

Emerging Market Talks &
CEMS/MIM-Course “Managing Globalisation”
24 September 2019

The Chinese Belt and Road Initiative: Opportunities and Risks from a European Perspective

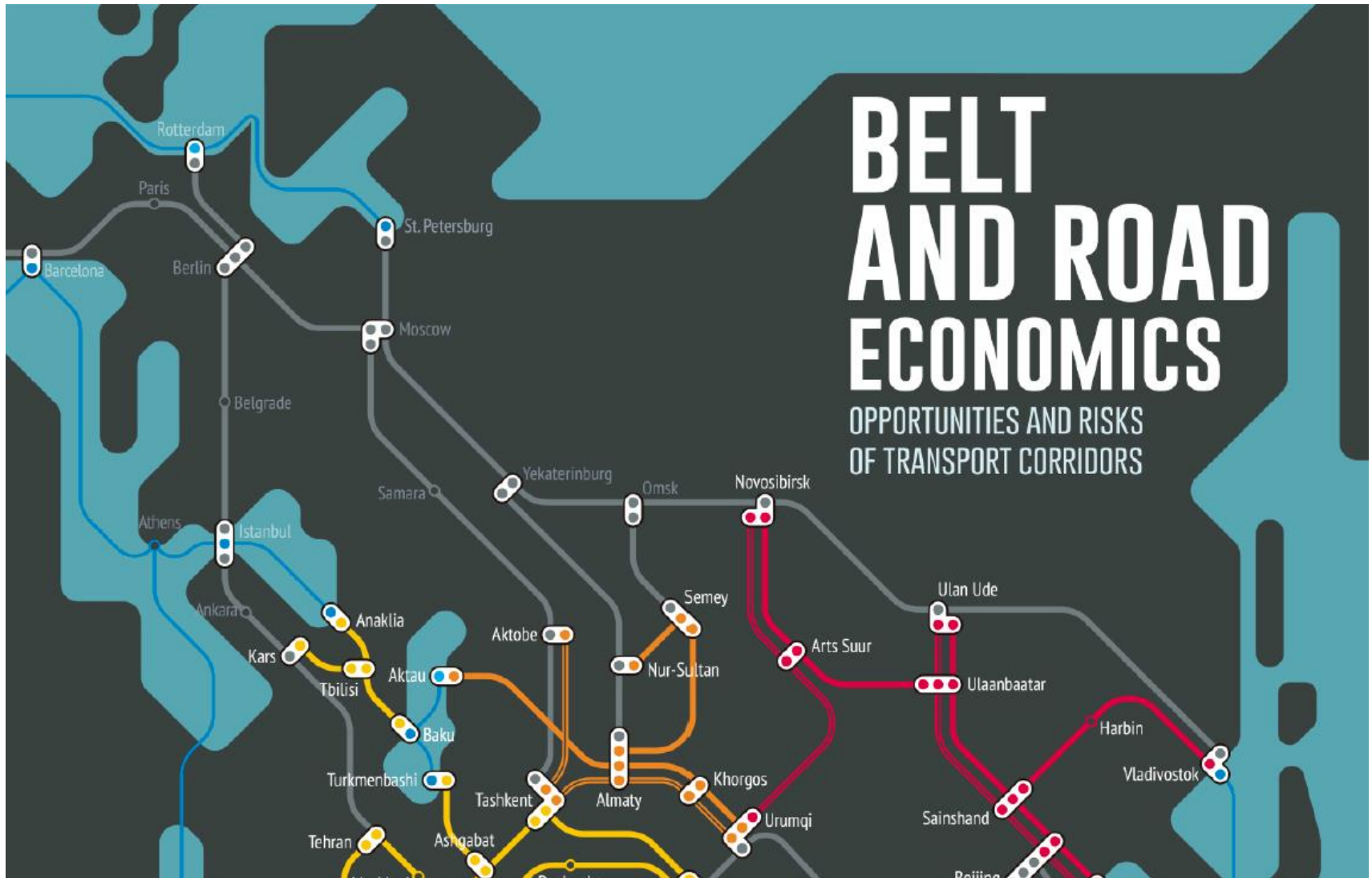
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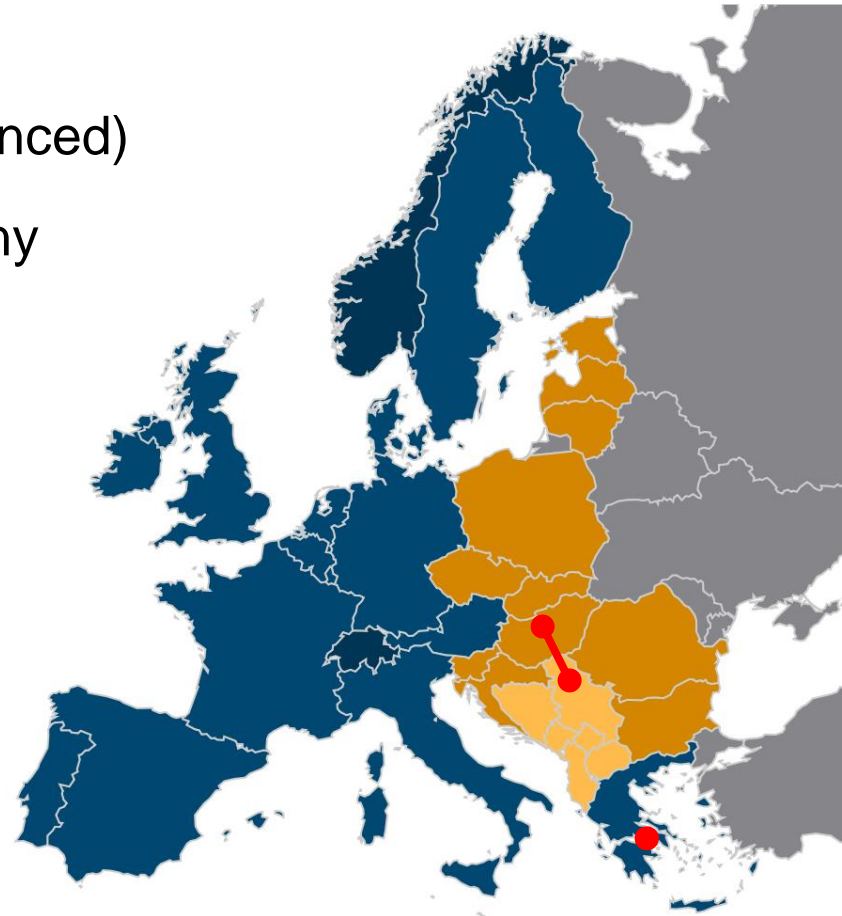


