Chinese Investment in Central and Eastern Europe

A reality check

Tamás Matura

A Research Report by the
Central and Eastern European Center for Asian Studies

April 2021
Budapest

www.ceecas.org
www.china-cee-investment.org
Chinese Investment in Central and Eastern Europe

A reality check

The Central and Eastern European (CEE) countries and China have been working closely together for a decade to improve their political and economic relationship in the 17+1 framework. One of the fundamental goals of CEE countries has been to increase the flow of Chinese capital into their respective countries to boost economic development. Politicians on both sides have been eager to promote investment opportunities and sometimes to overestimate or even to inflate the impact of China’s investment in the region. Such exaggerations have contributed to a narrative around the European Union (EU) that China is ‘buying off’ CEE countries and offers trade and investment in exchange for political influence in the EU itself. Meanwhile, researchers and experts emphasise that the actual number and value of China’s investment projects in the region are considerably less significant than many would expect. The following report presents the findings of the research conducted by the Central and Eastern European Center for Asian Studies with the support of a small grant from the Embassy of the United States of America in Budapest, Hungary.

Country experts:

Albania – Ornela Liperi
Bosnia-Herzegovina – Stefan Vladisavljev
Bulgaria – Dr. Rumena Filipova, Ph.D.
Croatia – Anastasya Raditya Ležaić
Czechia – Ivana Karásková, Ph.D.
Estonia – Liisi Karindi
Hungary – Dr. Ágnes Szunomár, Ph.D.
Latvia – Dr. Una Aleksandra Bērziņa-Čerenkova, Ph.D.
Lithuania – Dr. Konstantinas Andrijauskas, Ph.D.
Montenegro – Stefan Vladisavljev
North-Macedonia – Ana Krstinovska
Poland – Dr. Agnieszka McCaleb, Ph.D.
Romania – Andreea Brînză
Serbia – Stefan Vladisavljev
Slovakia – Dr. Richard Turcsányi, Ph.D.
Slovenia – Nina Pejič

Project Coordinator – Máté Mátyás
Project Founder – Dr. Tamás Matura, Ph.D.

www.china-cee-investment.org
EXECUTIVE SUMMARY

▪ Central and Eastern European governments tend to offer an inflated picture of China’s presence in their respective countries. Official numbers tend to include investment plans previously proposed but otherwise never implemented by the Chinese side, infrastructure projects financed by Chinese loans and the results of international M&As.

▪ China’s FDI positions in the CEE countries is modest, and except for Hungary and Romania Chinese investment plays a more important role in Western European countries than in any of the EU members of the 17+1. When actual financial inflows are taken into account instead of FDI figures, the relevance of China diminishes further in most CEE countries.

▪ A distinction must be made between investments that fit into the official category of FDI and the actual inflow of Chinese capital into the CEE countries. The value of international M&A transactions has to be deducted from the value of FDI figures to get a more realistic view of the level of Chinese economic activity in the region.

▪ Traditional European partners like Germany, other East Asian countries like Japan and South Korea and to a lesser extent the United States, are still the most important investors in fifteen of the sixteen countries covered by the present research.

▪ Most of the costs of infrastructure construction projects in the non-EU member countries of the Western Balkans are financed by Chinese loans, and the total value of such deals adds up to significant amounts compared to the GDP of the relevant economies. The level of loans offered by China may reach 18% of the GDP in Montenegro, 12% in Serbia, 10% in Bosnia-Herzegovina and 7% in North-Macedonia.
The background of the research

Ever since the inception of the cooperation, the 17+1 has been a target of tremendous criticism. The EU and certain Western member states and to an increasing extent the United States have all been concerned with the increased level of Chinese activity in the Eastern part of the integration. Such concerns stem from the fear that Beijing might try to divide and rule the EU through the 17+1 framework. Recently, EU-China relations have been deteriorating in general as Europe is more frustrated by the rise of the People’s Republic of China (PRC), and Beijing is getting more disappointed by the slow progress of the EU while its own self-confidence is on the rise. Some of the major European countries like France or Germany have been grumbling about China’s activities in the CEE region, as they see the PRC as a competitor in a market they have always considered their home turf. In 2012, at a closed-door roundtable on EU-China relations in Brussels, a Western European diplomat set forth his remarkable assessment of the 17+1 initiative as he said: “China and Central Europe were building a new Berlin Wall across the EU”. At a similar event in Brussels in December 2017 the representative of another major Western European country said that China had simply “bought off” Central and Eastern European countries and Eastern member states were “puppets in the hands of Beijing”.

