

wiiw Spring Seminar, 12 April 2018

China's Outreach to CESEE

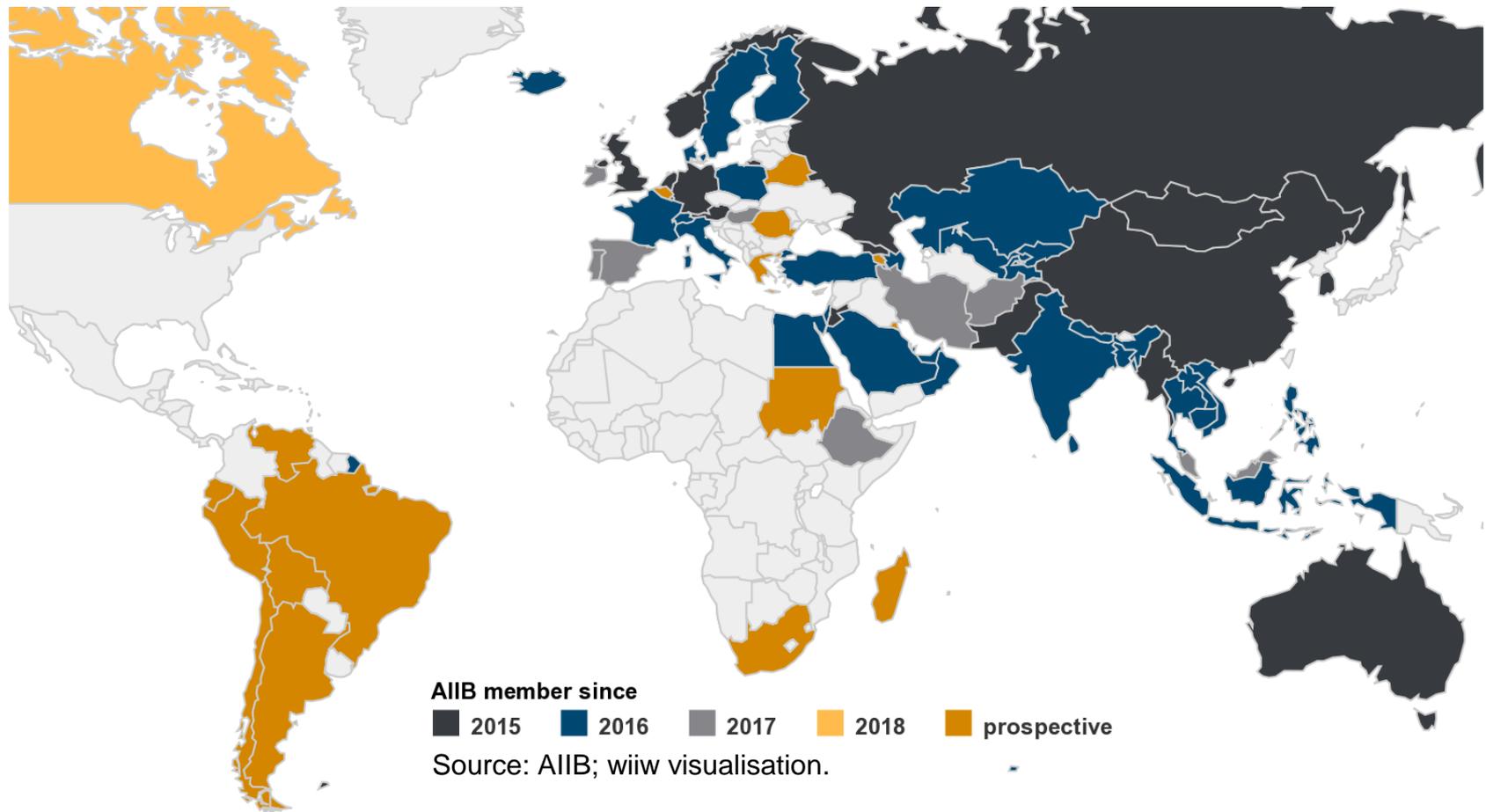
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Belt & Road Initiative (BRI) announced in 2013

Transport ● Energy ● Information & communications infrastructure



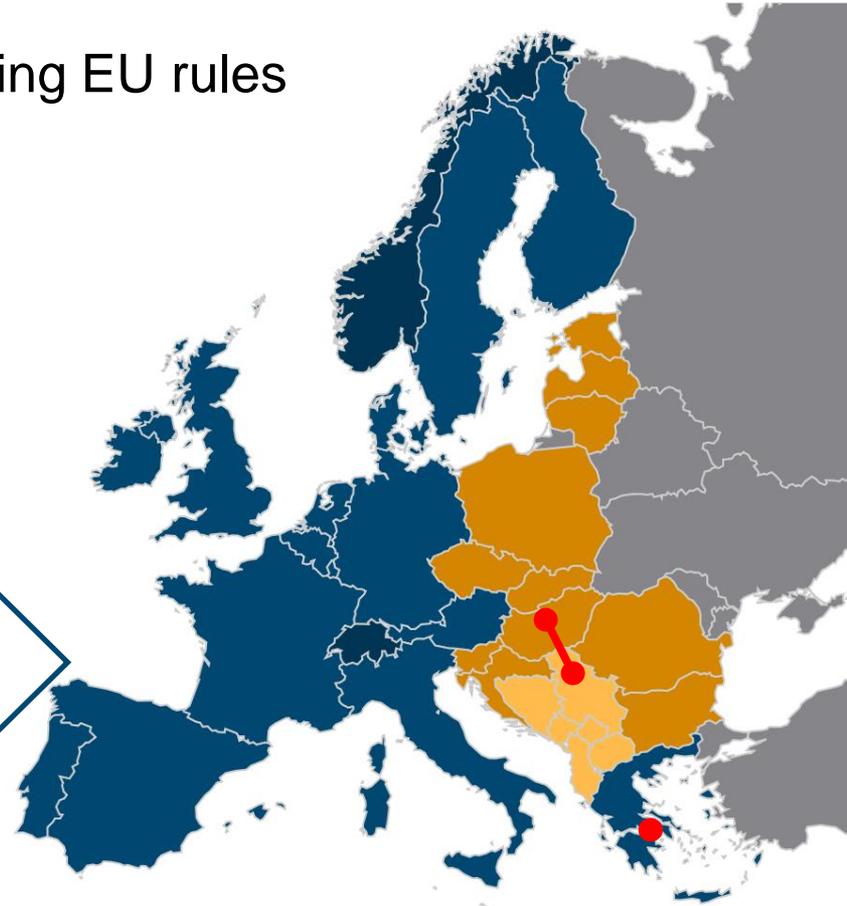
China's interest in CESEE manifested in '16+1' initiative

