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In the Shadow of the Global Pandemic: Deepening or Shrinking Cooperation Between China and the Baltic States?

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Summary: The paper addresses cooperation between China and the Baltic states and explores future scenarios of political and economic relations in the context of the global COVID-19 pandemic. The paper is divided into three major parts. The first segment outlines the Baltic perspective on China's global and regional activities and the proposed Health Silk Road. The second part focuses on structural factors and recent development of economic cooperation between China and the Baltic states. The third part speaks of strategic and political challenges in engaging with China during the pandemic and in its aftermath. The paper provides a prognosis that co-existing trends of both deepening and shrinking cooperation will transpire in the relations between the EU and China, and specifically the Baltic states and China. Latvia's choices, among others, will be impacted by international obligations, including the transatlantic ties.

Keywords: EU, China, Baltic states, COVID-19, trade, investment, Health Silk Road, trans-Atlanticism

1. Introduction

The global pandemic of COVID-19 has become a formative development on a global scale. The coronavirus was first identified in China and then spread exponentially around the world. It has brought the global population to a standstill. Apart from the epidemiological repercussions, the virus has contaminated

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and curtailed interstate relations and cooperation. The Baltic countries have advocated multilateral solidarity, relevance of inclusive international organizations and bilateral cooperative frameworks. The Baltic states have underlined importance and engagements with global centres of power. China remains one of such global political and economic players. However, apparently multilateralism and cooperation have been strongly tested by the global pandemic, which has also demonstrated divergence of societal models, approaches and narratives.

This study is aimed at the analysis of cooperation between China and the Baltic states and exploring future scenarios of political and economic relations in the context of the global pandemic. The paper is divided into three major parts. The first segment outlines the Baltic perspective on China's global and regional activities and the proposed Health Silk Road during COVID-19 pandemic. The second part focuses on structural factors and recent development of economic cooperation between China and the Baltic states. The third part touches upon strategic and political challenges in engaging with China during the pandemic and in its aftermath.

2. The symbolism of China's Health Silk Road and the Baltic perspective

China took an active and assertive stance during the COVID-19 pandemic, exploring avenues to turn COVID-19 into an opportunity for soft power achievements -- arguably, this goal has not been reached, as COVID-19 has contributed to more negative views on China globally[1]. It was for this reason that China's president Xi Jinping reiterated a proposal to build a Health Silk Road to Italy's Prime Minister Giuseppe Conte during the initial stage of the global pandemic. The concept had been in limited use since 2015,[2] and was noticed after the 2017, when an MOU on Health Silk Road was signed between China and the World Health Organization. According to WHO Director General Tedros Adhanom Ghebreyesus, pandemic prevention was one of the top goals of the proposed

[1] Silver, L., Devlin, K., Huang, C. *Unfavorable Views of China Reach Historic Highs in Many Countries.* [online]. Available at: https://www.pewresearch.org/global/2020/10/06/unfavorable-views-of-china-reach-historic-highs-in-many-countries/

[2] The National Health Commission of the People's Republic of China (the successor to National Health and Family Planning Commission. See. E.g., 国家卫生计生委关于推进"一带一路"卫生交流合作三年实施方案 *(2015-2017)* [National Health and Family Planning Commission on promoting the "Belt and Road" three-year implementation plan for health exchange and cooperation (2015-2017)]. [online]. Available at: http://www.nhc.gov.cn/wjw/ghjh/201510/ce634f7fed834992849e9611099bd7cc.shtml

cooperation from its initiation: "If we are to secure the health of the billions of people represented here, we must seize the opportunities the Belt and Road Initiative provides. … First, we must put in place systems to contain outbreaks or crises where they start and prevent them from becoming epidemics. WHO has proposed a strategic partnership with China to target vulnerable countries along the Belt and Road and in Africa?"[3]

The fact that, in 2020, China chose Italy, a G7 member and a developed high-income country according to the UN classification, rather than "vulnerable countries along the Belt and Road and in Africa" for re-announcing the Health Silk Road, can be explained both through opportunity and symbolism. From the perspective of opportunity, Italy had been experiencing an overwhelming wave of the pandemic, at that time matched only by the earlier situation in China. Therefore, it was coincidental that China's offer of supplies and expertise, framed to include PRC normative discourse, was made to Italy and not some other country. At the same time, the fact that it was, indeed, none other than Italy, which was the first G7 country to join BRI during the previous year and largely perceived as a symbolic "civilizational partner" in China, allowed China to reference a higher, new form of cooperation. When Italy joined BRI in 2019, Xi Jinping wrote in a signed article in *Corriere della Sera*: "China and Italy are both stellar examples of Eastern and Western civilizations, and both have written splendid chapters in the history of human progress. As early as over 2,000 years ago, China and ancient Rome, though thousands of miles apart, were already connected by the Silk Road."[4] Therefore, in the eyes of China, from several angles, Italy is particularly well-placed to become the launch-point for a new championing extension of the Silk Road, and the setting of the roll-out of the cooperation signals its high profile. Italy's initial positive reaction was largely influenced by both despair and disappointment. Foreign Minister Luigi Di Maio claimed that Italy requested European partners but did not receive support which could be comparable to that of China. Although rather slowly, eventually the EU has been able to mobilize its financial and medical resources and ensure support to the worst hit member states of the community. This has also allowed to take much more cautious stance with regard to China's initiatives essentially aimed to promote its economic interests and standing in Europe.[5]

