



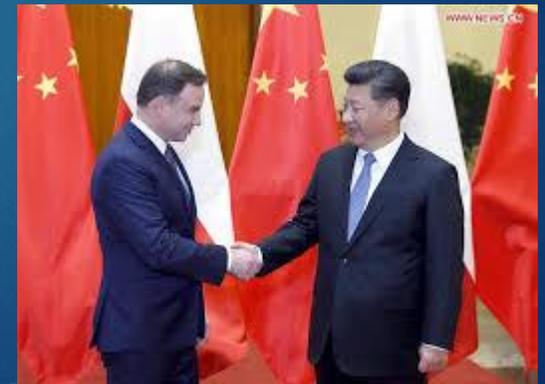
CENTRE
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Chinese investments in Central & Eastern Europe: economic cooperation or strategic expansion?

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CENTRE FOR INTERNATIONAL RELATIONS, WARSAW -POLAND

NOVEMBER 22, 2018



Chinese investments in V4 countries and Serbia

The following lecture is a part of an international project:

„**Comparative analysis of the approach to China: V4+ and One Belt One Road**”
conducted jointly by **Centre for International Relations** and the reknown European think tanks:

Prague Security Studies Institute – Czechia,

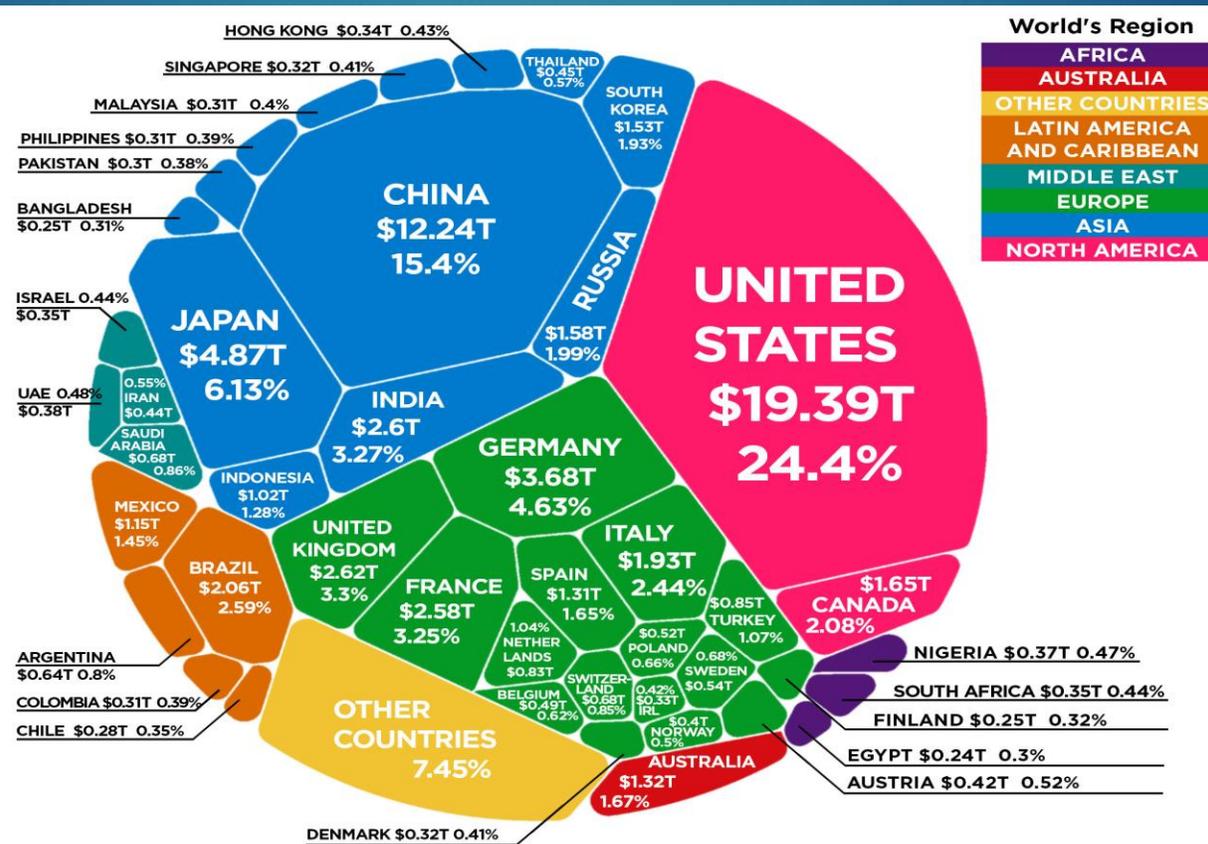
Institute of World Economics-HAS – Hungary,