- **2014:** 3rd CEE-China Summit:
'16+1' initiative
- **2016:** China Ocean Shipping Company acquired 67% of the largest Greek **harbour in Piraeus**
- **2017:** 6th CEE-China Summit:
tender for the railway **Budapest-Belgrade**



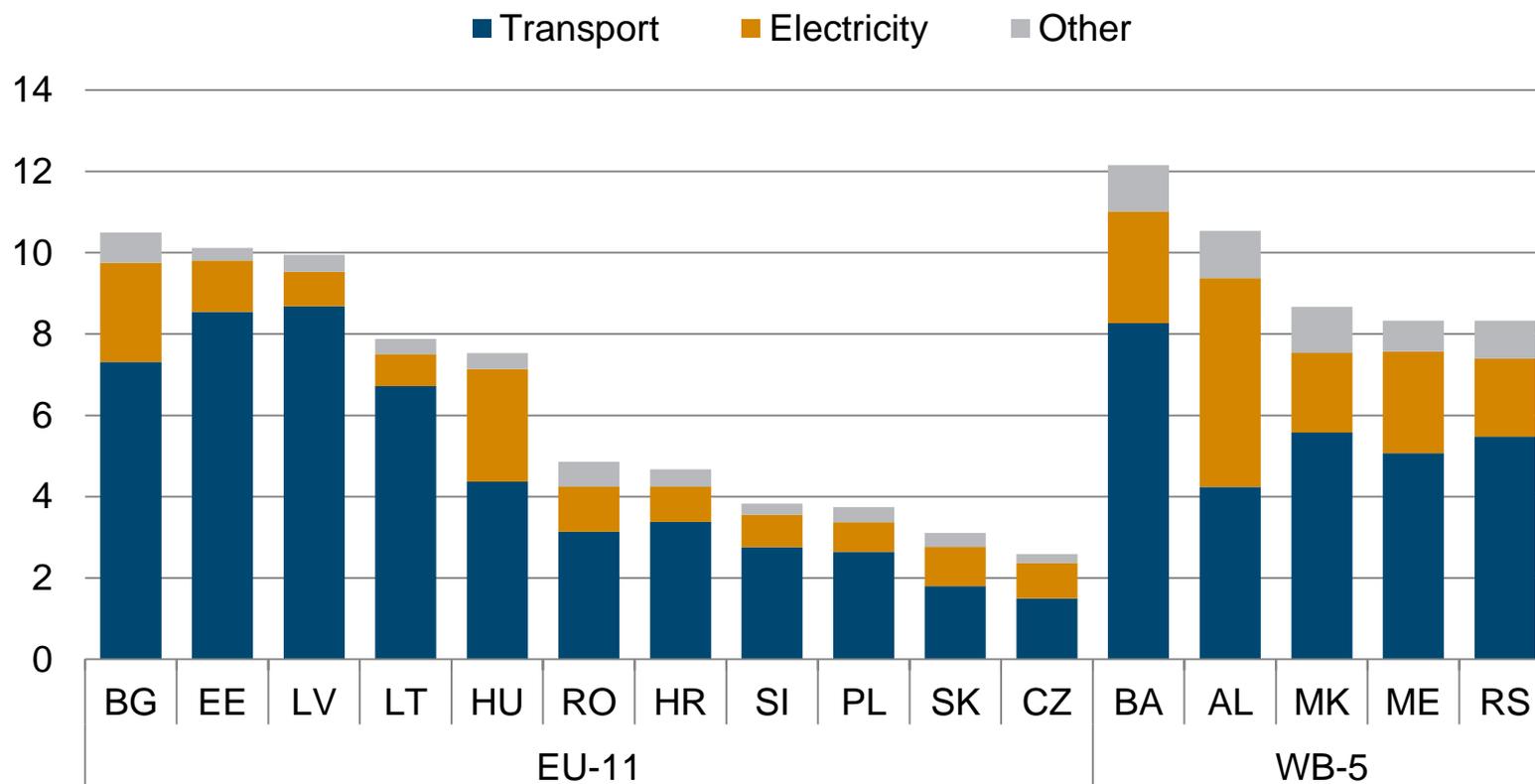
Multiple motives for China's engagement in CESEE

- Reduction of **transport** costs/time to better serve the EU market
- Easier EU market access, circumventing EU rules
- Reduction of **excess capacities** (e.g. steel industry)
- Export of **unemployment**
- Development of **new markets**