[3] World Health Organization. *Towards a Health Silk Road.* 2017. [online] Available at: https://www.who.int/dg/speeches/2017/health-silk-road/en/

[4] Ministry of Foreign Affairs of the People's Republic of China. *Xi Jinping Publishes a Signed Article in Italian Newspaper.* 2019. [online] Available at: https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpdydlmngfggsfw/t1647543.shtml

[5] TAGLIAPIETRA, A. *The European Union Won't Be Fooled by China's Health Silk Road.* [online] Available at: https://www.gmfus.org/blog/2020/09/02/european-union-wont-be-fooled-ch

The Baltic reaction to COVID-19 and the subsequent humanitarian cooperation with China in the shadow of the pandemic has been mixed. During the initial stage, the decease outbreak was associated with China and some more densely populated globalized communities in other countries but was not perceived as an evident and immediate threat domestically. During this stage, the interest in COVID-19 related exchanges with China remained only among those directly involved with China – solidarity events were organized by the Latvian Chinese Studies Association, and an online charity art auction took place upon the initiative of Baltic China Agency for Cooperation of Commerce, Culture and Education, in close cooperation with the Embassy of the PRC in Latvia. Still, already during this stage, Estonia and Latvia were among the EU member states that provided assistance to China: "As of 21 February, over 30.5 tonnes of personal protective equipment to China has been provided by France, Germany, Italy, Latvia and Estonia. On 19 February, France sent a plane to Wuhan with a 20-tonne cargo of surgical masks, gloves, thermometers and disinfectant, which also included material from Latvia and Estonia."[6]

After solidarity came the perception of threat, as COVID-19 quickly approached the Baltic countries. The state of emergency was declared in all Baltic states: on February 26 in Lithuania, March 12 in Latvia, and March 13 in Estonia. It was during this stage that the humanitarian cooperation with China intensified and several medical supplies purchases from China were made by the Baltic states, some organized by individual countries, such as the deliveries operated by the Latvian national airline *airBaltic*[7], some – in regional cooperation, such as the joint Estonian-Latvian delivery. Several direct private donations reached the Baltic states organized by Baltic businesses trading with China and the local Chinese community members, e.g. the 10 000 masks donated to the Latvian Children's Hospital. Such donations were not used as large-scale publicity opportunities by the Embassy of the PRC, which remained a rather low-key actor during the process. As the supply purchase tension subsided and the spread of COVID-19 in the Baltic states reached a containment phase, it decreased the need for humanitarian cooperation with China. There was also a realization of the mistakes committed during the initial procurement campaigns from China.[8]

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6 European Commission. *The EU's Response to COVID-19. 2020.* [online] Available at: https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_307

7 Kinca, A. *«airBaltic» nogādā Latvijā teju miljonu sejas aizsargmasku un respiratoru.* [onlin.] Available at: https://www.lsm.lv/raksts/zinas/latvija/airbaltic-nogada-latvija-teju-miljonu-sejas-aizsargmasku-un-respiratoru.a353727/

8 VĒBERE, I. *Operācija "Izmisums": kā Latvija krīzes laikā pirka maskas.* [online] Available at: https://rebaltica.lv/2020/04/operacija-izmisums-ka-latvija-krizes-laika-pirka-maskas/

An interesting case of COVID-19 sparkling anti-PRC controversy took place in Lithuania: "Around 200 Lithuanian politicians and public figures sent an open letter to President Gitanas Nausėda earlier in April, asking him to support Taiwan in its dispute with the WHO and advocate for the country's international recognition,"[9] which was later overturned by the President. This case, however, should be analysed in the context of a wider anti-PRC sentiment sparked by several scandalous events in 2019, leading to the conclusion that Lithuania currently is the most China-critical country among the Baltic states, with COVID-19 having amplified this sentiment.