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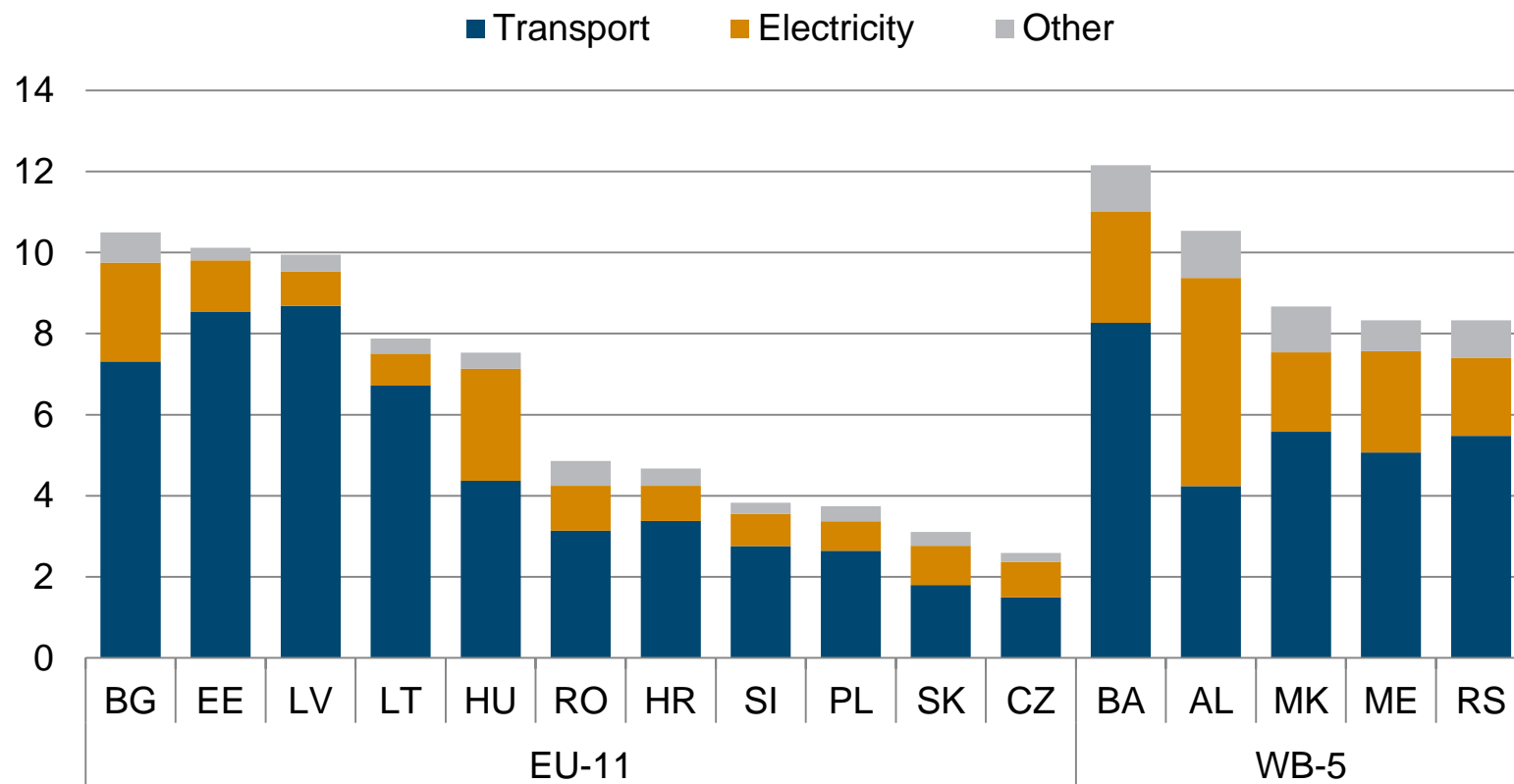
China's interest in Central, East and Southeast Europe manifested in '16+1' initiative

