit agreement. The high-level Lithuania-Biden administration meetings have taken place at an unusual frequency. Lithuania case may be the beginning in Europe as Slovenia and Taiwan contemplate the opening of representative offices in Taipei and Ljubljana (Thomas, 2022). Lithuania case has further challenged the potential development of China-EU and China-Baltic relations.

Baltic States are cooperating with China also within China-CEEC “16+1” format and China initiated BRI, under which China-CEEC exchanges have been increasing significantly. A large number of infrastructures, logistics, ports, e-commerce, and financial cooperation projects are progressing. Last year, the China-Europe express trains executed 3673 times, reaching 36 cities in 13 European countries, more than the sum of the past 6 years. However, 11 out of 16 countries are EU member states, so the growing number of these kind of connections in the European region suggests a much broader and complex challenge in EU affairs. (Kavalski, 2019). Therefore, the EU concerns that China’s continuously growing economic influence in CEECs will have negative effect on EU overall economic development and integration. There are also many voices within EU that China may divide the EU by building a “Central and Eastern European Group. This may also influence EU Political integration whereby MS shall be persuaded to shift their political activities toward EU level. Therefore, during 2021 G7 meeting, leaders pushed joint statement notifying their intentions to counter China’s Belt and Road Initiative (BRI) by the alternative of Build Back Better World (“B3W”) (Holland & Faulconbridge, 2021).

The relations between EU and China face challenges with regard to the changing economic policies as well as political environment, however, EU never wants to cut China off, in reality, China and EU still keep an interdependent trading partnership.

Although the shift in global value chain puts economies heavily involved in the “Asia value chain” under competitive pressure, an interest in mutual economic relations between Europe and China remains strong (Šteinbuka, Bērziņa-Čerenkova, & Sprūds, 2019). EU Foreign Policy chief Borrell noted “despite our different views over the Hong Kong or the Uyghur cases, what Trump called the economic decoupling with China is something beyond our intentions and is contrary to our interests. EU acknowledges that it needs China as a market for trade. In other words, the EU would follow a multi-faceted approach, trying to maintain trade ties with China and the US, as today (Wijffelaars,2021).

EU is claiming for a more balanced relationship with China, promoting reciprocity, a level playing field and fair competition. Comprehensive Agreement on Investment (CAI) is on the discussion process in order to build a more fair and open investment environment for both EU and China, and at the same time, contribute to the internal synergy of EU member states in cooperation with China. But considering EU’s concerns regarding China in various political agendas, there is a slow downhill grind scenario of China-EU relations can be anticipated. Baltic States, as members of EU, always emphasize EU solidarity and prefer to engage with China within EU-China relations. As EU-China relations can be facing great challenges, Baltic-China relations can also be showing a similar downhill grind scenario. Moreover, the Baltic States completely depend on NATO and American military support, and work closely to each other, deteriorating relations of US-China and Lithuania-China case can further challenge the development of Baltic-China relations.

#### **4.2. Changing positions of the Baltic States regarding “16+1” format and perceptions of future economic relations between China and Baltic States**

China-Baltic economic cooperation happens in different formats, while “16+1” format has caught large attention by both sides. “16+1” format provides the Baltic States with platforms to be known by Chinese investors. However, although this format brings about opportunities, it is also controversial from Baltics’ perspective.

Established in 2012, “16+1” aims to promote bilateral and multilateral cooperation for China and CEECs including the Baltic States. During the “golden years”, the Baltic three were actively taking part in various activities organized under this theme, especially trying to find trade and investment opportunities with China. Estonian Ministry of Foreign Affairs reported that Estonian visa applications in China have increased 55% in 2016 and 2017 and Estonia has opened 15 centers in China for visa applications. Latvia has kept pragmatic political dialogues with China. Riga, as the host city, successfully held “16+1” summit in 2016. Latvia’s priorities in this format always lie in logistics and transport. Latvia is willing to reactivate its status as a transit country for Asia and Europe. China is also showing interests to promote Latvia’s status as such, for example, the first China-Europe express train with 84 standard containers, started from China’s Yiwu and arrived at Riga in 2016; The Logistics Secretariat, operating in the Ministry of Transport of Latvia and serving for “16+1” format, was also established in Riga after the meeting of transport ministers which took place on May 16-17, 2016. It has been seen increase of trade volume and FDI amount between China and the Baltic States. Generally, there is a positivism of China-Baltic economic cooperation among Baltic scholars. Ferraro held that although the amount of FDI is not very high, many agreements and contracts concluded between China and the Baltic States are expected to bring investments (Ferraro et al., 2017). Chochia confirmed that despite minor political problems with Lithuania and Estonia (related to the Dalai Lama’s visit) a few years ago, economic cooperation is on the rise in all three Baltic States (Charaia, Chochia & Lashkhi, 2018). Čerenkova also concluded that the Baltic States in particular are satisfied with the results and are waiting for further boost in cooperation, without antagonizing Brussels, increasing their visibility in China and enhancing people-to-people linkages (Bērziņa-Čerenkova, 2018). Besides, “16+1” serves for China’s BRI, and China side, in order to ensure BRI to reach its goals, has promoted Silk Road Fund, Asian Infrastructure Investment Bank, as well as New Development Bank further to provide financial and funding help to potential projects with almost limitless capital support. This potential is noticed and also expected by the Baltic States.

However, after 2017, the year of 2018 may be regarded as a turning point of Baltic attitudes and positions regarding China-CEEC “16+1” format, demonstrating the end

of “golden years”. This can be analyzed through two directions: economic results and political risks.