China clearly attempted to underline its importance and support through a variety of channels. To exemplify the exclusivity of 17+1 cooperation, China organized a video-call of epidemiologists from China and their counterparts from 17 countries involved in China's format of cooperation with Central and Eastern countries, including the Baltic states, on March 13 – a week earlier than a similar call was organized with the EU member-states.[10] The Baltic experts involved referred to the call as informative and not centring on political topics, although containing official Chinese messages.[11] However, overall a balance was struck between the needs of the Baltic states in countering the epidemic and China's actions. The Baltic states remained pragmatic, used the cooperation with China to procure the medical equipment unavailable elsewhere, and opted for scandal-less resolution of quality-related issues. Most importantly, the Baltic states did not use the COVID-19 crisis to challenge the EU or express any dissatisfaction with it. China, on the other hand, did not use the situation to assertively push its political agenda and pressure the Baltics to adapt its position.

Normally, a critical situation exposes issues between states and can serve as a catalyst for conflict. In the Baltic case, however, the COVID-19 lesson was rather the opposite. The crisis demonstrated, first of all, the potential of cooperation between the Baltic states themselves, and, secondly, the potential of joint, coordinated action in conducting cooperation with China. The joint repatriation flights run by *AirBaltic*[12] and Baltic negotiations on vehicle con-

[9] BNS/LRT.lt staff. *Calls to support Taiwan 'open provocation', says China's ambassador to Lithuania.* [online] Available at: https://www.lrt.lt/en/news-in-english/19/1169159/calls-to-support-taiwan-open-provocation-says-china-s-ambassador-to-lithuania

[10] YU, S. *Xinhua Headlines: China showcases spirit of sharing by offering CEE countries COVID-19 insights*. [online] Available at: http://www.xinhuanet.com/english/2020-03/14/c_138877712.htm

[11] BĒRZIŅA-ČERENKOVA, U. A. Latvia: Mask Diplomacy in Minor Key. [online] Available at: https://www.ifri.org/sites/default/files/atoms/files/etnc_special_report_covid-19_china_europe_2020.pdf

[12] *airBaltic to carry Baltic residents from Frankfurt and London to Riga.* [online] Available at: https://bnn-news.com/i-airbaltic-i-to-carry-baltic-residents-from-frankfurt-and-london-to-riga-211633

voys[13] with Poland serve as examples of efficient Baltic crisis coordination, whereas the joint medical equipment purchases organized by the Estonian side containing deliveries for Latvia[14] demonstrated coordinated action in doing business with China. Although these purchases did not fall under the "Partnership Agreement between the Ministry of Health of the Republic of Latvia, the Ministry of Social Affairs of the Republic of Estonia and the Ministry of Health of the Republic of Lithuania on Joint Procurements of Medicinal Products and Medical Devices and Lending of Medicinal Products and Medical Devices Procurable Centrally"[15] still, the existence of this partnership and joint procurements in the past have set an institutional framework that could be initiated during the time of crisis.

With regard to the rather vague idea of the Health Silk Road translating into Sino-Baltic cooperation, both a low-key and a high-key scenario seems probable. First of all, the already existing cooperation projects, such as the investment of the gene sequencing equipment producer BGI in a production facility in Latvia, could be identified as upgraded health cooperation. A second, more ambitious scenario would include "certain elements of the Health Silk Road being linked up to China's Digital Silk Road"[16], introducing med-tech cooperation in regions that are not interested in the traditional BRI infrastructure offer, such as the Baltic states. The Baltic states possess highly skilled human capital in medical and technical fields, but do not yet hold a well-established niche in the global med-tech market, therefore are fitting for new initiatives in this regard.

Although cooperation in the field of health, be it under the banner of Health Silk Road or otherwise, holds the potential for the Baltics to move away from the modest results of the BRI cooperation, at the same it must be contextualized with existing economic interests and political challenges. Clearly, as the cooperation will inevitably include aspects of information technology and patented

[13] LETA/BNS/TBT staff. *First convoy from Poland comes to Lithuania, Latvians, Estonians escorted to Latvia.* The Baltic Times, March 17, 2020.

[14] *The Kremlin claims the Estonian purchase of protective gear was Russian humanitarian aid.* [online] Available at: https://estonianworld.com/security/the-kremlin-claims-the-estonian-purchase-of-protective-gear-was-russian-humanitarian-aid/

[15] *Partnership Agreement between the Ministry of Health of the Republic of Latvia, the Ministry of Social Affairs of the Republic of Estonia and the Ministry of Health of the Republic of Lithuania on Joint Procurements of Medicinal Products and Medical Devices and Lending of Medicinal Products and Medical Devices Procurable Centrally.* Came into force – May 2, 2012. [online] Available at: https://likumi.lv/ta/id/248008-partnership-agreement-between-the-ministry-of-health-of-the-republic-of-latvia-the-ministry-of-social-affairs-of-the-republic-of-estonia-and-the-ministry-of-health-of-the-republic-of-lithuania-on-joint-procurements-of-medicinal-products-and-medical-devices-and-lending-of-medicinal-products-and-medical-devices-procurable-centrally

[16] LANCASTER, K., RUBIN, M. RAPP-HOOPER, M. *Mapping China's Health Silk Road.* [online] Available at: https://www.cfr.org/blog/mapping-chinas-health-silk-road

intellectual property, as well as Chinese med-tech companies wanting to operate in the EU, the upgraded health cooperation risks to actualize the ongoing controversies between China and the EU regarding data security, technology transfer and a level playing field, affecting the Baltic states.