- **2012:** 1st CEE-China Summit
(⇒ already before the BRI was announced)
- **2016:** China Ocean Shipping Company acquired 67% of the largest Greek **harbour in Piraeus**¹⁾
- **2017:** 6th CEE-China Summit: tender for the railway **Budapest-Belgrade**
- **2019:** 8th CEE-China Summit: 16+1' changed to '**17+1**' as **Greece joined**



Substantial investment needs in CESEE-16

Infrastructure investment needs 2018-2022 in % of GDP p.a.

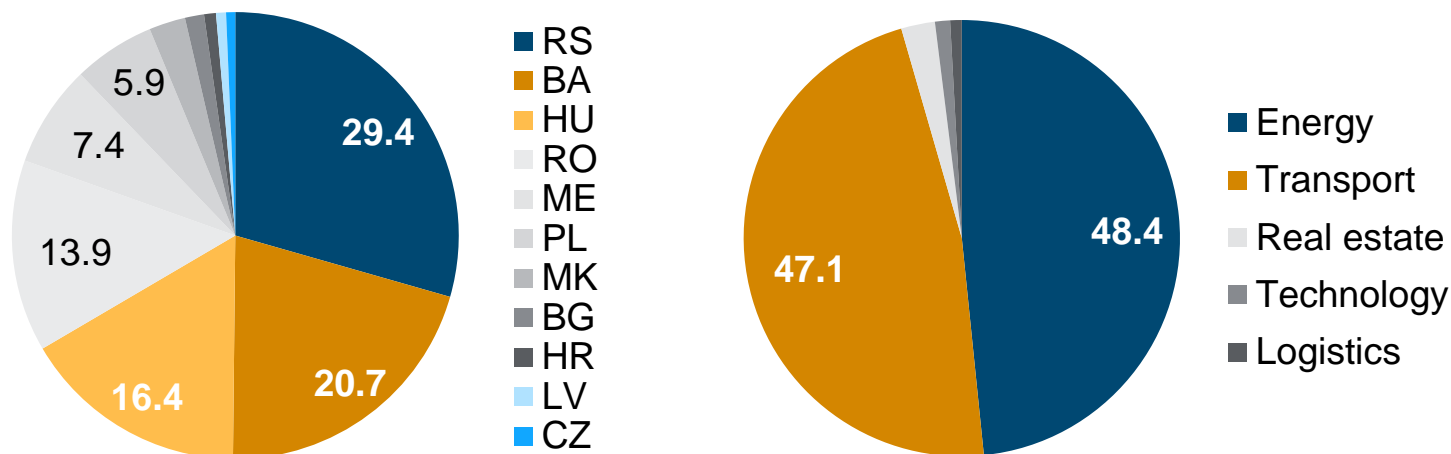


Note: CZ extrapolated from relationship between PL and SK; all data in % of 2015 GDP at 2010 prices.

Source: EBRD Transition Report 2017-2018, own calculations.

