

The 17+1 format: Chinese presence in Central and South Eastern Europe

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The 17 + 1 Format: at the heart of the networking strategy

Some major New Silk Road projects: focus on Europe



Les pays d'Europe du sud-est au sein de la « nouvelle route de la soie »



Main points

- A format that masks bilateral relations with the various countries of the region that compose it
- A Europe or Europes, a European strategy or strategies?
- *Much ado about nothing?* Reality of the Chinese presence: Weak, Strong asymmetries, below expectations
- Archipelization or leverage? Serbia: a case apart?
- The New Deal for China G2 (<2008) -> G20 (> 2008) -> G3 (> Covid)?



The 17 + 1 Format: A Section of the Silk Road

- The 17: a variety of countries in Eastern and South-Eastern Europe
 - 11 New EU members, of which 5 in the euro area, 5 in the process of accession (Western Balkans), 12 NATO members. Kosovo excluded
 - Former integrated socialist economies, dominated by the former USSR, independent open (ex-YU breakdown), autarkic (AL)
 - Passed more or less quickly and with difficulty from socialism to the market. Now dependent capitalisms:> 70% trade and FDI with the EU, European regulations (institutions, markets, international relations)
 - A regional market or fragmented, mostly small, national markets for China?
 - Western Balkans: 5 economies in reconstruction and in the process of integration into the EU, less significant European regulations: a space for China?
- Other upcoming memberships / participations:
 - Italy? No. US and EU pressures
 - Notable absentees: Moldova, Ukraine, Belarus...

China on the outskirts of Europe

Market Size of CEECs

(2015)	Market Size (population, mn)	Purchasing Power (Per-capita GDP, US\$)
Hungary	9.9	12,240
Poland	38.0	12,495
Czech Republic	10.5	17,257
Romania	19.9	8,906
Slovakia	5.4	15,992
Serbia	7.1	5,120
Estonia	1.3	17,288
Slovenia	2.1	20,732
Bulgaria	7.2	6,832
Lithuania	2.9	14,210
Latvia	2.0	13,619
Croatia	4.2	11,573
Bosnia and Herzegovina	3.9	4,088
Macedonia	2.1	4,787
Albania	2.9	3,995
Montenegro	0.6	6,489