Economically, the Baltic States hold that they do not embrace significant beneficial projects under “16+1” format. “16+1” format provides the Baltic States with opportunities to be known by Chinese investors, but economic cooperation basically takes place bilaterally based on business interests. For this situation, some scholars argue that Chinese FDIs in Eastern Europe, despite the BRI-associated investment promises by Beijing under the 16+1 platform, ended with the PR campaign only (Hanemann & Huotari, 2017). Understandably, Baltic States are looking for opportunities from China to promote advantageous national industries such as logistics and natural resources, and attract Chinese FDI, but researchers worry that Chinese financing may build up a disadvantageous “debt model” for Baltic States as small economies, which may tie local industries with Chinese companies and workforce (Jakobowski & Kaczmarek, 2017). Chinese are more focusing on infrastructure projects in Baltic region, but this is not Baltic’s priority, as local industry can also be impacted by great volumes of cheaper Chinese imports as infrastructure projects can reduce the transportation cost.

Besides, there is always a trade deficit for the Baltics and structural imbalance when China mainly exports finished industrial products while Baltics, raw resources, which leads to Baltic’s claims of more exports to China and concerns of economic security as the economic links with China are of rising significance for the Baltics, but the economic links with the Baltics are of less significance for China (Martyn-Hemphill, & Morisseau, 2015).

Politically, it is pointed out by the west that the danger for the Baltic States is that “16+1” becomes mechanism to leverage greater space for Chinese economic penetration into the European markets, so it can challenge EU solidarity and weaken the bloc advantages for the EU in its wider negotiations with China (Šteinbuka, Bērziņa-Čerenkova, & Sprūds, 2019). The Baltic States are always emphasizing that “16+1” shall keep synergies with EU-China relations instead of divergence and upholding Brussels position. (Šteinbuka, Muravska & Kužnieks, 2017). In 2018, US-China trade war triggered larger concerns of European countries as well. As the US is

applying confrontational strategy and EU is obtaining more critical attitudes towards China, the Baltic States, as member of NATO and EU, who militarily depends on NATO and economically relies on EU, are showing the same concerns and negativism regarding China-CEEC cooperation. Recent Russia-Ukraine war has also impact on the relations between China and the west countries because of China's comparatively "neutral" position. The Baltic States, with regards to the historical complexity, are distinctively demonstrating criticism against Russia, and this difference may also destroy Baltic's public willingness to further cooperate with China.

More signs of Baltic States' diminishing interest in "16+1" emerged in 2021, when the Baltics snubbed China's invitation for their top leaders to join the "16+1" online summit with China's President Xi Jinping. Instead, Baltics sent lower-level ministers other than heads of state like before, which signaled a joint Baltic States turn away from this China-CEEC cooperation format.

Last year, Lithuania has announced to drop out from "16+1" format, claiming that this format challenges EU solidarity. Landsbergis said. "The EU is strongest when all 27 member states act together along with EU institutions." (Politico, 2021). The Lithuanian foreign minister also called on other EU countries to drop out from "16+1", however, until now, no other members that repeat Lithuania's action, but there are existing statements by the Baltic officials showing their consideration to turn away from "16+1".

Minister of Foreign Affairs of Estonia, Eva-Maria Liimets, said "Estonia has not made a decision on further participation in the 17 + 1 format," to the public media. She also mentioned that Estonia prefers to cooperate with China bilaterally or within EU instead of in the 17+1 format which is exclusively between China and 17 eastern, central and southern European countries. Chairman of the Foreign Affairs Committee of the Riigikogu Marko Mihkelson also holds that Estonia should follow Lithuania as Estonia's relations with China should be considered at three levels: bilateral relations, EU-China relations and international organizations," Mihkelson told ERR (Liimets, 2021). Scholars believe that Lithuanian exit resulted from value-related scandals and

China's assertive communication, but the deeper disappointment over 17+1 is shared across the region so it would be in the interest of Estonia and Latvia to distance from the format but probably by a less abrasive approach than that of Lithuania (EU-China Opinion Pool, 2021). For Latvia, direct dropping out like Lithuania has not found its way into Latvian public opinion. Although Latvians generally maintain Euro-optimism and have negative responses to China when it comes to human rights and freedom, Latvia's population still holds the most positive views of China among 11 surveyed EU member states (Bērziņa-Čerenkova, 2021).

In conclusion, the mutual exchanges between China and the Baltic States are increasing under "16+1", especially the high-level visits and people-to-people exchange. During the "golden years" for the Baltic States looking to China for opportunities under "16+1", namely, from 2012 to 2017, the Baltic States have actively participated in regarding activities with positive anticipations. However, although the economic cooperation is increasing, for example, the volumes of trade and investments, it has not come directly from "16+1" format but bilaterally. In the general political environment, "16+1" also has triggered more discussions of its possible political risks from Baltic's perspective. Therefore, the Baltic States are changing positions towards "16+1", with Lithuania's dropping out, the Baltic States are demonstrating more criticism and concerns of "16+1", they prefer to cooperation with China bilaterally based on mutual interests or under EU-China formats emphasizing EU solidarity.

#### **4.3. Political priorities of EU, China and the Baltic States: potential common goals for working together?**

The Baltic States, as member states of EU, share common interests and ideology on their political agenda as EU. China, as one of the major players in the world, located in the far east, bears some differences with the other two sides. Here is analyzed the political priorities of the three to find the common goals.

The top consideration of EU, China and the Baltic States is always sustained and stable economic development. As the pandemic has significantly impacted the global

economy, Cooperation is necessary for each to help the market stabilize employment and wages. The European Union and China held their 8th High-Level Trade and Economic Dialogue (HED) in 2020, both sides showed consensus to respond to coronavirus and bilateral trade and investment concerns, and cooperation in the area of financial services and taxation. Executive Vice-President Dombrovskis mentioned to work with China, as she said: “The current crisis gives us no other option but to work hand in hand with our global partners, including China.” (European Commission, 2020).

