

**Chinese Economic Statecraft in
Central and Eastern Europe:
Examining Security Salience and Positive Sanctions**

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Abstract

China's economic relations with Central and Eastern Europe (CEE) rapidly expanded following the 2008 Global Financial Crisis. However, Western European leaders worried that China's engagement in the region was a ploy to exercise influence through economic statecraft. Of particular concern were several instances where CEE states vetoed or altered joint-EU statements to expunge them of criticism directed at China. However, it remains an open question whether China can use economic statecraft to achieve its strategic goals in CEE, particularly when Chinese demands directly contradict those of the United States.

This paper seeks to answer this question using a realist framework by examining the effect of security salience on the effectiveness of Chinese economic statecraft. Through the lens of two case-studies, I argue that China's positive sanctions in CEE will be most effective in a context of low security salience and least effective in a context of high security salience.

Keywords: economic statecraft; positive sanctions; security salience; realism; China-CEE

To my family, without whose love, support, and assistance this project would not have been possible.

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List of Acronyms

AIIB	Asia Infrastructure Investment Bank
BRI	Belt and Road Initiative
CEE	Central and Eastern Europe
DCA	Defence Cooperation Agreement
EDI	European Deterrence Initiative
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IoT	Internet-of-Things
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organization
NFIU	NATO Force Integration Unit

Introduction

China's footprint in Central and Eastern Europe has steadily expanded over the past decade. This process, which started in the wake of the 2008 Global Financial Crisis, began in earnest in 2012 with the formation of the 16+1 (now 17+1) mechanism, a new multilateral forum including China and 16 Central and Eastern European (CEE) states, complete with a secretariat and an annual leaders' summit. It was bolstered one year later with the announcement of Chinese President Xi Jinping's signature foreign policy initiative, which has come to be known in English as the Belt and Road Initiative (BRI)—a massive project which aims to build physical, fiscal, economic, policy, and social ties across the Eurasian landmass connecting China, Africa, and Europe (Vision and Actions 2015). To states on the European periphery, this new engagement held the promise of economic opportunities. Expanded trade with the world's largest market and potential investment from deep-pocketed Chinese companies was an attractive prospect for CEE leaders seeking new avenues of economic growth in the face of slumping demand from a Western Europe still recovering from financial crisis.

However, China's overtures were greeted with suspicion in some quarters, particularly in Western Europe where worries of undue Chinese influence in CEE proliferated. China was charged with trying to "divide and rule" the EU (Wu 2018), or with buying political influence in CEE states on the cheap (Pepermans 2018). These fears appear not entirely unfounded, as the EU's ability to speak with one voice on China was notably diminished on key occasions throughout the decade. In 2016, following an International Court of Justice decision against China's territorial claims in the South China Sea, Hungary, Greece, and Croatia worked to expunge criticism of China from the text of a joint EU response to the ruling (Emmott 2016). In 2017, Greece vetoed an EU statement to the UN Human Rights Council which criticized China's human rights record, calling such a statement "unproductive" (Emmott and Koutantou 2017). Hungary blocked a similar EU statement which criticized China for its alleged torture of five human rights lawyers in 2017 and threatened to do so with any other such statement in future (Denyer and Rauhala 2017).

In his book *Economic Statecraft*, Baldwin defines economic statecraft as, "influence attempts relying primarily on resources which have a reasonable semblance

of a market price in terms of money” (1985, 13–14). This can include both positive sanctions (incentives) or negative sanctions (coercion). Scholars have added or subtracted a certain level of nuance from this definition, but what remains consistent is the connection between means and ends—economic statecraft is using economic *means* to accomplish political *ends*. In this frame, a state (the sender) uses economic levers to accomplish its political goals with respect to other (target) states. Given the suggestive link between its increased economic activity with CEE and certain political outcomes, it is reasonable to suspect that China’s engagement has afforded it the opportunity to practice economic statecraft in the region. However, this begs the question: can China use economic statecraft to achieve its strategic interests in CEE? This question is, perhaps, better framed as: under what conditions can Chinese economic statecraft be expected to produce foreign policy outcomes favorable to its strategic interests?

Such questions are not well addressed by the current literature on economic statecraft. This is for three reasons. First, much of the economic statecraft literature has focused on negative sanctions, while China’s approach to the region has been characterized primarily (if not exclusively) by positive sanctions. Second, though some scholars have recently considered the effect of security calculations on the effectiveness of positive sanctions (Blanchard and Ripsman 2013; Lim and Mukherjee 2019), this remains an underdeveloped and undertheorized part of the literature. As CEE lives in the shadow of a resurgent and seemingly aggressive Russia, there is reason to suspect that security calculations will play an increased role in shaping the foreign policies of CEE states. Finally, most economic statecraft literature assumes a dynamic with only a sender and a target. However, most CEE states are members of strong international institutions such as NATO and the EU, and, as such, these states face strong cross-pressures, particularly in cases where their allies and China make contradictory demands. These thick diplomatic, institutional, and military ties can be expected to impact the balance of costs and benefits of foreign policy decisions in novel ways not well accounted for in the current literature.

Understanding how CEE states pursue their interests—or decide which interests to pursue at a given time—is key to understanding the likely outcome of Chinese economic statecraft in the region. Therefore, one should take careful account of the context in which states make foreign policy calculations, as the salience of economic

and security considerations determines the context in which a state must respond to the demands placed on it by other parties. This context may either constrain the choices available to a given state or leave them relatively unconstrained. As such, the conditions which predict the success or failure of Chinese economic statecraft in CEE will (at least partially) be a product of the security context faced by CEE states, as this context will shape which interests a given state has latitude to pursue.

This paper uses a realist approach to analyze the security context faced by CEE states and examine the effectiveness of Chinese positive sanctions in light of the countervailing influence played by the region's most important security partner: the United States. I argue that when the US and China make competing demands of CEE states, the policy adopted by these states will reflect the salience of security considerations. In situations where a CEE state faces an imminent threat, they will prioritize relationships which increase their security. In situations where no such threat is present, CEE states will have greater latitude to exchange political concessions for economic benefits. By considering the intersection of economic and military statecraft, I hope to begin the process of explicitly theorizing the impact of security on the effectiveness of positive sanctions and demonstrate the utility of the realist approach to the study of economic statecraft.

This paper will proceed in four sections. In the first, I discuss the dynamics of positive sanctions, my theoretical and analytic frameworks, and the methodology of the paper. In the second, I briefly test the explanatory power of two common models of positive sanctions. In the third, I apply my security salience model to explain the effectiveness of Chinese positive sanctions across two instances of US-Chinese competition: 1. Allowing Huawei to supply equipment for 5G infrastructure, and 2. Membership in the Asia Infrastructure Investment Bank. Finally, in the fourth section I will offer my tentative conclusions.

Section 1: Theory and Framework

Positive Sanctions

Hirschman, in *National Power and the Structure of Foreign Trade*, laid out the broad contours of positive sanctions by noting the leverage created by increased trade-ties between a large state and a small state. Hirschman argued that, whenever a large state is an asymmetrically significant source of essential goods for a small state, the large state gains the power to influence policy in the small state.¹ This power, he argues, “derives from the fact that trade conducted between country A, on the one hand, and countries B,C,D, etc., on the other, is worth something ... and that they would therefore consent to grant A certain advantages ... in order to retain the possibility of trading with A” (Hirschman 1980, 17). By virtue of an asymmetric economic relationship, the large state can hold the small state’s prosperity at risk with negative sanctions such as tariffs, embargoes, and non-tariff barriers—much in line with Keohane and Nye’s exploration asymmetric sensitivity and vulnerability in *Power and Interdependence* (2001). As a result of this condition of vulnerability, even the implicit threat of trade disruption could be enough to alter the target’s foreign policy. Using this logic, positive sanctions derive their power from creating a good which can later be threatened by the sender (Baldwin 1971, 24).

Positive sanctions can also be used to transform the foreign policy of the target state by coopting influential parts of the target’s domestic society. Hirschman notes that a strategy of engagement naturally creates “vested interests” within the target. This group, which depends on trade with the sender for their prosperity, can be expected to act as a domestic lobby for the sender’s interests within the target state (Hirschman 1980, 28). Abdelal and Kirshner, using Hirschman’s framework, argue that collaboration with the sender increases the economic power of these vested interests, and, as such, their political power within the target state will naturally increase (1999, 120). Because these interests favor good relations with the sender state, as their political power grows, the target state’s definition of its interests will shift to converge with the sender’s (Abdelal

¹ Asymmetric dependence may relate to physical goods which the target state requires to survive, or it may mean that the sender state is an irreplaceable market for target state exports.

and Kirshner 1999, 120). Therefore, positive sanctions can also derive power through “interest transformation”.

Scholars differentiate between positive sanctions which are given on an *ad-hoc* basis in exchange for explicitly defined concessions and those which are lasting and given without an apparent *quid-pro-quo* (Mastanduno 1999, 303–4). Kahler and Kastner (2006), for instance, identify three different modes of positive sanctions: Conditional engagement, unconditional engagement (constraint), and unconditional engagement (transformation). In the first, the sending state explicitly links economic engagement with political concessions by the target state (Kahler and Kastner 2006, 524). Unconditional engagement (constraint) is a strategy whereby a sending state practices unconditional economic engagement—de-linked from explicit conditioning on target behavior or specific *quid-pro-quo*—in the hopes that high levels of interdependence will introduce constraints on the target state’s ability to pursue a conflictual foreign policy against the sender (Kahler and Kastner 2006, 525–26). Unconditional engagement (transformation) relies upon the long-term effects of unconditional engagement to socialize elites in a target state towards cooperation, or cause a friendly group to replace existing elites (Kahler and Kastner 2006, 526–27).

In his study of Russo-German relations, Randall Newnham splits positive sanctions more simply between specific linkage and general linkage strategies (2002, 19). Specific linkage strategies are economic inducements conditioned on particular behavior by the target, whereas general linkage strategies eschew direct exchange in favor of fostering interdependence and lowering political tensions (Newnham 2002, 19–20). Though the two strategies appear different—indeed, Newnham notes that general linkage strategies may be so subtle as to avoid detection—ultimately both have the goal of influencing a target state’s political behavior. Newnham speculates that both strategies serve a particular purpose, with specific linkages more likely to be used to procure small, definite political concessions, while general linkage strategies are employed to increase trust and ultimately set the conditions to attain large political concessions through a transformation in the nature of the bilateral relationship (2002, 304–5). He notes that both types may work together to create favorable outcomes, as positive economic statecraft tends to reduce the threat-perception of the target state rendering that state more willing to grant concessions in other areas (Newnham 2002, 25).

Chinese Positive Sanctions in Central and Eastern Europe

According to Reilly (2017), China generally employs one of three strategies of economic statecraft in Europe: 1. specific reciprocity, 2. diffuse reciprocity, and 3. general engagement. Reilly defines specific reciprocity as a mixture of carrots and sticks used by China to achieve discrete policy concessions such as denying the Dalai Lama meetings with high-level European officials (2017, 174). For example, a study by two economists found that a European state which allowed a high-level official to meet the Dalai Lama typically saw a sizable drop in their exports to China for several years (Fuchs and Klann 2013). Diffuse reciprocity, on the other hand, is meant to build goodwill through generalized positive sanctions, allowing China to call attention to the value of the economic relationship when requesting policy concessions such as granting China market economy status (Reilly 2017, 178). Importantly, diffuse reciprocity does not involve punishment for states which fail to comply. Finally, Reilly notes that China uses strategic engagement strategies to build institutional links between China and the EU, and to reassure Europeans of China's benign intent (2017, 175). According to Reilly, a good example of strategic engagement was China's purchase of Eurobonds and European sovereign debt during the Global Financial Crisis, which helped Europe weather the storm and led to greater institutional cooperation between China and the EU (2017, 181).

China's economic relations with Central and Eastern Europe have grown quickly over the past decade. Prior to 2008 China held negligible Foreign Direct Investment (FDI) stock in CEE states. However, since that time, its FDI stock in the region has increased to approximately \$30.1 billion (AEI 2020). Exports from CEE states to China have also seen a large increase from \$4.5 billion per year in 2008 to \$12.3 billion per year in 2018 (UNCTADSTAT 2020). This, however, is dwarfed by Chinese imports to the region which grew from \$53 billion in 2008 to \$85.5 billion in 2018 (UNCTADSTAT 2020). This sharp increase in economic interaction has the potential to grant China influence in CEE through an astute use of the strategies explored above.

Indeed, a recent study found a strong correlation between the level of Chinese FDI stock held in a CEE state and the friendliness of political relations (Matura 2019). Interestingly, no connection was found between bilateral trade relations and political relations—warm political relations did not predict strong trade ties, and *vice-versa*.

Though the precise mechanism of causation was indeterminate—whether China-friendly CEE states were rewarded with FDI, or whether CEE states pre-emptively signaled their friendliness to court investment—the study found that Chinese FDI was disproportionately lavished on states that enjoyed warm bilateral relations. Significantly, local economic conditions in individual CEE states were not a significant predictor of FDI flows, which suggests that Chinese FDI in the region was guided by politics rather than economics (Matura 2019, 405). This phenomenon can be seen most starkly in the case of the Czech Republic, which, prior to 2012, had been among China’s fiercest critics on issues related to human rights. Significant Chinese FDI did not flow to the Czech Republic until after a more friendly government was elected and Czech President Milos Zeman travelled to China promising to restart relations and downplay humanitarian issues in favor of economic cooperation. After this volte-face, the Czech Republic became one of the top recipients of Chinese FDI in CEE (AEI 2020).

Given the above, it appears that China tends towards a general linkage strategy in CEE, and that this linkage is primarily exercised through FDI rather than trade. Though CEE states still receive a paltry amount of Chinese FDI in comparison to the large Western European states, the Chinese footprint has undoubtedly grown over the past 12 years, which increases the potential for China to wield influence in the region. A strategy of general linkage can not only be expected to reduce distrust and “spill-over” into other areas of cooperation (Newnham 2002, 23–24), but it can also have the effect of creating a good which can later be held ransom. Newnham notes, “[o]nce the target is dependent on the initiating state for aid, trade, or investment, it becomes more vulnerable to any type of sanction in the future” (2002, 23). It is plausible that CEE states, aware that Chinese FDI tends to go to states with China-friendly foreign policies, may avoid acting contrary to China’s wishes for fear that they will lose a valuable source of capital to competitors. Indeed, for many CEE states, particularly on issues of human rights, this effect already appears evident (Rühlig et al. 2018).

However, there is reason to suspect that Chinese influence would have a diminished impact when the policy at issue is of importance to CEE states. For instance, China failed to convince most EU states—especially those in CEE—to grant it market economy status (Reilly 2017, 179). Likewise, Matura notes that China’s closest friends in CEE tend to vote against it with regards to anti-dumping measures (2019, 403). This is likely because many CEE states see unfettered Chinese imports as a grave threat to

their own manufacturing base. Remaining quiet on human rights issues may represent little cost to a given CEE state, however, allowing China to freely compete against their manufactures is a different matter. If it is true that the effectiveness of Chinese sanctions is a function of the importance of the concession, then there is good reason to study China's ability to achieve its strategic goals in CEE, as these goals engage CEE states' most vital interests and represent a hard test of Chinese influence in the region.