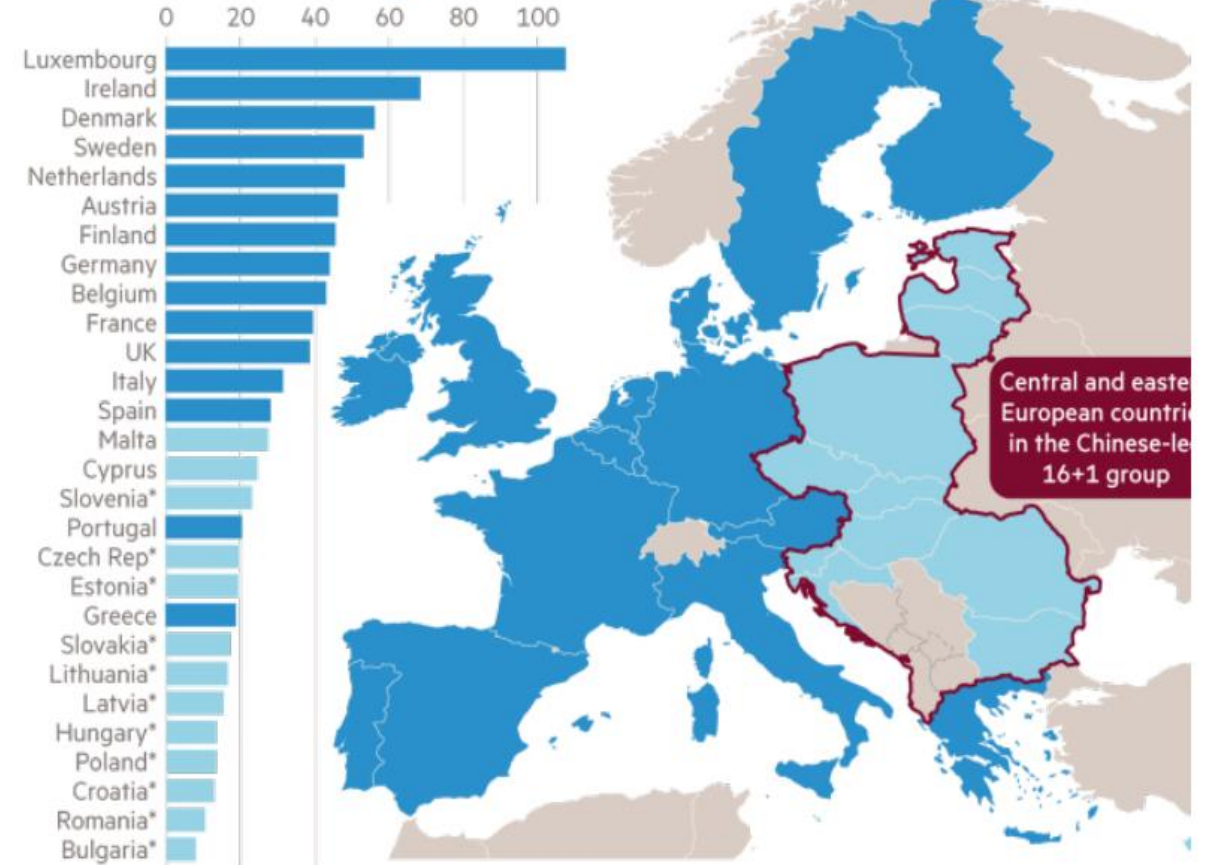
Source: IMF



China's 16+1 grouping built around EU's newer, poorer members

EU countries' GDP per head, 2017 (\$ '000)

- EU member before 2004
- Joined EU in 2004 or later



China: An Alternative for the Countries of the Region?

- Milos Zeman, Czech President: *The Czech Republic as an unsinkable aircraft-carrier*
- Alexis Tsipras, PM Greece: *Greece could serve as China's gateway into Europe*
- Viktor Orban, PM Hungary: *If the EU cannot provide financial support, we will turn to China*
- Aleksandar Vučić: Serbian president: *China is an "eternal, steel friendship" of Serbia*

China in CESEE

- Networking and multilateral bilateralism with the 17
- Founded in 2012, a year before OBOR / BRI, institutional and political positioning unclear: the elephant in the porcelain store?
- Between 'illiberal democracies' (HU, PL) and 'multi-party kleptocracies' (Western Balkans)
- For dependent capitalisms: a way to loosen the grip for the receivers by favoring cooperation with China?
- Political and economic decoupling
 - Politics: the Format, an empty shell, a non-mobilizable, marginal tool?
 - Economy: bilateralism vs. regional strategy. Ex: Budapest-Belgrade train
- Capital, trade, service provision (infrastructure)
- Soft power:
 - Cultural institutes, scholarships, learning Mandarin (Serbia),
 - University branch: Fudan in Budapest (after the departure of the CEU ..)