3. Economic cooperation: structural interests and trajectories

The interaction between China and the Baltic states during the COVID-19 pandemic revives the wider debate on the character and prospects of the economic and political engagement. Trade, investment and connectivity cooperation indicate both structural opportunities and challenges, as well as prospects of future trajectories. Insofar, the picture of cooperation has been rather mixed.

Trade in goods and services between China and the Baltic countries has been, though increasing, rather limited. One of the considerable concerns of the Baltic countries are trade imbalances. Latvia-China trade relations are indicative to illustrate this general trend. Latvia's average annual export share to China from 2015 to 2019 amounted to only 1,2%, whereas the import share from China to Latvia is slightly higher: 3,2%. During these five years the export to China gradually increased, the biggest increase was identified in 2017 – by 22.3%. However, negative trade balance remained: in 2019 as compared with 2018 export dropped by 0,8%, but import increased by 4,1%. Trade asymmetries between China and the Baltic states are most likely to remain in the foreseeable future.

Economic security is an issue, as there is an ongoing large trade imbalance, in which Chinese exports to the Baltic states increasingly outweigh Baltic exports to China.[17] Furthermore, Baltic exports to China are strong in the food sector (particularly dairy produce); while Chinese exports to the three Baltic states are strong in finished industrial products (machinery, technology). The terms of trade provide China's exports with an increasing price, meanwhile, the prices of the Baltic raw resources rise less quickly. Consequently, a gap in value increasingly opens up in China's favour and against the Baltic states. The pattern of Sino-Baltic trade also threatens to establish a neo-colonial pattern between primary resources

[17] KALENDIENE, J. DAPKUS, M. et al. *Nordic-Baltic Countries and China: Trends in Trade and Investment: A Business Perspective*. [online] Available at: https://www.researchgate.net/profile/Jone_Kalendiene/publication/317156119_Nordic-Baltic_Countries_and_China_Trends_in_Trade_and_Investment_A_Business_Perspective/links/59fcc8abaca272347a22a61f/Nordic-Baltic-Countries-and-China-Trends-in-Trade-and-Investment-A-Business-Perspective.pdf?origin=publication_detail

and finished industrial product.[18] Such structural imbalances are compounded by imbalances in relative importance: economic links with China are of rising significance for the three Baltic countries, but economic links with the Baltic countries are of much less significance for China.[19] This also gives China a greater power in negotiations with the Baltic states, who operate in structural terms from a position of relative weakness. As the examples of countries in South East Asia, including Vietnam[20] and Cambodia, show, economic overdependency on China, once a reality, is very difficult to shake, and it can also hold geopolitical implications.

As far as investments are concerned, trajectories are similar to those of trade. Investments are mutually insignificant but growing. Generally, Chinese firms demonstrate an increasing interest in opportunities for investment in the Baltic Sea Region, especially in the fields of natural resources, energy, and technology. The largest recipient of China's investment during the recent years was Lithuania -- the biggest country of the Baltic states. According to Chinese national statistics, it accounts for more than 75% of Chinese outward investment in the Baltic states. China's investment in Lithuania has increased from 2.3 million EUR in 2013 to 440.3 million EUR in 2017. Most of it is concentrated in manufacturing and technical services. For example, in 2012, China's largest producer of ATM machines, CRG Banking, that accounts for 23% of the Chinese market, made its first big investment in Lithuania. The importance of the transportation sector for Chinese investors is illustrated by the SF Express investment and cooperation with Lithuanian Post, the state-owned postal and shipping services company. Investment of SF Express is also one of the top 10 Chinese outward investments in transport and communications sector in EU. This cooperation agreement and investment were a good injection into the state-owned company that had problems in sustaining profitable activities and maintaining a competitive edge with private courier companies.

China's outward investment in the other two Baltic states – Latvia and Estonia – remains lower. Estonia is among the leading countries in Eastern and Central Europe regarding foreign direct investment per capita. Until 2013, Estonia was also the leading country in the Baltics to attract Chinese investment. Despite a good geographical location and favourable infrastructure for maritime roads, there have been only a few initiatives for China's investment in the transport sector. Most of the Chinese outward investment in Estonia is concentrated in

[18] SCOTT, D. China and the Baltic states: strategic challenges and security dilemmas for Lithuania, Latvia and Estonia. *Journal of Baltic Security*, 2018, no. 4(1), pp. 25–37.

