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ANALYSIS OF CHINA'S TRADE RELATIONS WITH CEEC

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Abstract

This paper provides an analysis of China's trade relations with Central and Eastern European Countries (CEEC), with a focus on Bosnia and Herzegovina (BIH), Bulgaria (BGR), Croatia (HRV), Romania (ROU), Serbia (SRB), and Slovenia (SVN). It underscores the fundamental principles of international trade and the reciprocal advantages arising from collaboration between China and these CEEC nations. The analysis explores economic indicators, including GDP, current account balance, merchandise exports and imports, and agricultural product trade. Additionally, the paper highlights the stable economic conditions in China, characterized by consistent interest rates and minimal consumer price index fluctuations. Building on the stable economic conditions in China, the paper emphasizes the potential for win-win collaboration without currency risk. It proposes a strategic partnership involving the supply of advanced financed machinery from China to CEEC nations in exchange for fixed quantities of crops. The objective is to cultivate mutual economic and technological growth within a dependable and predictable trade environment.

Keywords: *International Trade, China-CEEC, Agriculture, Comparative advantage*

1 INTRODUCTION

In exploring the dynamic landscape of China's trade relations with the Central and Eastern European Countries (CEEC), it is imperative to begin with a fundamental insight into international economics — the recognition of the inherent advantages derived from trade. The exchange of goods and services between nations is, by and large, a mutually beneficial endeavor. Despite prevailing misconceptions, the belief that trade becomes detrimental, particularly in the presence of substantial disparities in productivity or wages, is not accurate (Krugman, Obstfeld, & Melitz, 2012, pp. 3-8). This realization is crucial as we delve into the multifaceted dimensions of China's

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trade engagements with the CEEC, where the benefits extend far beyond what many might perceive on the surface.

Countries partake in international trade for two fundamental reasons, both of which enhance the benefits they gain from participating in trade. In the first instance, nations engage in trade owing to their inherent differences. This enables countries to leverage their unique strengths by establishing agreements where each specializes in activities in which it excels. Furthermore, countries involve themselves in trade to achieve economies of scale in production. In practical terms, this means that if each country focuses on producing a limited range of goods, it can attain greater efficiency by producing each of these goods on a larger scale. This contrasts with the inefficiency that would arise if a country attempted to produce a diverse array of goods independently (Krugman, Obstfeld, & Melitz, 2012, pp. 23-50).

Building on the foundation of the importance of international trade, the collaboration between China and the Central and Eastern European Countries (CEEC) stands as a compelling example of leveraging unique strengths for mutual economic development. In a strategic move to promote economic growth, the "16+1 cooperation" mechanism was established, marking a significant milestone. The initiation of the China-CEEC economic and trade forum in 2011 further underscored the commitment to fostering economic ties. During the inaugural and subsequent forums held in Budapest and Warsaw, China actively engaged with 16 central and eastern European nations. These gatherings facilitated a shared understanding and consensus on the imperative to strengthen bilateral economic and trade cooperation, reflecting a harmonious convergence of interests and goals (Ruixia & Yuxin, 2009).

With Greece's participation, the platform evolved into 17+1, signifying improved China-EU relations. The 17+1 initiative aims to invigorate the Belt and Road Initiative (BRI) with CEE collaboration, holding enormous potential. Recent years have witnessed increased trade volumes and improved economic relations, supported by political and societal projects, emphasizing the platform's commitment to strengthening cooperation in economy and trade between China and the CEE countries (Üncel & Güner, 2021). Serbia, a participant in the 17+1 community, has received notable investments from China in infrastructure, industry, and the energy sector. In acknowledgment of these investments, the Serbian government has implemented a visa-free agreement for Chinese citizens. Hungary, known for its longstanding friendship with China, has facilitated investments such as the Budapest-Belgrade railway and the Huawei European Supply Center. Along the Adriatic shore, Albania, Bosnia and Herzegovina, and Croatia have also witnessed significant Chinese investments, particularly in infrastructure projects. Noteworthy examples in Croatia include a spa resort in Krapinske Toplice and an investment in Rimac Automobili (Brinza, 2019)