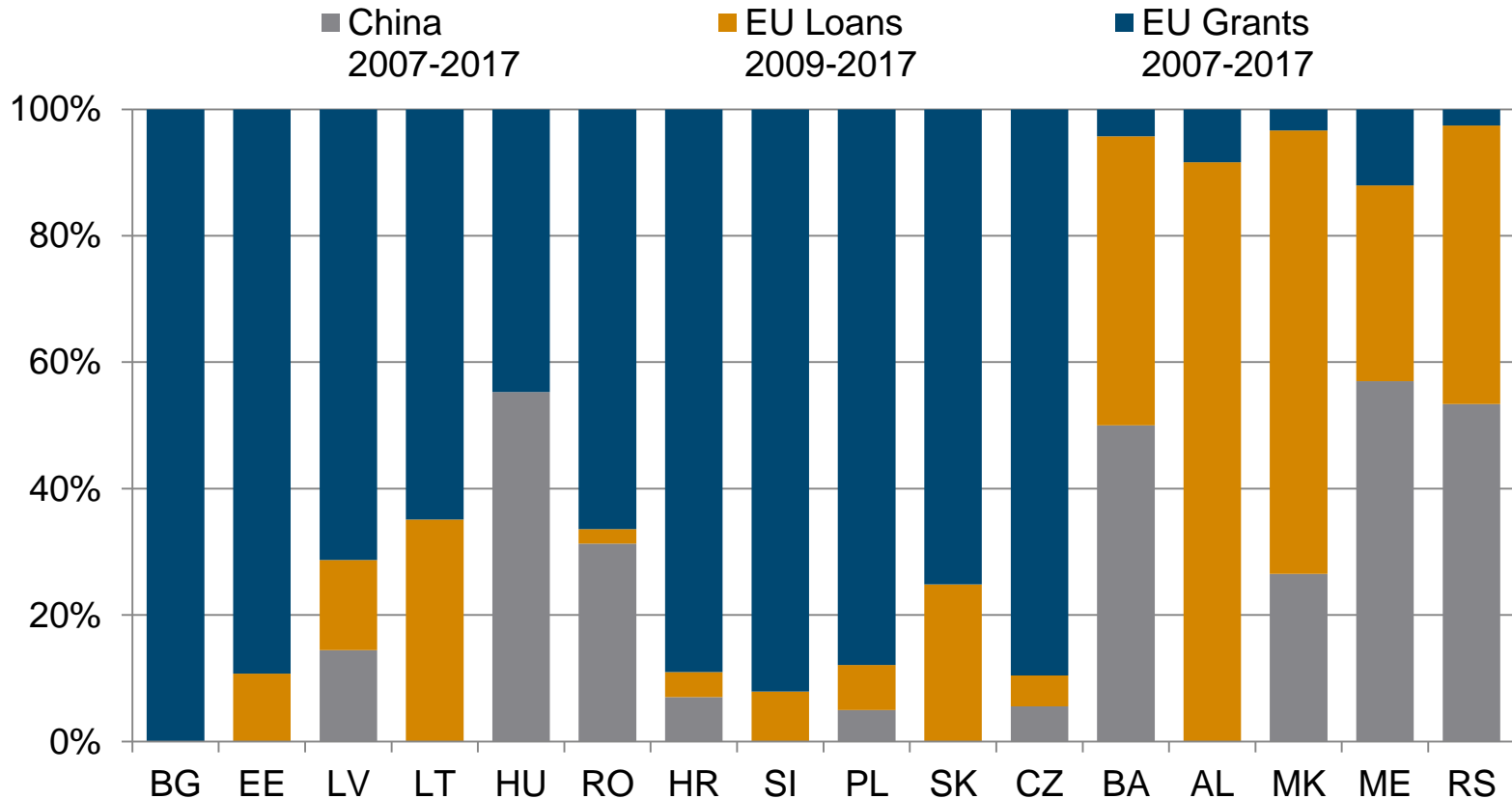
Chinese construction projects gain speed with BRI

- $\frac{2}{3}$ of projects initiated since 2013: 2007-2017 ~ **EUR 12.2 billion**
- Geographically concentrated in Southeast Europe
- Almost entirely in energy or transport



Note: Projects are not FDI, but mostly public investment contracts financed by Chinese banks; not all the projects might be realised. Figures for the period 2007-2017. Source: China Global Investment Tracker, February 2018.

Loans from EU and China of greater significance in WB-5



Source: European Commission ESIF, CEF, TEN-t, WBIF, EFSI data;
China Global Investment Tracker; wiiw calculations.

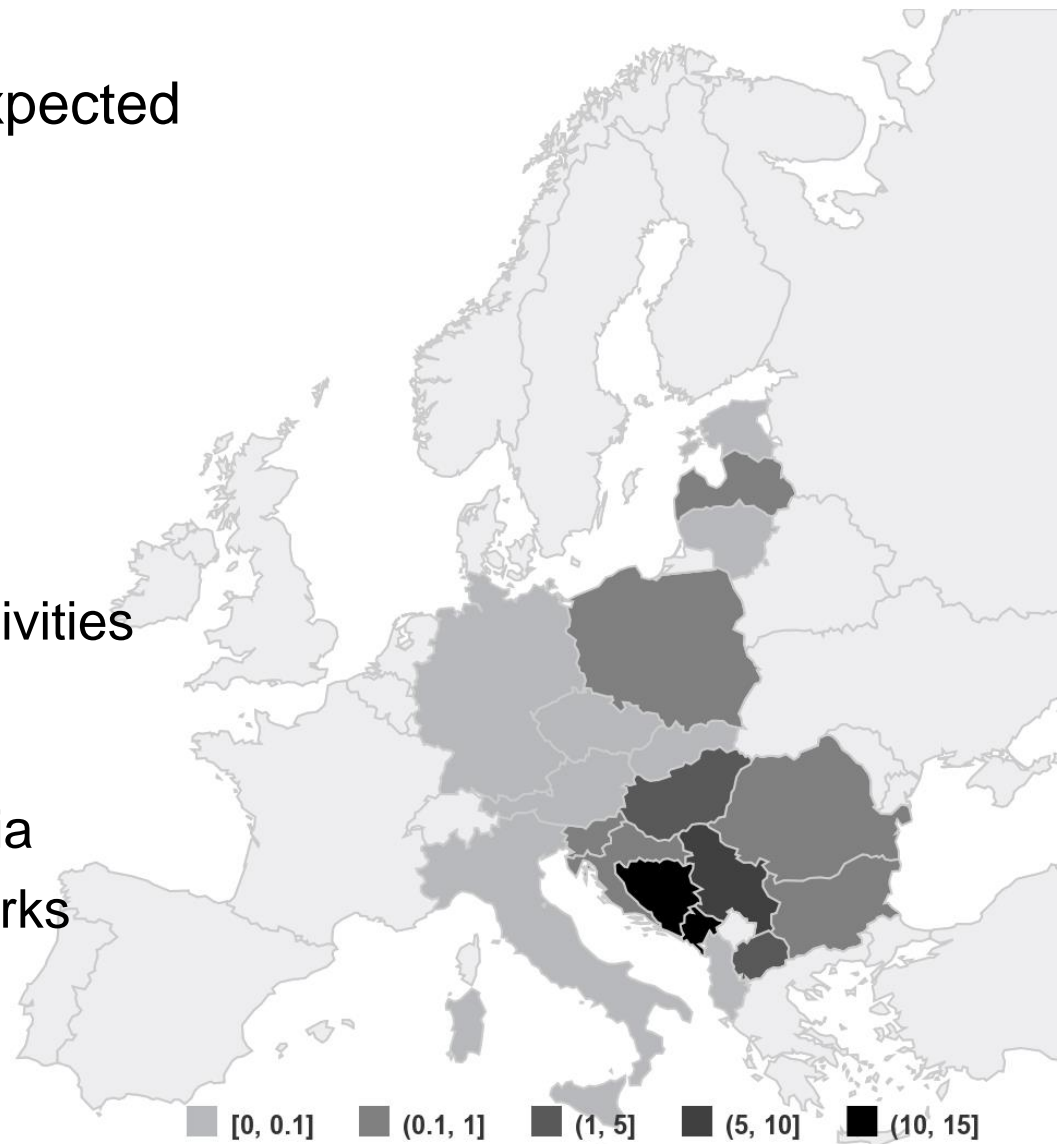
Positive economic effects expected via the trade channel