Institute of Asian Studies – Slovakia

Belgrade Fund for Political Excellence – Serbia.

The project is supported by **The Visegrad Fund.**

World's Top 10 Economies



Article and Sources:
<https://howmuch.net/articles/the-world-economy-2017>
<http://databank.worldbank.org/data/download/GDP.pdf>

G-2



16 + 1: CEE + China cooperation

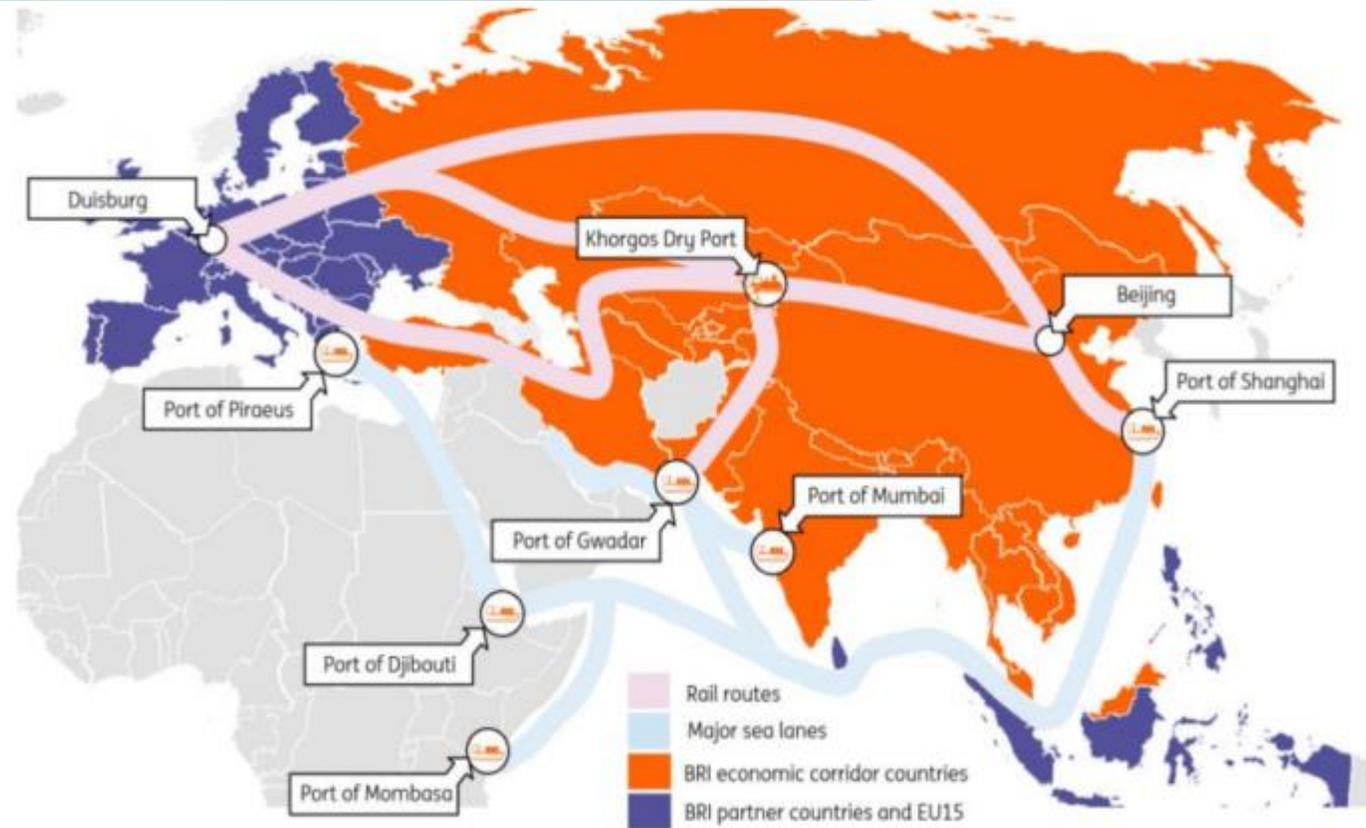


16 + 1: CEE + China cooperation

- ▶ 2012: Chinese Premier Wen Jiabao visited Warsaw.
- ▶ Polish capital city was chosen by the Chinese guest to announce a new initiative, known as “16+1” format.



2013: New Silk Road: Belt and Road Initiative: China's Vision of Connectivity



China's economic shift

Green technologies



Circular economy

China's economic shift



China's economic shift



China's Economic shift



„Mainland China now produces more graduates in science and engineering every year than the United States, Japan, South Korea and Taiwan combined.”

New York Times, Nov., 2018.