Theoretical Framework

I ground this paper in realist theory. As such, I subscribe to the premises and logic commonly associated with this tradition. First, this means that I assume anarchy to be the ordering principle of the international system (Waltz 1979, 88). Second, I treat states as the primary actor in the international system (Waltz 1979, 94). Third, I assume that states are unitary actors whose most important policy goal is preserving their own existence (Waltz 1979, 118). These assumptions are not meant to deny the impact of international organizations, non-state actors, or domestic interest groups—indeed, much convincing work has demonstrated the influence of domestic conditions on the outcomes of positive sanctions (Abdelal and Kirshner 1999; Blanchard and Ripsman 2013; Hirschman 1980; Papayoanou and Kastner 1999). Rather, these assumptions are analytic tools which allow me to simplify my model in the pursuit of parsimony and clear causal mechanisms at the system-level in the vein of realist scholars such as Walt (1987) and Snyder (1984). In focusing on third image factors, I look to explain the behavior of states through a description of the constraints imposed on them by the structure of the international system rather than through a precise account of causal chains within states.

As this paper analyzes the intersection of economic statecraft and military statecraft, I must assume states' ordering of preferences. While governments, no doubt, have a myriad of idiosyncratic preferences, in general I assume that the two most important are 1) the maximization of security, and 2) the maximization of wealth (Drezner 1999, 28–29). I also assume that states will act rationally in choosing which priorities to pursue. This, however, is a weak assumption, as I only assume a rational preference ordering insofar as preservation of security will be foremost, with all other goals coming after. Therefore, I expect that a state's preferred strategy would maximize

both security and wealth, but a state forced to choose between the two goals will prioritize security over wealth.

In their most basic form, positive sanctions are a transfer of economic value from the sender to the target in hopes that this transfer will alter the behavior of the target state. Such a transfer is in the interest of the target state *ceteris paribus*, as it accomplishes the target state's goal of wealth maximization. As such, target states can be expected to act in such a way as to invite the sender to offer or continue positive sanctions, which includes adopting policies which are friendly to the explicit or implied interests of the sender. However, a target state is not likely to offer policy concessions which interfere with its pursuit of its own national interest (Blanchard and Ripsman 2013, 25). Though it is probable that the kinds of policy concessions deemed unacceptable by target states will differ depending on the history, character, and tendencies of the individual state, as a general rule, policy concessions which cost a target state little will be more readily adopted than policy concessions which are very costly (Blanchard and Ripsman 2013). As states are assumed to be concerned first and foremost with their own preservation, policy concessions which compromise a target state's security are unlikely to be willingly adopted. This suggests that an appraisal of the policy concession's effect on the target state's security environment is vital in determining whether positive sanctions will produce outcomes favorable to the sender.

For this appraisal, I draw on Stephen Walt's balance of threat theory. In Walt's rendering of realism, states react to imbalances in *threat*, rather than imbalances of *power*.² Walt determines which states constitute a threat by measuring their aggregate power along with, "geographic proximity, offensive capabilities, and perceived intentions" (Walt 1987, 5). When faced with a threat, Walt argues, a state will most likely pursue a policy of balancing (Walt 1987, 28). This may involve efforts to enhance their own military capacity (internal balancing) by increasing the size, effectiveness, and capability of their Armed Forces. States are also likely to seek new alliances or consolidate

² Though Walt frames his theory as a refinement of the balance of power theory put forward by Waltz in *Theory of International Politics*, this is not necessarily an area of disagreement between Waltz and Walt, but rather a difference in focus. Waltz seeks to describe why, in his estimation, balances of power tend to form naturally in the international system, whereas Walt seeks to describe how states decide with whom to ally and against whom to balance. Waltz's book lays out a theory about how the structure of the international system produces similar patterns of behavior over time and among different states, whereas Walt's book explains the foreign policies of individual states—a task which Waltz explicitly eschews for his theory (Waltz 1979, 72).

existing ones (external balancing). However, a policy of external balancing may have the effect of imposing new constraints on the balancing state, particularly if they are the weaker partner, as states which asymmetrically depend on an ally for their security are vulnerable to abandonment (Snyder 1984). As such, dependent states will have reduced autonomy to pursue the full extent of their interests if such interests conflict with those of their more powerful ally. Though alliance cohesion may not be threatened by small or unimportant conflicts, it is in the interest of the weaker state to avoid conflictual policies wherever possible, lest they find themselves abandoned (Snyder 1984, 475).

This has implications for the effectiveness of positive sanctions. If state A is dependent on state B for protection from a threat, state C is likely to have trouble using positive sanctions to convince A to adopt a policy which B finds objectionable. As tempting as C's offer may be for A, offering a policy concession deemed unacceptable by B may increase the chances that B abandons its commitment to the alliance, which would represent a grievous loss of security for A. Therefore, the presence of a threatening actor will have the effect of constraining A's ability to pursue the ideal policy of maximizing security and wealth—they will be forced to choose one over the other and, if my assumptions about preference ordering hold, they are likely to eschew policy concessions to C rather than risk abandonment by B. Conversely, if A is not dependent on B for its security, or if it faces no serious threat, the prospect of B abandoning its commitment to the alliance will be less costly and A will have greater latitude to pursue a wealth-maximizing strategy. As such, state C will likely have greater success using positive sanctions to convince A to adopt policies in line with C's preferences.

To summarize: I assume that states are unitary actors which would prefer to maximize both security and wealth, but, under conditions of anarchy, they will ultimately prioritize security if these are mutually exclusive goals. States which are the target of positive sanctions may offer policy concessions to a sender in order to reap the benefit of continued positive sanctions. When a state which is the target of positive sanctions is asked by a sender to adopt a policy at odds with the preferences of its ally, it will resist such a request if it requires the ally to balance against a serious threat and the policy is likely to impact alliance relations. If such a state is not balancing against a threat, it will be more likely to adopt the policy, as the impact on alliance relations will be less important.

Though there are a variety of factors which are likely to play some role in determining whether positive sanctions will be effective in eliciting policy concessions from a target state, the model I advance in this paper places “security salience” as the most important variable in cases where a target state is caught between the demands of its military ally and the demands of a sender of positive sanctions. This paper contributes to theory by introducing a realist lens to the study of positive sanctions, a phenomenon which has, so far, received little attention from realists.³ Furthermore, this paper contributes to theory by analyzing relations between China and Central and Eastern Europe, which have historically been understudied by realists. Finally, this paper contributes to the literature on positive sanctions by using a realist lens and explicitly theorizing the impact an alliance may have on relations between a target and sender of positive sanctions.

Analytic Framework

Chinese Economic Statecraft:

I start with the assumption that China has pursued a strategy of general linkage in CEE states since at least 2012. This assumption is based on the clear mix of politics and economics in the 17+1 mechanism and the Belt and Road Forum, as both forums involve bilateral meetings between Chinese and CEE heads of government during which political and economic agreements are signed and joint communiques issued. Furthermore, even though these meetings and agreements have not been visibly tied to specific concessions which could be interpreted as a *quid-pro-quo*, many states in the region appear to have altered aspects of their foreign policies—particularly the prominence of human rights issues—in order to promote good relations with China (Rühlig et al. 2018).

Previous scholarship on positive sanctions has focused on the effect of increasing trade ties (Hirschman 1980). However, more recent works have noted that capital or FDI flows appear to be a more prominent vector by which senders of positive sanctions create economic dependence (Kahler and Kastner 2006, 538; Lim and

³ In fact, Blanchard and Ripsman (2013) go so far as to assume that the lack of attention paid to positive sanctions by realists signals an implicit belief that positive sanctions are useless in achieving important goals.

Mukherjee 2019, 74). Indeed, recent scholarship on China's politico-economic relationship with CEE states has found that political relations are strongly correlated with FDI levels, while there is weak or non-existent correlation between political relations and trade development (Matura 2019). As such, this paper treats Chinese FDI in individual economies as the primary vector of Chinese economic statecraft.

American Military Statecraft:

The US has a great deal of influence in Europe through its status as the possessor of the world's most powerful military and as the indispensable member of NATO—an alliance which counts as members 15 of the 17+1 states. In addition to its membership in NATO, the US has bilateral defence cooperation agreements with most CEE states in NATO, leads NATO's enhanced Forward Presence in Poland (NATO's Enhanced Forward Presence 2019), and deploys a rotational brigade combat team of about 6,000 troops to Eastern European states under Operation Atlantic Resolve (Fact Sheet: Atlantic Resolve 2019). Through the European Deterrence Initiative (EDI), the US has appropriated billions of dollars to build/modernize military infrastructure in peripheral European states, pre-position US military equipment in Europe, and fund joint-military exercises with European allies (Lařici 2018). As such, the US is the single most important security partner of nearly all CEE states.

Concepts and Measurement

The variable "security salience" is composed of two sub-concepts: 1. Whether a state is "security seeking", and 2. Whether a given issue is "security relevant". This two-part approach assumes that, for security to be a salient consideration, it must be a prominent concern for a given state and be implicated by the issue for which a decision is required.

Security Seeking:

I characterize a state engaged in balancing behavior—both internal and external—as "security seeking". A key indicator of this concept is the level of state defense expenditure as a percentage of GDP. As such, I judge that CEE states which spend 2% or more of their GDP on defence are "security seeking" states. This is because achieving 2% defence spending is germane to both internal and external

balancing behavior. It functions as internal balancing insofar as most NATO states did not spend 2% of GDP on defence prior to 2014 (Defence Expenditure of NATO Countries 2019). As such, this target represents a significant increase in military spending. It functions as external balancing as 2% was the agreed upon benchmark at the NATO Wales Summit in 2014 (Wales Summit Declaration 2014), and compliance with this standard is meant as a demonstration of good membership in NATO. In the face of long-standing US complaints that Europe is not spending enough on its own defence, and US President Donald Trump's open flirtation with the idea that US assistance would be contingent on whether a state were spending sufficiently (Choi 2019), it is reasonable to assume that a security seeking state would increase spending to 2% so as to demonstrate its value to NATO and assure themselves of the aid of the United States in the event of an attack.

However, it can take several years for defence expenditure to reach 2%, especially if starting from a low baseline. As such, it would be absurd to characterize a state as non-security seeking simply because it has not yet achieved the benchmark, especially if it were demonstrating other behaviors consistent with security seeking. Likewise, most NATO states have increased their military spending since 2014, and most articulate an ambition to meet the 2% benchmark in future. However, such moves do not mean that these states have placed the same level of urgency on security that others have. Therefore, to avoid mischaracterization, in addition to considering defence spending I will also analyze national defence documents in order to understand the level of threat perceived by the state and determine if other steps consistent with internal or external balancing are being undertaken.

Security Relevant:

Not all issues before a state directly implicate security. My assumption is that security considerations will not play a role in determining the outcome of issues which have no bearing on national security, as these are unlikely to impact alliance cohesion. Conversely, in decisions where national security is implicated, security considerations become extremely salient. As such, a security relevant issue will increase the security salience of a situation, and an issue which is not security relevant will decrease its security salience. A key indicator of security relevance is the terms in which political

elites cast the issue. If these actors frame the issue in terms of national security, then I will judge the issue to be “security relevant”.

It is likely that there will not be agreement across all political elites regarding the impact of a decision on national security. For instance, US political elites represent Huawei as a threat to national security, while Chinese elites reject this characterization. However, while there is disagreement about the impact on national security, there is no disagreement that 5G implicates security questions—Huawei argues its case, in part, by claiming that the US uses telecom companies to spy on its allies (Doffman 2019). Even in the UK, where Huawei has, so far, been allowed to participate in 5G infrastructure construction, British authorities frame their policy as one of threat mitigation rather than an absence of security implications (Satariano 2020).

Security Salience:

As noted above, for security salience to be high, a state must be “security seeking” and the issue must be “security relevant”. Therefore, in determining whether security salience is high or low, I will determine whether the two sub-concepts are present (1) or absent (0) and then multiply the results to determine the value of security salience:

Security Seeking	Security Relevant	Outcome	Security Salience
1	0	0	Low
0	1	0	Low
1	1	1	High

This simple process reflects the assumption that a state must be security seeking and an issue security relevant for security salience to be high. Other combinations will result in low security salience.

Dependent Variable:

This paper aims to understand the effect that security salience has on determining the outcome of Chinese positive sanctions among CEE states. Therefore, the dependent variable is “effectiveness of positive sanctions,” which I operationalize by determining the extent to which a given state acts in accordance with Chinese interests. I focus on two decisions faced by states with regards to the China-US competition: the

decision to restrict/allow Huawei to supply equipment used in the construction of a state's national 5G infrastructure, and the decision to join the China-led Asian Infrastructure Investment Bank (AIIB). The first instance was chosen because it represents a rare example where both China and the US have made explicit and contradictory demands of European states and even threatened retaliation against states which decide against their preferences. For instance, the US has warned its allies that inclusion of Huawei equipment in their 5G infrastructure would damage their security relations (Wintour 2020), whereas China has threatened non-specific retaliation against states which unfairly impose bans on Huawei's ability to bid for contracts (Czuczka and Arons 2019).

- Chinese strategic interest: Huawei permitted to supply equipment for the 5G infrastructure of a given state.
- American strategic interest: An agreement with the US to restrict Huawei equipment from the 5G infrastructure of a given state.

In keeping with the security salience model, I expect CEE states to determine which position to take on Huawei based on whether the US or Chinese relationship is expected to produce greater net-benefit. As China's relationship with the 17+1 states is primarily economic, the actual/expected benefits of siding with China will be a function of the effectiveness of Chinese positive sanctions. Therefore, I judge Chinese positive sanctions to be effective in cases where states adopt a policy consistent with Chinese strategic interests. Moreover, I judge Chinese positive sanctions to be ineffective in cases where states adopt a policy consistent with US strategic interests.

In order to further probe the effect of the security salience variable, I will compare CEE states' position on the Huawei issue with their position on membership in the AIIB. This instance is less clear than the Huawei issue, as there appears to have been asymmetric effort placed on lobbying European states by China and the US. The United states lobbied its allies in 2014 and 2015 to avoid membership in the AIIB, claiming that the bank risked degrading standards in international lending and development (Wright 2015). China, on the other hand, did not publicly lobby CEE states to apply for membership. Therefore, a state's decision to join the AIIB is a failure of US influence and a success of Chinese positive sanctions insofar as these states presumed that joining the bank would produce a positive cost-benefit ratio. However, a decision not to join the bank cannot be understood as a failure of Chinese influence, as it is unclear that China

actively marshalled its influence in the region to sway states' decisions. Further, a decision not to join the AIIB cannot be understood as successful US statecraft, as there are other reasons why a state might not wish to apply for membership. Because the purchase of bank shares is expensive and the returns uncertain—especially for small states without the capacity to export infrastructure—abstaining from the bank may represent a prudent financial decision. As such, the dependent variable can only be analyzed from the vantage of a decision to join the bank in the face of US objections.