Russia-Ukraine war has been one of the top topics for EU-China in their recent political dialogues. EU and China held 23rd bilateral Summit via videoconference on 1 April 2022. Charles Michel, President of the European Council, stated in the summit: "As major global powers, the EU and China have a common responsibility to maintain peace and stability" (European Commission, 2022). EU emphasized that the priority of EU is to end the war as Ukraine is a sovereign country and EU's important partner. EU called on China to pay efforts to help end the war in Ukraine as soon as possible, which is consistent with China's role in the world as a permanent member of the UN Security Council. China's premier Li Keqiang highlighted that China has been promoting talks for peace in its own way and will continue to work with the EU to play a constructive role for early easing of the situation. (Ministry of Foreign Affairs of People's Republic of China, 2022). Baltic states share similar position as EU regarding the war. At the same time the three small countries show great national unsafety and the action of the total defense doctrine as institutions are on the highest readiness and all already commit over 2% of their GDP to defense (Bankauskaitė, 2022). The Baltic States highly advocated to maintaining sustained Western solidarity in pressuring Russia to withdraw, for example, towards completely cutting of Russian energy supply although it means a soaring price in local markets. According to Lithuania's Ministry of Energy, Lithuania has been running without Russian gas imports since April 1. Besides, Uldis Bariss, CEO of Latvia's Conexus Baltic Grid, told Latvian radio that “since April 1st Russian natural gas is no longer flowing to Latvia, Estonia and Lithuania.” (The Hill, 2022). In reaction of Russia's military actions in Ukraine, EU and also the Baltic States have imposed various sanctions economically and politically. China does not impose sanctions, but China's political

position is pursuing independent foreign policies and peaceful means like political dialogues to solve disputes, respecting sovereignty of each country and adhering to the principles enshrined in the UN Charter. Basically, China's position has not shown fundamental difference with EU and the Baltic States. EU, China and Baltic States all understand that the war has challenging global security and economy, as well as food and energy security, sharing common responsibility as global actors to work for peace and stability as well as food and energy security.

During the meeting in Brussels on 20 June 2019, the European Council has agreed on EU's political agenda for the next five years, "A new strategic agenda 2019-2024", which sets out EU political priorities: (European Council, 2019)

- Protecting citizens and freedoms
- Developing a strong and vibrant economic base
- Building a climate-neutral, green, fair and social Europe
- Promoting European interests and values on the global stage

As for protecting citizens and freedoms, EU is struggling to increase cybersecurity among EU member states: protecting our societies from malicious cyber activities, hybrid threats and disinformation. Cybersecurity is among the major concerns in global environment. China stated on its Policy Paper on the EU in 2014 that China aims to strengthen cybersecurity dialogue and cooperation and promote the building of a peaceful, secure, open and cooperative cyberspace. China and EU shall facilitate practical cooperation between China and the EU in fighting cybersecurity issues by building platforms such as the China-EU Cyber Taskforce within the UN framework (Ministry of Foreign Affairs of People's Republic of China, 2014).

For developing a strong and vibrant economic base, EU focuses on working on all aspects of the digital revolution and artificial intelligence and ensuring fair competition within EU and on the global stage. In 2020, the European Commission has launched the Digital Europe Program. The EU's 2021-2027 Multiannual Financial Framework plan to finance the Digital Europe Program 7.5 billion euro to accelerate economic recovery and shape the digital transformation of Europe's society and economy (European Commission 2021). For digitalization, EU's priorities lie in su-

percomputing, artificial intelligence, advanced digital skills, cybersecurity and ensuring a wide use of digital technologies across the economy and society. In 2020, EU members agreed on the Digital Service Act and the Digital Market Act with common belief of “Shaping Europe’s digital future”. In 2021, European Commission also launched the 2030 Digital Compass, the European way for Digital Decade, to set out digital strategy and targets. Baltic States are well following EU’s digitalization strategies, showing increasing performance under both EU and national digital ambitions.

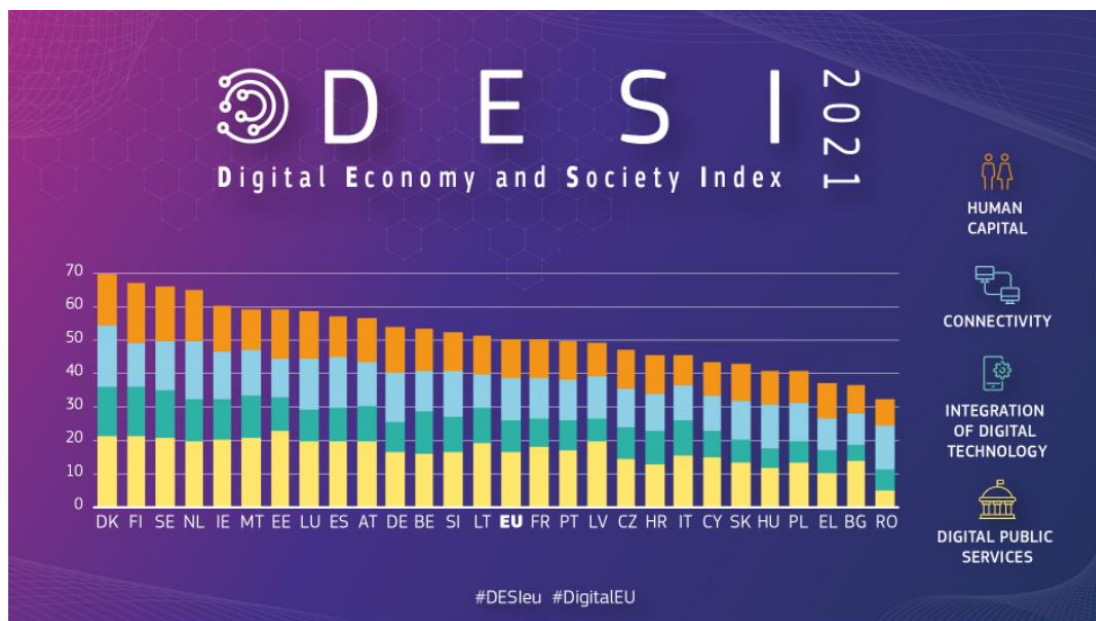


Figure 4.1 Digital Economy and Society Index 2021

Source: DESI, 2021. <https://digital-strategy.ec.europa.eu/en/policies/desi>

Based on the Digital Economy and Society Index, the EU is towards a more digital era, but digital progress is unequal among members. The Baltic States are the leading ones in digitalization, as Estonia and Lithuania ranked 7th and 14th respectively, followed by Latvia on the 17th place. Beijing is working hard on creating a comprehensive digital strategy of immense proportions to build a “Digital China”, which is made by China’s president Xi Jinping in the aftermath of the 18th Party Congress in 2012 with objective to digitally transform the nation. China has shown its advanced digital capacities in various aspects including 5G, digital Yuan. EU and China both are developing their digital technologies in order to gain the world leading status in this area, which somehow shows the challenges for EU-China cooperation. It can be argued that