Although the trade volume between China and the Central and Eastern European countries remains relatively modest, the trade dynamics exhibit a pronounced mutual complementarity. This is particularly evident in labor-intensive and capital-technology-intensive industries, presenting a notable advantage and considerable potential for future economic integration and trade expansion. Strengthening economic and trade collaboration between China and the CEEC holds the promise of fostering not only economic development but also enhancing social welfare for both parties involved. Addressing a persistent challenge is essential for advancing China's economic and trade relations with Central and Eastern European countries — namely, the prolonged issue of China's trade surplus with the region. Moreover, the current trade complementarity between China and the CEEC primarily involves mutual complementation between industries and lacks a closer cooperative relationship in terms of intra-industry complementation. Consequently, there is a shared imperative for China and the CEEC to actively encourage their respective enterprises to deepen economic cooperation and expand investments in other countries (Wang & Xu, 2019).

Building on the imperative for enhanced economic cooperation, one exemplary avenue lies in the sphere of agriculture fostering closer ties in the agricultural sector, both regions can capitalize on their unique strengths, leveraging technological advancements and sharing best practices. By cultivating stronger connections in the agricultural sector, both China and the Central and Eastern

European Countries (CEEC) can harness their distinct strengths, utilizing advancements in technology and exchanging best practices. This strategic alignment is reinforced by findings indicating that agricultural product trade between China and the CEE countries possesses characteristics such as high complementarity, substantial potential for products with comparative advantages, and a noticeable trend toward intra-industry trade. To fully unlock this potential, there is a shared imperative for China and the CEE countries to emphasize their comparative advantages and adjust the product structure of exports. This concerted effort is geared towards achieving mutual benefits and establishing a win-win outcome in bilateral trade, echoing the overarching call for heightened economic cooperation (Yu & Qi, 2015).

2 ECONOMIC OVERVIEW

China's economic overview in 2022 reveals a GDP of $18,100,044 million and a per capita income of $11,970. The country holds the top position in merchandise exports and the second position in imports, contributing to a trade surplus reflected in a current account balance of 2.3% of GDP, excluding intra-EU trade. Trade constitutes 18.5% of GDP, with a per capita trade figure of $2,214. In the domain of commercial services, China ranks third in exports and second in imports. The country's merchandise exports total a substantial $3,593,523 million, while merchandise imports are valued at $2,716,151 million (WTO, 2023a).

China's agricultural product exports amounted to $69,373 million, with top exports including ‘Other food preparations’ (HS2106) at $3,269 million, Preparations of a kind used in animal feeding (HS2309) at $2,987 million, Plants' parts otherwise preserved (HS2008) at $2,944 million, Vegetable saps and extracts (HS1302) at $2,753 million, and Onions, shallots, garlic, leeks (HS0703) at $2,404 million. Contrarily, China's agricultural product imports significantly surpassed exports, reaching $217,692 million. The major imports included Soya Beans (HS1201) at $61,236 million, Meat of bovine animals, frozen (HS0202) at $17,084 million, Maize (corn) (HS1005) at $7,104 million, Other fruit, fresh (HS0810) at $6,102 million, and Palm oil and its fractions (HS1511) at $5,842 million (WTO, 2023a).

Table 1. Economic Indicators for Bosnia and Herzegovina (BIH), Bulgaria (BGR), Croatia (HRV), Romania (ROU), Serbia (SRB), and Slovenia (SVN)

	GDP	CAB	CHN-Imp
BIH	25.48	-3.9%	8.1%
BGR	89.12	-0.7%	5.8%
HRV	71.02	-1.2%	3.3%
ROU	301.85	-9.3%	5.1%
SRB	70.91	-6.9%	12.1%
SVN	62.17	-0.4%	11.9%

*GDP - Gross Domestic Product (2022, Current Prices, in Billion USD)
*CAB - Current Account Balance (2022, As % of GDP)
*CHN-Imp – China shares of country’s total imports (2022, As % of Total Imports

Table 2. International Trade Indicators for BIH, BGR, HRV, ROU, SRB, and SVN

	Exp-M	Imp-M	Exp-A	Imp-A
BIH	9.67	15.38	0.56	2.32
BGR	50.24	58.05	8.74	6.93
HRV	25.31	44.3	3.41	5.05
ROU	96.71	132.49	12.61	13.64
SRB	29.06	41.15	5.06	3.23
SVN	69.7	69.74	2.12	3.46