Substantial investment needs in CESEE-16

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

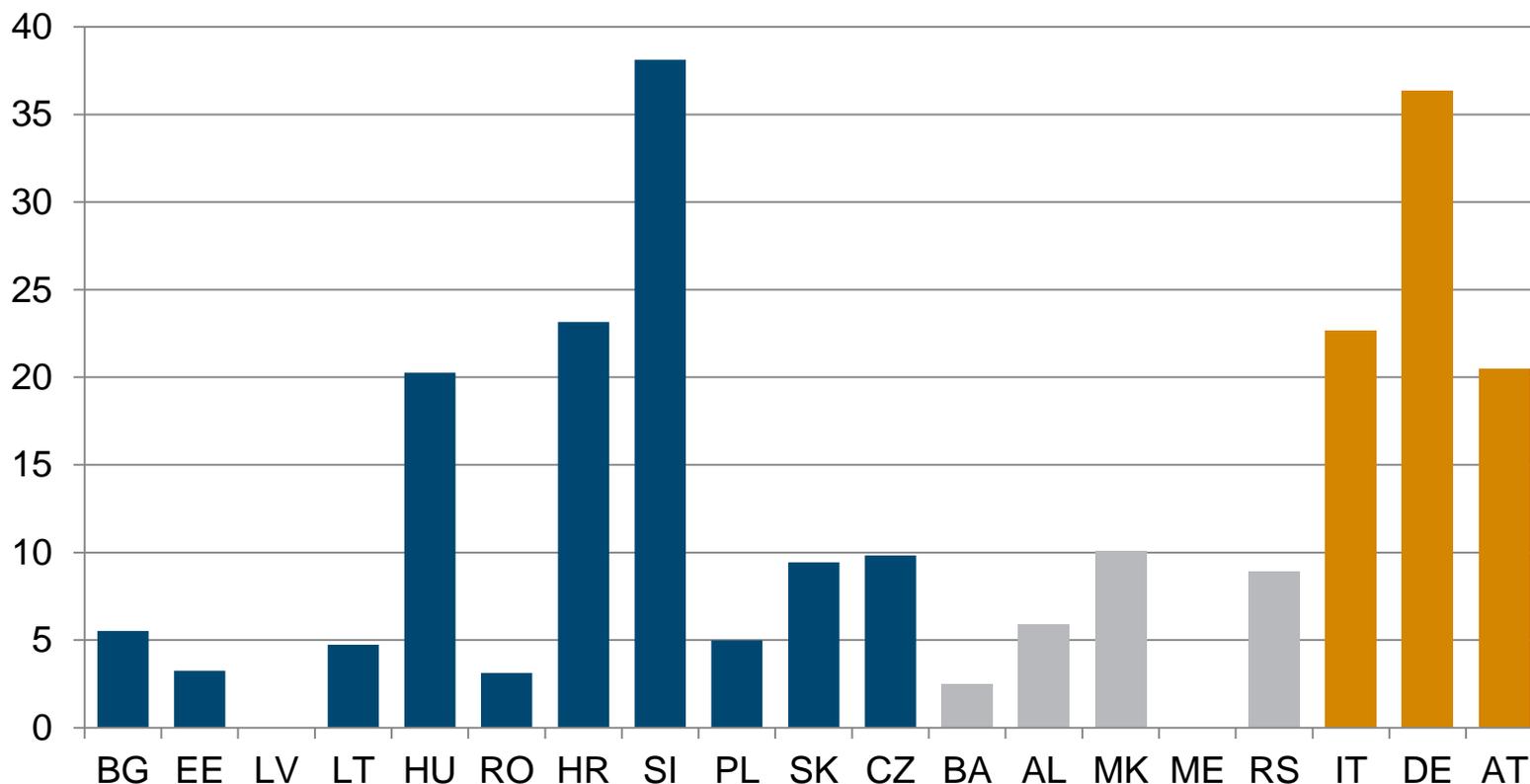


Note: CZ extrapolated from relationship between PL and SK; all data in % of 2015 GDP at 2010 prices.

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

Low motorway density in the CESEE periphery

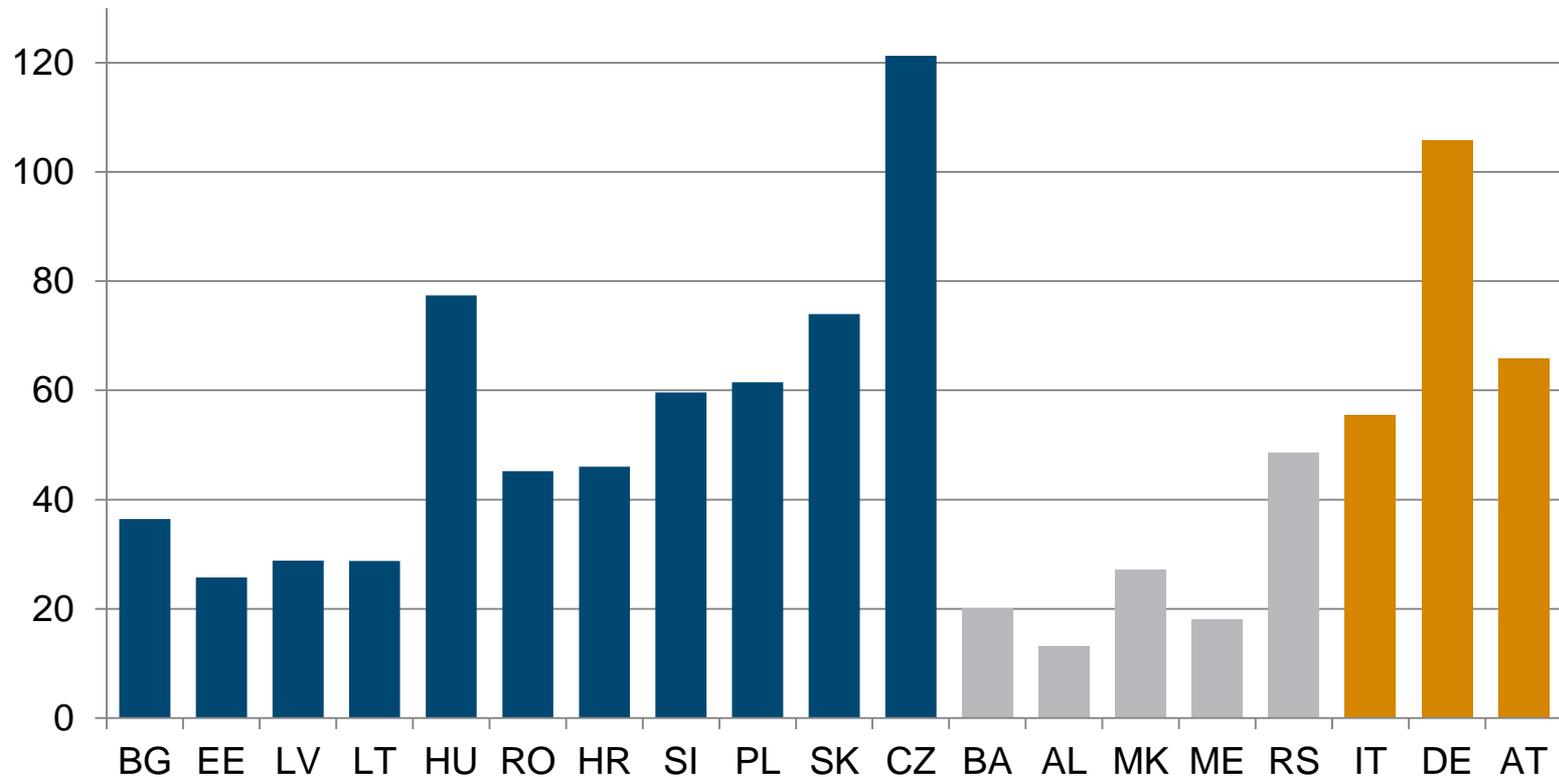
Motorway density in km per 1000 km² land area, 2015



Note: AT, BG, IT 2014; AL own estimate. Source: Eurostat.