Opportunities, entry modes for chinese operators

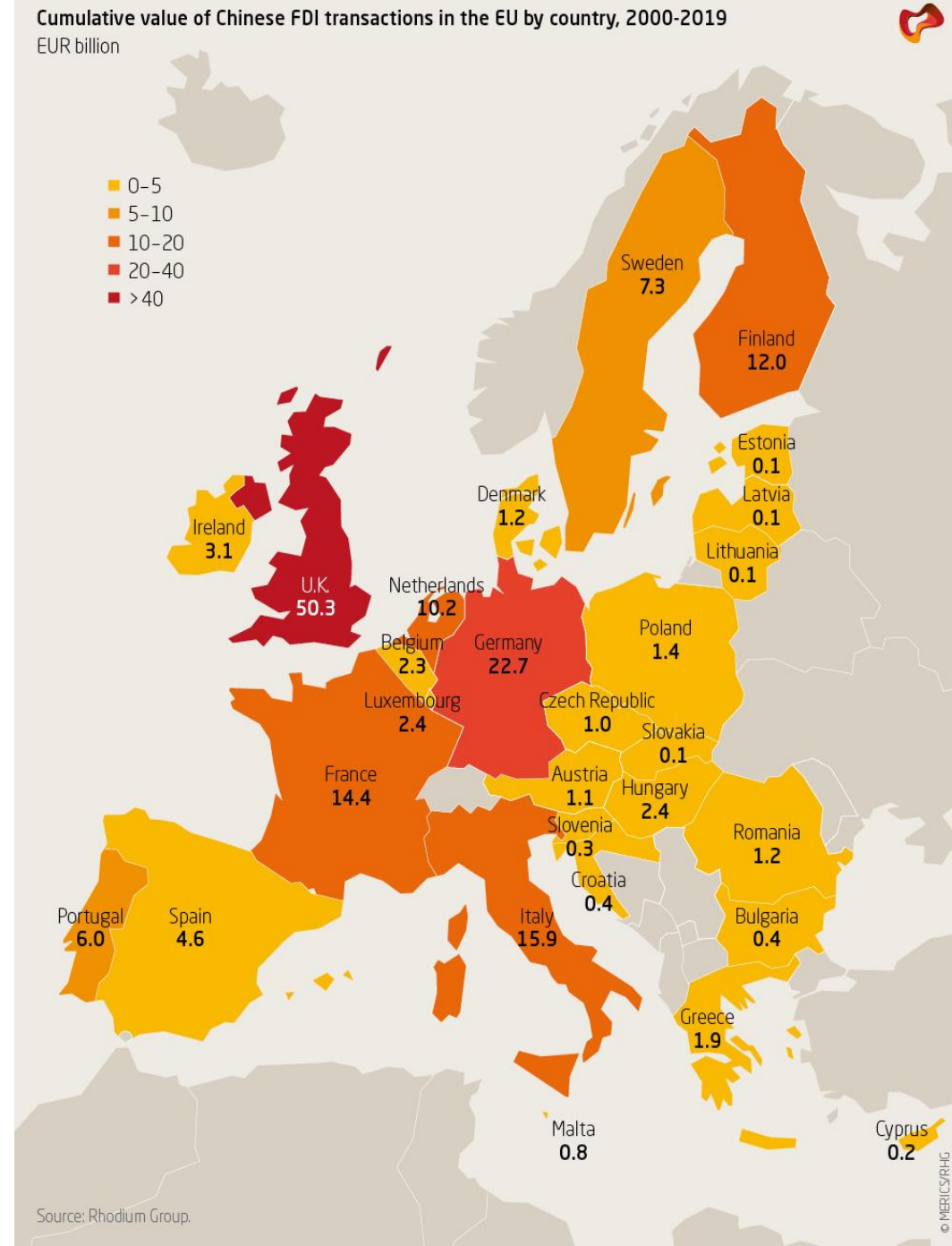
- Lines of credit to finance projects:
 - China-Cooperation Investment Fund (500m USD), Sino-CEE Investment and Cooperation Fund (2016), 11bn USD from chinese « political banks »
 - No string attached: low conditionalities, low interest rates, variable depending on the size of the deal, extended repayment terms, faster access to capital disbursement. Opacity of MoU
 - Already high indebtedness of some countries (Montenegro, Bosnia) vis-à-vis China
- Between service provision, direct investments, exchanges
 - Infrastructures: roads, ports, railway lines, thermal power stations ...
 - FDI (acquisitions) and limited greenfield investments,
 - Outline of the construction of regional value chains (electric batteries in the Balkans) in not very promising markets, low cost products (automobiles in Bulgaria)
 - Operators: Chinese firms and labor: infrastructure construction sites, tire factory in Serbia
 - Questions about certain projects: design, utility of trains, highways, debt
- Arbitration, prioritization in Chinese strategy
 - The heart of Europe, the east, the south ?
 - At the heart: China seen as a strategic rival.
 - In north-eastern Europe: more difficult markets, adjustment already made (integration),
 - In the south-east, less bureaucratic constraints in Brussels, more needs -> shift towards the south?

What expectations for recipient countries

- Market search (exports), greenfield investments (job)
 - End of the transition cycle, dependent economies. Loosen the bureaucratic grip of Brussels ? (Visegrad 4: Cz,Sk, Pl, Hu)
 - Compatibility with European membership, values and commitments among the new member states (Baltic States)
- Bilateralism with China > implicit regional multilateralism underpinned by the concept.
- Susceptibility of large countries (PL) to end up with small countries, especially in the south.
- South:
 - Many needs to upgrade (infrastructure), a way to stay in power while avoiding the constraints imposed by the EU ("stabilocracy ...") but European interests higher.
 - Real US pressures (RO, MK, PL ..). Pb: future EU membership remains a mirage... When?