*Exp-M - Merchandise exports, f.o.b. (2022, Current Prices, in Billion USD)
*Imp-M - Merchandise imports, c.i.f. (2022, Current Prices, in Billion USD)
*Exp-A – Agricultural Products Exports, c.i.f. (2022, Current Prices, in Billion USD)
*Imp-A – Agricultural Products Imports, c.i.f. (2022, Current Prices, in Billion USD

Table 1 and 2 provides a concise overview of the economic indicators for Bosnia and Herzegovina (BIH), Bulgaria (BGR), Croatia (HRV), Romania (ROU), Serbia (SRB), and Slovenia (SVN). This snapshot serves as a preliminary exploration, laying the groundwork to unravel the intricate dynamics of China's cooperative ventures with Central and Eastern European countries (CEEC). Through a closer examination, we aim to uncover the potential impact these collaborations may have on trade relations in the region.

Bosnia and Herzegovina's economic overview in 2022 showcases a GDP of $25,484 million and a per capita income of $6,643. The country ranks 102nd in merchandise exports and 94th in imports, with a trade deficit indicated by a current account balance of -3.9% of GDP. Trade accounts for 47.5% of GDP, with a per capita trade figure of $3,152. Commercial services are positioned 101st in exports and 153rd in imports. Economic ties are notably strong with the European Union, constituting 56.9% of imports. Serbia plays a significant role, contributing 10.8%, along with substantial shares from China (8.1%), Turkey (5.9%), and the United States (3.3%). Other regions contribute 15%. In terms of exports, the EU remains the dominant partner at 73.6%, followed by Serbia (13.9%), Montenegro (3.2%), Turkey (1.7%), and Switzerland (1.4%). The remaining 6.2% encompasses exports to other regions (WTO, 2023b).

Bulgaria's economic overview in 2022 showcases a GDP of $89,115 million and a per capita income of $11,851. Globally, it ranks 60th in both exports and imports for merchandise trade, with a trade per capita of $7,304. Notably, the current account balance stands at -0.7% of GDP (excluding intra-EU trade), indicating a slight deficit. Importantly, 55.3% of Bulgaria's imports are from the European Union, demonstrating strong economic ties. The Russian Federation significantly contributes with 10.8%, followed by Turkey (8.4%), China (5.8%), and Ukraine (3.2%), with an additional 16.5% from other regions. Bulgaria's exports are primarily directed to the European Union (62.8%), emphasizing substantial economic ties, and include notable shares to Turkey (5.9%), Serbia (2.6%), Ukraine (2.4%), and the United States (2.2%), along with 24.1% to other regions (WTO, 2023c)

Croatia's economic overview in 2022 showcases a GDP of $71,019 million and a per capita income of $16,763. Globally, it stands 73rd in merchandise exports and 62nd in imports. The current account deficit is -1.2% of GDP (excluding intra-EU trade). Trade per capita is $8,999, with commercial services at 48th in exports and 79th in imports, constituting 53.7% of GDP (excluding intra-EU trade). Imports heavily lean on the EU (70.6%), notably from the U.S. (7.6%), Serbia (3.5%), Bosnia and Herzegovina (3.4%), and China (3.3%). Diversification is evident, with 11.6% from other regions. Exports, primarily to the EU (68.7%), feature Bosnia and Herzegovina (10.4%) and Serbia (6.2%). The U.S. takes 2.3%, while Turkey and other regions collectively make up 1.5% and 10.9% (WTO, 2023d).

Romania's economic overview in 2022 showcases a GDP of $301,845 million and a per capita income of $14,575. Globally, it secures the 43rd position in merchandise exports and the 37th in merchandise imports, but with a significant deficit reflected in the current account balance at -9.3% of GDP (excluding intra-EU trade). Trade per capita stands at $6,284, with commercial services ranking 34th in exports and 41st in imports, contributing to 43.1% of GDP (excluding intra-EU trade). Notably, Romania maintains robust economic ties within the European Union, with 71.1% of imports and 71.9% of exports directed towards the EU. Key contributors to imports include Turkey (5.6%), China (5.1%), the Russian Federation (4.3%), and Ukraine (1.7%), with an additional 12.1% from other regions. Similarly, in exports, Turkey (3.1%), the United Kingdom (2.9%), the United States of America (2.5%), and Moldova (2.5%) play smaller roles, with an additional 17.2% attributed to other regions (WTO, 2023e).