Weak railway network in the East and in Western Balkans

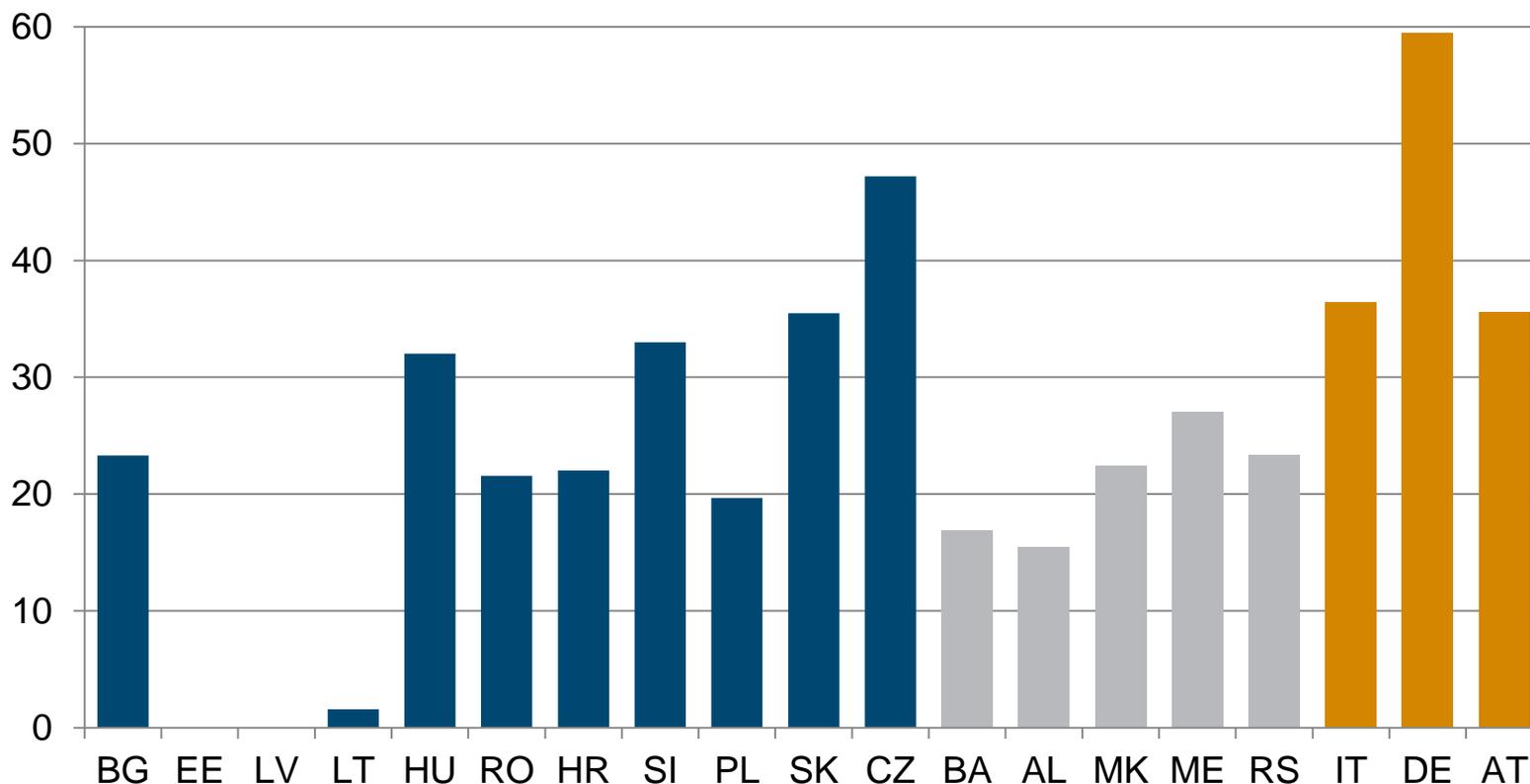
Railway density in km per 1000 km² land area, 2015



Note: BG, DE 2014; IT 2013. Source: Eurostat.