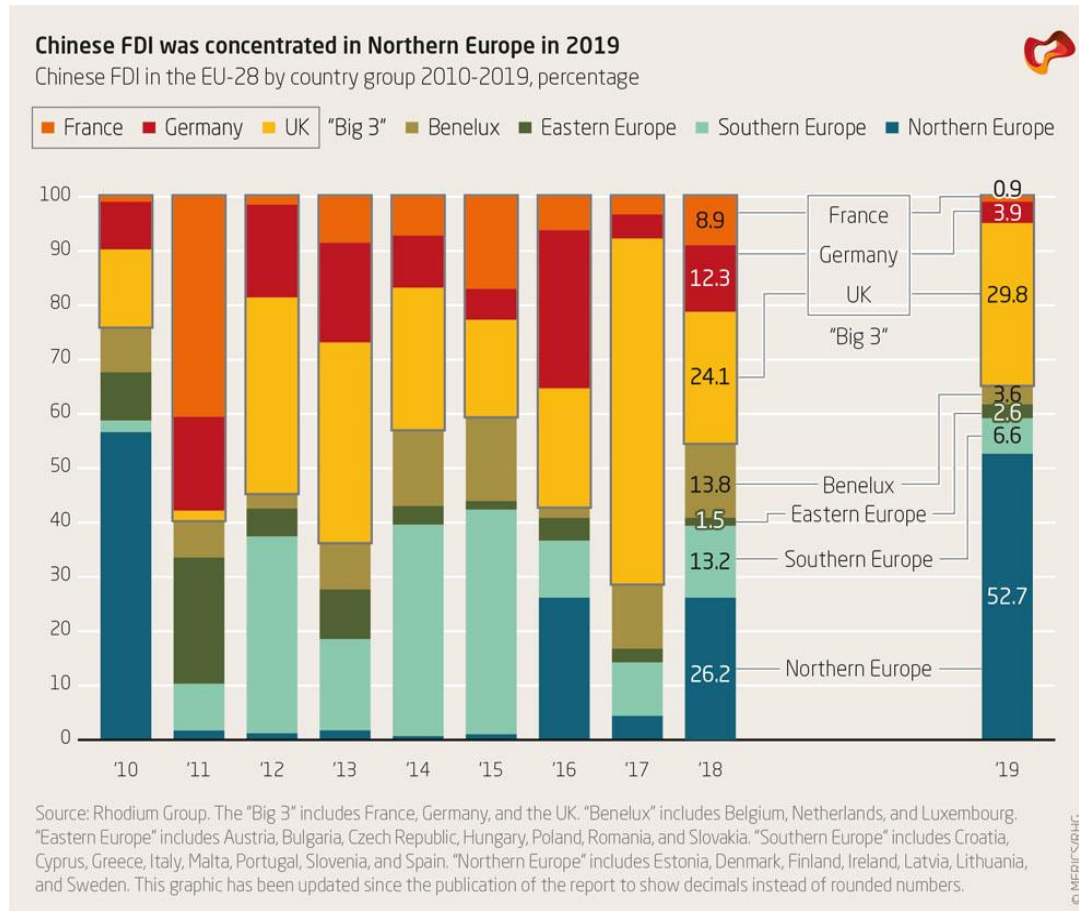
Differentiated investment strategies

- Investment versus provision of services
 - FDI and / or construction of roads and rail lines FDI in the north, roads and railways in the south
 - Connecting the North and the South: from Greece to Poland via Belgrade and Budapest
- Division of labor between China government and business
 - Financing and construction of infrastructure: state enterprises
 - Pave the way for private investment?
 - What to acquire? Best assets already in the hands of Western companies.
 - In declining sectors? Chemical industry in Hungary, coal mining in Bosnia, Serbia
- Building regional value chains?
 - Regional telecommunications hub (RO, SBR)
 - Automotive industry: BG, HR, SBR