EU’s Directorate General for External Policies published its evaluation of China-CEE cooperation in 2015, in which it diplomatically emphasised its concerns: “Political relations with China may have ‘improved’ in the particular case of Hungary, as Orbán openly declared China a success model (...). Consequently, China may profit from such positions within the EU, as ‘good relations’ with a number of countries (...), may soften the EU’s trade policy (...). Coordination among Member States and EU institutions will be key to a coherent approach that informs EU-China relations not only in the EU-China Strategic Dialogue, but also in the individual bilateral relations between EU Member States and China(...).” (DG for External Policies, 2015).
An article published by *Handelsblatt* in April 2018 on a report prepared by EU ambassadors that sharply criticised China’s Belt and Road Initiative project stated that only the Hungarian ambassador refused to sign the paper because “*countries such as Hungary and Greece, which both rely on Chinese investment, have in the past shown they are susceptible to pressure from China*”. (Heide, et al., 2018)

Many researchers of the China-CEE cooperation have echoed similar concerns. As Turcsányi wrote in 2014 relations between China and the CEE countries had attracted attention around Europe for supposedly affecting the united stance of the EU and there were voices talking about the new dividing line in Europe and China’s ‘divide and conquer’ strategy. According to these voices, it was against EU good practices to develop separate institutionalised relations with a third state (Turcsányi, 2014).

The lack of reliable data sources on the exact amount of China’s investment in CEE countries has contributed to the lack of clarity around the 17+1 cooperation. Beijing and its regional partners have announced hundreds of investments for tens of billions of Euros in the past decade. Some CEE governments boasted about their capacities to attract as much Chinese capital to their respective countries as possible. The narrative about the “tsunami of Chinese money” flowing into CEE was actively inflated by both sides, which has increased Western European concerns even further. Meanwhile, finding useful and comparable data on the actual amount of China’s FDI in the region has always been a headache even for experts and researchers. As the following figure illustrates, Central Bank, national governments, statistical offices, or Chinese Embassies have published figures that differ by orders of magnitudes (Figure 1.). Therefore, it is of utmost important to offer a comprehensive and thorough picture of the status of China’s investments in the CEE region, and the present reports attempts to make such.
In summary, the cooperation between China and the CEE region has attracted significant attention in Brussels, major EU capitals and Washington in recent years. CEE governments have been accused of trading the political cohesion of Europe for economic benefits from China, and that the 17+1 cooperation itself was a malign Chinese attempt to divide and rule Europe. Indeed, the public communication and certain political decisions of some of the CEE governments may give the impression that China has succeeded in increasing its economic clout and political influence in the region. However, success appears less obvious if one takes a closer look.

As other projects in the region have concluded before, China struggles to establish its foothold and influence in the CEE region. (Karaskova, 2020) Local media and the societies of the Eastern member states of the EU have never had a favourable view of the PRC (Turcsányi, et al., 2019), and the impact of the COVID-19 pandemic deteriorated China’s image even further. (Turcsányi, et al., 2020) As will be presented below, the lack of tangible results in terms of investment relations is one more factor to the detriment of China’s influence in the region.
Main findings

Inflated figures

One of the most important findings of the project is that national governments tend to offer an inflated picture of China’s presence in their respective countries. Figures presented by governments tend to include investment plans previously proposed but otherwise never implemented by the Chinese side. Others include the value of infrastructure projects constructed by Chinese contractors, even though the cost is borne by the national government itself. It must be emphasised that infrastructure projects financed by Chinese loans do not fit into the category of China’s foreign direct investment, rather they are investments made by the host country and merely financed by a loan that happens to come from China.

When both infrastructure related projects and FDI figures are taken into account, Serbia stands out in the region with the highest level (EUR 9,7 billion) of Chinese presence in the region (see Figure 2.), followed by Hungary (EUR 5,4 billion), Romania (EUR 2,8 billion\(^1\)), Poland (EUR 2,7 billion) and Bosnia-Herzegovina (EUR 1,9 billion). However, the value of infrastructure projects distorts the overall picture to a high extent, as China’s presence in the Western Balkans focuses mostly on construction and not on actual FDI projects.