Made in China 2025

The 4 advantages



Market



Enterprises



Strategy



Talents

The 10 key sectors



New information technology



Numerical control tools



Aerospace equipment



High-tech ships



Railway equipment



Energy saving



New materials



Medical devices



Agricultural machinery



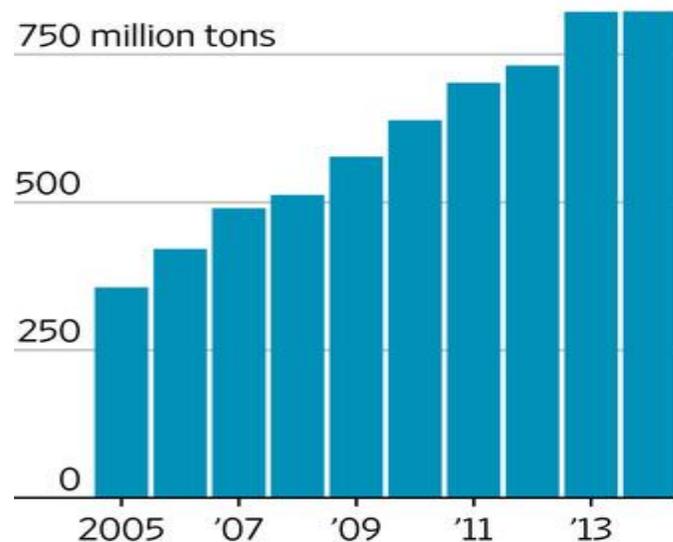
Power equipment

China: industrial overcapacity = export of overproduction