digital connectivity is an area of both, cooperation and competition in relations between the European Union and China (Beridze, 2021). Although, differences of ideology, politics and conceptions exist, there are areas for cooperation, considering the economic and digital interdependence of the two. For example, Europe is more likely to attract Chinese digital talents because of US-China rivalry, when the Washington imposed barriers on Chinese students (Zwetsloot, 2020). Furthermore, China's advancing innovation system can be regarded as valuable opportunities for European companies, and cooperation has become even clearer in the face of the pandemic. (Arcesati, R., 2020). China is consistently willing to continue to hold the China-EU Urbanization Partnership Forum and carry out exchanges on trends in urban development such as innovation, green city, smart city and cultural aspects. (Ministry of Foreign Affairs of People's Republic of China, 2014). During the latest China-EU high-level dialogue in the digital area, both two sides called on to seek opportunities under common ground while reserving differences to promote mutual cooperation in the digital era. China's Vice-Premier Liu He stated that the EU and China shall pool wisdom with consensus in the digital area so as to jointly address challenges and promote the construction of a community with a shared future for humanity. European Commission Executive Vice-President Margrethe Vestager said it is in line with both sides' interests to promote digital cooperation. Both sides show consensus to work together for digitalization.

In order to build a climate-neutral, green, fair and social Europe, EU is willing to embrace technological evolution and globalization and cooperate with other countries under Paris Agreement. EU has planned to become carbon neutral by 2050 under European Green Deal. European Commission has also launched the European Green Capital Award to encourage the economic transformation of European cities towards greener and cleaner, which is also prioritized by the European Green Deal. Baltic city, Tallin of Estonia has been awarded for this prize in 2023. China, as the biggest developing country, currently is also a large emitter in the world and is devoted to dealing with the environmental problems regarding climate change by developing a low carbon economy. President Xi Jinping proposed an ambitious blueprint of ecological civilization in the 19th National Congress of the Communist Party of China (Xiao & Zhao, 2017). China has also promised to reduce its carbon emission intensity

to 60–65% of 2005 levels and achieve peak carbon emissions by approximately 2030 and become carbon neutral by 2060 (Yu, Hu, Fan & Cheng, 2018). There is also program to promote the development of low-carbon cities, for example, Low Carbon Cities Program, aiming to help Chinese cities realize early carbon peaking and neutrality through strategic intervention for deep decarbonization, with low carbon urban infrastructure as a focal point. EU still sees China as a partner to fight climate change and to speed up the implementation of the Paris agreement, as mentioned by European Commission, China is an important partner for EU to deal with issues regarding climate change and global environmental challenges (European Commission, 2017). Past experience and extensive research have shown the problem can be solved most efficiently by cooperation. Chinese and EU thinking on energy transition and meeting climate challenges seems to be converging as the lines between developmental, commercial and strategic objectives are becoming blurred (Anthony, Yuan, & Xia, 2021). China and the EU have agreed to cooperate and help financing needed to achieve energy transition. Both sides have issued the 2015 EU-China Joint Statement on climate change and are willing to pursue further joint approaches with each other to deepen cooperation in the spheres including clean and renewable energy, carbon markets, low-carbon cities, and hydrofluorocarbons. EU and China have established bilateral dialogues, such as the Environment Policy Dialogue to promote Climate Change cooperation. China side can gain help from EU to develop policies and regulatory frameworks towards a green, low carbon and circular economy, and to tackle domestic environmental challenges. China also aims to promote green investments in EU with developing green finance system, for example, People' Bank of China has cofounded Network for Greening the Financial System (NGFS), and central banks and regulators of many BRI countries have participated later. Meanwhile, EU also realizes that it needs China's cooperation (certainly in the short-term) as the EU lacks control over inputs necessary for its projected green transition, (Wijffelaars, 2021) considering that 86% of global rare earth processing is done in China and China provides 98% of the EU's supply of rare earth elements (REE), required for most hi-tech and Green production (European Commission, 2020). Internationally, frameworks, including G20, IPSF, can function as platforms for the EU and China to work together to solve global climate challenges. China and the EU have common goals on sustainable development, climate change, energy saving and

emissions reduction. Although the principles and standards to reach the goals still differ, there are great willingness and possibility to cooperate with each other.

Sustainability and digitalization can work hand to hand. There already exist fruits under EU-China cooperation. “Sino-European innovative green and smart cities” (SiEUGreen) is an EU-China cofounded project, aiming to enhance the EU-China cooperation in the area of urban agriculture, which will grow food from urban waste resources to minimize pollution and create smart and resilient cities as the actions of cities are play an increasing role in solving the global challenges. During 2019-2020 project period, EU and China share technologies and experiences, and have reached significant results of certain food such as tomato, lettuce etc.