[19] MARTYN-HEMPHILL, R., MORISSEAU, E. *Small Step for China – Giant Leap for the Baltics?* [online] Available at: https://www.baltictimes.com/small_step_for_china_-_giant_leap_for_the_baltics_/

[20] '*Vietnam's economy is much dependent on China', legislator warns*. [online] Available at: https://tuoitrenews.vn/society/10196/vietnams-economy-is-much-dependent-on-china-legislator-warns

electrical machinery manufacturing and business service sectors. In 2017, Estonia was lagging behind its Baltic neighbours, however a significant increase of Chinese FDI could be observed: from 42.7 million EUR in 2015 to 76.3 million EUR in 2017. Estonia is a leader in a number of start-ups among the Baltic states. Start-ups are usually funds-consuming. Chinese investors may find an opportunity here as some of them already did by supporting Estonian start-up Testlio – a global community of test engineers focused on bug finding and quality assurance. More cooperation opportunities between China and Estonia in educational, medical and health issues were confirmed since 2015, however, as China is becoming more securitized in the region, the fields of cooperation are also becoming narrower.

China's outward investment to Latvia stands slightly above the Estonian level. China ranks 51st among the foreign investors and 44th by the contributions to the share capital in Latvia. At the beginning of 2016, 166 companies had Chinese capital in the country. The 2019 BGI investment project of China in the field of life sciences has opened a new chapter in the Latvian-China economic relations. The world's largest DNA gene sequencing corporation with headquarters in Shenzhen, China recently has chosen Latvia as the main base for the production of gene sequencing equipment and reagents, as well as a research and development centre serving the whole Europe. The project is a multi-annual and multimillion investment with several stages of development: BGI Life Science Centre, Latvia BGI Wuhan Life Science, and Technology Park and BGI GC Centre, to be completed in 2022. This investment project of China is perceived with cautious optimism as a "success story". BGI shares are listed on the Hong Kong Stock Exchange; BGI employs more than 5,000 researchers in several countries around Europe, Asia, Australia and North America; the project in Latvia – Latvia MGI Tech, a company founded in Hong Kong, is the corporation's largest project outside China. The Chinese side has taken into account that Latvia is relatively well-developed in the field of life sciences, has a good reputation, and the field of life sciences has special support from the government of Latvia. Also, as Latvia can provide quality infrastructure avoiding issues specific to Western Europe -- production costs and queues, among others – BGI is interested in growing the Latvian subsidiary into an HQ for a Europe-wide platform. This project is a serious step towards the development of an infrastructure for the life sciences and technology genome on the European scale – if Latvia will use the project as a springboard to foster an international ecosystem, it could become one of the European leaders in the field of life sciences. It can be argued that the BGI/MGI investment project in Latvia is a key result of "17+1" cooperation, as it is both tangible and substantial.[21]

[21] *Opening of MGI Latvia Builds Foundation for China-Europe Life Science Cooperation.* [online] Available at: http://www.baltic-course.com/eng/good_for_business/?doc=152786

Latvia's strength is its geographical position. It is a natural transport hub with three largest ports and the biggest airport in the Baltics, as well as the upcoming inter-modal cargo terminal Salaspils TEN-T linked with the 1520 mm rail and Rail Baltica core line – the European standard track gauge of 1435 mm.[22] A perceived milestone for BRI was in November 2016 when a trial container train from Yiwu City in Zhejiang province in China arrived to Latvia after completing an 11,000 km journey over 12 days through North-eastern China and Siberia. A Memorandum on Strategic Cooperation was signed in September 2017 between the Freeport of Riga Authority and the Port of Lianyungang, with the goal to promote the development of multi-modal transport services along the Eurasian land transport corridor. Still, the political will alone was not enough to boost the routes, and no major logistic developments followed. Furthermore, as various Silk Road routes are proposed, the ongoing physical security of such infrastructure schemes becomes an issue not just for China but also for participating states like those in the Baltic.[23]

It is not surprising that Klaipėda – the important container port with its largest retail chain in Lithuania and the Baltic states – has already attracted Chinese interest. In 2016, the authorities of the Port of Klaipėda explored the possibility of cooperation with China Merchants Group for the creation of a new deep-water port able to receive large container ships of the Baltmax class gaining access through acquisition of Klaipedos Smelte, one of the Klaipeda port's biggest stevedoring companies,[24] but the deal fell through as the Lithuanian side did not want to give up the controlling stake.[25] A similar outcome came about in 2019, as China's interest to purchase a controlling interest in the Port of Klaipeda stocked suspicions that Beijing seeks political leverage that could be used to hamper NATO military operations in the North Atlantic in a crisis[26]. In this context, the Lithuanian President Gitanas Nauseda pointed out that Chinese investment into a deep-water port construction would be problematic due to European-wide security concerns and can undermine

[22] *Closed competition for Salaspils freight terminal design announced*. [online] Available at: https://www.railbaltica.org/closed-competition-for-salaspils-freight-terminal-design-announced/

[23] BUJAK, A., ŚLIWA, Z. Global aspects of security environment – the 'One Belt, One Road' project. *Ekonomia Prawo. Economics and Law* 15, 2016, no. 4, p. 442.