Short term

- Increased (import) **demand** resulting from investment activities
- Increased **direct** imports
- Increased **indirect** imports via production and supply networks

Crucial assumption:

No change in trade structure.



Effects of Chinese loans via the trade channel, in % of GDP (2014).

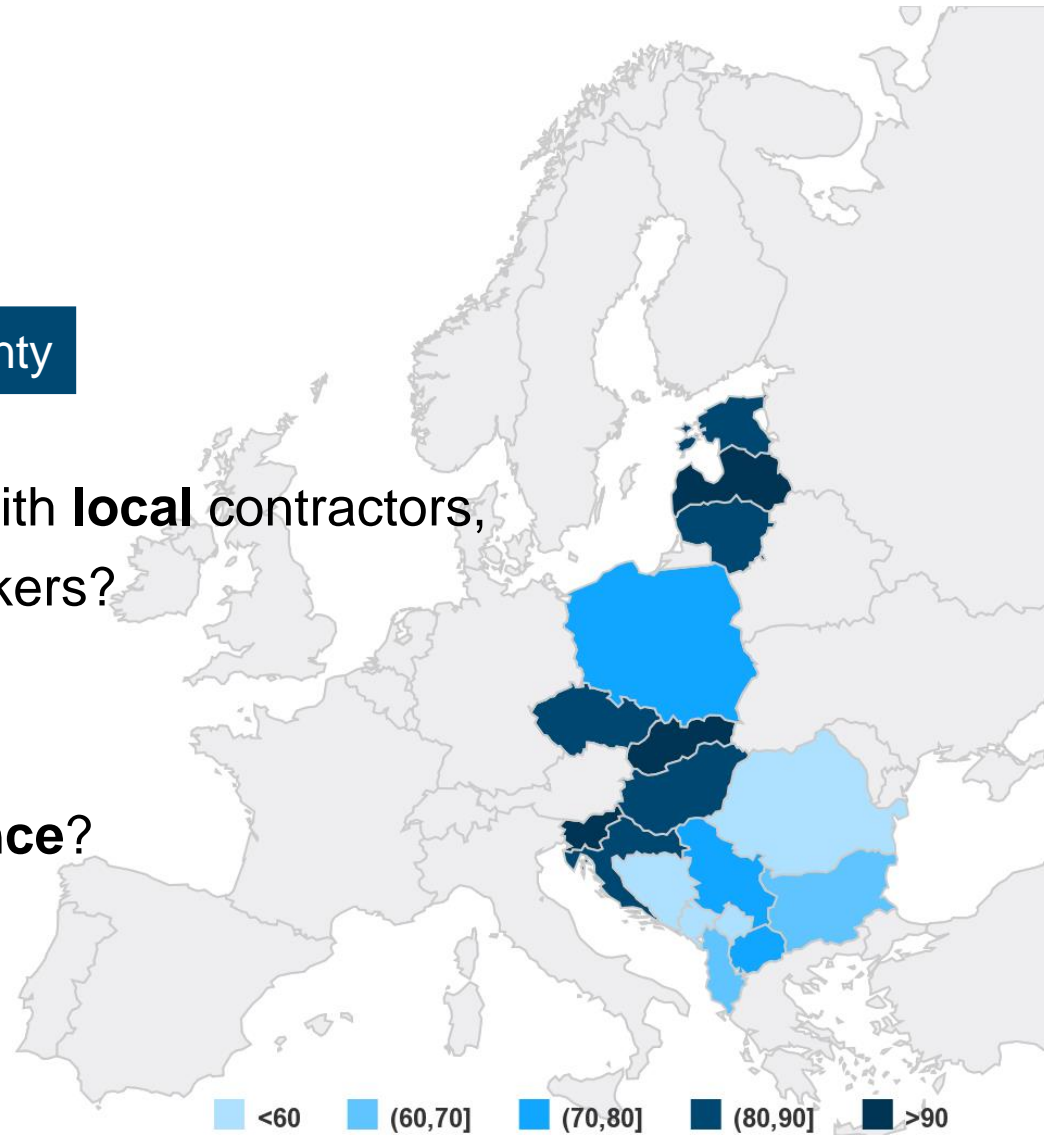
Source: Gruebler et al. (2018)