- Chinese strategic interest: CEE state applies for membership in the AIIB.
- American strategic interest: CEE state does not apply for membership in the AIIB.

Due the asymmetric nature of this issue, a state's membership in the AIIB will not be used to demonstrate the causal influence of security salience, but rather to tentatively probe the limits of US influence over the decisions of security seeking CEE states in instances where a less security relevant issue is at stake.

Sources

The sources I use to measure my variables can be categorized as follows:

1. Financial and other statistics, 2. Official government communications, and 3. News reports. Financial and other statistics are valid and reliable measures, as they represent discrete instances of actual occurrences. I will use such statistical information to establish basic facts such as Chinese investment figures or state military spending. Both are readily available in an online format. I will use official government communications and news reports to establish facts such as state positions with regards to the dependent variable, state defence strategies, as well as the security relevance of an issue. These widely available sources are also valid and reliable, particularly regarding the articulated policy positions of CEE states. However, these documents may also be open to author bias (in the case of news reports) or may be reliant on political elites to frame issues accurately rather than in the interest of political expediency. I will employ a strategy of triangulation—looking to different sources to corroborate substantive claims—in order to mitigate these drawbacks.

Methodology

I will use a process of co-variation in order to establish correlation between the independent and dependent variables. I will attempt, through qualitative means, to establish an association between security salience and foreign policy outcomes in CEE states by determining whether high or low values of security salience correspond to a state's decision to act in Chinese interests. I will accomplish this by first establishing the level of security salience operative in a case, and then comparing these results against the outcome of the dependent variable.

Case Selection

To analyze the impact of security salience on a state's decision to restrict/allow Huawei into its 5G infrastructure, this paper will examine those CEE states which are members of NATO and the EU and have announced a position on the issue. These are currently Estonia, Latvia, Poland, the Czech Republic, Hungary, and Romania. These cases have been selected as they offer a diversity of values on the main independent and dependent variables even as they are broadly comparable. First, the cases are comparable as each state is part of China's regional forum, the 17+1 mechanism, and each have signed a Memorandum of Understanding with China regarding BRI cooperation. Each state is also a member of the EU and of NATO. As such, their position in the regional institutional architecture is very similar. However, in this group there are a diversity of values on the independent and dependent variables. Poland, Latvia, Estonia, and Romania all rapidly increased their military spending to 2% GDP after Russia's annexation of Crimea, while the defence spending of the Czech Republic and Hungary still rank in the bottom quartile of NATO member states. Furthermore, this group also demonstrates variation on the dependent variable as Poland, Latvia, Estonia, Romania, and the Czech Republic have signed agreements siding with the US position on Huawei, while Hungary announced that Huawei would be permitted to build its 5G infrastructure. Finally, there is variation among the cases on other variables as well, including the amount of Chinese FDI stock, the economic health of the state, and the democratic character of the government. This diversity of values across X, Y, and possible Z variables allows for the consideration of many possible causal factors.

To analyze the impact of security salience on a CEE state's decision to apply for membership in the AIIB, this paper will examine those states included in the previous set of cases and which have applied for membership in the bank. These are Hungary, Poland, and Romania. This necessarily omits three cases (Estonia, Latvia, and the Czech Republic) which are included in the Huawei 5G case-study but chose not to join the AIIB. As laid out above, I believe there is reason to suspect that security calculations were not necessarily the deciding factor in a CEE state's decision not to join the bank, as a decision not to join may have been a simple assessment of the financial cost and financial benefit likely to accrue to the state. As I cannot reliably disentangle a decision not to join the bank for financial reasons and a decision not to join due to US pressure, I have elected to omit the cases in order to avoid possible spurious correlation. As these cases vary on the security seeking sub-concept of the independent variable—the Baltic states demonstrated security seeking behaviour and the Czech Republic did not—I do not believe that a decision to omit these cases creates systemic bias. I will, instead, focus on the three states which joined the bank in full knowledge of the US preference that they do otherwise. Though I assume that these states joined the bank for financial reasons, a decision to join the AIIB indicates that whatever security concerns were present, they were not enough to cause the state to abstain from the bank (Chen 2018).

Omitting these three cases also has the effect of causing my dependent variable not to vary on the issue of AIIB membership—all three included states have chosen to join. While this would be problematic if one were to understand the case-studies as two separate studies of six and three cases respectively, my work frames them, instead, as nine cases across two case-studies. No variation exists between cases on the AIIB issue, however, there is within-case variation across the case-studies which can serve as a useful replacement. As will be laid out later, Hungary sided with China across both issues, however, Poland and Romania sided with China on the AIIB issue yet adopted the US position on the Huawei issue. A closer analysis of this inconsistency is warranted and may lend greater clarity to the security salience variable by implicating the “security relevant issue” sub-concept.

Expectations

As noted above, I expect that the variation in the effectiveness of Chinese economic statecraft in CEE will be best explained by examining the security salience of

the situation. I expect that states which are security seeking will prioritize their security relationship with the US over their economic relationship with China, and, as such, will be more likely to side with the US on security relevant issues (high security salience). Conversely, states which are not security seeking will prioritize their economic relationship with China over their security relationship with the US, and, as such, are more likely to side with China on security relevant issues (low security salience). Finally, I expect that on issues which are not security relevant, states will prioritize their economic relationship with China over their security relationship with the US and will side with China on such issues (low security salience).

Trade-Offs

This paper will use cross-case comparison in order to determine the effect of security salience on the effectiveness of Chinese economic statecraft. Due to the emphasis on comparison rather than in-depth process tracing, this research will sacrifice internal validity among the cases for the sake of a more generalizable conclusion. This paper will likely lack the ability to confidently posit causation—indeed this is a perennial problem with exploratory research (Gerring 2017, 263–64). Instead, I aim for breadth of analysis rather than depth of analysis—suggestion rather than causation—with the intent to assess the potential explanatory power of a new variable and reveal new avenues for further research.

Finally, this research concerns a specific geographic region with a specific regional security constellation which is not necessarily present elsewhere on the globe or in history. As such, there is a possibility that the dynamics analyzed here will not translate easily to other contexts. However, this research is still valuable for two reasons. First, China's influence in CEE has been a topic of worry for Western Europeans and the US since China created the 16+1 mechanism. An analysis of China's demonstrated ability to influence the strategic decisions of these states is valuable in its own right. Second, though the precise security constellation in CEE may be unique to the region, the US has allies in all corners of the globe, and it is possible that the dynamics described in this paper will be operative in these places. Suggestively, Japan and Australia, some of the US's closest allies in the Pacific, have banned Huawei from their national 5G infrastructure (Li 2018; Tobin 2019).

Section 2: A Brief Exploration of Two Common Models of Positive Sanctions

Before introducing the security salience model, I will first explore two models of positive sanctions suggested by the literature. Much of the literature on economic statecraft has traditionally been focused on the argument of whether sanctions can be effective at all. This framing of the debate occupied scholars such as Baldwin (1985), Hufbauer, Schott, and Elliott (1990), and Pape (1997). However, in the late 1990s the question began to shift from this binary argument to an examination of the conditions under which sanctions (including positive sanctions) can be effective in achieving political goals (Blanchard and Ripsman 1999). This line of questioning animated scholars examining positive sanctions such as Crumm (1995), Papayoanou and Kastner (1999), Abdelal and Kirshner (1999), Kahler and Kastner (2006), Blanchard and Ripsman (2013), among others. Though, each of these scholars have explored positive sanctions from different vantage points, they tended to focus attention on variables affecting either the value of the incentive—what I will call the incentive value model—or, more commonly, the domestic political structure of a target state—what I will call the governance structure model. A full test of each individual scholar’s methodology is well beyond the scope of this paper. However, in the following section, I will briefly test the ability of the incentive value model and the governance structure model (broadly conceived) to explain the results of my case studies.

As discussed in the first section, my case studies centre on two issues: the decision to restrict/allow Huawei equipment in the construction of national 5G infrastructure, and the decision to join the AIIB. In each issue, states may either adopt the Chinese preference, reflecting the effectiveness of Chinese positive sanctions, or the US position, reflecting ineffectiveness of Chinese positive sanctions. The Huawei issue has results for six CEE states, and the AIIB has results for three, leading to nine measurable instances across both case studies.

Huawei

The United States has traditionally been suspicious of Chinese telecom companies—claiming that companies such as Huawei and ZTE represent a security

threat to the US (Wolf 2012). However, these concerns have only grown in the shadow of the imminent adoption of 5G network technology across the globe. Shenzhen-based Huawei is one of only three companies world-wide which has the technology, patents, resources, and infrastructure to fully supply end-to-end 5G equipment. The US has spent the last several years waging a campaign to dissuade its allies from allowing Huawei to supply equipment for the construction of their national 5G infrastructure, citing security issues such as cyber-espionage (Segal 2019). The US has threatened that states which allow Huawei equipment to be used in their 5G infrastructure will damage their security relations with the US, and may cease to benefit from US intelligence-sharing (Elmer 2019; Wintour 2020). China, meanwhile, has waged its own campaign to counter the US demands and has threatened retaliation against states which discriminate against Huawei (Czuczka and Arons 2019; Kruse and Winther 2019; Wood 2020).

The competition between the US and China over 5G is on-going as of the time of this writing. The US has seen some success in its campaign, as first Poland, then Romania, Estonia, Latvia, and the Czech Republic have signed agreements with the US signaling their support for the US position on Huawei. However, China has also seen success, with Hungary announcing that Huawei would not be discriminated against in the construction of the Hungarian 5G network. Similarly, the UK has announced that Huawei will be allowed a limited role in Britain's 5G infrastructure, and the governments of Germany and France are seemingly headed in the same direction (Rinke 2020; Rosemain and Barzic 2020; Satariano 2020).⁴ In late January 2020, the EU Commission issued a 5G Toolbox to member-states for considering 5G policy, which recommended limiting the use of equipment from "high-risk vendors" but stopped short of recommending a ban of said vendors (Porter 2020).

AIIB

The AIIB is a China-led multilateral investment bank focused on the provision of investment capital for the development of infrastructure in Asia. China had been pitching the idea of the bank to states in Asia and beyond since 2013. However, since the

⁴ The UK decision to allow Huawei may be newly in doubt, as Prime Minister Boris Johnson has signaled that the UK will review its policy and consider plans to phase out the use of Huawei equipment over the next several years.

beginning of China's campaign to drum up support for the bank, the US has waged a diplomatic campaign to stop its major allies from joining (Perlez 2014). For instance, South Korean officials were reportedly pressured by the US to abstain from AIIB membership due to concerns that the bank would be used to advance Beijing's political agenda (Moon and Park 2014). The US campaign met with initial success as the AIIB was officially announced on October 21, 2014 with only 20, mostly small, states applying for membership (Anderlini 2014). Notably absent were regional US allies like Japan, Australia, and South Korea as well as the United States' European allies. However, as time progressed, the solidarity with the US position eroded until, in mid-March 2015, the UK announced its intention to join the AIIB, followed soon after by Germany, France, and Italy (Sobolewski and Lange 2015). Poland announced its decision to join the bank in early April (AIIB 2015). The British announcement drew harsh criticism from the US which accused the UK of a policy of "constant accommodation" towards Beijing (Dyer and Parker 2015).

The US position began to soften over the next several months, as it became obvious that it had failed to persuade its allies to stand aside from the bank. In September 2015, President Obama wrested a face-saving concession from President Xi to adhere to the highest governance and environmental standards in the administration of the AIIB, signaling an end to the active US campaign against the bank (Donnan 2015). The AIIB commenced operations in January 2016 with \$100 billion in capital after 15 months of negotiation among the founding members (Panda 2016). It now boasts 102 approved members from all over the world, including Poland, Hungary, and Romania from CEE. Poland joined the bank as a founding member, signing the articles of agreement in October 2015, whereas Hungary and Romania both joined in 2017 (Budapest Business Journal 2017; Bernovici 2017).

Results

Of nine instances, Chinese positive sanctions were successful in producing a favorable outcome in four and were unsuccessful in five (Table 1). Of the examined cases, three states (Poland, Hungary, and Romania) demonstrated values in both issues, providing a measure of within-case variation. Hungary demonstrated no variation, siding with China on both issues. However, both Poland and Romania demonstrated variation across issues, siding with China on the AIIB but with the US on

Huawei. For a model to satisfactorily explain the results of these case studies, this within-case variation must be accounted for.

Table 1: Case Study Results

Sanctions Success	Sanctions Failure
Hungary (Huawei)	Estonia (Huawei)
Hungary (AIIB)	Latvia (Huawei)
Poland (AIIB)	Poland (Huawei)
Romania (AIIB)	Czech Republic (Huawei)
	Romania (Huawei)

Incentive Value Model

The incentive value model treats the value of China’s positive sanctions to CEE states as the most important factor in determining the outcome of economic statecraft. Hirschman’s theory of positive sanctions is built on the notion that expanding economic ties to smaller, weaker states can give levers of control to the larger state. States which are dependent on the sender for their economic well-being find that the value of cordial relations are often worth the price of political concessions (Hirschman 1980, 17). Following this logic, Shambaugh (1996) argues that the more dependent a target is on a sender, the greater likelihood of compliance. Likewise, Crumm begins her analysis of positive sanctions from the assumption that more valuable incentives will be more successful in producing outcomes favorable to the sender (1995, 313). These arguments assume that wealth maximization and loss aversion are powerful incentives which can determine the outcome of economic statecraft. An explanation built on incentive value would expect CEE states to choose a policy congruent with China’s preferences if the value of China’s positive sanctions or the cost of their cessation is high enough. As such, I expect that states would demonstrate greater levels of compliance with Chinese demands when: 1.They receive higher levels of Chinese FDI, 2. Chinese investors hold a high proportion of FDI stock, and 3. The economy of a given CEE state is weak and in need of a source of foreign capital.

The first expectation is that CEE states that receive higher levels of FDI would be more likely to act in compliance with Chinese interests. The available FDI data appears,

at first, to bear out this expectation (Table 2).⁵ According to both the AEI Global China Investment Tracker (2020) and Rhodium group (Kratz et al. 2020), Hungary is the recipient of the largest amount of Chinese FDI in the region. Perhaps not coincidentally, Hungary adopted China-friendly policies across both issues. Likewise, Estonia and Latvia, which received negligible amounts of Chinese FDI, adopted US-friendly policies regarding Huawei. However, this picture is muddled by the fact that the CEE states with the second and third most Chinese FDI—Poland and Romania—saw variation across the issues, adopting a China-friendly policy on the AIIB and a US-friendly policy on Huawei. This poses two problems for the incentive value model. First, a model focused on only the value of the incentive cannot explain why a state would make divergent decisions across issue areas. Second, the model fails to satisfactorily explain why Hungary would adopt China-friendly policies across issues, but Poland and Romania did not, despite the fact they also received a large portion of Chinese FDI relative to the region. The data on FDI stock presents similar problems (Table 3). Though Hungary’s relative advantage in Chinese FDI is sizable, this alone cannot explain why Hungary’s level of FDI stock appears sufficient to translate to a favorable outcome across issue areas but not Poland or Romania’s.