Promoting European interests and values on the global stage, EU is working on ensuring ambitious and robust trade policy, within the reformed WTO and at the bilateral level between the EU and its partners. It is an EU priority to pursue dialogues with China to promote international standards that can reduce costs and barriers. China-EU Comprehensive Agreement on Investment (CAI) is also one of the mutual’s common objectives. Both sides are sharing the same goals on trade liberalization as well as fair and reciprocal investment environment to promote mutual economic development and world economy. There is significant space for the two sides to further strengthen their economic ties on investment as the amount is relatively modest. Based on figures from Ministry of Commerce of the People’s Republic of China, (Ministry of Commerce of the People’s Republic of China, National Bureau of Statistics, State Administration of Foreign Exchanges, 2021) in 2020, Foreign Direct Investment Stock of China is around USD 2580 billion, and the share of global OFDI stock has reached 6.6%, ranking 3<sup>rd</sup> only behind the US and Netherlands. However, Chinese investment into the EU is only USD 83 billion, which is 3.2% of China’s total OFDI. At the same time, survey conducted by the EU Chamber of Commerce in China showed that more than half of EU members believe Chinese companies receive better market access in Europe than vice versa (EU Chamber of Commerce in China, 2020). Therefore, one priority of CAI is to further open up market access for both sides to increase investments, which is important for China and EU especially facing the economic shocks of pandemic. Besides, European

enterprises also show concerns on intellectual property (IP) protection, the performance of state-owned enterprises (SOEs) and subsidy transparency. CAI is working on these aspects to improve the level playing field and applying fair competition rules for investment activities. Opening up under a better rule-based and fair investment environment aligns with EU's interests and values, while simultaneously China shows willingness to cooperate with EU on these directions. There are benefits for both sides. The investment deal will help boost the EU's economic recovery and China's high-quality development. The EU-China CAI will further strengthen regional economic integration and reshape globalization, leading to long-term development (KPMG, 2021). On the one hand, EU has comparative advantages in advanced technologies of manufacture and production therefore, so CAI can promote Chinese companies to expand investment in EU by cross border mergers and acquisitions and deepen cooperation with EU enterprises. On the other hand, China has well-rounded industrial base, resilient supply chain, world-leading infrastructure and the largest and rapidly growing green market, making China attractive for European companies. China and EU can also build or deepen cooperation in financial sectors as CAI will also enlarge market access of Chinese financial sector, providing European firms more opportunities in banking, insurance and asset management. The EU-China CAI could deepen China-EU economic cooperation to build an open economic order and promote globalization, which is the beneficial of both sides especially under pandemic situation, when every country is trying hard tackling pandemic shocks on economy.



**Figure 4.2 China's Outward FDI Flows to Countries along "Belt and Road" 2013-2020**

*Source: Ministry of Commerce of the People's Republic of China, National Bureau of Statistics, State Administration of Foreign Exchanges, 2021, 2020 Statistical Bulletin of China's Outward Foreign Direct Investment.*

Chinese outward foreign direct investment has shown great interests towards BRI countries. China's OFDI into BRI countries has keeping increasing. The Baltic States are among BRI route, which are also hunger for foreign investments to facilitate national economic development. Estonia has interests and potential in IT, biology technology and green industries. Baltic States implement tax exemptions to foreign companies in manufacturing, financial and insurance, wholesale and retail and technology industries. FDIs are welcomed without extra barriers and pro-business legislative framework, making a solid ground for local economic development. (The Caucasus 3 Plus the Baltic 3 and Economic Cooperation with China (Charaia, Chochia & Lashkhi, 2018). These can attract Chinese investments. Furthermore, all the three Baltic States have shown great labor force advantage and transit potential, and as members of EU, foreign companies can also get easy access to the European market. The transit potential and geographical location of the Baltic States make China-Baltic cooperation even more possible. Russia and Belarus previously served more for Eurasia transports however, Russia-Ukraine war shows the potential of

Baltics to gain the transit status as those two have been facing great sanctions from European side. Latvian transport and logistics companies are also trying to take advantage of new opportunities, accelerate economic recovery and promote greater regional and global connectivity through Latvia, said Helmut Kohl, Sector Adviser at the Ministry of Transport in China. Although potential risks exist from the Baltic perspective, it should be remembered that FDIs are not only a threat, but a source of financial income that stabilizes the economy. (Charaia, Chochia & Lashkhi, 2018). Therefore, there are also opportunities to continue cooperating with each other in order to realize the common goal of growth.

#### **4.4 Taking reference from Latvia: Interviews with major concerning parties regarding the future China-Latvia economic cooperation**

In order to better understand the current and also the future China-Baltic economic cooperation from different perspectives, taking Latvia for reference, it is organized the interviews with diplomatic staff from Chinese embassy, researcher of China Studies and General manager from Chinese company operated in Latvia.

##### Interviewees

Yuan Weini: Second Secretary of Economic and Commercial Affairs of Economic and Commercial Office of the Embassy of the People's Republic of China in Latvia  
lv@mofcom.gov.cn

Dr Una Aleksandra Bērziņa-Čerenkova: Head of Riga Stardins University China Studies Center, who has studied China for around 15 years and Head of the New Silk Road programme at the Latvian Institute of International Affairs.

Una.Berzina-Cerenkova@rsu.lv

Sun Jihua: General Manager of Latvia MGI Tech SIA. Latvia MGI Tech SIA is a subsidiary company of MGI Tech Co., Ltd. (referred to as MGI), which is a global leader in life science innovation focusing on R&D, production and sales of DNA sequencing instruments, reagents, and related products to provide real-time, panoramic, and full-life-cycle equipment and systems for precision medicine,

agriculture, healthcare and other relevant industries. MGI Latvia has been the largest foreign investment in the biotechnology sector in Latvia and the Baltics to date, exceeding 15 million euros. MGI Latvia acts as a hub of research and development, production, logistics and specialized training for MGI's business development in Europe and other international regions.