Powerful electricity lines scarce in WB and the Baltics

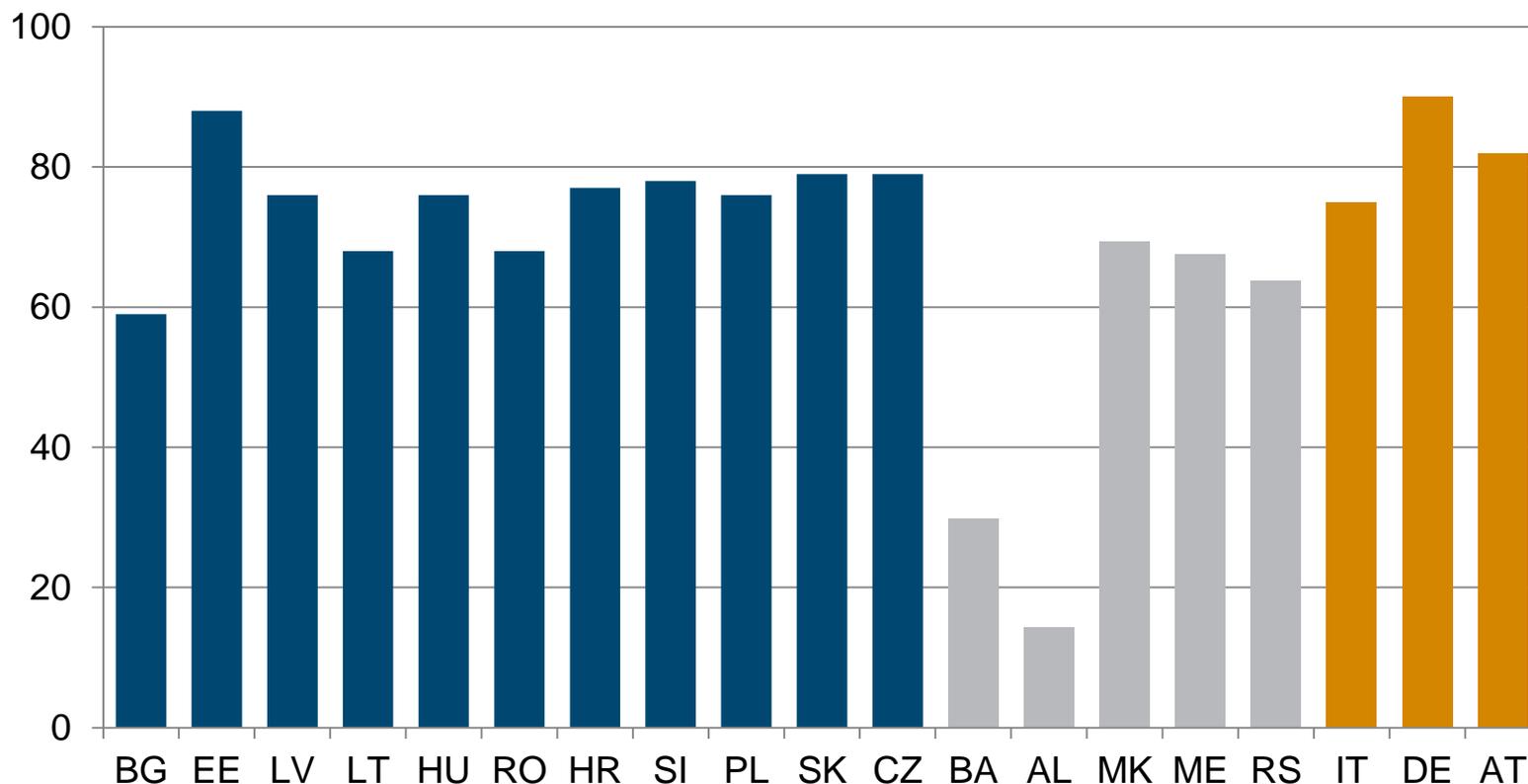
Length of 380/400kV electricity circuit in km per 1000 km² land area, 2016



Note: Data for Albanian line length is based on the 2016 annual report of the Albanian energy regulation agency ERE. Source: European Network of Transmission System Operators for Electricity (ENTSO-E), Eurostat.

Smaller gaps in less capital-intensive ICT infrastructure

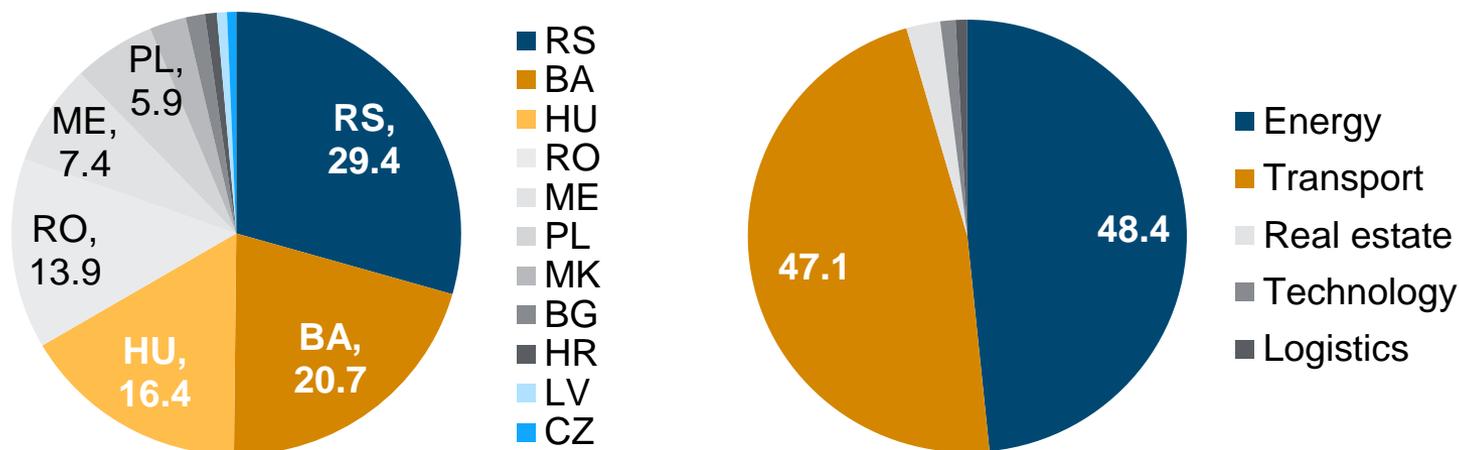
Percentage of households who have internet access at home, 2015



Note: AL 2012; BA 2011. Source: Eurostat.

Chinese construction projects gain speed with BRI

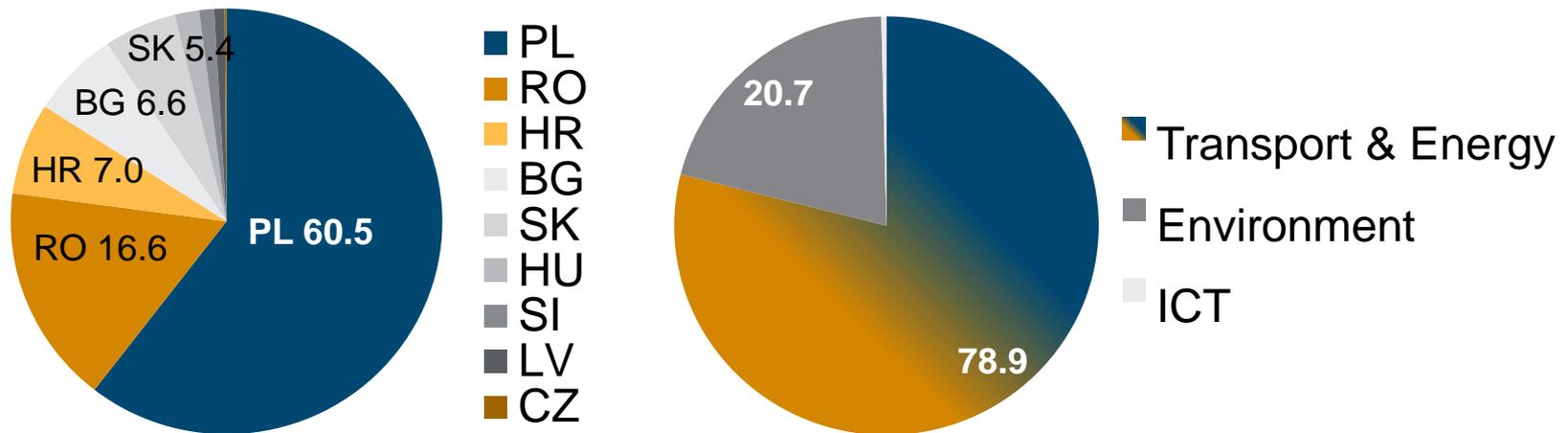
- $\frac{2}{3}$ of projects initiated since 2013: 2007-2017 ~ **EUR 12.2 billion**
- Geographically concentrated in **central-southern CESEE-16**
- Almost entirely in energy or transport