Table 2: Chinese Foreign Direct Investment (in millions USD)

State	FDI (AEI) 2005-2020	FDI (Rhodium Group) 2000-2019
Estonia	\$ -	\$ 100
Latvia	\$ 110	\$ 100
Poland	\$ 2,280	\$ 1,400
Hungary	\$ 5,880	\$ 2,400
Czech Republic	\$ 960	\$ 1,000
Romania	\$ 2,110	\$ 1,200

Source: AEI Global China Investment Tracker (AEI 2020); MERICS and Rhodium Group (Kratz et al. 2020)

⁵ The data on Chinese FDI is difficult to ascertain and tends to vary by source. The AEI Global China Investment Tracker is widely used but open to criticism for a variety of reasons, such as the propensity to count announced investments alongside real investments. Furthermore, it only counts FDI greater than \$100 million USD. Finally, the Tracker counts construction projects contracted to Chinese companies as FDI, though, it seems that not all such projects involve Chinese financing. Despite these challenges, the Tracker is a valuable tool—inconsistencies are likely to be a matter of degree rather than kind. For instance, Rhodium Group puts the level of Chinese FDI in CEE significantly lower than the China Investment Tracker, but the distribution of Chinese FDI in CEE is broadly the same. For robustness, I have included both AEI and Rhodium Group’s estimates of Chinese FDI in CEE.

Table 3: Chinese Share of FDI Stock (as of 2018)

State	FDI Stock (AEI)	FDI Stock (Rhodium)
Estonia	0.00%	0.41%
Latvia	0.64%	0.58%
Poland	0.82%	0.60%
Hungary	4.16%	2.70%
Czech Republic	0.62%	0.65%
Romania	2.24%	0.96%

Source: Own calculations based on a division of both AEI (2020) and Rhodium FDI stats (Hanemann, Huotari, and Kratz 2019) by the total inward FDI stock accounted for by UN Commission on Trade and Development (2020), accessed 27 May 2020.

As the value of goods is partially dictated by their relative scarcity, it is reasonable to assume that states with weaker economies would place a higher value on FDI. States with smaller economies, particularly those with a smaller GDP per capita, may be expected to be more vulnerable to positive sanctions due to their need for FDI to produce economic growth. However, as before, though the data is broadly consistent with this expectation, the incentive value model fails to provide a satisfying explanation of the results of case-studies (Table 4). Hungary, Poland, and Romania have the lowest GDP per capita of the six states examined. As might be expected, each of these states adopted a China-friendly policy regarding the AIIB. However, the problem of accounting for within-case variation across issues persists.

Table 4: Economic Health (2019)

State	GDP (in billions USD)	GDP per capita (USD)
Estonia	\$ 30.7	\$ 23,247
Latvia	\$ 34.4	\$ 17,854
Poland	\$ 585.6	\$ 15,422
Hungary	\$ 157.8	\$ 16,150
Czech Republic	\$ 245.2	\$ 23,069
Romania	\$ 239.5	\$ 12,306

Source: World Bank, <https://data.worldbank.org/>, accessed 27 May 2020.

Though the theory that the value of China's sanctions would correlate with outcomes is intuitive, the evidence reviewed demonstrates that the incentive value model is lacking in explanatory power. Its predictions describe the results of the two case studies broadly but without nuance: states which received more Chinese FDI and had greater levels of Chinese FDI stock were more likely to adopt China-friendly policies, as were states with low GDP per capita. However, the model can't account for the

different outcomes across issues, as it fails entirely to describe Poland and Romania's decisions to adopt China-friendly policies regarding the AIIB and US-friendly policies regarding Huawei.

Governance Structure Model

The governance structure model focuses on domestic factors which may determine how a state reacts to positive sanctions. Papayoanou and Kirshner (1999) posit that the efficacy of an “engagement” strategy would depend on the character of the group in power—whether internationalist in orientation or nationalist. This would be shaped by the distribution of power among the selectorate, and the ability of distinct societal groups to translate their preferences into policy through political processes. This hypothesis, which only explicitly theorized non-democracies, assumes that the ability of different constituencies to access the levers of power will determine the likely outcome of positive sanctions. Likewise, Blanchard and Ripsman claim that, if a state prefers non-compliance with the demand of a sender, the stateness—autonomy, capacity, and legitimacy—of the government will determine if it is capable of resisting the domestic pressure created by a set of sanctions (2013, 26). If a government enjoys high stateness, it can execute its preferred policy, as the leadership group can maintain its hold on power (Blanchard and Ripsman 2013, 27). If not, the pressure created by the sanctions could threaten this group's position. In a similar vein, Kahler and Kastner (2006) develop five hypotheses about the conditions which impact the effectiveness of positive sanctions, three of which depend on the character of the state—whether they be a democracy or an autocracy. In short, Kahler and Kastner find that states which are democracies will both have a harder time wielding and be more susceptible to positive sanctions (2006, 525–27). This is due, mainly, to the difficulty democracies have in controlling the behavior of private economic actors, either in directing them to engage with an unattractive investment target or persuading them to forego economic ties with an attractive investment market. It is further complicated by the fact that, in a democracy, the government is directly accountable to society which may take a dim view of the state interfering in their economic activity.

What is at issue in these models is the government's ability to execute their preferred policy without interference from other internal actors. Though Blanchard and Ripsman's formulation is a more detailed means of determining a government's ability to

carry out its policy, for my purposes here, Kahler and Kastner’s simple democracy/autocracy dichotomy is enough to briefly explore the explanatory power of the governance structure model. Such a model would predict that positive sanctions outcomes would vary between states based on whether the target state is a democracy or an autocracy, as such a division is a suitable shorthand for the ability of state leaders to execute their preferred policy.

Such a variation is evident in the case-studies. In 2019, five of the selected cases were ranked by Freedom House as “Free”, and one (Hungary) is ranked as a “Partly Free” (Table 5). Freedom House’s 2019 country report on Hungary argues that Hungary’s score is reflective of policies enacted by Viktor Orban’s Fidesz party to render Hungary’s elections increasingly unfair. Furthermore, the report notes ubiquitous cronyism and corruption within Hungary. Businesses with political connections to Orban and Fidesz are rewarded with lucrative government contracts, while businessmen seen as dissident face financial and legal harassment (Freedom in the World: Hungary 2020). A striking example of this corruption is the lucrative contract for the construction of the Hungarian leg of the Chinese-financed Belgrade to Budapest railroad, which was awarded to a consortium of a Chinese firm and a company owned by one of Orban’s political allies (Buckley and Byrne 2017; Mészáros firm among winners of massive rail contract 2019).

Table 5: Government Type

State	Freedom Score (2020)	Designation
Estonia	94	Free
Latvia	89	Free
Poland	84	Free
Hungary	70	Partly Free
Czech Republic	91	Free
Romania	83	Free

Source: Freedom House, <https://freedomhouse.org/>, accessed 28 May 2020.

As Hungary is the lone state to have adopted China-friendly policies in both case-studies, this variation appears significant. However, this variation is at odds with Kahler and Kastner’s hypothesis that democracies would be more susceptible to positive sanctions. Instead, the least democratic state of those selected appears most susceptible. This does not invalidate the governance structure model; rather it calls for a change in its assumptions. Though Kahler and Kastner hypothesized that an inability to

control private actors (combined with government accountability to those same actors) was the factor which makes democracies less able to resist positive sanctions, it is plausible that an unaccountable government grants a leader the ability to pursue policies beneficial to their private preferences without check. Indeed, Blanchard and Ripsman note that elites may be co-opted by the sender and offer concessions unpopular with their populations if their “stateness” is sufficient to resist internal pressure (2013, 31–32). If this hypothesis is true, it is reasonable to expect that less democratic states in CEE will be more susceptible to positive sanctions.

The evidence reviewed, however, does not support this hypothesis. Though it maintains its classification as “Free”, Poland’s Freedom Score has steadily worsened since the 2015 election gave the Law and Justice Party the presidency and a majority in the Sejm. Poland’s Freedom House score fell by nine points between 2015 and 2019 (Table 6). This precipitous decline is a result of controversial policies pursued by the ruling party to politicize the courts, appoint political loyalists to public institutions, and eliminate dissenting voices from the public media (Freedom in the World: Poland 2020). The erosion of Poland’s democratic institutions, however, has not appeared to render Poland more susceptible to Chinese positive sanctions. Poland opted to join the AIIB in 2015, when its freedom score was 93. In 2019 Poland sided with the US on Huawei when its Freedom Score was substantially lower. If autocratic governments were more susceptible to positive sanctions, Poland’s decreasing freedom score should have coincided with an increase in China-friendly policies. The support for the government type model is further reduced when considering the case of Romania, whose Freedom Score remained about the same between 2015 and 2019, and yet adopted a China-friendly policy regarding the AIIB in 2017 and a US-friendly policy regarding Huawei in 2019.

Table 6: Freedom Score by Year

State	2015	2016	2017	2018	2019
Estonia	94	94	94	94	94
Latvia	86	87	87	87	89
Poland	93	89	85	84	84
Hungary	79	76	72	70	70
Czech Republic	95	94	93	91	91
Romania	83	84	84	81	83

Source: Freedom House, <https://freedomhouse.org/>, accessed 28 May 2020.

The governance structure model is suggestive insofar as Hungary is an outlier among the cases as both a problematic democracy and an especially China-friendly state. However, given that there is no consistent directionality associated with government type in the cases of either Poland or Romania, this model fails to account for the results of the case studies.

Summary

Both the incentive value and the governance structure models appear to broadly describe the results of the two case-studies. However, neither renders a satisfactory explanation for within-case variation across issues as neither can explain the decisions of Poland and Romania to adopt different policies on Huawei and the AIIB. This inability stems from the fact that neither model can account for the fact that issues may be more or less vital to a state's interests at a given time. The incentive value model tends to assume that a state's interests revolve around maximizing wealth and doesn't consider other interests. The governance structure model describes the ability/inability of governments to pursue particular interests, however, the unclear directionality of the effect renders the variable insufficient to explain which interests will be prioritized.

The preceding suggests that there is scope within the literature to search for new variables which can account for the within-case variation described above. The effectiveness of positive sanctions appears to differ across issue areas. As security issues are some of the thorniest faced by states, consideration of how these issues interact with positive sanctions appears to be a logical next step in the literature. Indeed, some work in this vein has already begun. In addition to the "stateness" variable noted above, Blanchard and Ripsman's (2013) model of economic statecraft includes a second variable: "Threat to Strategic Interests" (TSI). TSI is meant to determine whether a target state's decision to comply or not comply with the demands of a sender represents a greater threat to strategic interests. Blanchard and Ripsman assume that states will follow a policy which will engender the lowest TSI—if a decision to not comply with a sender's demand implicates the least strategic risk, states will not comply and *vice-versa* (2013, 24–25). Similarly, in their analysis of China's economic leverage over Sri Lanka, Lim and Mukherjee (2019) examine the effect of India's security relationship with Sri Lanka. Lim and Mukherjee note that China's ability to produce favorable strategic outcomes is dampened by Sri Lanka's security dependence on India. This appears

particularly true of policies implicating security (2019, 85–86). Both works recognize that states have interests which may vary across issue areas, causing variation in the effectiveness of positive sanctions—suggestively, Lim and Mukherjee titled their article “What Money Can’t Buy”. However, neither work offers a fully satisfying framework.

Lim and Mukherjee offer a rich description of the countervailing influence played by India’s security relationship with Sri Lanka, but offer no theory on which to base an explanation of the observed outcomes aside from a generic statement that security relationships offer leverage to great-powers (2019, 76). Blanchard and Ripsman provide a theory to justify their model, but their theory suffers from several flaws, the most pressing of which is the use of both a system-level variable (TSI) and a state-level variable (stateness) in their model. While each can plausibly explain the outcome of an instance of economic statecraft, Blanchard and Ripsman create causal incoherence when both appear to describe the same outcome through competing processes. For instance, in describing Japan’s attempt to purchase a disputed set of islands from Russia, Blanchard and Ripsman note that such a purchase represented a greater threat to Russia’s strategic interests than a refusal to sell (2013, 69–70). According to the TSI variable, this should have predicted Russian non-compliance with Japan’s demand. Indeed, Russia did not comply in this instance. However, in their exploration of the stateness variable, Blanchard and Ripsman note that Russian leadership throughout the 1990s wanted to sell the islands but were unable to overcome domestic opposition to the policy due to low stateness (2013, 82). This creates two alternate explanations for the same outcome: 1. Russia did not sell the islands because this would have a negative impact on its strategic interests, and 2. Russia did not sell due to the inability of its leaders to execute their preferred policy. Either could have been the determining factor in the outcome, but not both. At best, this means that the outcome is overdetermined. Blanchard and Ripsman consciously attempt to incorporate both realist and liberal insights into a single framework (2013, 140). However, the result doesn’t quite cohere, and the insights of both traditions seem to remain parallel rather than combine usefully.

Given these shortcomings, this paper offers the security salience model as a simpler, more effective framework with which to approach the intersection of security and positive sanctions.

Section 3: The Security Saliency Model

Case study: Huawei

The following analysis characterizes the decision to restrict/allow Huawei to participate in 5G construction as a security relevant question. As such, the security saliency model expects that variation on the independent variable will be dictated by the security seeking behavior of each state. Thus, states which are security seeking will exhibit a high security saliency context and those which are not will exhibit a low security saliency context. The security saliency model expects the character of this context to have direct implications for the demonstrated effectiveness of Chinese positive sanctions.

Security Relevant Issue

Communications networks are normally considered vital infrastructure, however, 5G networks have potentially even greater security implications than traditional communications equipment, as (among other things) the increase in bandwidth and reduction in latency is projected to drive the rapid development of the so-called Internet-of-Things (IoT). 5G will enable many previously analogue devices to be internet-capable, which will exponentially increase the universe of targets through which malign actors could gain access to the broader network. Furthermore, to enable 5G to reach its potential, network functions which used to be accomplished in the core—creating choke-points that could be monitored and protected by national authorities—will be accomplished at more disparate parts of the network which will render the provision of security much more difficult (Wheeler and Simpson 2019).