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In relate to the trends of the economic cooperation between China and Latvia, all three participants agree with the benefits and results it bring about, but the potential political risks that may influence the future cooperation are also well realized. Yuan Weini from Chinese embassy mentioned that, both investment and trade have increased, even during pandemic times, Chinese exports to Latvia still show significant growth, bringing about a bigger positive trade balance for China. This leads to Latvia's requirements of enhancing China's imports from Latvia. However, Latvia's major exported products are timber and peat, low value but requiring huger space for container shipment, therefore, there is a lack of containers. Regarding the trading of service, the trend of growth is maintained and can be expected as well. There is good cooperation between Latvia and China in logistics. One of Chinese largest logistics service provider, Cainiao, has operated direct flight for goods transportation from China and Latvia. China is also committed to develop Riga as regional logistics center. In general, the economic cooperation trend can be maintained as both sides still have opportunities for future cooperation. China has complete production lines and industrial systems, thus demonstrating competitiveness. Russia-Ukraine crisis shows gap of global energy supply, so China is able to compete here. Chinses companies in Latvia also have potential to grow and enlarge investments. But for those enterprises which have not entered Latvian market, they are hindered by the political risks regarding China's Hongkong and Xinjiang issues. Russia-Ukraine crisis also shows insecurity to do business in Latvia. The political environment for investment in Latvia is worsening. Besides, pandemic may influence the foreign investments coming to China, as China implements strict prevention and control measure, leaving impact also on the global value chain. Una Aleksandra Bērziņa-Čerenkova holds that there are some increase of trade and investments, for example, BGI, but the results are not really significant. There are a lot of visits from

China coming to Latvia, including many business delegations but the trend is not that optimistic, as even during the golden era of looking for opportunities, the tangible cooperation did not take place. Now, the window of opportunity is basically closed because Baltic approach to Belarus and Russia is very strict and no Baltic states today would agree to have any goods flowing from China, through Russia, to Baltic ports as the sanctions for Russia under Russia-Ukraine war. Besides, risks associated with cooperation with China have been pointed out firstly by the US during the trade war, then also the EU. Even if nothing came out during the optimistic years, then now is even less likely that something will come out of it. But there is still a bit of windows when it comes to non-high-tech, non-state-led, just business-to-business cooperation. So now anything that could have a strong sample of approval of Chinese government would be toxic for Latvia-Chinese economic cooperation. MGI general manager shared that the future development could be uncertain because the Russia-Ukraine war leaves impact on national political stability. He also pointed out that the attitudes and positions of Latvia towards China also show risks. Besides, governmental help for foreign investment is not that clear so far.

It is asked Latvia's position regarding China's actions and the increasing "China threat theory", Dr Una gave information that there was a little bit of that logic—China's actions that are geopolitical. For Latvia, Latvia's security is absolutely, primarily dependent on the US. "We are not a country that has foreign policy pillars and never has been," Said Dr Una, "We do not diversify our foreign policy because our national survival hinges on the security guarantees of the US in particular and NATO in general. So naturally, we are very versatile when it comes to economic partners, but our main pillar of policy is Transatlantic." She does not think that the Latvian people agree that China today in Latvia is a threat. She distinguishes the "threat" in local level and global level. On the local, China is not a threat today in Latvia. Although it can be seen some information regarding Chinese secret services here, China is not actively trying to influence Latvia's politics, elections. China is not a visible player. Globally, Latvia completely aligns with the US. As a small country, Latvia depends on the stable and rule-based international systems. There are risks associated with China's rise that interrupt the system. In that sense, there is risk. But it does not mean China should not become more active in the global stage. You cannot

compare China with Russia of course. It is different challenge for Baltics. There is not a risk today, but China is a pressure for international order. That is not good for small countries that dependent for international order.

Regarding “16+1” cooperation format and the results and concerns thereof, it mainly shows disappointments. The embassy confirmed the benefits of this format and are willing to help Latvia build economic cooperation with China in its certain industries but have well noticed the changing positions of the Baltics regarding this format. Latvia and Baltic States are getting more cautious towards “16+1” as they do not see the results of mutual cooperation are coming from “16+1” and prefer to work with China within EU-China framework. Chinese investments in Latvia also think they did not get much help and significant results from “16+1”. Yuan Weini from Chinese embassy told: “currently there are no 16+1 funding programs happening in Latvia, as the requirements are high. We do not have any suitable programs here that can meet the requirements. But if there is a chance, such as wood processing industry, it is possible to get support within 16+1 format.” Taking Lithuania case into consideration, Yuan added that politically, Latvian officials have mentioned to follow Lithuania’s action. In reality, Latvia society is more realistic, if there are some opportunities to start or enlarge engagement with Chinese companies based on mutual interests, Latvian companies are willing to try. For example, Ningbo Expo, Latvia delegations actively participated. “For China, it is confirmed that engagement with China provides opportunities and benefits, but we respect Latvia as an independent economy to make its own decision. We understand that Latvia is more into EU-China cooperation format, but Latvia has comparatively smaller market, in the whole EU, Latvia may not be that outstanding and competitive among EU member states, but within ‘16+1’, Latvia has its own advantages that stand out. Furthermore, ‘16+1’ is a great platform for Latvia to advertise and promote itself, which is necessary for Latvia to make itself known by Chinese investments. For example, tourism industry. Latvia and also the Baltic region are fresh travel destinations in Europe for Chinese tourists, there is potential to develop the tourism industry of Latvia. We also have sent Latvian delegations to China for better understanding the needs and preferences of Chinese tourists.” However, Una Aleksandra Bērziņa-Čerenkova told that “16+1” did not work out economically in the region but had led to more people to people exchange

and communication. Economically, within “16+1”, China focuses on loans and infrastructures, but Baltic States are looking for the three things: transit, exports to China and Chinese high value-added FDI. Besides, the risks of this format are shared across the domain that EU has also spoken about. Now China punished Lithuania for increasing relationship with Taiwan, the number 1 risk is dependency. China has leveraged to weaponize secondary dependency to make a point. However, she also added: “We did not see any countries following Lithuania’s sample. Latvia’s position: the gains from this format are limited but the idea was to withdraw more quietly. However, Lithuania moved the needle. As Lithuania has stepped up the relations with Taiwan, some CEEC also have developed communications with Taiwan but not really going as far as Lithuania. For Latvia, EU unity is crucial. “27+1” is more justified than continuing “16+1”. Deals do not come from multilateral but bilateral, based on business interests. She does not see “16+1” in fact has compacity to launch economic cooperation. MGI general manager thinks that “16+1” has good “advertisement” effect and can serve as a good platform for mutual exchanges and understanding, but economically, the benefits for Chinese investments here are limited.