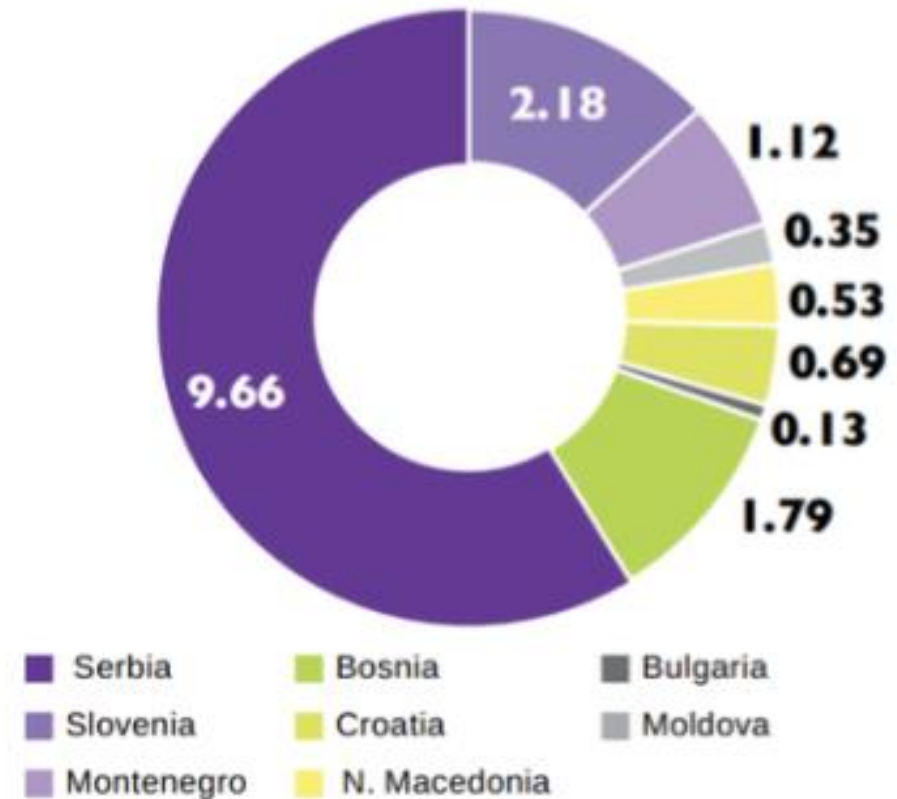


Chinese Investissements in Europe and CESEE

In Europe



In ECSE, 2013-2019 (bns \$)

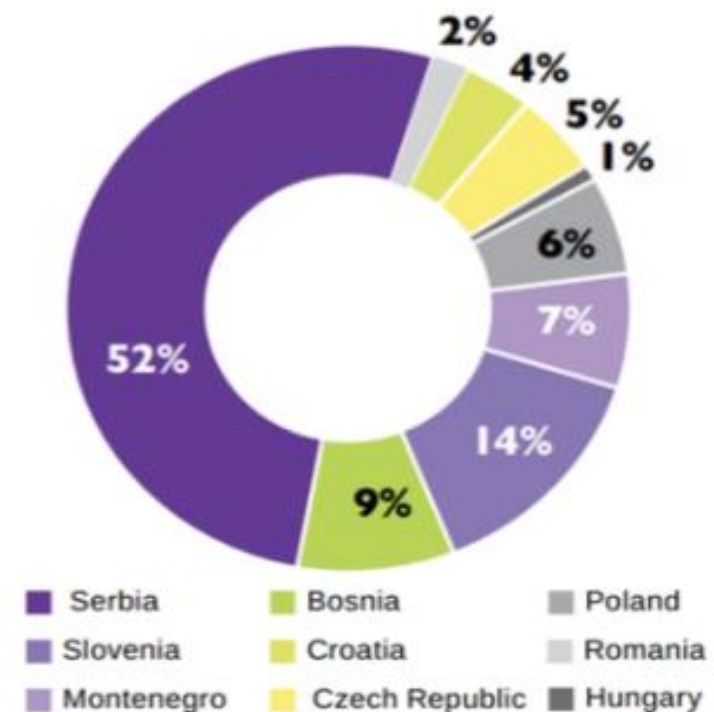


FDI in N-E, infrastructures in S-E

Share of Chinese FDI, Visegrad-4 (mios \$)

