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STRATEGIC PURGATORY: CAN THE CEE REGION FREE ITSELF FROM THE 14+1 FRAMEWORK?

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INTRODUCTION

While many studies have focused on Chinese investments in developing countries, less attention has been paid to similar investments in NATO allies. The relationship between China and the CEE region has come under increasing scrutiny as China has risen as the key partner in Russia's offensive war on Ukraine. These changing regional sentiments are visible in the slow death of the "Cooperation between China and Central and Eastern European Countries" framework.

Starkly signaling its own decline, the framework has been dubbed 17+1, then 16+1, and now 14+1. The first country to exit '17+1' was Lithuania, whose dramatic 2021 departure fundamentally altered EU-Chinese economic relations. Lithuania had seized the moment to engage more directly with Taiwan, triggering harsh Chinese economic retaliation which led the EU to file a World Trade Organization (WTO) dispute. The framework was then known as 16+1 from 2021 until 2022, when Estonia and Latvia also quit, primarily over Chinese support to Russia – but the Chinese economic conduct toward their neighbor Lithuania also loomed large.

The framework has remained stable at 14 CEE states in the two years that have followed, albeit with visibly dwindling enthusiasm from those who remain. Currently, the European members of the framework are Bulgaria, Croatia, the Czech Republic (which considers itself 'inactive'), Greece, Hungary, Poland, Romania, Slovakia and Slovenia. The five non-EU members are Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia. Some scholars have theorized that the geographic construction of this initiative, across EU borderlines, was designed to 'divide and conquer' the EU.

Whether or not that is true, there is no shortage of evidence that the framework presents a security threat. The actual economic activity of this partnership involves some of the Chinese companies which are sanctioned by the US, such as COSCO. The initiative has simultaneously floundered in the face of negligible results for the participating countries, while engendering increased dependency on China. It shows that economic and financial relationships with China benefit China, but typically not those who partner with it. Dismantling this framework would be an important step in the de-risking process, and would send a clear message that Europe is actively aligning its investments with its values and security interests.

HOW THE FRAMEWORK UNRAVELED: A BRIEF HISTORY OF THE LITHUANIA CASE

As Lithuania re-evaluated its relationship with China in 2021, the cost-benefit analysis showed "almost no benefits" while the national security costs were becoming increasingly evident. Žygimantas Pavilionis, then Chairman of Lithuania's Parliamentary Committee on Foreign Affairs, expressed a preference for building relationships between Lithuania and other democratic countries in the region. "China has aims to take over strategic infrastructure in various countries," said Pavilionis – "why should we embroil ourselves in these risks?"

Lithuania had also spent 2020 strengthening ties with Taiwan, and in 2021, Taiwan opened a representative office (a de-facto embassy) in Lithuania using its own name. The thinking was that China had "little economic leverage" over Lithuania, and that Lithuania was well within its rights to establish basic ties with other entities, particularly those which shared its democratic values.

However, the PRC government response was unexpectedly extreme – even hysterical. China recalled its ambassador to Lithuania and expelled the Lithuanian counterpart, while imposing a trade embargo which was so broadly constructed as to impact the entire EU. A CHOICE article explains:

> — It appeared as if Lithuania as a whole disappeared from China's customs IT systems altogether. At the same time, Lithuanian goods were not being processed in ports and were blocked from obtaining customs clearance. Furthermore, China also blocked products from other countries that contained any Lithuanian components whatsoever. As such, this affected more countries than just Lithuania, and soon, companies from Germany, Sweden and France reported issues with Chinese customs authorities.

In response, the EU filed a formal complaint against China at the WTO in 2022, the status of which is unclear in 2024 – but at the same time, it hastened to develop tools such as the Anti-Coercion Instrument, which was launched in late 2023 to widespread policy analyst approval. This comprised part of a turn towards greater awareness of economic security in the EU, which is still nascent and woefully behind the pace of Chinese maneuvers.

Beijing's overreaction to an entirely symbolic issue was a strategic error, since it tipped the Chinese hand: it showed Europe that the Chinese government would persistently work to obtain economic leverage for the purpose of influencing legitimate European political processes. In so doing, it would be subjugating European policy to Chinese priorities through the mechanism of economic dependency, while minimizing the development of reciprocal leverage. However clear the message, the EU member states reacted unevenly.