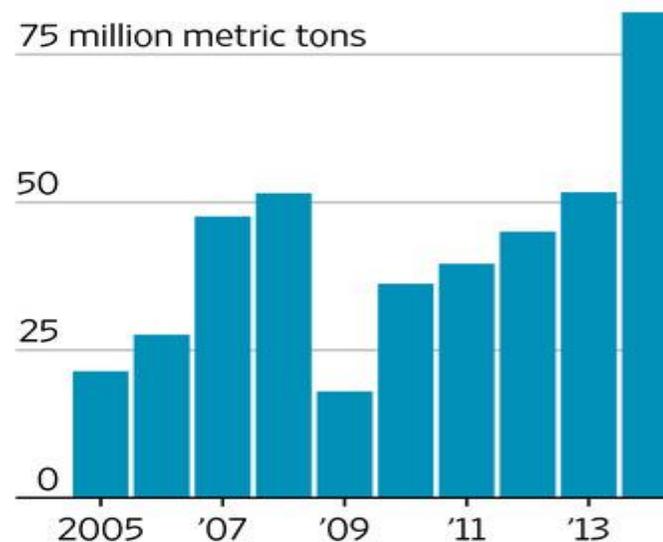
China's Extra Steel

After having built up the world's largest steel industry, China has seen demand growth taper off and now is shipping its excess steel abroad, causing trade frictions.

Chinese steel production



Chinese steel exports



Sources: World Steel Association (production); Global Trade Information Services (exports)

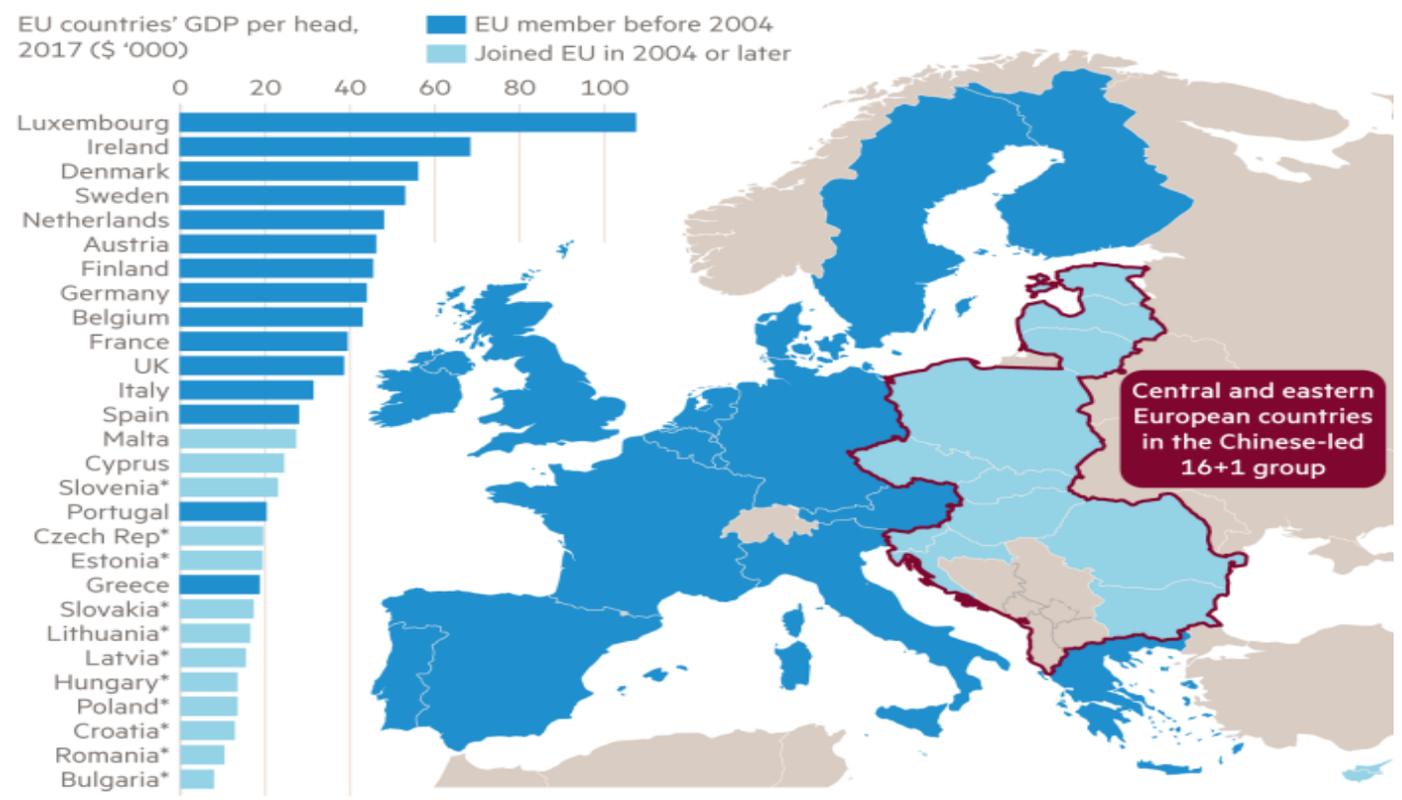
THE WALL STREET JOURNAL.

