Chinese investment in European peripheries: Who pays the piper calls the tune?[25]

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Introduction

Without doubt, Europe has emerged as one of the top destinations for Chinese investment. According to Rhodium Group's statistics, annual foreign direct investment (FDI) flows in the 28 EU economies has grown from EUR 700 million in 2008 to EUR 30 billion in 2017.[26] That represents a quarter of total Chinese FDI outflows last year. However, the Chinese approach towards Europe is far from being unified since China follows different motives and uses different approaches when dealing with different countries or regions of Europe: the access to successful brands, high-technology and know-how motivates China when entering Western European markets, investments in the green energy industry and sustainability brings Chinese companies to Nordic countries, while greenfield investments (manufacturing) and recently also infrastructural projects pulls them to Central and Eastern Europe (CEE), including also the non-EU member Western Balkan countries.

It is difficult to determine whether it was a deliberate Chinese strategy or the lack of European cohesion that has encouraged China to deal bilaterally with individual member states (or groups of member states) but it certainly helped to achieve better results for China than engagement on the EU level. This is not a new phenomenon but characterizes China-EU relations from the early beginnings. This at least partly explains, why China decided to create platforms such as the 16+1 initiative or the China-Nordic framework: to enhance cooperation in different - economic as well as political - fields and to avoid, or at least delay and hinder, criticism at the EU level. European responses to these approaches also vary considerably in different regions of the continent: some countries have reservations about a growing Chinese presence while others welcome the resulting economic opportunities. Central and Eastern Europe - although opinions may differ from country to country - belongs to the latter group.

Chinese companies on CEE markets

Chinese companies have increasingly been targeting CEE countries in the past one and a half decades, while diplomatic relations are also on the rise. This development is quite a new phenomenon but not an unexpected one. On one hand, the transformation of the global economy and the restructuring of China's economy are responsible for growing Chinese interest in the developed world, including the European Union. On the other hand, CEE countries have also

[25] This paper was supported by the National Research, Development and Innovation Office (K-120053) as well as the János Bolyai Research Scholarship of the Hungarian Academy of Sciences.

[26] Hanemann, T. and Huotari, M., 2018. EU-China FDI: Working towards reciprocity in investment relations. Rhodium Group and Mercator Institute for China Studies, https://rhg.com/research/eu-china-fdi-working-towards-more-reciprocity-in-investment-relations/

become more open to Chinese business opportunities, especially after the global economic and financial crisis with the intention of decreasing their economic dependency on Western (European) markets. Here, China can benefit a lot from the EU's division between its core and periphery. For China, the region represents dynamic, largely developed, less saturated markets, new frontiers for export expansion, new entry points to Europe and cheap but qualified labour. This adds up to lower political expectations, fewer economic complaints, fewer protectionist barriers and fewer national security concerns in the CEE region compared to the Western European neighbours. The CEE countries' disappointment coming from the slower-than-expected catching-up processes to Western Europe also resulted in these countries turning towards the East.

Recently, Western diplomats, scholars as well as media have raised attention to the growing Chinese influence in the CEE region and the potential implications for the EU or even globally. This mostly concerns China using economic relations (mainly investments) and other financial tools with certain European countries to gain political influence in Europe. Undoubtedly, there are certain signs for this: Hungary and Greece prevented the EU from backing a court ruling against China's expansive territorial claims in the South China Sea, while Hungary's ambassador to the EU was the only one not signing a report criticising the Chinese Belt and Road Initiative for benefitting Chinese companies and Chinese interests.[27]

But are Chinese investments really responsible for China's growing influence in the CEE region as Western critics claim? The answer leaves room for doubts, at least.

When compared to China's economic presence globally or in the developed world, China's economic impact on the CEE countries is relatively small: They are highly dependent on both trade and investment relations with developed countries, mainly-EU member states, while China represents a minor (although increasing) share. From a Chinese point of view, as far as trade or investment statistics are concerned, the CEE region is also far from being among the most important partner of China. Since the main motivation of Chinese investment in the developed world is to access important technologies, successful brands and new distribution channels, Germany, the UK and France accounted for more than half of the total Chinese investment value last year within the EU, while the combined CEE region received less than five percent.[28]

Hungary, for example, is among the most popular destinations for Chinese FDI within the CEE region: while Chinese (MOFCOM) statistics show a rather modest stock of Chinese investment in Hungary (314 million USD), the Hungarian National Bank (HNB) - where statistics are broken down according to ultimate investors - displays 1782 million USD. Nevertheless, the dominance of EU partners has to be highlighted here, too: based on OECD and HNB statistics, more than 75 per cent of foreign investments are coming from EU countries,