	2011	2012	2013	2014	2015	2016	2017
Poland	201.26	208.11	257.04	329.35	352.11	321.32	405.52
Hungary	475.35	507.41	532.35	556.35	571.11	313.7	327.86
Czechia	66.83	202.45	204.68	242.69	224.31	227.77	164.9
Slovakia	25.78	86.01	82.77	127.79	127.79	82.77	83.45
Total Chinese investment in V4	769.22	1004	1076.8	1256.2	1275.3	945.56	981.73
% of Chinese investment in CEE	75.86%	74.89%	69.18%	69.11%	60.84%	55.14%	48.28%

Infrastructures Building (%)



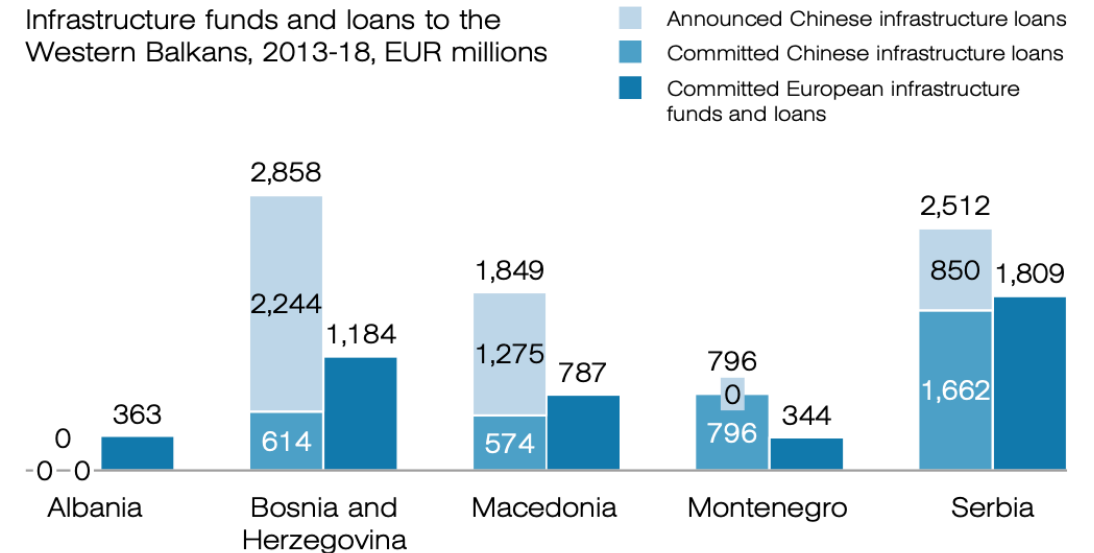
Infrastructures: EU-China complementarity?