When focusing on China-EU Comprehensive Agreement on Investment, there are concerns that it cannot be concluded in current political environment. Yuan from embassy told that currently it may be difficult to conclude this agreement. Russia-Ukraine crisis has made EU push China to show clear position, and this also will influence the mutual relationships. Dr Una believed that CAI will not be revised in the current form which is agreed in December 2020. It is distant concern now, and EU and China will have to renegotiate. The general manager of MGI said it could facilitate the investments in a general environment.

Regarding doing business in Latvia, Yuan told, Chinese businesses here can benefit from the policies of local government however, the favorable policies are the same for all the investments coming in Latvia. Embassy mainly support Chinese investments here by providing dynamic information in certain industries and platforms for B-to-B discussions and organizing meetings for Chinese companies and local authorities to better understand the business environment here. General manager of MGI added that they choose Latvia mainly because Latvia has advantages of logistics and cheaper

labor source than other European countries, and Latvia has easy access to EU market. Besides, there are some policy supports for biotechnologies within the whole EU. However, Chinese companies are facing the lack of talents, and difficulties in recruiting local people, which limit the development of the company. He suggested Chinese companies when deciding entering Latvia should make sufficient preparations and backing work, considering the issues of talents reserve and inputs. Both sides mentioned that Latvian market is comparatively conservative, for example, a company's reputation plays a critical role in the company's development here, which requires longer time.

As for the cooperation opportunities, Yuan from the Chinese embassy said China has interests in following sectors: logistics, wood processing, biotechnology and clean energy. Latvia has great wood resources and allows to export log directly, this is an advantage for Chinese wood processing companies, which are also interested in producing final products here like plywood. Biotechnology is also Latvia's advantageous industry which is aiming to attract foreign investment. China's largest biotechnology corporation, BGI Group, has established its subsidiary company in Latvia, Latvia MGI Tech SIA. There is also some other biomedical company operating in Latvia, as Latvia can serve for the whole European Market. Besides, Chinese companies are also trying to find the opportunities in the industries of clean energy. DR Una pointed out that considering the Russia-Ukraine war, the western sanctions make China to think for finding second Belarus when transporting goods to European market. Latvia is transit country and has opportunities. Pandemic has not significantly influenced Chinese companies here. Chinese investments are still possibly to flow into Latvia. Talking about barriers for cooperation, Yuan share that considering geopolitical issues, the Baltic three are not friendly to China in a whole, for Chinese investments, Latvia may not be considered as low-risk region. The business environment here still needs to be improved. For example, there is comparatively more strict and complicated procedure for applying visa, which has impact on potential coming investments, as it is not generally feasible to start a business or build a company here within the visa-allowed period, three months.

After comparing and analyzing the information above, we could conclude that the

results and benefits of China-Latvia economic cooperation are appreciated by the different parties. The increase of mutual trade and investments align with the common goals for growth. China side show more confidence of “16+1” format as it can provide Latvia and the other Baltic States platforms to show their own advantages which may not stand out within “27+1”, including great logistic potential, geographic location and cheaper labor source. It has not brought significant economic results but still shows opportunities. Latvia side shows more cautious attitudes towards “16+1” holding that it does not really work out economically. Lithuania dropped out from “16+1”, Latvia also shows some concerns but does not follow Lithuania’s way yet. There may be an idea to withdraw more quietly for Latvia. Furthermore, the current political environment challenges the deepening of the China-Latvia economic cooperation. China-US and China-EU tensions both influence Baltic positions towards China. The risks of engagement with China have been on the political agenda of both EU and the US. Latvia prefers to work with China under EU-China level. Latvia’s position toward China’s Hongkong and Xinjiang issues can hinder Chinese companies coming and enlarging in Latvia. Russia-Ukraine crisis also shows insecurity for China-Latvia relations. The political environment for economic cooperation is worsening.

## **CONCLUSIONS**

During the decades, China and Baltic States have developed economic ties not only through bilateral communication but also under multi-level cooperation formats, such as Asia-Europe, China-EU, China-CEEC or “16+1” of BRI, among which “16+1” is the most recent and one of the most important elements of the relations and political agenda and has brought about beneficial results in promoting mutual cooperation. Both sides have taken more “open” attitudes and policies to establish closer economic cooperation in trade and investment. Statistics show that mutual trade and investment have shown a general increasing trend during the past years with some small fluctuations. The trade theory proves economic benefits of liberal trade and investment, therefore, the economic cooperation of China and Baltic States provides growth opportunities for both sides. The classic Ricardo analysis in this paper also proved that the mutual trade between China and the Baltic States has significant

positive influence on both sides' economic development. Besides, the deepening Baltic-China economic cooperation does not hinder the EU economic integration but even can facilitate the Baltics to "catch up" with other developed EU members.

However, current political environment shows uncertainty and risks, which do not encourage deepening economic cooperation between China and the Baltic States. As member states of EU and NATO, the Baltic States depend on EU economically and NATO militarily. The relations between China and EU, China and the US both influence China-Baltic relations. The recent years have seen the lack of trust between China and the EU as well as increasing tensions between China and the US, which challenge the China-Baltic relations. Current Russia-Ukraine war may further challenge the mutual relations. As a result, the Baltic States are demonstrating their changing positions to "16+1" format, claiming to cooperate with China within EU-China framework based on mutual interests. Lithuania has withdrawn its membership of "16+1" format in 2021 and deteriorated its diplomatic relations with China, making the other two Baltic countries also take a cautious approach to this China-initiated cooperation format and also China's performance in both regional and global context. Estonia and Latvia may choose to distance from the format as well in the future, but probably by a less abrasive way than Lithuania's one. Baltic positions towards China also demonstrate risks for deepening economic cooperation, for example, it can hinder Chinese investments when deciding whether to enter Baltic market or enlarge business in the three countries.