---

\(^1\) According to the CEO of Huawei Romania the company has invested over EUR 1 billion in the country so far, but besides his statement it is impossible to find any tangible evidence on such a major investment. Therefore, out of the EUR 2,8 billion FDI stated above EUR 1 billion is questionable.
FDI does not mean actual inflow of capital either

As Figure 3 presents, there are considerable differences between the value of China related infrastructure projects, FDI stocks and the estimated value of actual inflow of Chinese capital to CEE countries. While there are major construction projects in the non-EU member countries of the Western Balkans, FDI figures show a much more limited presence of China in the region. Furthermore, an important distinction has to be made between investments that fit into the official category of FDI² and the actual inflow of Chinese capital into the relevant countries. According to international statistical standards all Chinese owned companies are considered Chinese direct investment, without regard to the method or type of acquisition. That is, whenever a company from China acquires a multinational company (MNC), the subsidiaries of that MNC in the CEE region are henceforth automatically recategorised as Chinese investment,

although the purchase price was transferred to a third country. Based on this logic, it makes sense to exclude all international M&A transactions from the list of China’s investments in the region and to deduct the value of such transactions from the value of FDI figures to get a more realistic view of the level of Chinese economic activity in the CEE countries. As Mr Péter Szijjártó, Minister of Foreign Affairs and Trade, made it clear in his speech in the Hungarian Parliament in June 2019, most Chinese investments in the country had been made through international M&As: “Honourable Members of the Parliament, do you know how eleven out of the sixteen (Chinese investments) came into being? So that the Chinese bought either American or German or Swiss or Canadian companies. So, what do we have to do with this? Well, do not sell American companies, German companies, Swiss and Canadians to the Chinese, and there won’t be as much Chinese investment in Hungary soon! Of the sixteen Chinese investments in Hungary, eleven were realised through the acquisition of international companies.” (Szijjártó, 2019)

Figure 3.

Source: (CEECAS, 2021) Note: According to the MFA of Hungary, China invested the most in Hungary in the year 2020, however, details are not public yet. Therefore, the level of Chinese FDI in Hungary may rise significantly in the near future, if all of these projects get implemented. Furthermore, the purchase price paid by Wanhua Yantai for Borsodchem Hungary (EUR, 1,23 billion) was excluded from the list of ‘Actual inflow of Chinese capital’ as the original owner of Borsodchem was an Austrian-British investment company, thus the price of the acquisition did not flow into Hungary.
Based on the above presented considerations one may argue that figures presented by national governments (or local Chinese embassies) heavily overestimate the actual weight of Chinese capital in their respective countries. Figure 4. compares the value of all China related projects (construction & FDI) to the estimated stock of capital that has indeed flown into the relevant countries.

**Figure 4.**

![Graph showing the estimated value of all China related projects and the actual inflow of capital (2020)](image)

Source: (CEECAS, 2021)

*The Chinese investment is limited in CEE countries*

As presented by Figure 5. China’s FDI positions in the CEE countries is modest and, except for Hungary and Romania, investment from China plays a more important role in Western European countries than in any of the EU members of the 17+1. (Slovenia represents a special case, as 70 percent of the stock of Chinese investment in the country is connected to one single acquisition of a Slovenian video game developer with its headquarters located in Cyprus). Even when it comes to the Western Balkans, only Serbia and Albania stand out from the crowd with proportionally significant levels of Chinese investments. When actual financial inflows (Figure 3.) are taken into account instead of FDI figures, the relevance of China diminishes further in most CEE countries.
Traditional partners still dominate investments

Despite all the high expectations in the past decade, Chinese investments have not reached significant levels in the CEE region, especially not in the EU members of the region. Traditional European partners like Germany, other East Asian countries like Japan and South Korea and to a lesser extent the United States are still the most important investors in fifteen of the sixteen countries covered by the present research (Figure 6.) The only exception is once again Serbia, where China was able to gain an important position not only in terms of infrastructure construction but also in terms of classical investments like M&As and greenfield projects.
Mind the debt

Almost 79% of the China related infrastructure construction projects in the CEE region are located in the countries of the Western Balkans. Most of the costs of such projects (75-85%) are financed by Chinese loans, and the total value of the constructions add up to significant amounts compared to the GDP of the relevant economies. The level of loans offered by China may reach 18% of the GDP in Montenegro, 12% in Serbia, 10% in Bosnia-Herzegovina and 7% in North-Macedonia. (Figure 7.)
Figure 7.