European Interconnections



EU & China funding

Infrastructure funds and loans to the Western Balkans, 2013-18, EUR millions



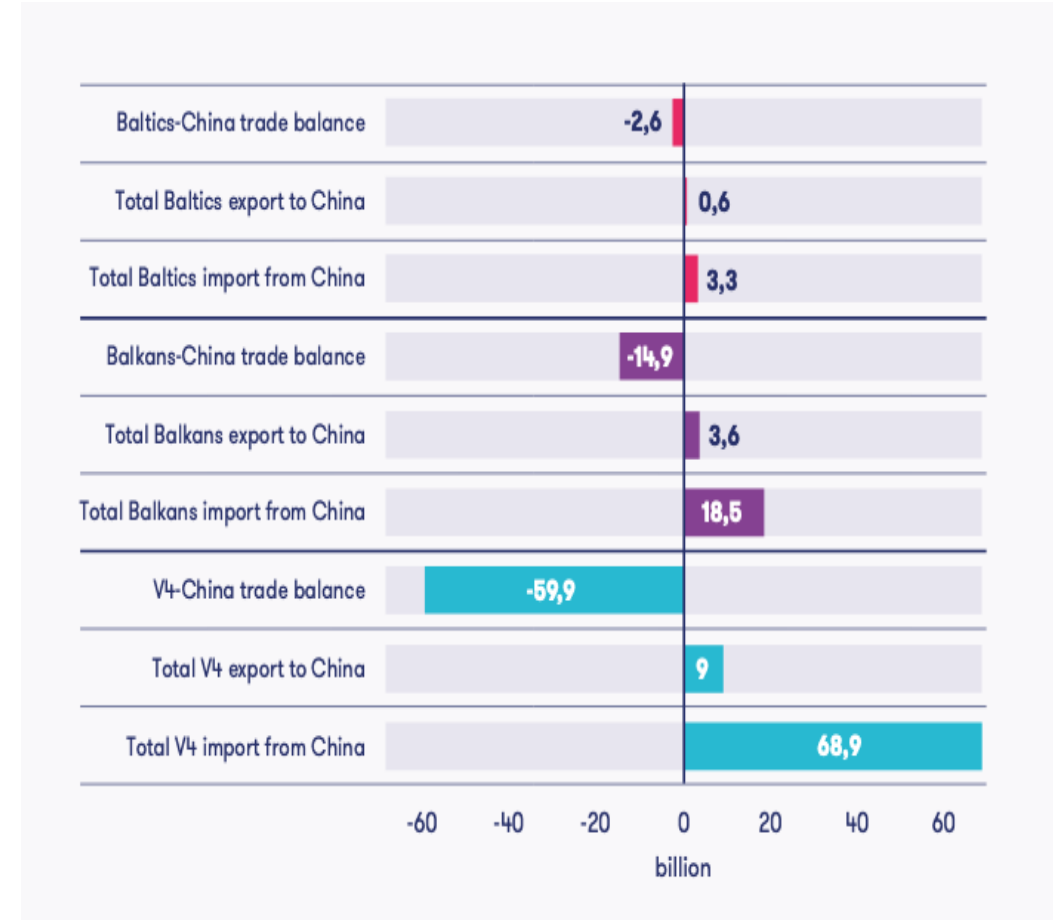
Source: Mercator Institute for China Studies (MERICS)²⁷

Chine-17: Trade, FDI vs. Infrastructures

FDI : acquisitions, greenfields

- FDI in the region
 - Between 2000-2018: 7.1 bns € (100 million inhabitants) <than the amount invested in Finland (5.5 million)
- Acquisitions: north-east
 - Poland Novago and Huta Stalowa Wola, Estonia: Magnetic MRO
 - Hungary: BorsodChem, Invitel Group, Hungary
- Greenfield investments
 - Hungary: Unisun solar farms Poland: screening systems, electrolyte plant for car batteries Serbia: tires, electronics, battery Bulgaria: automobile (failed)
- The lion's share: Infrastructure In the northeast, especially in the southeast

Assymétric trade



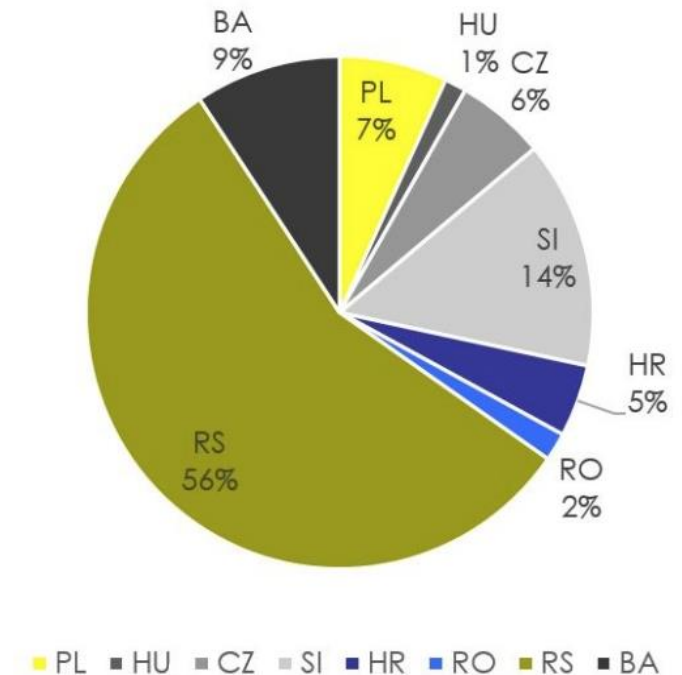
Infrastructures building, ongoing, projects