[24] GERDEN, E. *China Merchants to build deep-sea Lithuania port.* [online] Available at: https://www.joc.com/port-news/european-ports/china-merchants-build-deep-sea-lithuania-port_20160210.html

[25] *China Merchants Group fails in attempt to buy Klaipedos Smelte.* [online] Available at: http://www.baltic-course.com/eng/transport/?doc=118651

[26] GEHRKE, J. *'We need to control it': Lithuania resists Chinese efforts to poach key shipping port.* [online] Available at: https://www.washingtonexaminer.com/policy/defense-national-security/we-need-to-control-it-lithuania-resists-chinese-efforts-to-poach-key-shipping-port

national security.[27] The possibility of creating a trans-shipment centre for railway transport between China and Europe is also being considered. Currently only 50,000 containers are re-filled, which means less than 600 trains. Creation of a trans-shipment centre would be an alternative to the traditional, rather crowded corridor leading through Minsk and Brest towards Poland. According to the Lithuanian Confederation of Industrialists, China Merchant Group and Lithuanian Railways are discussing setting up a joint Lithuanian and Chinese company, which would provide freight forwarding and logistics services between Lithuania, Belarus and China.

Initially Estonia remained rather cautious about China's Silk Road initiative.[28] In part this is because of its trade deficit with China, in part because while Latvia has Riga and Lithuania has Klaipeda, Estonia's main port of Tallinn is not particularly well-positioned for the purposes of the Silk Road route. Nevertheless, Estonia signed a Silk Road Initiative Memorandum in November 2017, in which the Minister of Entrepreneurship and Information Technology Urve Palo argued that "for Estonia, the agreement means prospects for foreign investments and provides additional opportunities for connecting the Rail Baltic rail link with the East-West transport corridor".[29] Further hopes of increased Silk Road use were announced in the Cooperation Agreement signed between the Estonian Chamber of Commerce and Industry and the Beijing Chamber of Commerce in February 2018. A degree of competition seemed to emerge with Riga during that period, as Tallinn also appeared to entice China to use it as a transit corridor to the rest of the Nordic countries. Since 2019, however, the Estonian outlook on cooperation with China returned to the initial approach of caution, speaking to the fact that the risk perception has risen quite evenly across the region.

On one hand, Chinese companies can share their full-fledged experiences and technologies in infrastructure building to help the CEE countries where it is in demand.[30] On the other hand, it is not clear what sort of leverage this will give. It is true that the Baltic countries as "17+1" framework members, initially looked to China for investment. However, Chinese investment in the Baltic states

[27] JAKUČIONIS, S. *Chinese investment into Klaipėda port a 'concern' for national security, president says.* [online] Available at: https://www.lrt.lt/naujienos/news-in-english/19/1083021/chinese-investment-into-klaipeda-port-a-concern-for-national-security-president-says

[28] VEEBEL, V. The China New Silk Road Initiative: Why is Estonia Rather Cautious about It? In ANDŽĀNS, M. (ed.) *Afterthoughts: Riga 2016 International Forum of China and Central and Eastern European Countries*, Riga: Latvian Institute of International Affairs, 2016, pp. 53–57.

[29] Estonia Radio, November 2017.

[30] ZHANG, Y. *China's Economic Diplomacy Entered the New Era.* [online] Available at: http://www.chinesemission-vienna.at/eng/zgbd/t1455480.htm

would be a mixed blessing.[31] Chinese financing may build up a disadvantageous "debt model" for the small Baltic countries, given disadvantageous rates that are further tied into using Chinese companies and Chinese workforce to deliver.[32] Local industry can be undercut by greater volumes of cheaper Chinese imports which transport costs have been reduced through these infrastructure projects.

The question of reciprocity also stands in regard of Sino-Baltic exchanges[33], as elsewhere across the EU. While Chinese companies find an open-door environment in Europe, it is quite difficult, if not impossible, for a European company to succeed in winning a contract to build an infrastructure project in mainland China.[34] This lack of reciprocity is an issue for the Baltic states as such projects leave the region at risk.[35] As the EU has proceeded with the signing of the Comprehensive Agreement on Investment (CAI) with China, the official communications signal that an agreement has been reached on the issue of reciprocity and other EU sensitivities.[36] The EU ambition is to ensure companies' access to the Chinese market equivalent to that enjoyed by Chinese companies in the EU market and to increase the transparency of Chinese state-owned enterprises. However, as the text of CAI has not been made available, questions remain as to the scope and the instruments of implementation of the Agreement, including dispute resolution. Following an online EU-China leaders' conference on 14 September 2020, both researchers and diplomats acknowledged that China is after "globalization with Chinese characteristics, which is less rules-based"[37].