In conclusion, A decreasing trend of mutual trade and investment can be expected, making the future scenario of the economic cooperation between China and the Baltic States not that optimistic. Nevertheless, the political risks should not be exaggerated as it is generally possible for China, the EU and Baltic States to find reasonable solutions and mutually beneficial cooperation formats to achieve in the future the common goals of sustainable growth and job creation which can be approached through open economic cooperation. It is found that China, EU and the Baltic States share consistent objectives of ceasing Russia-Ukraine war and tackling the food and energy uncertainty resulting from the war, have consensus to fight climate change and economic shocks generated by pandemic together, and show willingness and potential

to work together on digitalization, cybersecurity, trade liberalization as well as fair and reciprocal investment environment.

China and the Baltics should jointly tap the bright spots of complementary and mutually beneficial cooperation. Working to a more rule-based, EU solidarity respected as well as reciprocal and transparent economic cooperation environment, the opportunities of the BRI and “16+1” still can achieve complementary advantages and open broader space for cooperation. Understanding and keeping synergies of the tripartite policies and initiatives among EU, China and Baltic States is always the good way to improve the trust and economic cooperation.

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## ANNEXES

### **Annex 1. Interview with Yuan Weini, Secondary Secretary of Economic and Commercial Office of the Embassy of the People's Republic of China in Latvia**

Yuan Weini, Secondary Secretary of Economic and Commercial Office of the Embassy of the People's Republic of China, has been working in Latvia for many years.

Questions:

Q: What are the current trends of the economic cooperation between China and Latvia? What could be the possible reasons of this trend?

Q: Can Chinese businesses receive any favorable policies from the local government?

Q: Is there any specific support from Chinese government for those companies or businesses operating in Latvia?

Q: What are the potential chances for investments in Latvia geopolitical situation?

Q: What are the potential barriers for Chinese investments?

Q: Have 16+1 cooperation format helped Chinese investments here?

Q: As Lithuania has retrieved from 16+1 cooperation format, what do you think of Latvia? Are there any concerns about Latvia's position?

Q: Do you think China and EU will conclude the Common Agreement on Investment? What will be the potential influence on Chinese Investments in Latvia?

Q: In general, what do you think of the future development of China-Latvia economic cooperation?

## **Annex 2. Interview with researcher Dr Una Aleksandra Bērziņa-Čerenkova**

Dr Una Aleksandra Bērziņa-Čerenkova, Head of Riga Stradiņš University China Studies Center, has studied China for around 15 years, Dr Una is also Head of the New Silk Road programme at the Latvian Institute of International Affairs, who has been dedicated to researching and promoting the relations between China and Baltic States.

Una.Berzina-Cerenkova@rsu.lv

Questions:

Q: What are the current trends of the economic cooperation between China and Latvia? What could be the possible reasons of the trends?

Q: What benefits and risks can Latvia enjoy through economic cooperation with China under “16+1” format?

Q: What do you think of the future development of China-Latvia economic cooperation? Will Latvia also retrieve from 16+1 format, taking the deterioration of the relations between China and Lithuania into consideration?

Q: What do you think of “China threat theory”, as Baltic countries have announced this statement officially? Will it influence the mutual understanding and cooperation between China and Baltic States?

Q: Do you think China and EU could conclude and implement the Comprehensive Agreement on Investment? What influence it could bring about to China-Latvia or China-Baltic economic cooperation?

Q: Do you have any suggestions for China or Baltics to promote understanding and cooperation?

### **Annex 3. Interview with Sun Jihua, General Manager of Latvia MGI Tech SIA**

Sun Jihua: General Manager of Latvia MGI Tech SIA

kevin.sun@mgi-tech.com

Latvia MGI Tech SIA is a subsidiary company of MGI Tech Co., Ltd. (referred to as MGI), is leader in biotechnology sector. MGI Latvia has been the largest foreign investment in the biotechnology sector in Latvia and the Baltics to date. MGI Latvia covers work in R&D, production, logistics and specialized training for MGI's business development in Europe and other international regions.

Questions:

Q: Why chose Latvia?

Q: How is the company doing in Latvia? Have 16+1 cooperation formats played a role?

Q: Have your company been impacted by changing political environment? For example, Latvia has announced "China threat", and Lithuania has retrieved from 16+1 formats.

Q: Do you have any suggestions for Chinese companies doing business here in Latvia?

Q: Do you have any suggestions for local government regarding how to prove China-Latvia economic cooperation?

Q: Have you ever heard about the Common Agreement on Investment between China and EU? What will be the potential influence on Chinese Investments in Latvia?

Q: In general, what do you think of the future development of China-Latvia economic cooperation (trade and investment)?

The Master's thesis "**Economic Cooperation Between China and Baltic States: Current Trends and Future Scenarios**" has been developed at the Faculty of Business, Management and Economics of the University of Latvia.

With this signature, I confirm that the research has been done independently, only the stated sources of information have been used, and the electronic copy of the thesis is identical to the printed copy.

Author:  Hui Fang 19.05.2022  
(signature) (name and surname) (date)

**I recommend/do not recommend** the thesis for defence.

Academic advisor: *Dr.oec.* professor Inna Šteinbuka \_\_\_\_\_  
(signature) (date)

Reviewer: *Dr.oec.*, professor Margarita Dunska

The thesis has been submitted to the dean's designated responsible person at the Study Centre of the UL Faculty of Business Management and Economics

Methodologist: \_\_\_\_\_  
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The thesis has been defended at the meeting of the \_\_\_\_\_ Examination Commission on \_\_\_\_\_ (Bachelor's, Master's, State)

Secretary of the commission: \_\_\_\_\_  
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