Albanie	Autoroutes
Bosnie-Herzégovine	Centrales thermiques, autoroutes
Bulgarie	Autoroutes, Aménagement d'un port, ligne de chemin de fer, modernisation d'une centrale nucléaire, gestion d'un aéroport
Croatie	Construction d'un pont, d'une autoroute, modernisation d'une ligne de chemin de fer
Estonie	Construction d'une ligne de chemin, de fer, d'un tunnel sous la mer Baltique
Grèce	Expansion du port du Pirée, développement d'un aéroport
Hongrie	Ligne de train à grande vitesse Belgrade-Budapest
Lettonie	Construction d'une ligne de chemin de fer
Lituanie	Construction d'une ligne de chemin de fer, aménagement d'un port, Centrale thermique
Macédoine du nord	Centrale hydraulique, deux sections d'autoroute
Monténégro	Sections d'autoroute, plusieurs centrale électriques, modernisation de la flotte
Pays	Projets
Pologne	Hubs logistiques, centrale thermique
République tchèque	Nouveaux blocs d'une centrale nucléaire, construction d'un centre logistique
Roumanie	Nombreux projets en discussion et non finalisés. Abandon de la modernisation d'une centrale nucléaire sous la pression des EU
Serbie	Pont, sections d'autoroute, ligne de chemin de fer, centrale thermique
Slovaquie	Pas de projets en cours. Refus du gouvernement slovaque d'apporter sa garantie souveraine à la construction d'un barrage

Serbia: the trojan horse of china?

- The 4 pillars of Serbian cooperation: EU, EU (in the accession phase), Russia (energy, military equipment, China (infrastructure, FDI, etc.)
- Kleptocracy and illiberalism at work: rent sharing
Search for complementarities from different sources
- A means of blackmail vis-à-vis Europe to avoid bearing the cost of economic and political adjustment (recognition of Kosovo's independence)
- Realizing that there will be no EU membership for a long time. Serbia locked in a mirage of democracy and Europeanization

Serbia with biggest Chinese investment share in CE/SEE



in %, 2014-2018

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker (CGIT), RBI/Raiffeisen RESEARCH

Conclusions

- *Much ado about nothing*: the 17 + 1 format, a fig leaf?
 - Rather "archipelago" than search for economic (and political) leverage effects: limited weight of trade, FDI,
 - Disappointment of several countries (CZ, PL, Baltic): achievement below expectations, delays
- Coherence of strategies, projects
 - Design, profitability of investments, integration into local development projects
 - Project visibility: the vagueness of the China-Europe Land-Sea Express Line project (the Budapest-Belgrade TGV line)
 - Deadlines, opacity: hidden contract in Hungary; utility: reduced population pool and standard of living of the population too low to optimize and make the line profitable
 - Overcapacity in condemned sectors that do not respect environmental rules (thermal power plants in Bosnia)

Conclusions (c'td)

- Before, during and after Covid
 - China as a strategic rival: what implications for its strategy in the region? Trade war, protection of strategic sectors.
 - Abandonment of several projects under pressure from the US (Renovation / extension of a nuclear power plant, G5) Chinese interests in EU-14 > EU-11: market shares, industrial cooperation, R&D
 - What multilateralism after the US election: splitting globalization, European pole of globalization, receiving central and south-eastern Europe?
- A new deal?
 - What future for the BRI after the crisis in the region: pb of funding, fallout
 - EU-China agreement: what cooperation? Expectation of receiving countries: more from the EU than from China?
 - Western Balkans: Integration, participation of Chinese firms in the framework of European projects by submitting to European standards. Serbia, free electron.

What future?

- The 17 + 1 Format and the EU Cooperation after the signing of the bilateral investment treaty
 - EU policy towards China in the context of a post-Covid
 - Transparency of contracts, financing
- Greater engagement of China vis-à-vis the 17
 - Investment volume, particularly greenfield
 - Access to the Chinese market for products from the region
 - Insertion into value chains?
- Infrastructure policy in the south
 - Avoid redundancies, overcapacity
 - Compliance with environmental rules (thermal power stations)
 - Repayment capacity of beneficiary countries