The value of infrastructure projects as a percentage of GDP
## Tables

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>9945</td>
<td>2645</td>
<td>7083</td>
<td>2862</td>
<td>165</td>
<td>10000</td>
<td>N/A</td>
<td>165</td>
</tr>
<tr>
<td>Hungary</td>
<td>5420</td>
<td>2058</td>
<td>2000</td>
<td>3420</td>
<td>427</td>
<td>5000</td>
<td>4500</td>
<td>2188</td>
</tr>
<tr>
<td>Romania</td>
<td>2781</td>
<td>1610</td>
<td>0</td>
<td>2781 (?)^{4}</td>
<td>428</td>
<td>N/A</td>
<td>410</td>
<td>884</td>
</tr>
<tr>
<td>Poland</td>
<td>2748</td>
<td>734</td>
<td>726,9</td>
<td>2021</td>
<td>555</td>
<td>10000</td>
<td>N/A</td>
<td>351</td>
</tr>
<tr>
<td>Bosnia-Herzegovina</td>
<td>1933</td>
<td>0</td>
<td>1933</td>
<td>0</td>
<td>17</td>
<td>N/A</td>
<td>3000</td>
<td>N/A</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1479</td>
<td>329</td>
<td>0</td>
<td>1479</td>
<td>189</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Montenegro</td>
<td>987</td>
<td>90</td>
<td>896,6</td>
<td>90</td>
<td>85</td>
<td>1200</td>
<td>N/A</td>
<td>71</td>
</tr>
<tr>
<td>Macedonia</td>
<td>888</td>
<td>27</td>
<td>861</td>
<td>27</td>
<td>21</td>
<td>N/A</td>
<td>16</td>
<td>158</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>360</td>
<td>360</td>
<td>120</td>
<td>240</td>
<td>157</td>
<td>N/A</td>
<td>N/A</td>
<td>11</td>
</tr>
<tr>
<td>Slovakia</td>
<td>305</td>
<td>131</td>
<td>0</td>
<td>305</td>
<td>83</td>
<td>245</td>
<td>400</td>
<td>31</td>
</tr>
<tr>
<td>Albania</td>
<td>300</td>
<td>0</td>
<td>0</td>
<td>300</td>
<td>7</td>
<td>N/A</td>
<td>760</td>
<td>4,0</td>
</tr>
<tr>
<td>Czechia</td>
<td>290</td>
<td>290</td>
<td>0</td>
<td>290</td>
<td>287</td>
<td>8585</td>
<td>2139</td>
<td>600</td>
</tr>
<tr>
<td>Croatia</td>
<td>249</td>
<td>249</td>
<td>0</td>
<td>249</td>
<td>98</td>
<td>108</td>
<td>578</td>
<td>N/A</td>
</tr>
<tr>
<td>Lithuania</td>
<td>82</td>
<td>2</td>
<td>0</td>
<td>82</td>
<td>10</td>
<td>121</td>
<td>N/A</td>
<td>58</td>
</tr>
<tr>
<td>Estonia</td>
<td>78</td>
<td>53</td>
<td>0</td>
<td>78</td>
<td>63</td>
<td>27</td>
<td>49</td>
<td>N/A</td>
</tr>
<tr>
<td>Latvia</td>
<td>74</td>
<td>50</td>
<td>0</td>
<td>74</td>
<td>12</td>
<td>60</td>
<td>N/A</td>
<td>27</td>
</tr>
<tr>
<td>TOTAL</td>
<td>27218</td>
<td>8628</td>
<td>13648</td>
<td>14072</td>
<td>2605</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Sources: (CEECAS, 2021) & (Ministry of Commerce of the PRC, 2020)

---

^{3} Note: According to the MFA of Hungary, China invested the most in Hungary in the year of 2020, however, details are not public yet. Therefore, the level of Chinese FDI in Hungary may rise significantly in the near future, if all of these projects get implemented.

^{4} According to the CEO of Huawei Romania the company has invested over EUR 1 billion in the country so far, but besides his statement it is impossible to find any tangible evidence on such a major investment. Therefore, out of the EUR 2,781 billion FDI stated above EUR 1 billion is questionable.

^{5} According to the Office of the President
Limitations of the research

The most significant challenge our research had to face was the lack of reliable official statistical sources on the matter. Our researchers have made efforts to collect the relevant data from publicly available sources, but there are still many investment projects where financial details have remained undisclosed. The case of Poland is particularly interesting, as the price of most acquisitions is unknown to the public, though we believe that those missing data mostly belong to smaller deals, while all relevant major projects have publicised the value of investments. Furthermore, media sources turned out to be unreliable regarding the amount and even the currency of certain projects, therefore it was problematic to decide whether to calculate with Euros or US Dollars in certain cases (or what exchange rate to use).

In summary, the present report and the database published on our website offer well researched estimates of the different dimensions of China’s investment positions in the CEE region, but it is both practically and theoretically impossible to collect all the relevant data on the matter.

The research was supported by the Small Grant Program of the Embassy of the United States of America in Budapest
References


Karaskova, I. e. a., 2020. Empty shell no more: China’s growing footprint in Central and Eastern Europe. April.


Turcsányi, R., 2014. Central and Eastern Europe’s courtship with China: Trojan horse within the EU?. January.