Political elites, particularly in Western states, have generally been alert to the security relevance of 5G construction. On March 26, 2019, the EU Commission released its recommendations for Cybersecurity of 5G Networks. The document claims, “[t]he dependence of many critical services on 5G networks would make the consequences of systemic and widespread disruption particularly serious. As a result, ensuring the cybersecurity of 5G networks is an issue of strategic importance for the Union, at a time when cyber-attacks are on the rise and more sophisticated than ever” (Commission Recommendation: Cyber Security of 5G networks 2019, 1). The document notes that 5G

involves both technical vulnerabilities and other security considerations, such as, “the overall risk of influence by a third country, notably in relation to its model of governance” (Commission Recommendation: Cyber Security of 5G networks 2019, 4). Though the recommendations do not identify a third country or telecom company, the reference to the “model of governance” of a third country is an unmistakable allusion to China, particularly as the only other telecom companies considered leaders in 5G are based in EU member-states.⁶

In early May 2019, experts and security officials from 32 mostly Western states met in the Czech Republic for the Prague 5G Security Conference with the aim of discussing 5G security and creating a set of non-binding recommendations. The final statement, issued by the Chair of the conference, claimed, “[c]onsidering that security of 5G networks is crucial for national security, economic security and other national interests and global stability, the chair believes that the architecture and functions of 5G networks must be underpinned by an appropriate level of security” (The Prague Proposals 2019, 1). The statement warned that, due to the nature of 5G, unauthorized access to the network could, “expose unprecedented amounts of information or even disrupt entire societal processes” (The Prague Proposals 2019, 2).

The United States has been unremitting in its definition of 5G as a security relevant issue and of Huawei’s activities as malign. At the 2019 Munich Security Conference, US Vice-President Mike Pence claimed, “[t]he United States has also been very clear with our security partners on the threat posed by Huawei and other Chinese telecom companies, as Chinese law requires them to provide Beijing’s vast security apparatus with access to any data that touches their network or equipment” (Pence 2019). Echoing this theme and raising the stakes, the US Secretary of State warned allies, “[i]f a country adopts this [Huawei] and puts it in some of their critical information systems, we won’t be able to share information with them, we won’t be able to work alongside them” (Elmer 2019). The Secretary noted that allowing Huawei components into the national network could impact the United States’ ability to position military outposts or even embassy facilities in an allied country (Elmer 2019).

⁶ These are Nokia, a Finnish company, and Ericsson, a Swedish company.

Given the above, I characterize the decision to restrict/allow Huawei equipment in the national 5G infrastructure as a security relevant issue. As briefly explored, political elites in Europe and the US have cast the issue as one which deeply and necessarily implicates national security due to the inherent nature of the technology. Furthermore, these elites have identified telecom companies based in a “third country” with a presumably alternative “model of governance” as a potential source of threat. Finally, the United States’ decision to link security cooperation with the question of Huawei integration makes the issue security relevant by default, as a decision to allow Huawei to provide 5G equipment could alter a state’s security relationships for the worse even absent the security concerns inherent to 5G.

Security Seeking

As the issue is security relevant, I will next determine the security salience in each state based on whether that state is security seeking. The most significant factor in CEE security seeking behavior is Russia’s invasion and subsequent annexation of the Crimean Peninsula in February and March 2014. Russia’s use of force to change a settled border caused immediate alarm in many Eastern European states, particularly those with a direct border with Russia, as it starkly demonstrated that Russia possessed the capability and will to use its military to aggressively pursue its interests in Europe. The Crimean annexation precipitated a renewed focus on collective defence in NATO, and a sharp increase in defence spending among NATO members. These increases, as a percentage of GDP, have been concentrated in Eastern European states which border Russia.

If we take Walt’s argument in *The Origin of Alliances* seriously, there is little wonder why this is the case. Walt argued that states tend to balance against the source of their greatest threat, and that this threat was determined by a potential adversary’s, “aggregate power, geographic proximity, offensive power, and aggressive intentions” (Walt 1987, 22). For much of Eastern Europe, Russia, particularly post-2014, is an extremely threatening state. Its population and military potential far outstrip the small CEE states on its periphery. Similarly, Russia’s GDP is three times larger than even Poland’s (and much larger than that of the small Baltic states) and it holds tight control over a strategic commodity (energy) which many of the states in the region rely upon. Finally, the speed and deftness with which the invasion of Crimea was conducted was a

frightening demonstration of Russia's offensive power and, potentially, her aggressive intention. The effect of Russia's geographic proximity is starkly demonstrated by the fact that five of the six CEE states which share a land or littoral water border with Russia have increased their defence spending to 2% by 2019, while the defence expenditures of those without such a border have grown more slowly (Defence Expenditure of NATO Countries 2019).

Estonia:

Estonia has been something of an outlier among its peers in its security seeking behavior. After 2008, the other Baltic countries saw their defence budgets atrophy, with both Latvian and Lithuanian military spending at 1% GDP or lower after 2010 and persisting at this level until 2015. In contrast, Estonian military spending as a percentage of GDP, while below 2%, maintained an average level which put it comfortably in the top quartile of NATO members (Defence Expenditure of NATO Countries 2011; Defence Expenditure of NATO Countries 2017).⁷ In 2012, 2013, and 2014, Estonia spent 1.9%, 1.91%, and 1.93% of its GDP on defence. Following Russia's 2014 invasion of Crimea, Estonia's defence spending increased appreciably, rising to 2.02% in 2015 and 2.07% in 2016. The next two years saw relative decreases to 2.03% in 2017 and just 2% in 2018, however, defence spending is estimated at 2.18% GDP for 2019 (Defence Expenditure of NATO Countries 2019). Though Estonia has maintained a high level of defence spending relative to its Baltic neighbors throughout the late 2000s and early 2010s, 2015 brought a noticeable and sustained increase to the defence budget relative to previous years—it has not fallen below 2% since 2014. This suggests that Estonia is responding to an increased level of regional threat after Russia's 2014 invasion of Crimea.

Estonia's current national defence strategy was published in 2011, though there have been updates to Estonia's Defence Development Plan in 2013 and 2017. In discussing Estonia's security environment, the 2011 Defence Strategy notes that, "direct military attack against Estonia is unlikely; however, such a threat cannot be ruled out

⁷ Calculations of defence spending as a percentage of GDP are variable across institutions. The World Bank, the state itself, and NATO all come to different conclusions about the exact percentage of defence spending due to differences in the kinds of costs included as "defence spending". For this paper, I will use NATO's calculation as this figure is the benchmark for the alliance goal of 2% spending, and, as such, is the most reliable calculation for the purposes of signaling burden-sharing behavior to allies.

altogether”(National Defence Strategy - Estonia 2011, 7). The strategy also warns that Russia’s actions have direct bearing on Estonian security and that Russia appeared to be interested in re-creating a sphere of influence in the region, noting increased Russian military forces close to the Estonian border (National Defence Strategy - Estonia 2011, 7). The 2013-2022 Defence Development Plan included plans to increase the size of available Estonian forces from 18,000 to 21,000 (including a plan to increase the number of yearly conscripts from 2,500 to 3,200) and acquire new weapons such as modern anti-tank weapons, new infantry fighting vehicles (IFVs) and self-propelled artillery platforms (National Defence Development Plan 2013). Four years later, Estonia released a new Defence Development Plan for 2017-2026 which called for further increases to Estonian forces from 21,000 to 25,000 and for increasing the number of conscripts from 3,200 to 4,000 (National Defence Development Plan 2017). By 2026, the plan noted, approximately half of all the young men born in a given year will be conducting compulsory military service, and there would be expanded scope for women to serve in the military either as conscripts or volunteers.

The rapid changes made to Estonia’s military development plan may indicate changes to the level of perceived regional threat—the development plan in 2017 noted that the, “development of the 2nd Infantry Brigade has started earlier than planned due to the general threat assessment” (National Defence Development Plan 2017). Indeed, the 2017 Estonian National Security Concept characterized the national security environment as “tense” and warned, “Russia has strengthened its armed forces and increased its military presence on the borders of NATO member states, including ... on Estonia’s border. Russia’s unpredictable, aggressive and provocative activity, e.g. airspace violations, offensive military exercises, and nuclear threats, is generating instability” (The National Security Concept of Estonia 2017, 4). The concept further warns that the, “probability of military deployment against Estonia or another state in the Baltic Sea region have increased” (The National Security Concept of Estonia 2017, 4).

In order to respond to these challenges, the 2017 Concept claims that, “[t]he United States’ political attention to and military presence in Europe, including the Baltic Sea region and Estonia, is crucial, as is the political and military integration of all allies” (The National Security Concept of Estonia 2017, 9). It further recommends that Estonia host a permanent allied presence on its soil and that Estonian units work to maintain

interoperability with these forces. This echoes similar recommendations from the 2011 National Defence Strategy.

Although Russia is not identified as the only threat in either the 2011 National Defence Strategy or the 2017 National Security Concept, the renewed call for permanently stationed allied troops, combined with the internal balancing measures discussed in the 2013 and 2017 National Defence Development Plans, demonstrate that Estonia perceived a regional threat which prompted fairly robust balancing behavior—both internal and external. Though Estonia has typically maintained a comparatively high level of military spending as a percentage of GDP, it surpassed the 2% GDP benchmark in 2015 for the first time since joining NATO and this level of spending has been subsequently maintained. As such, I characterize Estonia as a security seeking state since at least 2015 and possibly earlier.

Latvia:

As noted above, Latvia's defence spending was drastically cut following the 2008 Global Financial Crisis, falling from 1.6% GDP in 2008 to 1.2% in 2009 and 1% in 2010 (Defence Expenditure of NATO Countries 2011). Latvian defence expenditures continued to fall after 2010, reaching a low in 2012 of .88% GDP, and not rising above 1% until 2015 (Defence Expenditure of NATO Countries 2017). The State Defence Concept of 2012 notes Latvia's ambition to gradually increase defence expenditure to 2% GDP by 2020 (The State Defence Concept 2012, 2), however, in 2013 and 2014 such expenditures were stagnant at .93% and .94%—among the lowest in the alliance (Defence Expenditure of NATO Countries 2017).

The State Defence Concept of 2012 noted that the likelihood of an attack on Latvian territory was “low”, although the possibility could not be entirely discounted due, in part, to the, “rising military potential,” of unidentified countries, “as well as their efforts to expand their influence in world politics” (The State Defence Concept 2012, 4). However, in surveying the security environment, the Concept focused on asymmetric threats such as, “terrorist attacks, organised [sic] criminal activities, cyber attacks, information warfare and psychological operations” (The State Defence Concept 2012, 4). Russia is not identified as a threat. In fact, the Concept notes that promoting cooperation with Russia is vital to the stability of the Baltic region. On the topic of NATO, the 2012 State Defence Concept identifies the NATO Baltic air policing mission as the region's

most visible manifestation of the alliance, and prioritized the continuation of the mission as well as other expressions of “Allied solidarity” such as joint-training exercises (The State Defence Concept 2012, 11). Though the Concept notes that Latvia provides host-nation support to participating allies, and that the, “[p]ermanent use of the Latvian civil and military infrastructure for the support of the NATO forces strengthens Latvia’s security and defence” (The State Defence Concept 2012, 11), there is no explicit call for alliance troops to be positioned on Latvian territory on either a permanent or rotational basis.

Following Russia’s 2014 invasion of Crimea, Latvia’s threat perceptions appear to have changed markedly. In July 2014, the Latvian Saeima unanimously adopted the *Law on the Financing of National Defence*, which called for an increase of Latvian defence expenditure to 2% GDP no later than 2020 and set minimum levels of defence funding per year. The Latvian Foreign Minister stated, “given the current situation in the world, increasing the funding for Latvia’s national defence is essential. We are thankful to NATO Allies for the initial measures taken to reinforce the security of the Baltic States. Nevertheless, we must not forget about our own responsibility for ensuring national defence” (Ministry of Foreign Affairs 2014). Following the adoption of this law, Latvian defence expenditures grew every year, reaching 2.08% in 2018—two years ahead of schedule. These increases appear likely to be sustained, as Latvia’s 2019 defence expenditure is estimated at 2.01% (Defence Expenditure of NATO Countries 2019).

The National Defence Concept of 2016 also reflected the altered threat perceptions. The 2016 Concept describes the European security situation as having deteriorated due to Russia’s aggressive actions in Ukraine. The document warns that, “during recent years Russia has extensively developed its military infrastructure and has been demonstrating its military power in the direct vicinity of Latvia’s border” (The National Defence Concept 2016, 3). As such, the Concept characterizes Russia as a source of direct threat to Baltic security in general and Latvia’s in particular. Whereas the 2012 Concept noted that the likelihood of an attack on Latvia’s territory was low, the 2016 Concept observes that, in the current security environment, it is increasingly difficult to distinguish peace from conflict (The National Defence Concept 2016, 5). Strikingly, of 15 paragraphs describing the international security environment, the 2016 Concept discusses threats other than Russia in only two—a far cry from the 2012 Concept which did not explicitly identify Russia as a threat at all.

In response to this new threat environment, Latvia undertook a course of both internal and external balancing. In terms of internal balancing, the 2016 Concept commits to increasing the size of the National Armed Forces (NAF) from 17,000 to 17,500 troops, with the largest increase going to Regular forces, taking regular formations from 5,500 to 6,500 troops. Furthermore, it calls for Reserve units to be integrated in wartime structures with regular NAF units, and for a Cadet Force program to engage Latvia's children in patriotic education and familiarization in topics of national defence (The National Defence Concept 2016). While no specific equipment purchases are noted, the Concept commits to spending no less than 20% of the defence budget on equipment procurement.

The 2016 Concept also articulates a policy of external balancing by declaring Latvia's interest in hosting a continuous, rotational presence of allied forces on Latvian territory in order to bolster deterrence (The National Defence Concept 2016, 13). Furthermore, the Concept notes an ambition to draw the attention of the United States to Latvia's security challenges and achieve a bilateral American military presence in Latvia (The National Defence Concept 2016, 14).

Prior to 2014, Latvia did not demonstrate security seeking behavior. During this time, its defence budget was among the lowest in NATO as a percentage of GDP. However, following Russia's actions against Ukraine, this trend was reversed, and within four years Latvia became one of only a handful of NATO states which meet the 2% target. Furthermore, Latvian defence documents directly name Russia as the main source of regional threat and, in response, increased the size of the NAF and explicitly lobbied its allies for a continuous, rotational military presence. As such, Russian aggression in Crimea clearly sparked a significant change in Latvian threat perceptions. Given this, I characterize Latvia as a security seeking state since 2014.

Poland:

As with Estonia, Poland has traditionally spent a larger portion of its GDP on defence than many NATO member-states. However, as a member of NATO, it had never achieved the 2% benchmark prior to 2015. Between 2009 and 2013, Poland's defence expenditure varied only slightly between 1.7% in 2009 and 1.72% in 2013 (Defence Expenditure of NATO Countries 2017).