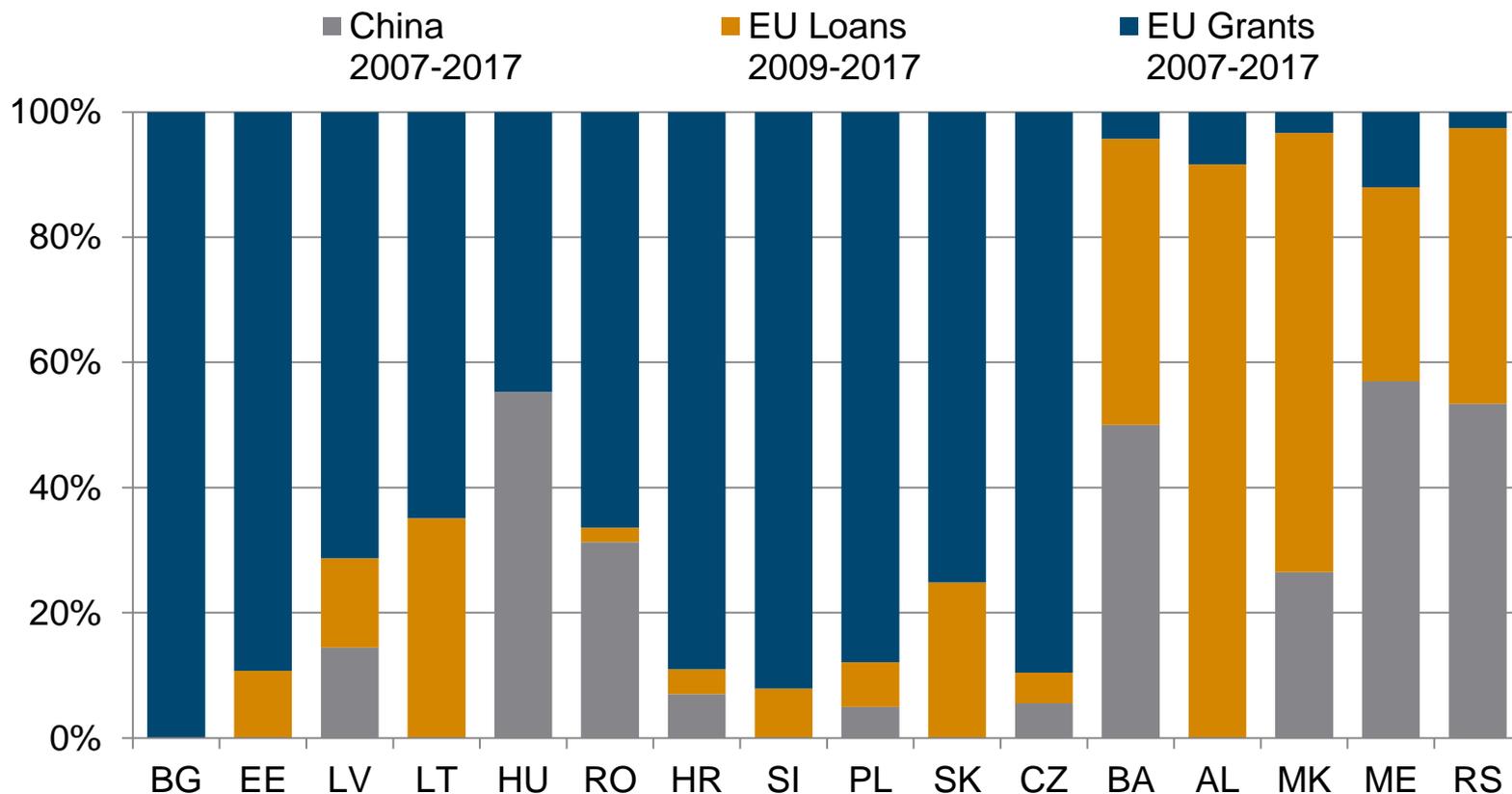
Note: Projects are not FDI, but mostly public investment contracts financed by Chinese banks; not all the projects might be realised. Figures for the period 2009-2016. Source: China Global Investment Tracker, February 2018. 10

EU projects in the EU-CEE-11 no risk to debt sustainability

- ESIF: 2014-2020: **EUR 11.8 billion in grants**
- Targeting largest and poorest EU-CEE economies
- 80% spent in transport and energy sectors