Serbia's economic overview in 2022 showcases a GDP of $70,909 million and a per capita income of $9,088. Globally, Serbia holds the 71st position in merchandise exports and the 63rd in merchandise imports, with a trade per capita of $5,244. The current account balance reflects a small deficit at -6.9% of GDP (excluding intra-EU trade). Notably, Serbia's imports are diverse, with the European Union as the primary contributor at 54.9%. China holds a significant share at 12.1%, followed by contributions from the Russian Federation (7.5%), Turkey (5.2%), and Bosnia and Herzegovina (3.1%). Other regions collectively make up 17.2% of Serbia's imports. On the export front, Serbia strategically directs the majority, 64.1%, to the European Union, highlighting strong economic ties. Bosnia and Herzegovina follow as a significant trading partner at 7.5%, with the Russian Federation and Montenegro contributing 4.1% each. China represents another noteworthy destination with a 4% share, while other regions collectively make up 16.3% of Serbia's exports (WTO, 2023f).

Slovenia's economic overview in 2022 showcases a GDP of $62,167 million and an impressive per capita income of $28,140. In global trade, it ranks 51st in merchandise exports and 53rd in imports, with a noteworthy trade per capita of $22,909. The current account balance stands at -0.4% of GDP (excluding intra-EU trade), signaling a minor deficit. Trade constitutes a substantial 81.4% of GDP (excluding intra-EU trade), emphasizing Slovenia's strong international trade presence. Imports primarily flow from the European Union at 71.1%, with notable contributions from Turkey (5.6%), China (5.1%), the Russian Federation (4.3%), and Ukraine (1.7%), while another 12.1% originates from other regions. Slovenia strategically directs 61% of exports to the European Union, underlining robust economic ties, with Switzerland as a significant trading partner at 21%, and smaller contributions from Serbia (2.8%), the Russian Federation (2.2%), and Bosnia and Herzegovina (1.9%), while other regions collectively comprise 11.2% (WTO, 2023g).

3 TRADING CONDITIONS

In examining China's trade relations with the Central and Eastern European Countries (CEEC), it is crucial to consider ongoing factors that significantly impact the dynamics of international trade. Beyond the Law of One Price, Interest Parity, Purchasing Power Parity (PPP), and the International Fisher's Equation, other influential factors include geopolitical influences, trade agreements, global economic conditions, industry characteristics, and technological advancements (Krugman, Obstfeld, & Melitz, 2012). In examining China's trade relations with the Central and Eastern European Countries (CEEC), our focus will be specifically on the nominal bilateral exchange rate, Consumer Price Index (CPI), and interest rates.

The exchange rate significantly shapes global trade dynamics. How international trade factors affect exchange rates varies depending on a country's specifics and policies. For instance, exports, imports, and interest rates can impact exchange rates in certain cases, although the influence of interest rates may not be consistent across all situations (Kang, 2016).

Table 3. Nominal Bilateral Exchange Rates Against the Euro for China (CNY), Bosnia and Herzegovina (BAM), Bulgaria (BGN), Croatia (HRK), Romania (RON), and Serbia (RSD) - (As % for base year Q3 21)

	Q3 21	Q4 21	Q1 22
CNY	100.00	96.52	94.12
BAM	100.00	100.52	100.52
BGN	100.00	100.00	100.00
HRK	100.00	101.08	101.61
RON	100.00	100.20	100.00
RSD	100.00	100.36	99.86
	Q2 22	Q3 22	Q4 22
CNY	92.91	92.51	99.60
BAM	99.48	101.03	101.03
BGN	100.00	100.00	100.00
HRK	100.00	101.75	101.21
RON	99.80	99.60	100.00
RSD	99.42	99.36	100.17
	Q1 23	Q2 23	Q3 23
CNY	99.87	105.48	103.48
BAM	100.52	100.00	101.03
BGN	100.00	100.00	100.00
HRK	/	/	/
RON	100.00	100.61	100.40
RSD	99.73	99.88	100.03