Poland's 2009 Defence Strategy does not explicitly name any other state as a threat, though it does appear to level oblique criticism at Russia by referencing the recent conflict in Georgia as an example of the continued relevance of traditional military threats. The Strategy also notes potential far-reaching consequences of states, "holding back from implementing international agreements in the area of non-proliferation, arms reduction and disarmament as well as in confidence and security building measures" (Defense Strategy of the Republic of Poland 2009, 4). However, despite these challenges, the Strategy notes that the prospect of large-scale conflict is remote. Though the Strategy warns of the possibility of a, "conflict occurring *close* to Poland's border" [emphasis added], no threat to Poland's territorial integrity is identified (Defense Strategy of the Republic of Poland 2009, 5). Instead, the document emphasizes asymmetric threats such as energy-security, weakening European and transatlantic bonds, terrorism, and the proliferation of weapons of mass destruction. Russia, though the recipient of some diplomatic side-eye, is identified by the Strategy as a priority target for the development of "good-neighborly relations" due to the importance of its security policy for CEE (Defense Strategy of the Republic of Poland 2009, 6).

Shortly after Russia's invasion of Crimea, Poland's defence budget began a steep climb, growing to 1.85% GDP in 2014, and reaching 2.22% in 2015 (Defence Expenditure of NATO Countries 2017). Defence expenditures fell slightly to 1.99% in 2016 and 1.89% in 2017, but rebounded to 2.02% in 2018 and an estimated 2% in 2019 (Defence Expenditure of NATO Countries 2019). Though Poland's defence budget did not maintain the 2% benchmark for two years following 2015, defence expenditures during this time were still significantly larger than before 2014. Furthermore, not only did Poland meet the 2% benchmark in 2018 and 2019 (estimated), Poland's 2017 Defence Concept identifies an ambition to steadily increase the defence budget to 2.5% GDP by 2030 (The Defence Concept of the Republic of Poland 2017, 47).

In contrast with the previous defence strategy, the 2017 Concept explicitly identifies Russia as the main source of regional threat. Indeed, Russia's "aggressive foreign policy" is the first threat identified by the Concept, followed by an, "unstable neighborhood on NATO's Eastern Flank", itself a consequence of Russia's malign actions (The Defence Concept of the Republic of Poland 2017, 25). Drawing attention to Russia's breaking of international law and regular use of force and coercion, the Concept claims that Russia is expected to maintain an aggressive posture in foreign

policy and that, “[t]aking into account the asymmetry of military capabilities between Russia and NATO’s eastern flank members, such a situation creates a direct threat for Poland and the region” (The Defence Concept of the Republic of Poland 2017, 23). To be sure, the 2017 Concept identifies other sources of threat, such as terrorism and instability on NATO’s southern flank. However, the Concept is driven by the necessities of national defence predicated on Russian aggression.⁸

To cope with this new threat environment, the 2017 Concept announces three main initiatives to be accomplished by 2032: raising the defence budget steadily past 2% until reaching 2.5% GDP, dramatically increasing the size of the Polish Armed Forces to 200,000 troops, and procuring new, top-end military equipment such as 5th generation fighter-jets. To date, Poland has already made progress on all three goals. As noted above, Polish defence spending reached 2.02% GDP in 2018 and is projected to maintain the 2% benchmark in 2019. Furthermore, the Polish military has grown in size from 101,600 troops in 2016 to an estimated 118,500 troops in 2019 (Defence Expenditure of NATO Countries 2019, 12).⁹ Finally, Poland has signed agreements with the United States to purchase high-end arms such as thirty-two F-35 Lightning II fighters for \$4.6 billion USD, as well as Patriot surface-to-air missile systems for \$4.75 billion USD (Sieradzka 2020). Aside from the obvious military application of high-end arms, many suspect that Poland’s purchase of expensive US-made weapons is meant to curry favor with US President Trump so as to entice the Americans to permanently station a large formation of troops in Poland—a so-called “Fort Trump” for which Poland has volunteered to pay \$2 billion USD (Sieradzka 2020).

Poland has typically spent a larger portion of its GDP on defence than many other NATO-member states. However, prior to 2015, it had never met the 2% benchmark. Shortly after Russia’s invasion of Crimea, Polish defence expenditures rose significantly, meeting the 2% benchmark in 2015. Though spending fluctuated, Polish defence expenditure remained high and has achieved 2% in the last two years for which data is available. This rise in defence expenditure corresponds to a change in the level

⁸ For instance, while the concept notes that instability on NATO’s southern flank is likely to obligate Poland to assist its allies, this observation is quickly followed by the caveat that such assistance cannot be allowed to prejudice the conduct of a rigorous national defence (The Defence Concept of the Republic of Poland 2017, 28).

⁹ This appears to count only full-time, professional soldiers.

of perceived threat. In contrast to the 2009 Defence Strategy, the 2017 Defence Concept clearly identifies Russia as a serious source of threat and called for increases to both the defence budget and the Polish Armed Forces, and the acquisition of advanced arms—goals towards which Poland has already made progress. This represents a clear shift towards an internal balancing strategy following 2014. Furthermore, as Poland has lobbied the Trump administration for an increased American troop presence, including signaling a willingness to pay the cost of constructing a permanent US base, Poland is also engaged in external balancing. Given this, I characterize Poland as security seeking since at least 2015.

Hungary:

Hungary's defence spending as a percentage of GDP has consistently been among the lowest in the alliance. It fell from 1.2% GDP in 2008 to 1.14% in 2009 to 1.04% in 2010 (Defence Expenditure of NATO Countries 2011; Defence Expenditure of NATO Countries 2017). Hungarian defence spending remained relatively steady at this level for a few years until it dipped down further to .95% in 2013 and .87% in 2014 (Defence Expenditure of NATO Countries 2017). Defence spending began to slowly rise again each year after 2014, but in 2019 it is estimated that the defence budget will be only 1.21% GDP—the sixth lowest in NATO (Defence Expenditure of NATO Countries 2019).

Hungary's 2012 National Military Strategy is sanguine about Hungary's security, describing the immediate region as "fundamentally stable" and the probability of a conventional or even unconventional attack against Hungary or its allies as "marginal" and "low" (Hungary's National Military Strategy 2012, 7–8). The Strategy does not identify any state as a source of threat. Instead, the section discussing the security environment focuses attention on indirect threats. The Strategy notes that past conflicts have rendered some areas in the region "fragile" and claims that the possibility of conventional conflicts in the wider region exists, and should such a conflict break out, it would have an "indirect impact also on Hungary" (Hungary's National Military Strategy 2012, 8). Aside from a mention of the increasing military capability of unnamed "emerging states", the threats identified by the Strategy are asymmetric in nature—terrorism, non-state actors, proliferation of weapons of mass destruction, state fragility, demographic and economic aggravation in peripheral states, energy security, and

access to global commons (Hungary's National Military Strategy 2012, 8–10). Though the core function of the Hungarian armed forces is identified as the defence of Hungary's territory, the Strategy emphasizes the expeditionary nature of likely future operations. Indeed, the chapter "Characteristics of the Anticipated Employment of the Armed Force" is premised on the notion that, "[t]he employment of the Hungarian Defence Forces generally occurs in crisis management operations, in many cases significantly far [sic] from Hungary" (Hungary's National Military Strategy 2012, 12). The Strategy identifies the low defence budget as an issue and articulates an ambition to increase defence spending following 2016 such that, by 2022, Hungary's defence expenditure would equal 1.39% GDP—the average level of European NATO member spending (Hungary's National Military Strategy 2012, 15).

The 2012 National Defence Strategy is the only such document available to the public to date. However, Hungary announced in 2016 that a new defence strategy was in the process of being drafted. The Hungarian Defence Minister attributed this move to changing security circumstances brought on as a, "result of the migrant crisis as well as the heightened threat of terrorism and cyberattacks" (Hungary's government drafting new security, military strategy 2016). The product of any review of the Strategy in 2016 is not publicly available. However, it is significant that, in the Defence Minister's comments, no mention is made of Russia's invasion of Crimea. Rather, Hungary appears to focus on the danger emanating from NATO's southern flank, epitomized by the migration crisis. In early 2020, Hungary announced that the government had formulated a new defence strategy.¹⁰ Commenting on the new draft, the Hungarian Defence Minister noted that NATO is contending with a threat from Russia and a threat from mass migration, claiming, "[t]he latter is gaining increasing significance at various level NATO meetings" (Hungary's new National Security Strategy has been drawn up 2020).

Since 2016, Hungary has undergone a process of military modernization and increased defence spending. The Ministry of Defence has adopted a new program, dubbed Zrínyi 2026, which has the ambition of increasing the size and capability of the Hungarian Defence Force and for increasing defence expenditure to 2% GDP by 2024 at the earliest and 2026 at the latest. Under the program, Hungary seeks to increase the

¹⁰ This new strategy is not publicly available at the time of writing.

number of active-duty troops to 30,000 and reserves to 20,000 (Cabinet Office 2018). Furthermore, Hungary will procure new equipment such as Airbus multi-role helicopters to replace an ageing fleet of Soviet-era aircraft, as well as 44 Leopard 2 A7 tanks (Adamowski 2018). Indeed, in 2020, Hungary has markedly increased its procurement (Ghosh 2020). However, this modernization has not been without problems—partially brought about by poor state capacity (Bartha 2016)—and the latest available data demonstrates that Hungary’s defence spending will still be near the bottom of NATO member states in 2019 (Defence Expenditure of NATO Countries 2019).

Hungary has been similarly slow to demonstrate external balancing behavior. In the first place, there is no sign that Hungary has lobbied the US or its allies for a troop presence, as has been the case in Poland, Romania, and the Baltic states. Though Hungary agreed to host a NATO Force Integration Unit (NFIU) in Székesfehérvár, it took more than a year longer to bring online than NFIUs in other Eastern Flank states (Bartha 2016; Colvin 2016; McNamara 2019). In the same vein, Hungary signed an updated defence cooperation agreement (DCA) with the United States in February 2019 but did not ratify the agreement until July (Gaál 2019; Patricolo 2019). Commentators took note of the contrast between the slow ratification of the DCA—especially galling given the governing party’s super-majority in the legislature—and the alacrity with which Hungary passed legislation giving special privileges to employees of a Russian bank (Hooper and Feifer 2019). As with its defence spending, Hungary’s ties to its allies deepened throughout the mid to late 2010s, albeit at a more leisurely pace than that of many of its neighbors.

Hungary’s security seeking behavior is mixed. Its military expenditure as a percentage of GDP has consistently been among the lowest in NATO. This remained the case even after Russia’s invasion of Crimea—indeed, this event had no immediately perceptible impact on Hungary’s defence expenditure. Though a new defence program initiated in 2016 is set to modernize the Hungarian Defence Forces, comments by senior political leaders indicate that Hungary sees threats emanating from NATO’s southern flank as much more pressing than that from a resurgent Russia. Despite a pledge to meet the 2% benchmark by 2024, its defence spending is projected to remain among the lowest in NATO in 2019 (Defence Expenditure of NATO Countries 2019). Some blame may be placed on poor state capacity, and yet, the preponderance of evidence appears to indicate that Hungary is comfortable increasing its defence expenditure more

gradually than some of its peers and that it has a different perception of where the most pressing threats lie. In contrast to Poland, Romania, and the Baltic states, there is no evidence that Hungary has lobbied the US or its other NATO allies to station troops on its territory. The relatively slow pace of the institution of the NFIU in Székesfehérvár and the ratification of its DCA with the US further suggests that Hungary does not believe a strategy of vigorous external balancing is necessary for its security. Given the above, I characterize Hungary as non-security seeking.

Czech Republic:

Average Czech defence spending between 2006 and 2009 was just short of the NATO average at 1.55% GDP (Defence Expenditure of NATO Countries 2011).¹¹ However, beginning in 2010, the Czech defence budget began a period of sharp decline with expenditures at 1.29% in 2010, 1.07% in 2011, 1.05% in 2012, and 1.03% in 2013 (Defence Expenditure of NATO Countries 2017). This decline appears consistent with the official Czech appraisal of its security environment. The 2012 Defence Strategy notes that that Czech Republic enjoys a favorable security situation as its, “borders are internationally recognised [sic] and undisputed, it maintains good relations with all its neighbours, and it is fully integrated into the Euro-Atlantic structures” (The Defence Strategy of the Czech Republic 2012, 5). Although it notes the potential long-term impact of the growing military capability of some unnamed states, the Strategy expects that threats to the Czech Republic will be non-military and asymmetric, and will require the Czech military to be deployed abroad as part of multi-national operations (The Defence Strategy of the Czech Republic 2012).

Following Russia’s invasion of Crimea, Czech defence spending remained stagnant until 2018 when it began to increase, if only marginally. Czech defence expenditure fell in 2014 to .95% GDP, among the lowest in NATO, and held steady at this level for the next several years.¹² In 2018, the Czech defence budget saw a small increase to 1.13%, and is estimated to reach 1.19% in 2019 (Defence Expenditure of NATO Countries 2019). The Czech appraisal of its security situation was also mostly unchanged. The Czech “Long Term Perspective for Defence 2030”, compiled in 2015, notes that, “[t]he most likely and frequent example of the employment of the Czech

¹¹ Not including the US.

¹² Defence spending as a percentage of GDP was 1.03% in 2015, .96% in 2016, 1.04% in 2017.

Armed Forces in the next twenty years will be their participation in international operations outside the Czech Republic” (The Long Term Perspective for Defence 2030 2015, 8). In order to cover the expenses of modernization of the Czech Armed Forces, this document predicted a need to achieve defence spending of 1.4% GDP in 2020.

The 2017 Defence Strategy of the Czech Republic noted a deterioration in the regional security environment, naming Russian aggression as a main factor in this change. Even so, the 2017 Strategy claims that the threat of direct attack on the Czech Republic remains low. Rather, it notes that Czech security is more likely to be implicated indirectly as, “some NATO nations or EU Member States may be threatened in such a way as to require the engagement of the Czech Armed Forces in collective operations to ensure the defence of these Allied nations” (The Defence Strategy of the Czech Republic 2017, 8). The 2017 Strategy calls for the strengthening of the Czech Armed Forces in order to better share the burden of collective defence and support its allies who, “bear the greater share of the burden” (The Defence Strategy of the Czech Republic 2017, 7). In order to do so, the Strategy commits the Czech Republic to achieving a defence budget of 1.4% of GDP by 2020 with an ambition to achieve the NATO benchmark of 2% GDP within 10 years (The Defence Strategy of the Czech Republic 2017, 16). The 2017 Strategy also notes an ambition to build up stockpiles of necessary defence stores, increase the size of the Czech Armed Forces by 5,000 professional troops, and strengthen the Czech Active Reserve (The Defence Strategy of the Czech Republic 2017, 13–14).

“The Long Term Perspective for Defence 2035”, compiled in 2019, notes that achieving a defence budget of 2% GDP by 2024 will be necessary to fulfill the measures contained within the 2017 Strategy. However, this does not signal a change in the security environment or the expected tasks of the Czech Armed Forces. The report maintains that the threat of attack against the Czech Republic itself is low, though it notes that Czech security could be implicated by an attack on allies to whom the Czech Republic is bound by defence treaty (The Long Term Perspective for Defence 2035 2019, 9). Instead, the report claims that the most likely employment of the Czech Armed Forces in the 2035 horizon will be as part of, “[i]nternational crisis management and post-conflict stabilization, typically carried out as a multilateral effort by the international community” (The Long Term Perspective for Defence 2035 2019, 14).