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

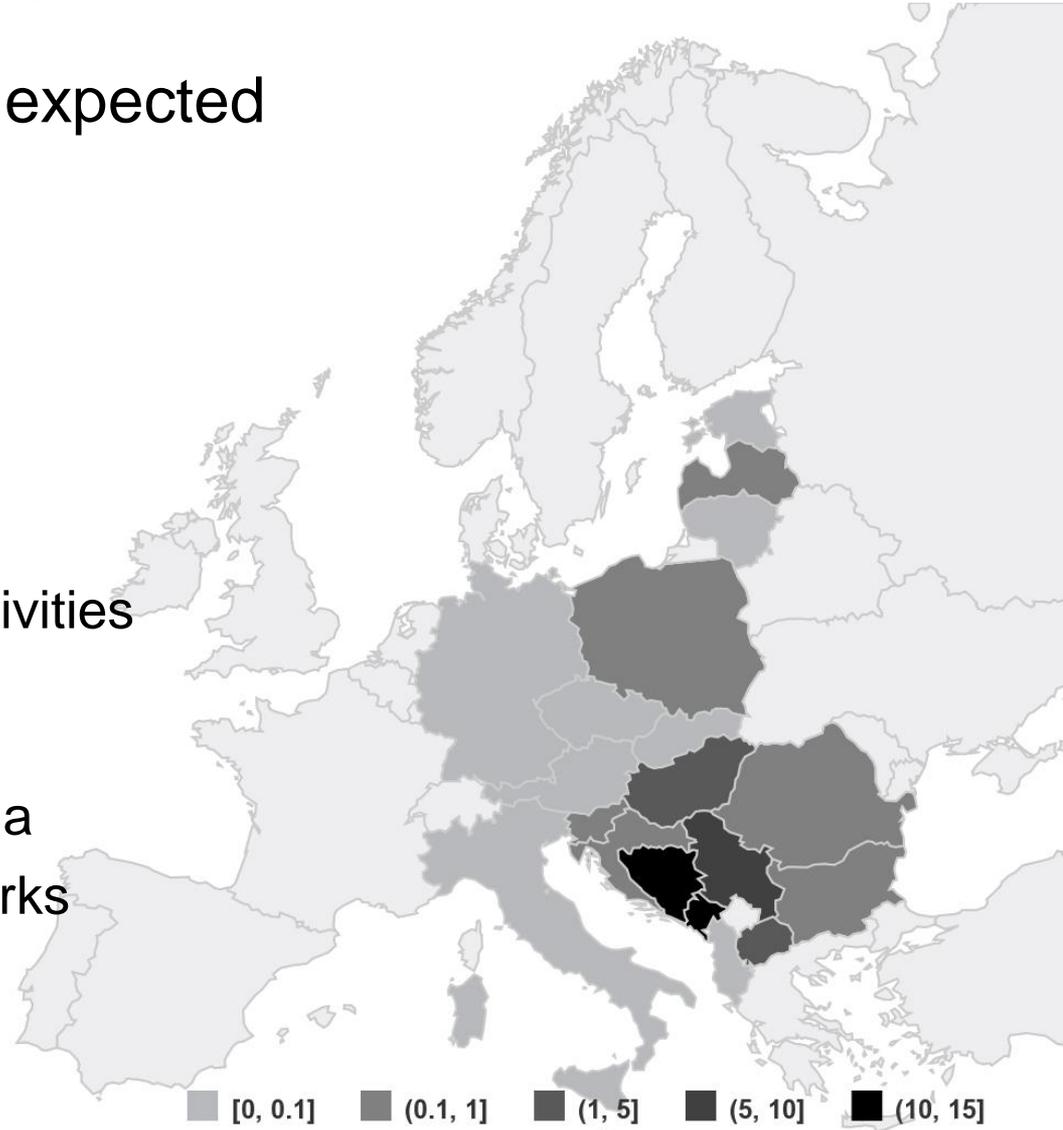


Source: European Commission ESIF, CEF, TEN-t, WBIF, EFSI data;
 China Global Investment Tracker; wiiw calculations.

Positive economic effects expected via the trade channel



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



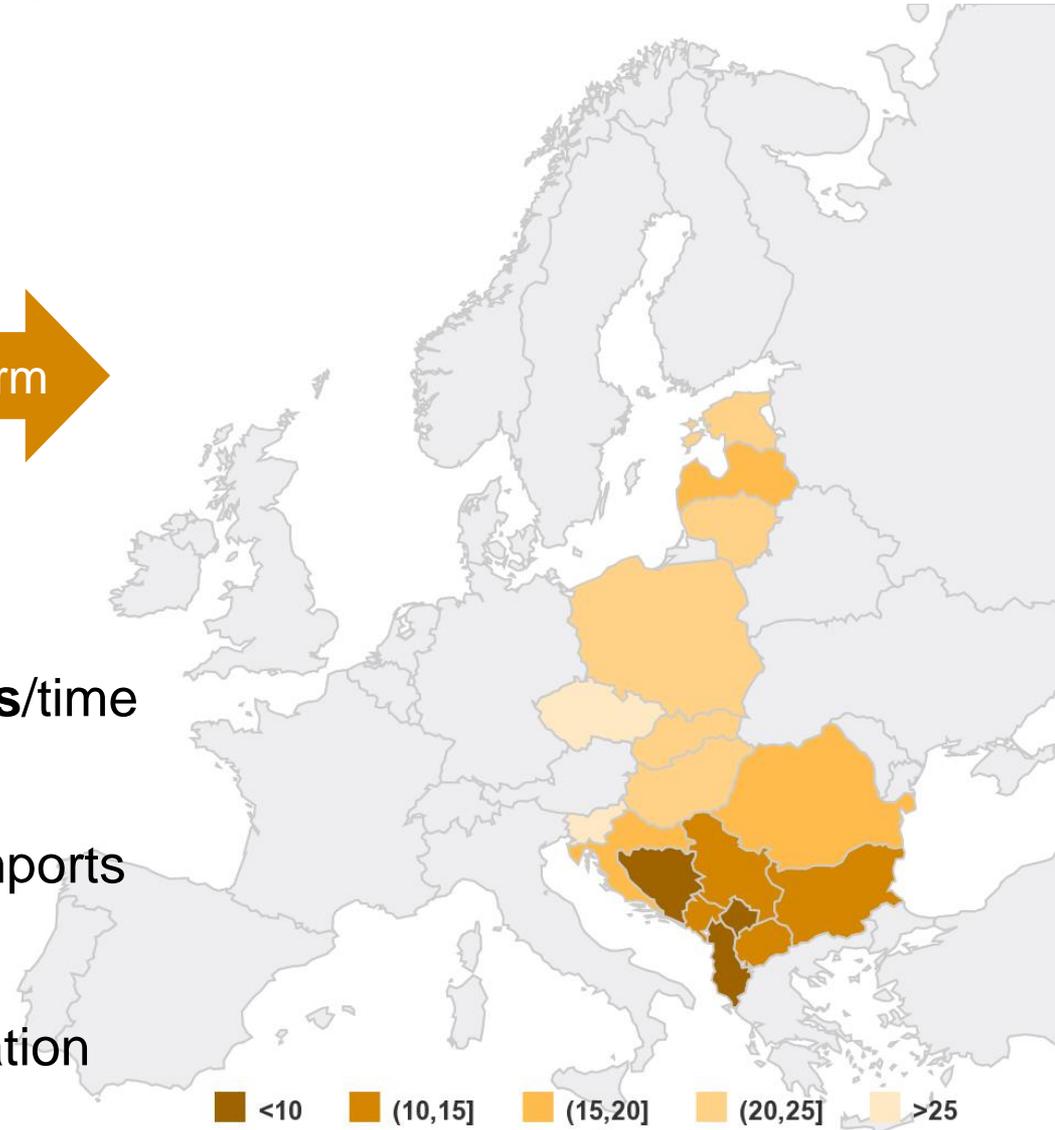
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Trade effects in % of GDP (2014).