China also stepped up attempts at influence operations in Lithuania, to little avail. In fact, in 2022, the Center for European Policy Analysis (CEPA) found that Lithuania was the only CEE country in which China had no meaningful influence. This positive state of affairs is directly linked to Lithuania's withdrawal from the framework.

The current status of the 14+1 framework is affected by three main factors: a geopolitical and values-based misalignment, growing awareness of the security threat posed by China to the EU, and financial gain – or a lack thereof.

VALUES AND GEOPOLITICAL MISALIGNMENT

Chinese support for rogue states such as North Korea, Russia and Iran is an established fact. China is aligned with each major anti-democratic actor, demonstrating deep collaboration across many sectors, with clear adverse impacts for western interests.

What is less well-known is that the Chinese financial system has been linked to Mexican cartel money-laundering, and the Bank of China (BACHY) has even been accused of laundering money for Hamas. If the government of China is complicit, or even permissive of this, then the Chinese financial system has been used by the regime as a tool to sponsor asymmetric threats against the West. If it is found to be pervasive and continuous, it could even be considered a proxy warfare strategy.

THE SECURITY THREAT POSED BY THE FRAMEWORK

Much has been made of Chinese investments in developing countries, but there has been only sparse analysis of the strategic reasons behind similar investments in EU and NATO countries. Sometimes the strategic calculus is clear, as when the Chinese government has heavily subsidized purchases which seize control of critical resources such as food, energy or natural resources, and much more. In other cases, though, the intentions may be directly linked to military goals, as seen in the way that China has enhanced its naval capabilities through its commercial investments, with "nearly 100 ocean ports owned and/or operated by PRC firms in foreign jurisdictions."

However, in the case of Chinese strategic investment in developed countries, even a smaller degree of investment can have an outsized impact. In these countries, rather than a general effort to create leverage or seize assets, the focus is on access to critical infrastructure. Chinese companies' involvement in ports crucial to NATO has put these national assets at risk, or even rendered them functionally useless for military purposes. This, taken together with the strategic technological penetration of European states, compounds these risks.

THE FIDUCIARY/INVESTOR PROTECTION ANGLE

One of the most interesting aspects of this China-led economic cooperation initiative is that it simply did not deliver the expected amount of Chinese investment. "Many countries received only promises, instead of projects." Beyond the evident failure of the initiative to provide the anticipated financial benefits for the CEE countries, there are a variety of material risk factors which should be considered in assessing the potential benefits of increasing economic and financial integration with China.

Weaknesses in the Chinese economy are likely underreported, but investors are still reacting to them. China is experiencing massive real estate, banking and debt crises (In the latter case, particularly at the provincial or local level). These have revealed significant gaps in the financial oversight system. Western financial institutions in particular should reconsider partnerships with Chinese banks, in light of the evidence of serial corruption and criminality, some of which directly affects the EU. These partnerships pass on meaningful risk to investors.

Perhaps more importantly, China may never have actually intended to bestow economic benefits on its "friends." Scholars have theorized that China employs an economic strategy which focuses on changing the perceptions of countries who are outside of its orbit, not loyalty to, or the deepening of, relationships with those closest to it.

CONCLUSION

The problems faced by the 14+1 initiative showcase the true dynamics of economic and financial enmeshment with China, which jeopardize both national security and investor capital. In spite of the enormous risks, MERICS has found that "European countries continue to compete for the opportunities to do business with and in China and to attract Chinese investments in Europe." The CEE in particular is divided on the risk that China poses, and the present unwillingness to let the 14+1 framework die, even as it becomes increasingly obsolete, implies a continued lack of adequate threat perception. De-risking, the European solution of choice to meet this threat, must be recognized as necessary, but not sufficient.

For this and other reasons, there is an urgent need to address the national security dimensions of economics and finance directly and comprehensively through multilateral bodies. The EU and NATO have both been pushed to expand into new domains with the growing recognition that adversaries increasingly focus on asymmetrical and hybrid attack vectors. These institutions can and should develop the capacity to establish clear guardrails for economic and financial interactions with CCP-affiliated companies and the Chinese government itself. If there is consideration of reclaiming NATO infrastructure from Chinese control, then it is a foregone conclusion that ceding further control should be prevented. It would be wise to apply a "lessons learned" approach, based on recent experience with Russia, to the future course of Europe's economic and financial interactions with China.