The Czech Republic has not appeared to pursue a vigorous external balancing strategy. In 2014, shortly after the Russian invasion of Crimea, several countries in CEE were lobbying NATO for an allied troop presence. However, the Czech Prime Minister, Bohuslav Sobotka, pre-emptively declared that the Czech Republic needed no such measures, claiming, “We have assessed the security situation at present and we don’t need anything similar. The Czech Republic will not be and isn’t one of the countries calling for an increase in NATO troops in Europe” (Velinger 2014). Though the Prime Minister received domestic criticism for the statement, the Czech Republic has not lobbied for or received support from its allies. Though the Czech Republic contributes to the enhanced Forward Presence in Latvia (NATO’s Enhanced Forward Presence 2019), it does not host a NFIU nor has it received American funds from the European Deterrence Initiative to build US defence infrastructure (Lațici 2018). This is consistent with the reviewed strategy documents which tend to emphasize the Czech Republic’s role as security provider rather than recipient.

The Czech Republic’s defence spending has been among the lowest in NATO since 2011, at times dipping below 1% GDP. Though the Russian invasion of Crimea brought a rhetorical change to the Czech defence documents, it has not appeared to spur wide-reaching internal balancing despite a commitment to spend more on defence. Czech defence expenditure has reached only 1.19% GDP in 2019 despite a target of 1.4% by 2020 and an ambition to achieve 2% GDP by 2024. While this does represent a tentative increase in the defence budget, the Czech Republic has clearly acted with less urgency than other CEE states in enhancing its defence capacity. This is consistent with the analysis of the reviewed defence documents which emphasize the “low” likelihood of aggression directed against the Czech Republic and note that the most likely tasks for the Czech Armed Forces will take place beyond national borders. This attitude is also evident in the Czech Republic’s apparent lack of external balancing behavior epitomized by the pre-emptive rejection of NATO troops on Czech soil in the summer of 2014. Given the above, I characterize the Czech Republic as a non-security seeking state.

Romania:

Romania’s defence budget has typically been in the middle of the NATO pack. However, it demonstrated a downward trajectory between 2006 and 2012. The defence budget stood at 1.8% GDP in 2006, falling to 1.5% in 2007 and 2008, and falling further

to 1.33% in 2009 (Defence Expenditure of NATO Countries 2011; Defence Expenditure of NATO Countries 2017). Military expenditures continued to fall into the mid-2010s, reaching a low point of 1.22% in 2012 (Defence Expenditure of NATO Countries 2017). The national threat assessment during this period was consistent with a declining defence budget. The 2007 National Security Strategy notes that the chances of a large-scale military conflict are “slim” (The National Security Strategy of Romania 2007, 10), and that, as a member of NATO, the chance of a conventional war is “much less likely” (The National Security Strategy of Romania 2007, 12). The Strategy notes that, “[t]he security guarantees that we enjoy today ... are the most solid in Romania’s history” (The National Security Strategy of Romania 2007, 26). In keeping with the other pre-2014 strategies reviewed, the 2007 Strategy does not identify any state as a threat, and instead focuses attention on asymmetric threats such as terrorism, proliferation of weapons of mass destruction, local conflicts, and cross-border crime.

The trend in declining defense expenditures was reversed in 2013, as Romanian defence spending grew modestly to 1.28%. However, it was after 2014 that the defence budget saw its first real increases, reaching 1.35% GDP in 2014 and 1.45% the following year. Defense spending fell to 1.4% GDP in 2016, but rebounded to 1.72% in 2017, increased to 1.82% in 2018, and is estimated at 2.04% GDP in 2019 (Defence Expenditure of NATO Countries 2019). The sharp increases in defence spending beginning in 2017 stem from a cross-partisan agreement reached among Romania’s political parties in January 2015 to spend no less than 2% of GDP per year on defence for 10 years beginning in 2017 (Chiriac 2015). This agreement is meant to enable a program of military modernization and the procurement of badly needed equipment. Though the agreement to spend 2% GDP on defence came into force in 2017, bad planning and poor state capacity have hampered the ability of the Ministry of Defence to spend the appropriated funds in 2017 and 2018 (Vişan 2019). Despite these challenges, Romanian defence spending is expected to reach the 2% benchmark in 2019, and the Romanian military has begun the process of acquiring an array of modern equipment such as F16 fighter jets, four new naval vessels, new infantry fighting vehicles, Patriot surface-to-air missiles, High Mobility Artillery Rocket System (HIMARS) and Guided Multiple Launch Rocket Systems (GMLRS) (Adamowski 2019; Joja 2018).

The altered threat perception suggested by the 2015 consensus on defence spending is evident in defence documents produced after 2014. The 2015 Defence

Strategy, produced by the President's office, calls Russia an "important actor" in the Euro-Atlantic and claims that its, "actions in the Black Sea Region, infringing upon international law, questioning international order, preserving frozen conflicts and the annexation of Crimea have raised again the NATO awareness upon fulfilling its fundamental mission that is collective defense [sic]" (National Defense Strategy 2015, 12). Though Russia is not the only threat identified, its inclusion in the 2015 Strategy is conspicuous given its absence from the 2007 National Security Strategy. As part of the plan to counter the identified threats, the 2015 Strategy prescribes a process of internal balancing as well as, "deepening the security dimension of the Strategic Partnership with the US, by consolidating military cooperation" (National Defense Strategy 2015, 18). The 2016 Military Strategy, produced by the Ministry of Defence, likewise identifies Russia as a source of threat, claiming, "[t]he development of military potential in the vicinity of the eastern border of our country ... concurrently with the unfolding of processes of [Russian military] reorganization, modernization, and procurement of high-technology weapons systems, and the numerically increase of short-notice or no-notice large-scale military exercises [sic], represent **the most important factor of military risk against national security**" [emphasis in original] (The Military Strategy of Romania 2016, 8).

In response to the increased threat, the 2016 Strategy calls for both internal and external balancing measures. Notably, the 2016 Strategy prioritizes strengthening military cooperation with the US and, "increasing allied presence on the national territory, concurrently developing the legal framework and completing the infrastructure projects required to sustain this presence" (The Military Strategy of Romania 2016, 10). Indeed, progress has already been made towards these goals, as Romania established a NATO NFIU in 2015 (NFIU Romania 2020), established the NATO Multinational Divisional Headquarters South-East in 2015 (MNDSE Romania 2016), hosts a NATO multinational brigade in Craiova (Budu 2018), hosts a NATO air-policing mission (Canadian CF-188 Jets Arrive in Romania for NATO's Enhanced Air Policing Mission 2017), and has received American funds through the EDI to modernize Cămpia Turzii air base and Mihail Kogălniceanu air base which both host rotational American troops (Insinna 2018; Lațici 2018; Luca 2018).

Romania's defence spending has typically been near the European NATO average, though it decreased as a percentage of GDP between 2006 and 2012. Following Russia's invasion of Crimea in 2014, Romanian defence expenditure began to

rise sharply, buoyed by a 2015 cross-partisan agreement to set defence spending at 2% beginning in 2017. This instance represents an important moment, as it demonstrates a clear recognition that Romania's security environment had significantly deteriorated such that new investment in national defence was necessary. Though the Ministry of Defense has encountered problems spending its allotted funds, defence spending is expected to reach 2% in 2019 and progress has been made towards procuring an array of modern weapons systems. Furthermore, in response to a new threat emanating from Russia, Romanian strategic documents have called for increased allied (and particularly American) troop presence in Romania since 2015. This has largely been accomplished as Romania now hosts rotational US and NATO troops and several elements of NATO security architecture. Given the clear priority of internal and external balancing measures beginning in 2015, I characterize Romania as security seeking since at least 2015.

Results

To summarize the above case-studies, I characterize the decision to restrict/allow Huawei equipment in the national 5G infrastructure as a security relevant issue. Furthermore, I characterize four of the six CEE states as security seeking and two of the six as non-security seeking. As a result, in four of the six cases analyzed, security salience was high, while in two of the six cases, security salience was low. This is illustrated in Table 7.

Using the model put forward by this paper, I expect that, in contexts which involve high security salience, a given CEE state is more likely to side with the US over China as the need to maintain their security relationships will outweigh the benefit of Chinese positive sanctions or the detriment of their cessation. Likewise, I expect that, in contexts which involve low security salience, a given CEE state is more likely to side with China over the US as the security relationship with the US will be of less importance than the economic benefit of Chinese positive sanctions or the detriment of their cessation.

Table 7: Security Salience (Huawei)

State	Security Seeking	Security Relevant	Security Salience
Estonia	1	1	High
Latvia	1	1	High
Poland	1	1	High
Hungary	0	1	Low
Czech Republic	0	1	Low
Romania	1	1	High

Each of the six states included in this analysis have taken a position on Huawei. Five out of the six have signed a Memorandum of Understanding (MoU) with the United States which commits to cooperation on 5G development. These MoUs—which are nearly identical with only minor alterations in wording—each promise to rigorously scrutinize 5G vendors to determine if, among other criteria, they would be subject to control by a foreign government without judicial review, have a clear ownership structure, and are part of a legal regime which encourages transparent corporate practices.¹³ Though Huawei is not explicitly referenced, these MoUs are clearly tailored to preclude its equipment from inclusion in 5G networks. Huawei has faced suspicion in Western states due to China’s *National Intelligence Law* which requires Chinese companies to cooperate with national intelligence services when asked (Yuan 2019). Furthermore, though Huawei maintains that it is wholly owned by its Chinese employees, it has received criticism from observers who claim that its ownership structure is too opaque to determine if its claims are true (Balding and Clarke 2019). Both facts are directly implicated by the criteria set out in the MoUs. As such, by signing an MoU with the United States, these five countries have clearly signaled an intent to side with the US position and restrict Huawei from competing for 5G infrastructure projects.

¹³ These MoUs can be found at the following addresses:

Estonia: <https://www.whitehouse.gov/briefings-statements/united-states-estonia-joint-declaration-5g-security/>

Latvia: <https://www.state.gov/joint-statement-on-united-states-latvia-joint-declaration-on-5g-security/>

Poland: <https://www.whitehouse.gov/briefings-statements/u-s-poland-joint-declaration-5g/>

Romania: https://english.hotnews.ro/stiri-top_news-23464730-romania-5g-memorandum-declassified.htm

Czech Republic: <https://www.state.gov/joint-statement-on-united-states-czech-republic-joint-declaration-on-5g-security/>

Conversely, only one of the states included in this analysis, Hungary, has not signed an MoU with the United States. In fact, Hungarian Foreign Minister, Peter Szijjarto, confirmed that Huawei equipment will be allowed without restriction (Szakacs and Than 2019). Speaking at the Hongqiao International Economic Forum, Foreign Minister Szijjarto announced, “Hungary does not discriminate any firms [sic] based on their nationalities. Compliance with local laws and regulations is the only condition for becoming a business partner with Hungary” (Xinhua 2019). As such, Hungary has clearly signaled that it will side with the Chinese position and allow Huawei to compete for 5G infrastructure projects.

The evidence, illustrated in Table 8, is broadly consistent with the expectations of the security salience model. As expected, all four states in a context of high security salience (Estonia, Latvia, Poland, and Romania) have adopted the US position on Huawei. However, of the two in a context of low security salience, one (Hungary) has adopted the Chinese position, and the other (Czech Republic) has adopted the US position. Given the expectations listed above, the Czech Republic’s decision to side with the US position appears to be an outlier in the security salience model.

Table 8: Huawei Integration

State	Security Salience	Huawei Integration
Estonia	High	No
Latvia	High	No
Poland	High	No
Hungary	Low	Yes
Czech Republic	Low	No
Romania	High	No

However, although the Czech Republic’s decision to align with the US position cannot be accounted for by the model, it does not fundamentally challenge the theory on which the model is built. Security salience is a system-level variable—it represents a context to which a state must react. This context shapes rather than determines the actions of the state. In instances where security salience is high, and given the assumption that states are foremost concerned with their survival, the system-level variable constrains the actions of the state. Certain courses of action become unlikely as they jeopardize the survival of the state. Though it is not impossible that a state in a context of high security salience would choose to compromise its security, it is unlikely that most states would knowingly do so if the assumption of states’ priorities hold.

Likewise, a context of low security salience lifts certain constraints on a given state—no longer fearing for its survival, the state is free to pursue its interests as it sees fit. *Ceteris paribus*, the security salience model assumes that such a state would act to maximize its wealth, however, it does not demand so. As interests are likely to be influenced by idiosyncratic forces (history, values, beliefs, leaders, etc.), the precise constellation of preferences in each state cannot be theorized at an adequate level of generality to be useful for the generation of predictions. Rather, I must make an assumption about what states want *on average*, fully understanding that this assumption may not hold in any one instance. As such, the security salience model is suited to make probabilistic rather than deterministic predictions.

Prior to 2013, the Czech Republic was one of the most vociferous critics of China in Europe on issues of human rights. This unusually harsh stance was driven by the humanitarian legacy of the first President of the Czech Republic, Vaclav Havel, the Czech historical experience of Communism, and a resultant Czech prioritization (at least rhetorically) of human rights in its foreign policy (Fürst 2018). Though the Czech Republic, under the Presidency of Milos Zeman and the governing Social Democratic Party, chose to mute criticism of China in order to ease economic relations, this decision evidently did not sit well with a significant part of Czech society (Fürst 2018). In 2017, a Eurobarometer survey found that the Czechs' opinion of China was among the most unfavorable in Europe (Special Eurobarometer 467: Future of Europe 2017). Opposition politicians and even some Cabinet members purposefully goaded China—hanging the Tibetan flag from the Czech Parliament, arranging trips to Taiwan, meeting the Dalai Lama, etc. For instance, Chinese President Xi Jinping, during his 2016 visit to Prague, was met by protesters carrying pictures of Vaclav Havel and the Dalai Lama led by opposition members of the legislature (CTK National News Wire 2016). After high profile arguments between the Czech Prime Minister and the Chinese Ambassador to the Czech Republic (Keegan 2018), accusations of Chinese bullying of Czech politicians (Muller 2020), and in the face of Czech disappointment with the perceived low level of Chinese investment (Lau 2020), Sino-Czech relations appear to have cooled dramatically over the past year. Given the poor state of relations and the simmering tension between the two states, the Czech decision to side with the US position against Huawei becomes understandable. Although, it is not accounted for by the model, the Czech decision fits within it. In a context of low security salience, the Czech Republic

was relatively unconstrained in its pursuit of its interests. While the interest pursued was not that assumed by the model, it does not challenge the model's theoretical foundations.