However, crucial questions
still need to be answered

Short term

Risk & uncertainty

- Implementation of projects with **local** contractors, suppliers, materials and workers?
(e.g. Barisitz & Radzyner, 2017)
- Unsustainable **debt**?
Dependency/political **influence**?
(e.g. Hurley et al., 2018)
- Fuelling **corruption**?
(e.g. Makocki & Nechev, 2017)
- **Environmental** standards
(e.g. Baum, 2017; Brett & Lei, 2018; Feng Hao, 2017)



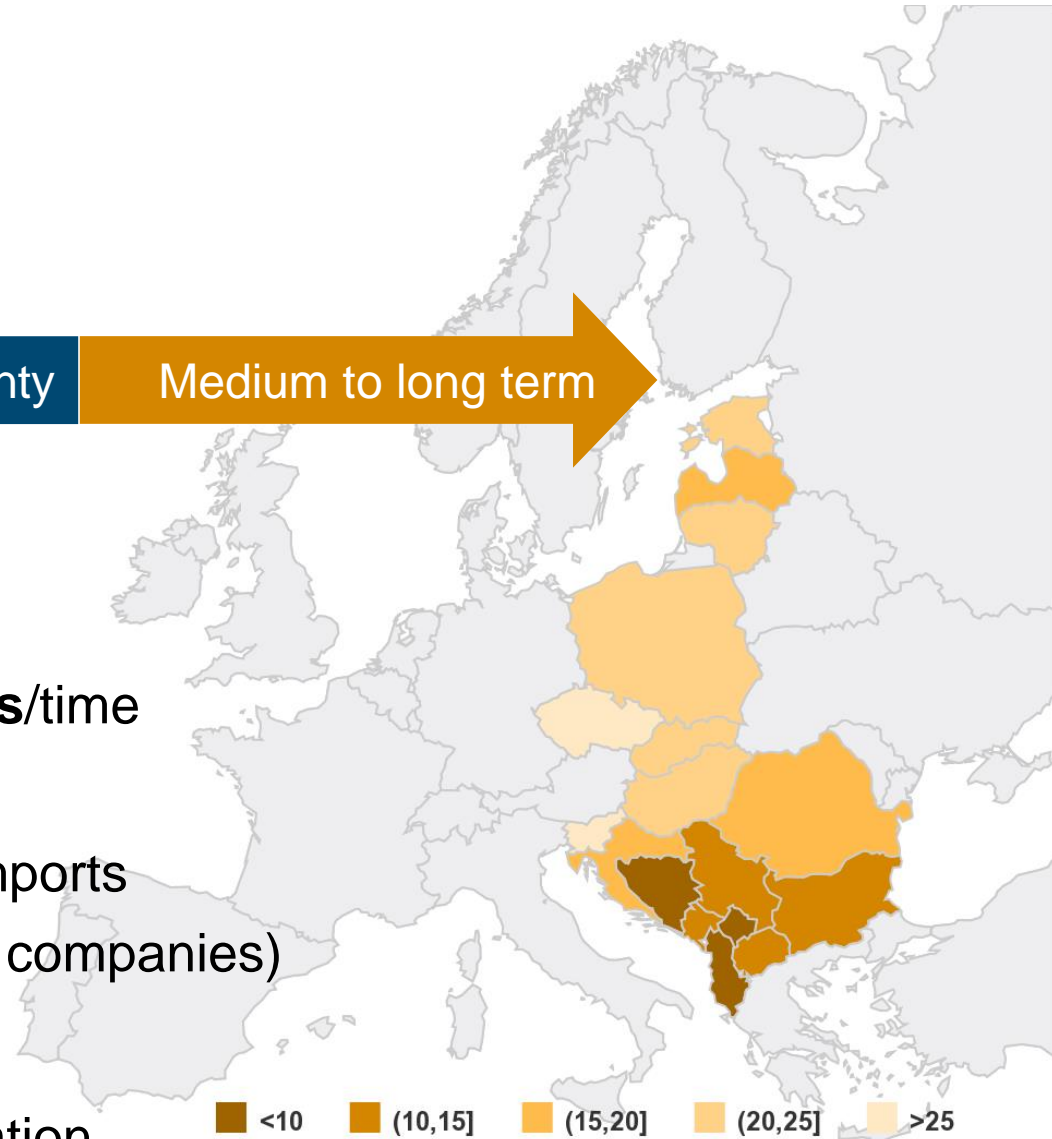
External debt in percent of GDP, 2017.