In Table 3, the initial starting point for each currency is established by expressing its exchange rate as a percentage relative to its value against the Euro, using Q3 2021 as the base year with a standardized value set at 100%. This means that the exchange rates provided for various currencies, such as the Chinese Yuan (7.48), Bosnian Convertible Mark (1.94), Bulgarian Lev (1.96), Croatian Kuna (7.44), Romanian Leu (4.94), and Serbian Dinar (117.29), represent their respective percentages in comparison to their values against the Euro during the third quarter of 2021. The analytical focus will be directed specifically towards the Chinese Yuan (CNY) to Euro (EUR) exchange rates, as this currency pair demonstrates discernible variations over the given period, offering a more dynamic perspective for analysis compared to the other currencies which maintain a comparatively steady relationship with the Euro.

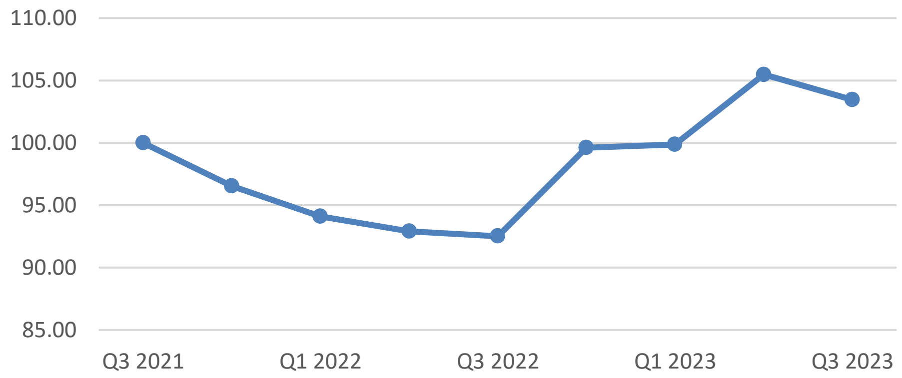

Fig. 1 Nominal Bilateral Exchange Rate CNY Against the EUR (As % for base year Q3 21) (IMF Stastistic, 2023)

The interest rate landscape across several countries is diverse. In Bosnia and Herzegovina, the Bank Lending Rate is reported at 4.694% (CBBH, n.d.), while Bulgaria's interest rate stands at 3.64% (BNB, 2023). China exhibits a one-year Lending Prime Rate (LPR) of 3.65% and an over-five-year LPR of 4.3%, notably maintaining stability over the past couple of years (PBC, 2023). Croatia maintains a Marginal Lending Facility at 4.75%, Main Refinancing Operations at 4.50%, and a Deposit Facility at 4.00% (HNB, 2023). Romania's interest rates as of January 11, 2023, include a Policy Rate of 7.00%, a Lending Facility of 8.00%, and a Deposit Facility of 6.00% (BNR, 2023). Serbia sets its Discount Rate at 100% of the key policy rate, which is 6.50% (NBS, 2023), while in Slovenia, as of September 20, 2023, the Deposit Facility is at 4.00%, Main Refinancing Operations at 4.50%, and Marginal Lending Facility at 4.75% (Banka Slovenije, 2023).

Table 3 presents the consumer price indices (CPI) as a percentage change from the previous period for various countries across the quarters from Q3 2021 to Q3 2023. The countries included in the analysis are Bosnia and Herzegovina (BIH), Bulgaria (BGR), China (CHN), Croatia (HRV), Romania (ROU), Serbia (SRB), and Slovenia (SVN). Notably, China stands out for its exceptional stability in consumer prices, showcasing minimal fluctuations ranging from 0.07% to 0.29% throughout the specified quarters. In contrast, other countries in the dataset, such as Bulgaria, Croatia, Romania, Serbia, and Slovenia, demonstrate more varied consumer price movements, signifying potential shifts in inflation rates during specific periods. It's worth noting that data for Bosnia and Herzegovina is unavailable. Overall, this analysis emphasizes China's consistent and stable consumer price trends compared to the more fluctuating patterns observed in other countries over the examined quarters.