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[31] SCOTT, D. China and the Baltic states: strategic challenges and security dilemmas for Lithuania, Latvia and Estonia. *Journal of Baltic Security*, 2018, no. 4(1), pp. 25–37.

[32] JAKÓBOWSKI, J., KACZMARSKI, M. Beijing's Mistaken Offer: the '16+1' and China's Policy Towards the European Union. *OSW Commentary*, Centre for Eastern Studies, 2017, no. 250, p. 3.

[33] ŠTEINBUKA, I., BĒRZIŅA-ČERENKOVA, U. A., SPRŪDS, A. "Going global" and regionalization in EU-China relationship: perspective from the Baltics. *European Studies*, Vol. VI, Olomouc, 2019, pp. 175–190.

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In the worst-case scenario, the EU will impose "symmetrical restrictions" on Chinese companies, including equalization strategies such as the International Procurement Instrument (IPI), severely restricting their access to the EU market. Such an outcome would rapidly reduce Baltic opportunities for cooperation with China. Moreover, provided that China primarily invests in bilateral relations with major EU Member States, with which it will be able to reap the greatest accumulated long-term benefits, there is likely to be a lack of Chinese interest in the Baltic region.[38]

In the opinion of some political and economic analysts, the danger for the Baltic states is that Chinese initiatives like the Cooperation between China and Central and Eastern European Countries ("17+1"), and the Silk Road Economic Belt project become mechanisms to leverage greater space for Chinese economic penetration into the European markets. If Germany has already become concerned that the increasing number of economic ties with China may bring both many benefits and certain threats, then the situation for much smaller and vulnerable Baltic economies presents even more risks.[39] The global pandemic has re-emphasized those concerns among the Baltic countries and in a wider European context. Clearly, given the impact of COVID-19 on the world economy, there is a possibility that European countries, including Latvia, will once again look at China as an opportunity to promote their economic recovery in 2021, Latvian entrepreneurs may return to the idea of China. as an economic partner. After all, a similar dynamic is taking place in East and Southeast Asia: "Southeast Asian nations will likely benefit from China's economic rebound as the country commands a "lion's share" of regional exports."[40] However, it should be kept in mind that the "Great Stone" in Belarus[41] is the only large-scale BRI project where China's official communication has pointed to the Baltic states. Given the official Baltic anti-Lukashenko stance since the spreading of protests in the aftermath of the national presidential election, it would be difficult to expect a positive cooperation outcome in this project.

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4. European China's dilemma and the Baltics

Europeans are facing a dilemma in relations with China. On the one hand, there is mutual economic interest. A certain stagnation of economic interaction since 2017 notwithstanding, generally on the European level the cooperation was growing rapidly in terms of trade, and investment remains significant. Economic cooperation is a direct consequence of the EU policies, on one side, and China's "Go Global" strategy on the other, driven also by the accelerated internationalization process of large Chinese corporations.

On the other hand, EU-China relations have been impacted by an increasing European cautiousness and a U-turn in the US approach to multilateral system of trade relations and climate change and relations with China. The US-China tension during coronavirus crisis and ensuing trade war has facilitated the EU increasingly reconsidering its positions and engagement with China. Unlike the United States, European leaders did not blame Beijing for its initial domestic handling of the health emergency crisis. Europeans also consistently tiptoe around the most contentious problems in order to keep collaboration on climate change and multilateralism alive, but also to avoid fatal disruptions in the economic relationship. However, the EU is also turning from "naïve" to a more realistic approach in its relations with China. And it remains to be seen whether global pandemic will lead to significant reallocation of business back to the EU or the US.

Another important question is the future impact of the rolling out of the Health Silk Road as part of the Belt and Road framework. Beijing's initial strategy was to score points with countries most affected by the virus – such as Italy – by sending face masks and other medical gear, in an effort to demonstrate the benefits of friendly relations with China. This strategy rests on the assumption that times have changed, and that Europe needs China more than China needs Europe – especially when it comes to its economic recovery post-crisis. The toughening of Europe's stance toward China over the last two years, which saw the EU label it a "systemic rival," was not in Beijing's interest. Now, the Chinese leadership may see a chance for course correction. However, it is becoming an increasingly complicated task.

The EU has identified growing risks and aspires to ensure that China trades fairly, respects intellectual property rights and meets its obligations as a member of the World Trade Organization (WTO). However, China's investment in Europe, including the Baltic countries, raises a series of question marks. China has introduced capital controls and tightened investment rules for state firms in an effort to stop money moving out of the country and to stabilize its currency. At the same time, policymakers in Europe have become increasingly concerned

that state-backed companies in China are gaining too much access to key technologies and sensitive infrastructure while Beijing still shields its own economy. The traditional challenging issues surrounding China-EU cooperation, such as technology transfer, IPR, and a level playing field for businesses, if left untackled, will certainly remain on mutual agenda and complicate relationship.