Source: wiiw Annual Database.

Potential for acceleration of economic development



- Rising **incomes**
(e.g. Holzner et al., 2015)
- Reduction of **transport costs/time**
(e.g. Steer Davies Gleave, 2018)
- **Diversification** of exports/imports
(goods, services and trading companies)
- Strengthening of
inter-/**intra-regional** cooperation



GDP per capita in 1000 at Purchasing Power Standards, 2017.

Source: wiiw Annual Database.

Focus shifting from west to east?

- Towards China:
 - + 70-year anniversary of the PR of China
 - + Policy banks¹⁾, new institutions²⁾ and funds³⁾
 - + Brexit budget questions
- Towards the EU:
 - + Investment strategy for the Western Balkans (EC, May 2018)
 - + InvestEU Programme (EC, June 2018)
 - + Vision for connectivity between Europe and Asia (EEAS, Sept. 2018)
- China ◀ ▶ EU:
 - + Trade agreement (dating back to the year 1985!)
 - + Investment agreement (Negotiations since 2013)
 - + European Silk Road? (Heimberger et. al, 2018)

1) EXIM Bank of China, China Development Bank (CDB), Agricultural Development Bank of China (ADBC);

2) New Development Bank (NDB), Asian Infrastructure Investment Bank (AIIB);

3) Silk Road Fund | China-CEE Fund

Thank you for your attention! 谢谢

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Data

- Austria's relation with CESEE (and China): <https://wiiw.ac.at/austria-and-cesee.html>
[Open data & visualisation]
- wiiw data on CESEE economies: <https://data.wiiw.ac.at/>
- Infrastructure projects e.g.
 - European Commission – TEN-T network:
https://ec.europa.eu/transport/themes/infrastructure_en
<https://ec.europa.eu/transport/infrastructure/tentec/tentec-portal/map/maps.html>
 - Reconnecting Asia: <https://reconnectingasia.csis.org/database/>
 - China Global Investment Tracker: <http://www.aei.org/china-global-investment-tracker/>
 - MERICS Belt and Road Tracker: <https://www.merics.org/de/bri-tracker>

Central, East and Southeast Europe (CESEE) – Country Codes

The Vienna Institute for International Economic Studies ([wiiw](https://wiiw.at)) is one of the principle centres for research on CESEE with more than 40 years of experience.

EU members in CEE

● EU-CEE-11

Bulgaria	BG
Croatia	HR
Czech Republic	CZ
Estonia	EE
Hungary	HU
Latvia	LV
Lithuania	LT
Poland	PL
Romania	RO
Slovakia	SK
Slovenia	SI

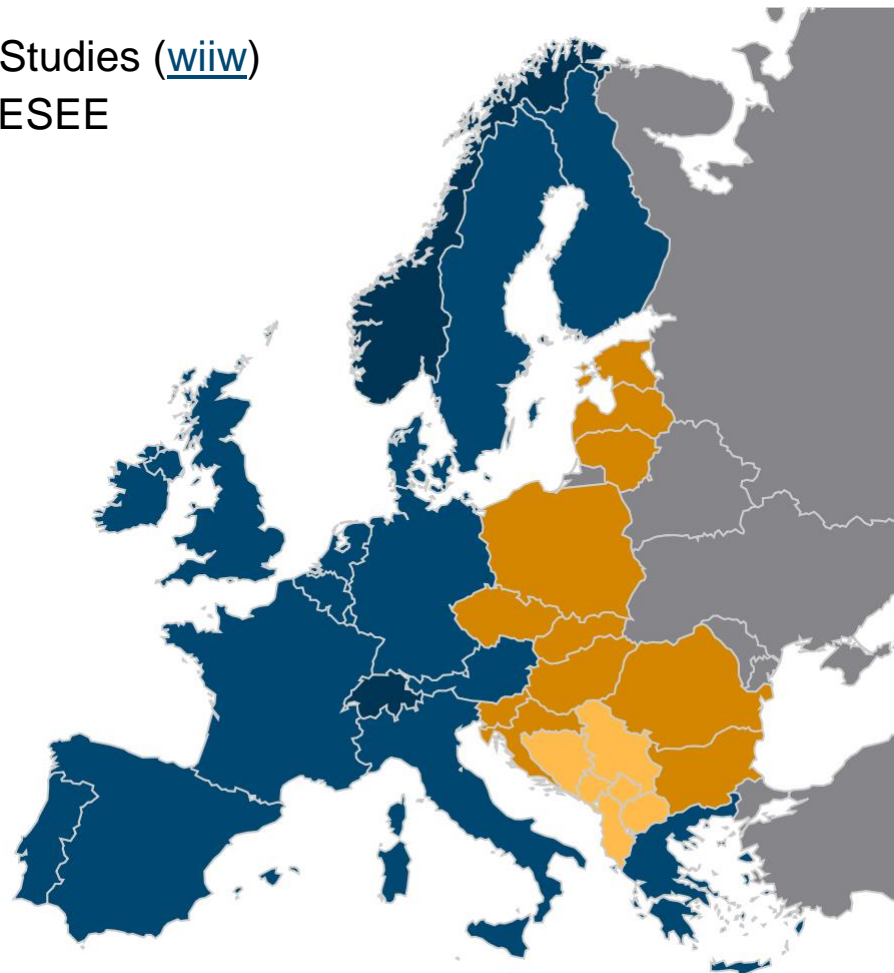
Western Balkans

● WB

Albania	AL
Bosnia and Herzegovina	BA
Macedonia	MK
Montenegro	ME
Serbia	RS
Kosovo	XK