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[27] Heide, D; Hoppe, T; Scheuer, S; Stratman K, 2018. EU ambassadors band together against Silk Road. Handelsblatt Today, 04/17/2018, https://www.handelsblatt.com/today/politics/china-first-eu-ambassadors-band-together-against-silk-road/23581860.html?ticket=ST-5110475-xbAfutgQKGFoxtGktQhM-ap1

[28] Hanemann, T. and Huotari, M., 2018. EU-China FDI, op. cit.

more than 25 per cent from Germany, while only 2.4 per cent from China. This 2.4 per cent share is, despite being the highest in Central and Eastern Europe by comparison, far from being decisive. It is also true, however, that although Chinese multinational companies represent a relatively small share, they have saved and/or created jobs (especially Wanhua and Huawei) and contributed to the economic growth of Hungary with their investments and exports. Furthermore, many of them (e.g. Lenovo, ZTE, Huawei, Bank of China) have turned their Hungarian businesses into European regional hubs for their activities.[29]

CEE within Belt and Road

Besides creating potential hubs/bridges/bridgeheads/gates for Chinese products - as many CEE leaders portrayed their own countries when talking about the potentials of strengthening ties with China - in the European Union, Chinese companies expressed their interest in several infrastructure-related investments in recent years, planned under a new framework, China's Belt and Road initiative. China's motivations are easy to understand, as the New Silk Road project expands China's political and economic sphere of interest: once the alternative transport routes are completed China will be in a more favourable strategic position, will have more and more alternative transport routes, can reach its target markets more easily and quickly and will be able to reduce some of the industrial overcapacities accumulated in recent years. In addition, these projects may provide a reference for further Chinese investment in the broader region, especially in the more developed part of Europe. [30]

Hungary was the first European country to sign a memorandum of understanding with China on promoting the Silk Road Economic Belt and Maritime Silk Road, during Chinese Foreign Minister Wang Yi's visit to Budapest in June, 2015. The Hungarian government was very keen on the Budapest-Belgrade railway project and when it signed the construction agreement in 2014, Prime Minister Orbán called it the most important moment in cooperation between the European Union and China.[31] Infrastructure development is indeed a hot topic in all CEE countries; however, there are other resources – for example EU funds – to finance them. Therefore, a more interesting - and for the time being unanswered - question is: what motivates the Hungarian side in building infrastructure with Chinese companies, using Chinese credit to finance it? Here, the political factor seems to be more important than any economic rationale.

The 16+1 Initiative

a unified Europe for several reasons, ranging from economic issues (such as export and import relations, market size, investment opportunities, high

[29] See Szunomár, Á; Mccaleb, A; Chen, X, 2018. Economic Relations between China and Central and Eastern Europe: Trade and Investment Issues. In: Weiqing Song (ed.) China's relations with Central and Eastern Europe: from "old comrades" to new partners. London: Routledge, pp. 48-65.

[30] See Szunomár, Á, 2015. Blowing from the East. International Issues & Slovak Foreign Policy Affairs, Vol. XXIV, No. 3/2015, pp. 60-78

[31] Keszthelyi, C, 2014. Belgrade-Budapest rail construction agreement signed. Budapest Business Journal17/12/2014, https://bbj.hu/budapest/belgrade-budapest-rail-construction-agreement-signed_89894

technology, etc.) and cooperation in climate change to international recognition or counterbalancing the US. Although we can never be sure about China's real intentions, it is possible that they are simply still learning how to deal with Europe. For example, when China decided to strengthen its relationship with the CEE region - by creating the 16+1 initiative - the original idea was that this process will bring China even closer to Europe. Subsequently, Beijing was rather surprised by Western fears that China tries to divide Europe and frustrate some aspects of the EU's common China policy through this initiative. This may explain that recently the Chinese Government offered Germany to be included in the 16+1 talks as an observer. Similarly, China started to think about having 16+1 summits every two years instead of annually. Further evidence is China's first infrastructure-building attempt in CEE: they tried to bring in the same package as in the developing world - Southeast Asia or Africa - not considering the different and sometimes very strict rules and regulations or standards of the EU. As a result, while Chinese foreign direct investment targets the EU member CEE countries, infrastructure projects are more prevalent in the non-EU CEE countries, where strict EU regulations do not apply.

Conclusions

From the CEE point of view, China can, of course, be able provide economic opportunities that would help to decrease the overly significant economic dependency on Western Europe. But - at least for now - this is not the case: as mentioned above, although Chinese trade volumes and investment stocks are on the rise in some of the CEE countries, this is far from being decisive or comparable to economic relations with EU countries. Referring to the title of this short overview, the 'piper' is still payed by the (Western) Europeans. Accordingly, in economic terms, CEE's genuine interest would be to not to risk its relationship with the EU. The fact that some CEE countries are 'calling new tunes', i.e. they act or vote in favour of China and fuelling conflicts with the EU implies that their further engagement with China might come from political considerations.