Europe is also diverse and divided in its approach to China. Italy was the first G-7 country to join the Belt and Road Initiative. Italy's officials have mostly dismissed concerns that the country was becoming one of the weakest links in a chain and specifically allowing China to access its port facilities. According to Michele Geraci, an Italian economist who as Italy's undersecretary of economic development at the time, was actively promoting BRI membership, "China has already invested in all major European ports and almost manages 15 to 20% of European traffic."[42] French President Emmanuel Macron has instead voiced concerns and underlined the importance of European sovereignty or strategic autonomy with regard to other global centers of power, especially towards China.[43] The latter- increasingly watchful and circumspect approach has been increasingly shared by other European countries and institutions.[44]

The "17+1" format has also been perceived among many Europeans as tool for China's additional leverage on Central and East European countries. As in other "17 + 1" format countries, 2018/19 ushered in the period of conceptualising China as a security player in the region and, consecutively, a security threat. If the lack of concrete cooperation before could be explained by the low interest of Chinese entrepreneurs, then, starting from 2018, and especially in 2019, the Baltic states began to deliberately abandon Chinese projects due to risks. The level of convergence between the EU-China Comprehensive Strategic Partnership and the "17+1" varies from country to country[45], but it can overall be argued that the Baltics share the European dilemma vis-a-vis China.

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5. Conclusions: future scenarios and striking the right balance

Global pandemic has become a formative event in societal experiences and global affairs. China has been and remains an important player and focal point during the crisis. The recent changes and deepening mistrust during pandemic and rethinking China supply chain dependency, make the path forward rather complicated. At the same time China might be emerging from COVID-19 disaster with its global standing enhanced through humanitarian assistance (Health Silk Road), use of soft power and messaging. It remains to be seen whether China will be able to efficiently contribute to global economic recovery, and how the Baltics will be engaged. This will be a delicate balance to strike for all involved parties.

The calls for reducing the European dependency on China and diversifying its economy are growing louder. The Baltic countries are aware of risks from reliance on China in connectivity or technology domains. China's handling of domestic dissent and rather assertive promotion of its image and interests globally, create considerable concerns. Moreover, the cohesion within European Union and strong links with the United States are foreign policy priorities of the Baltic states.

At the same time, slowdown of economic growth in the EU and the Baltic states in the years to come provide a precondition for exploring the ways to continue the cooperation with China, in particular in attracting investments for growth. The risks when carefully assessed, for instance, strategic investment screening, should not be exaggerated and should not overshadow new opportunities of EU – Baltics – China cooperation for growth and jobs creation. In the context of "exit strategy" and economic recovery after pandemic crisis, the Baltic countries have strong interest in exploring synergies between EU economic support programmes and China's potential investments in the framework of various cooperation formats. China can contribute to creation of new opportunities for the Baltic countries in terms of development transport connectivity, collaboration in the high-tech and other economic sectors.

The Baltic countries should seek to play an increasing role in shaping a common Baltic Sea Region and European strategy toward China that would balance concerns with commitments to maintain free and open trade and investment policies. Despite some reservations, the "17+1" mechanism could still bring opportunities for the Baltic states in attracting investments to enhance innovation and productivity growth. Even more appropriately, the Nordic-Baltic Eight (NB8), a regional cooperation format that has included China into its agenda, has

been brought closer together due to the impact of COVID-19, and has proven to be an efficient and lean instrument in tackling immediate regional issues. The aftermath of COVID-19 could bring the rise of integrated regional formats, and, therefore, increase the profile of NB8 as a channel of Sino-Baltic communication, in which the agenda is set not by China, but by the European partners.

Overall, a balance has been in making between the needs of the Baltic states in countering the epidemic and China's actions. The recent changes in the world order, EU approach to multilateral system and global pandemic consequences could give new impetus to the EU – China relations. Given high level of uncertainty and transforming character of the relationship, the pandemic apparently will lead to conflictual cooperation in the years to come. This partly two-track setting will involve a simultaneously co-existing trends of both deepening and shrinking cooperation between the EU and China, and specifically the Baltic states and China.

Furthermore, it is evident that the Baltic choices towards China will not depend solely on the interests expressed by entrepreneurs, they will be impacted by Latvia's international obligations, such as the relations with China at EU level and transatlantic ties.

Finally, the impact of the transatlantic factor on Baltic opportunities for co-operation with China will depend on the foreign policy agenda of the newly elected US President Joe Biden – the Baltic states have so far complied with US calls against cooperation with Chinese companies, as evidenced by the Joint Declarations on 5g Security[46] between the Baltic countries and the US, further reiterated in Joint Statements on Secure Telecommunications Infrastructure[47].[48]

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