Potential for acceleration of economic development

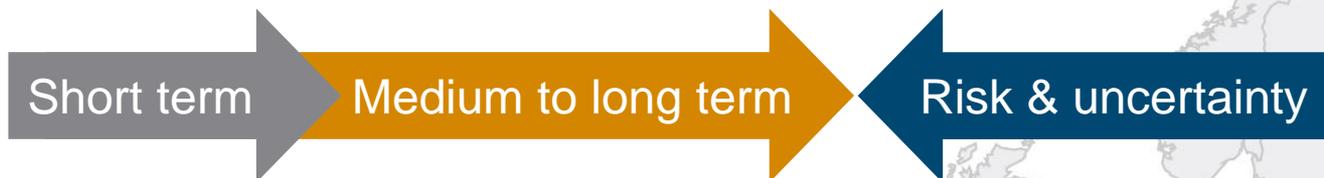


- **Rising incomes**
(e.g. Holzner et al., 2015)
- **Reduction of transport costs/time**
(e.g. Cosentino et al., 2018)
- **Diversification** of exports/imports
- **Strengthening of inter-/intra-regional cooperation**

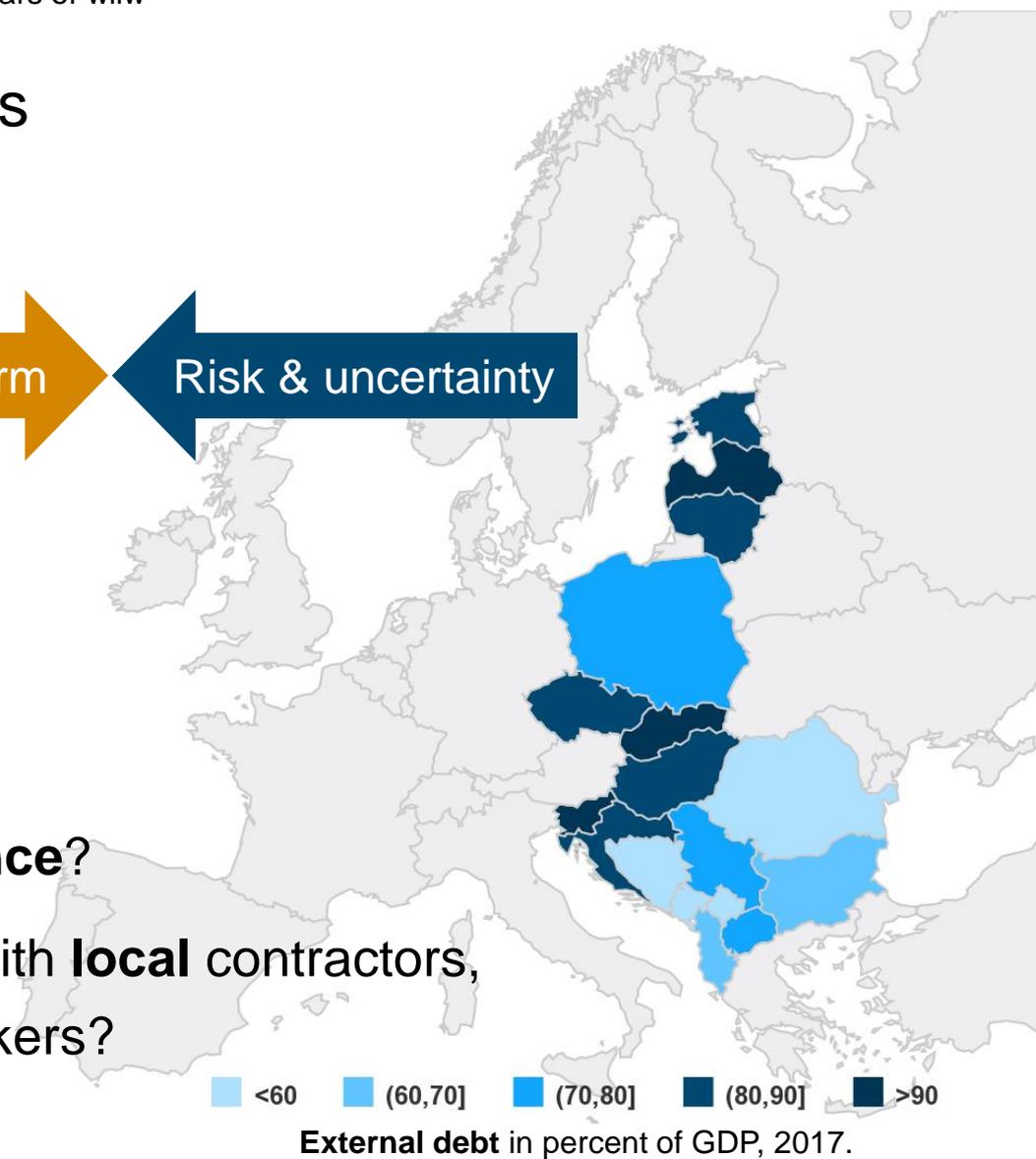


GDP per capita in 1000 at Purchasing Power Standards, 2017.

However, crucial questions
 still need to be answered



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



External debt in percent of GDP, 2017.

Thank you for your attention!

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Country codes

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-5

Albania	AL
Bosnia and Herzegovina	BA
Macedonia	MK
Montenegro	ME
Serbia	RS
<i>Kosovo</i>	<i>XK</i>
● For comparison	
Austria	AT
Germany	DE
Italy	IT