Table 3. Nominal Bilateral Exchange Rates Against the Euro for China (CNY), Bosnia and Herzegovina (BAM), Bulgaria (BGN), Croatia (HRK), Romania (RON), and Serbia (RSD) - (As % for base year Q3 21)

	Q3 21	Q4 21	Q1 22
BIH	/	/	/
BGR	1.33	3.59	4.28
CHN	0.07	0.89	0.82
HRV	0.7	2.15	1.83
ROU	1.78	2.67	2.99
SRB	1.46	2.52	2.43
SVN	1.15	1.36	1.17
	Q2 22	Q3 22	Q4 22
BIH	/	/	/
BGR	5.62	3.33	2.91
CHN	0.46	0.45	0.1
HRV	5.75	2.25	2.87
ROU	6.34	2.62	3.35
SRB	3.85	3.89	4.13
SVN	4.6	3.17	0.79
	Q1 23	Q2 23	Q3 23
BIH	/	/	/
BGR	2.83	0.75	0.84
CHN	0.23	-0.68	0.29
HRV	0.49	2.26	1.46
ROU	2.01	2.32	/
SRB	3.26	2.54	1.07
SVN	1.08	2.95	1.6

4 CONCLUSIONS

In summary, the exploration of China's trade relations with the Central and Eastern European Countries (CEEC) underscores a dynamic landscape marked by strategic collaborations and mutual economic benefits. Anchored in the foundational principles of international trade, the acknowledgment of inherent advantages derived from trade highlights the multifaceted dimensions of China's engagements with the CEEC. The "16+1 cooperation" mechanism and the China-CEEC economic and trade forum serve as significant milestones, reflecting a shared commitment to fostering economic ties. The paper emphasizes the potential benefits of enhanced economic cooperation, particularly in the agricultural sector. By leveraging technological advancements and sharing best practices, China and the CEEC can create synergies that benefit both regions (Carter, Zhong, & Zhu, 2012). The analysis of economic indicators for Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia, and Slovenia highlights the diverse economic landscapes and trade dynamics within the CEEC, providing a comprehensive backdrop for understanding the collaborative opportunities.

While nominal bilateral exchange rates exhibit fluctuations, the unwavering stability of China's interest rates, particularly the Lending Prime Rates, and consistently low Consumer Price Index, creates a reliable foundation for sustainable trade partnerships with the CEEC. As the CEEC nations seek to strengthen their trade ties with China, the stable economic conditions offered by China present a strategic opportunity for these countries to enhance their economic growth and stability through collaborative efforts. Looking ahead, leveraging these stable economic factors can facilitate deeper integration, increased investments, and expanded trade between China and the CEEC, contributing to shared prosperity and economic development.

Building upon our findings, we propose a symbiotic framework aimed at mitigating currency risk and fostering mutual benefit. The proposition involves China supplying advanced agricultural machinery to CEEC nations, with a distinctive repayment structure based on trade agreements involving the exchange of agricultural produce. A strategic element can be introduced, to enhance the clarity and stability of the repayment process.

Quotas, equivalent to the monthly repayment due, could be established, providing a transparent framework that ensures a steady and predictable flow of agricultural commodities as repayment. This structured approach adds a layer of financial predictability and contributes to the sustainability and reliability of the proposed symbiotic framework.

For China, this approach opens avenues for market expansion, as it gains increased access to the diverse agricultural markets of CEEC nations, providing an opportunity to showcase and distribute its advanced machinery. Additionally, it establishes China as a key contributor to the modernization of agricultural practices in the CEEC region, fostering technological collaboration and creating a mutually beneficial economic partnership. Furthermore, amidst the backdrop of increasing urbanization in China, this initiative aligns with the rising demand for agricultural products, creating a strategic synergy between urbanization trends and agricultural trade. Meanwhile, for CEEC nations, the proposition offers technological advancement through access to cutting-edge agricultural machinery from China, allowing them to modernize their agricultural practices and enhance efficiency and productivity. The collaboration also facilitates the development of local expertise in handling and maintaining advanced agricultural technology, contributing to skill enhancement. Moreover, the structured trade agreements ensure repayment and diversify the agricultural trade portfolio of CEEC nations, reducing dependence on specific crops.

In essence, this innovative approach sets the stage for a collaborative venture where both China and the CEEC nations stand to gain not only economically but also technologically, paving the way for a resilient and mutually enriching win-win cooperation.

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