● EU15

+ Malta, Cyprus



EU funds for the development of core infrastructure

- European Structural and Investment Funds (ESIF), particularly the European Regional Development Fund (ERDF) and the Cohesion Fund (CF)
- Instrument for Pre-accession Assistance (IPA II for the period 2015-2020)
- West Balkan Investment Framework (WBIF):
a cooperation between the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Kreditanstalt für Wiederaufbau (KfW), the World Bank and bilateral donors.
- Connecting Europe Facility (CEF)
- European Fund for Strategic Investments (EFSI)
- Trans-European Transport Network (TEN-T)

Chinese funds for implementing the BRI

- Silk Road Fund (40 billion USD)
- Asian Infrastructure Investment Bank (100 billion USD)
- New Development Bank (by & in BRICS, 100 billion USD)
- Export-Import Bank of China (BRI: 30 billion USD)
- China Development Bank (BRI: 32 billion USD)
- Agricultural Development Bank of China (BRI: 20 billion USD)

- ICBC Austria Bank GmbH was granted a licence to conduct banking business, ECB decision of 28 August 2018^(*).

Source: Barisitz and Radzyner (2017). Note: BRICS = Brazil, Russia, India, China, South Africa.

(*) <https://www.fma.gv.at/konzessionserteilung-35/>

Positive economic effects expected via the trade channel, in total and in % of GDP

	in million USD				in % of GDP			
	China	EU grants	EU loans	Total	China	EU grants	EU loans	Total
Montenegro	558	118	310	986	13.72	2.89	7.64	24.25
Bosnia and Herzegovina	1840	183	1659	3682	10.52	1.05	9.49	21.06
Serbia	3036	212	2508	5757	7.30	0.51	6.03	13.85
Albania	6	107	1158	1272	0.05	0.82	8.83	9.70
Macedonia	273	40	672	985	2.46	0.36	6.06	8.88
Croatia	425	1302	342	2069	0.78	2.39	0.63	3.80
Romania	1805	3714	192	5711	0.90	1.85	0.10	2.85
Poland	861	12829	1135	14826	0.16	2.30	0.20	2.66
Hungary	1657	1350	94	3101	1.16	0.94	0.07	2.16
Bulgaria	72	1021	67	1160	0.13	1.78	0.12	2.02
Slovak Republic	85	1539	510	2134	0.08	1.42	0.47	1.98
Slovenia	151	634	178	963	0.30	1.27	0.36	1.93
Lithuania	7	609	316	932	0.02	1.20	0.62	1.84
Latvia	76	376	77	529	0.24	1.20	0.25	1.69
Estonia	4	297	38	339	0.02	1.12	0.14	1.28
Czech Republic	173	1390	144	1708	0.08	0.63	0.07	0.78
Austria	170	200	126	496	0.04	0.05	0.03	0.11
Germany	673	1418	490	2580	0.02	0.04	0.01	0.07
Italy	378	443	350	1170	0.02	0.02	0.02	0.06
China	380	660	340	1380	0.00	0.01	0.00	0.01

Note: Countries are ranked by size of impact on GDP. Source: wiiw calculations based on ESIF, CEF, TEN-t, WBIF and EFSI data on EU grants and loans and the China Global Investment Tracker for Chinese construction projects.

The way forward for Austria in seven policy areas^{*}

#1 Cooperation in **multimodal transport infrastructure** development

Broad gauge Košice-Vienna ♦ Belgrade-Budapest-Vienna ♦ Vienna-Bratislava Logistics Hub

#2 **Tourism** as an opportunity for business and cultural exchange

Visa facilitation ♦ Frequent AT-CN flights ♦ Trans-Eurasian railway for travellers ♦ Tourist attractions of common interest ♦ Promotion of diversity

#3 Setting a **level playing field** for trade and investment

Mutually beneficial Investment Agreement ♦ Revival of trade agreement negotiations ♦ BRI evaluation and communication strategy

^{*} NB: All recommendations are economic in nature and need to be subject to a proper impact assessment including social and environmental considerations! Source: Gruebler et al (2018)

The way forward for Austria in seven policy areas

#4 Chinese-Austrian Central European **E-automotive Hub**

Network of production sites for e-car components

#5 Cooperation in **ICT** in the early stage

5G broadband expansion

#6 A **Sino-Austrian investment bank** for the Western Balkans

Specialisation on transport infrastructure

#7 Austrian pupils learning **Chinese**

Chinese as subject in Austrian schools ♦ Teacher training ♦

Exchange programmes