The security salience model, then, appears to have performed adequately in describing the states in which positive sanctions were likely to be successful in achieving Chinese strategic interests, and those in which they were unlikely to be successful. The four states in a context of high security salience faced the most serious constraints on their ability to side with China. The US threat to scale back security cooperation was likely taken very seriously in these countries which are attempting to maximize their security through both internal and external balancing measures. Under such conditions, bowing to the pressure of their security guarantor was an entirely rational decision. Likewise, the two states in a context of low security salience were relatively free from such constraints to their decision. Hungary, which does not appear to share the threat perception of Poland, Romania, and the Baltic states, had greater latitude to disregard US warnings and act according to its other interests—in this case, the pursuit of deeper economic cooperation with China. The Czech Republic was in a similar position, however, it decided to side with the US against China, likely for reasons of domestic preference which are beyond the ability of the model to explain. As the evidence in five of the six cases was consistent with my expectations (and the sixth did not represent a challenge to the theory), it is reasonable to conclude that there is tentative support for the security salience model.

Case Study: Asia Infrastructure Investment Bank

In the above analysis of CEE states' decision to restrict/allow Huawei equipment, the issue at hand was clearly security relevant. This produced variation on the independent variable based on the security seeking behavior of each state. The results of the analysis were broadly in line with the expectations of the security salience model, with high security salience states more resistant to the influence of Chinese positive sanctions than low security salience states. In the next case-study, I will analyze an issue which is not security relevant—the decision to join the Asian Infrastructure Investment Bank (AIIB). As the issue is not security relevant, the security salience model does not predict any variation in security salience regardless of security seeking behavior among states.

Security Relevant Issue

Though they can be a tool of influence (as can any international organization) multilateral banks are not typically understood as matters of national security. Despite concerns voiced by the United States and Japan about the AIIB's potential impact throughout the 2014-2015 preparatory phase, global elites did not discuss the AIIB in terms which suggested that bank membership was a security relevant issue.

Not only is a sense of threat absent from most elite characterizations of AIIB, the AIIB is almost always couched in economic and developmental terms. Speaking at the inauguration of the AIIB, President Xi Jinping said, “[t]he founding and opening of the AIIB also means a great deal to the reform of the global economic governance system ... and will help make the global economic governance system more just, equitable and effective” (Xi 2016). Then Chancellor of the Exchequer, George Osborne, explained that, “[j]oining the AIIB at the founding stage will create an unrivalled opportunity for the UK and Asia to invest and grow together” (UK announces plans to join Asian Infrastructure Investment Bank 2015). In a joint speech with President Xi, Prime Minister David Cameron noted that the, “Asian Infrastructure Investment Bank ... will be of enormous benefit to the region as well as opening up more opportunities for British business to help drive growth and jobs” (Cameron and Xi 2015). The characterizations of the AIIB as an economic opportunity are also found in public statements from officials in CEE. A press statement from the Romanian Ministry of Foreign Affairs calls joining the AIIB an “opportunity” to diversify trade relationships and engage more deeply with Asian partners (Ministry of Foreign Affairs 2017). The Polish deputy Finance Minister claimed that joining the AIIB, “will maximise [sic] the benefits which Poland and the Polish economy can achieve as a result of the founding of a new international financial institution” (Radio Poland 2015), and the Hungarian Foreign Minister noted that joining the AIIB would increase Hungary's ability to do business in Asia and improve Hungary's diplomatic clout (Székely 2015).

The United States demonstrated markedly less enthusiasm for the AIIB (Perlez 2014). However, even the US criticisms of the AIIB are generally bereft of clear security concerns. Few US officials spoke openly against the new bank but potential issues that were reported to media typically involved supposed low environmental and labor standards, as well as concerns that human rights would be discarded in favor of quick

development (Perlez 2014; Sobolewski and Lange 2015). A senior US official complained, “[h]ow would the new institution add value? How would the Asian Infrastructure Investment Bank be structured so that it doesn’t undercut the standards with a race to the bottom?” (Perlez 2014). Others voiced concern that the AIIB would be a tool of Chinese foreign policy influence (Dyer and Parker 2015; Lee and Kaiman 2015). These concerns, however, do not seem rise to the level of a genuine security threat—certainly not one that would be acutely felt in Europe.

The above demonstrates that most global elites understood the AIIB in economic and developmental terms. Furthermore, none of the objections brought up by the US appear to engage issues clearly relevant for the national security of most states. At most, the AIIB represented a vector of US-China competition, or a challenge to the existing institutional order. However, such diffuse and abstract concerns were not discussed in terms of national security by any international actors, including the United States. As such, I characterize the decision to join the AIIB as a non-security relevant issue.

Security Seeking

The three states used in this case-study are Hungary, Poland, and Romania. I have examined the security seeking behavior of each in the previous case-study, and, as the time-period during which these states joined the AIIB was covered by this analysis, I will not duplicate this effort here.¹⁴ As described in the previous analysis, I characterize Hungary as non-security seeking, and Poland and Romania as security seeking since at least 2015.

Results

As I characterized the decision to join the AIIB as a non-security relevant issue, the security seeking behavior of the individual states has no impact on the security salience model. Even though Poland and Romania are security seeking, I judge the context to be one of low security salience in each state (Table 9). The security salience model predicts that in a context of low security salience, a CEE state is more likely to

¹⁴ Though all three expressed interest in joining the AIIB in 2015, only Poland became a founding member.

side with China on a given issue, as the economic benefits of adopting (or the presumed economic costs of not adopting) a China-friendly policy outweighs the costs of doing so.

Table 9: Security Saliency (AIIB)

State	Security Seeking	Security Relevant	Security Saliency
Hungary	0	0	Low
Poland	1	0	Low
Romania	1	0	Low

In this case, China’s interests were served by a decision to join the bank because more members—especially members from among the traditional allies of the US—lent greater credibility and clout to the AIIB. However, even more importantly, US interests were damaged by a decision to join the bank, as the US campaign to marginalize the bank was an increasingly public and humiliating failure. The stakes at play were made clear by the sharp, public reaction of the United States to the news that the UK had applied for membership in the AIIB. The resulting rush of US allies to apply for membership in the bank was universally described as a major US embarrassment. This dynamic has implications for this case-study. Though the US was described as lobbying its major allies to shun the AIIB, there are no reports of a countervailing Chinese lobbying campaign in Europe (and especially CEE). Furthermore, a decision to abstain from the bank, particularly for small CEE states, did not necessarily involve strategic calculations or represent a success of US lobbying efforts. As joining the bank involved expending, at minimum, hundreds of millions of dollars to purchase shares, CEE states had to determine whether they were likely to reap enough benefits to justify the cost (Chen 2018). In many cases, even absent US pressure, abstaining from the bank was a prudent financial decision, particularly in cash-strapped states. As such, one should not attribute a decision to abstain from joining the AIIB to successful US pressure or unsuccessful Chinese positive sanctions. However, a decision to join the bank has clear implications for the success of Chinese positive sanctions, as choosing to do so would mean a public disregard for the widely known US preference. As such, we can assume that a decision to join the AIIB involved calculations of the likely US reaction and the costs/benefits which might follow.

Table 10: AIIB Membership

State	Security Salience	Joined AIIB
Hungary	Low	Yes
Poland	Low	Yes
Romania	Low	Yes

The results in this case-study are consistent with the predictions of the security salience model. All three states were in a context of low security salience, and each of the states disregarded the US lobbying efforts and chose to join the AIIB (Table 10). In the case of Hungary, it was both non-security seeking and facing a non-security relevant issue, resulting in a context of low security salience. Poland and Romania, on the other hand, were both security seeking at the time they joined the AIIB, however, since the issue was non-security relevant, they faced a low security context as well. Consequently, each of the analyzed states were relatively free of constraints imposed by security calculations and pursued a strategy of wealth maximization as expected by the model.

One factor may throw some level of doubt on the security salience model's relevance in this case-study and must, therefore, be addressed. The US ultimately made peace with China regarding the AIIB. Although it did not join the bank, in September 2015, facing a Chinese *fait accompli*, the US publicly signaled its qualified support for the institution after China agreed to abide by high governance and environmental standards (Donnan 2015). As such, it is possible that the relaxation of the US demand resulted in diminished pressure on security seeking CEE states to abstain from the bank. If this is true, then the security relevance of the issue was not decisive in creating a low security salience context; rather it would have been US consent that made way for security seeking CEE states to join the AIIB. This, however, ignores a suggestive chronology. Although it is true that Poland did not sign the articles of agreement of the AIIB until 9 October 2015 (AIIB 2015), it expressed a desire to join the bank in a written letter of intent in early April 2015, only a few weeks after the United States' sharp response to the UK's decision to join (Radio Poland 2015).¹⁵ Even without a record of direct US lobbying in Poland, it is reasonable to assume that Poland was aware of US

¹⁵ Romania and Hungary both applied for membership later than Poland. Both Hungary and Romania were accepted as members of the bank in the AIIB's second round of membership in 2017. Given that Romania was security seeking at the time and Hungary was not, security seeking behavior (on its own) does not appear to have impacted the timing of the decision to join the AIIB.

preferences at the time of their decision. As such, the Polish decision to join the AIIB was made in the shadow of US displeasure. As Poland was a security seeking state at this time, we may assume that it did not expect its decision to join the AIIB to prejudice its security guarantee from the United States, despite the latter's clearly articulated preference. This suggests that the security relevance of individual issues play into state calculations when faced with mutually exclusive demands from an ally and a sender of positive sanctions.

Summary of the Security Salience Model

When the results of both case-studies are compared, the support for the security salience model becomes stronger. Hungary adopted policies favorable to China in both cases. However, both Poland and Romania adopted a US-friendly policy regarding Huawei but chose to adopt a China-friendly policy regarding the AIIB. Both Poland and Romania were security seeking states at the time of their decisions to join the AIIB and to adopt the US position regarding Huawei. As such, the security relevance of the issue appears to play a role in shaping the calculations of states. In contrast, Hungary was non-security seeking both at the time of its application to join AIIB and at the time it announced that Huawei would be allowed to construct 5G infrastructure. This suggests that the level of perceived threat also plays a role in shaping the calculations of a state. Both factors interact with one another to create a context of either high security salience or low security salience.

According to the security salience model, in a context of high security salience, a given state will face strong pressure to adopt a policy in favor of the guarantor of its security, and, in a context of low security salience, a given state will be relatively free to pursue other interests. This suggests that positive sanctions are most likely to succeed in conditions of low security salience, and less likely to succeed in conditions of high security salience.¹⁶ Given that a state must be both security seeking and facing a security relevant issue for security salience to be high, this further suggests that positive sanctions should be successful more often than not (Figure 1).

¹⁶ Unless the sender of positive sanctions is also the security guarantor, or the security guarantor is indifferent to or in favor of the policy concession demanded.

Figure 1: The effect of security salience on positive sanctions

	Security Relevant Issue	Non-Security Relevant Issue
Security Seeking	Positive Sanctions Fail	Positive Sanctions Succeed
Non-Security Seeking	Positive Sanctions Succeed	Positive Sanctions Succeed

The empirical evidence analyzed in this paper is largely consistent with these expectations. Of nine cases, the security salience model appeared to explain the result of eight, with the ninth (the Czech Republic and Huawei) not posing a fundamental challenge to the assumptions of the model (Figure 2). In four cases, Chinese positive sanctions were successful in achieving a strategic goal, while they were unsuccessful in five. This result appears to contradict the expectation that positive sanctions will be successful more often than not. However, this apparent contradiction is likely a result of the cases selected for analysis. Because those CEE states which have taken a clear position on Huawei are currently biased towards those which are security seeking, the results of this paper are biased towards high security salience contexts. This is somewhat balanced by the addition of the AIIB as a case-study, but due to the low number of CEE states which have joined the AIIB (possibly for reasons that have little to do with security considerations), the bias in the selected cases remains. As such, this expectation will require the passage of more time in order to fully assess.

Figure 2: Results of empirical analysis

	Security Relevant Issue	Non-Security Relevant Issue
Security Seeking	Estonia (Huawei) Latvia (Huawei) Poland (Huawei) Romania (Huawei)	Poland (AIIB) Romania (AIIB)
Non-Security Seeking	Hungary (Huawei) Czech Republic (Huawei)	Hungary (AIIB)

Despite the preliminary nature of the results, the evidence reviewed is consistent with the expectations of the security salience model. While not dispositive, the results of this paper demonstrate that the security salience model was better able to explain the variation across the case-studies than either the incentive value model or the governance structure model. This lends support to the idea that security calculations play a role in shaping the outcomes of instances of positive sanctions, and that such considerations merit further study.

Section 4: Conclusion

This paper provides evidence that security considerations are important to the calculations of states which are the target of positive sanctions and proposes a model which theorizes the impact of such considerations on the decisions of target states. Based on the evidence of two case-studies, when faced with contradictory demands from a security guarantor and a sender of positive sanctions, a target state's decision will be shaped by an interaction between the presence or absence of a serious threat, as well as the inherent security relevance of the issue in question. States which face a serious threat will experience pressure to adopt a policy in accordance with their ally when that policy is security relevant. However, the pressure appears less intense with non-security relevant issues, which reduces the constraints felt by states and allows them greater freedom to grant policy concessions to a sender of positive sanctions. Though other variables—such as the value of the positive sanctions and the character of the target state government—appear to play a role, the results of this paper demonstrate that the outcome of an instance of positive sanctions can be more convincingly explained by reference to the security factors considered by the security salience model.

Will economic statecraft grant China the power to realize its strategic goals in CEE? Using the security salience model, the answer is “it depends”. In Central and Eastern Europe, China has achieved some success on issues which do not impact security, such as gaining members for the AIIB or stymying criticism of its human rights record. However, it has, so far, been less successful in winning over support in CEE for Huawei's bid to supply equipment for Europe's 5G infrastructure. This appears to be a direct result of Russia's actions in Ukraine, as these actions have inflamed the threat perceptions of many CEE states along NATO's Eastern Flank, creating the conditions for a high security salience context for many states and rendering them more likely to side with the US on security relevant issues. As such, we can expect that China will have difficulty among these states in achieving its strategic goals when such goals conflict with US preferences. However, it is also clear that not all states in CEE feel equally constrained. Given the expectations of the security salience model, we may expect that China will see more success among the states that do not share a border with Russia and which have slower-growing defence budgets.

At the time of this writing, many CEE states have yet to register a position with regards to Huawei. As such, the security salience model has yet to face a complete test of its assumptions and may yet be challenged based on the outcome future events.¹⁷ As well, this paper considered the impact of security calculations in cases where a state aside from China represented a security threat. However, there is a possibility that the on-going pandemic of COVID-19 will increase threat perceptions of China itself among CEE states, which may impact the calculations of these states. Finally, it is likely that the security salience model is not equipped to explain all outcomes of positive sanctions in all situations—other frameworks using different analytic lenses, no doubt, have much to contribute to our understanding of economic statecraft. However, it is my hope that this paper has made the case that a realist approach may be used to glean valuable insights from the study of economic statecraft in general, and positive sanctions in particular.

¹⁷ A decision by Lithuania to allow Huawei equipment in its 5G infrastructure, given that its security seeking behavior mirrors that of its Baltic neighbors, would pose such a challenge to the model.

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