Belt and Road Initiative: China's Vision of Connectivity: European & Turkey's ports with Chinese stakes



16+1

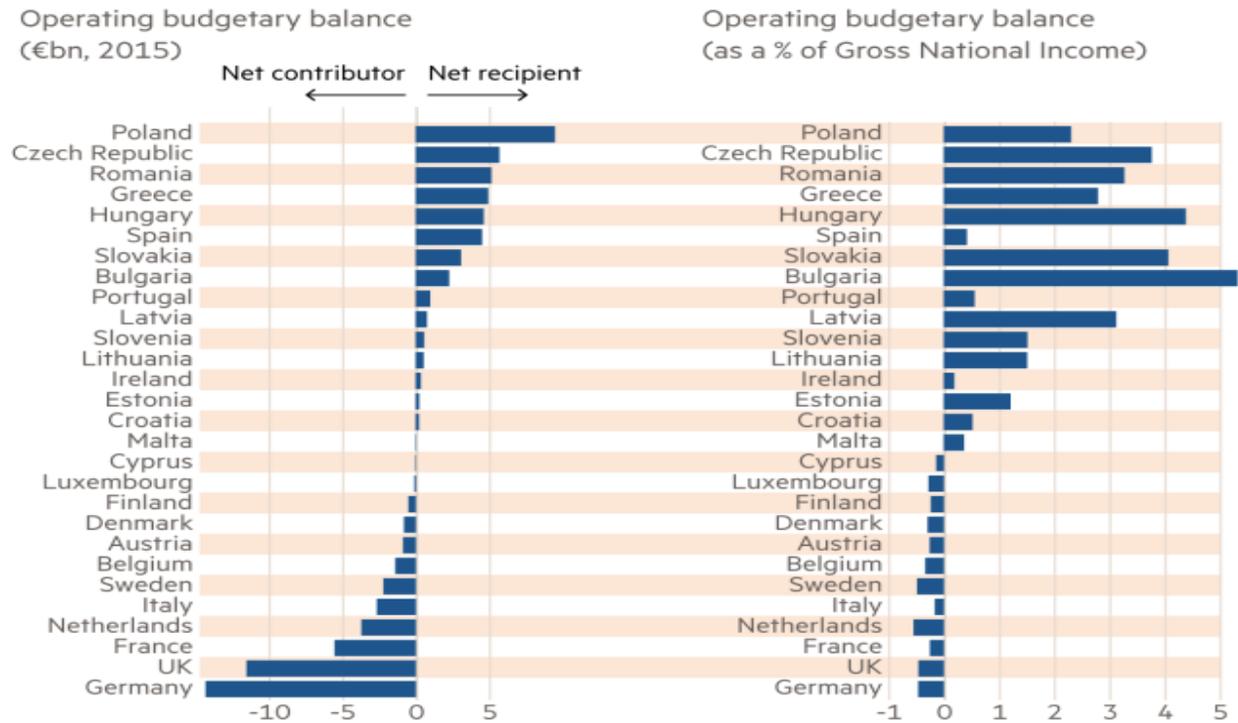
China's 16+1 grouping built around EU's newer, poorer members



* EU member also part of the 16+1 group Sources: IMF; FT research © FT

16+1

Givers and receivers: the EU budget



Source: European Commission
© FT

China – Poland political ties.

Highlights:



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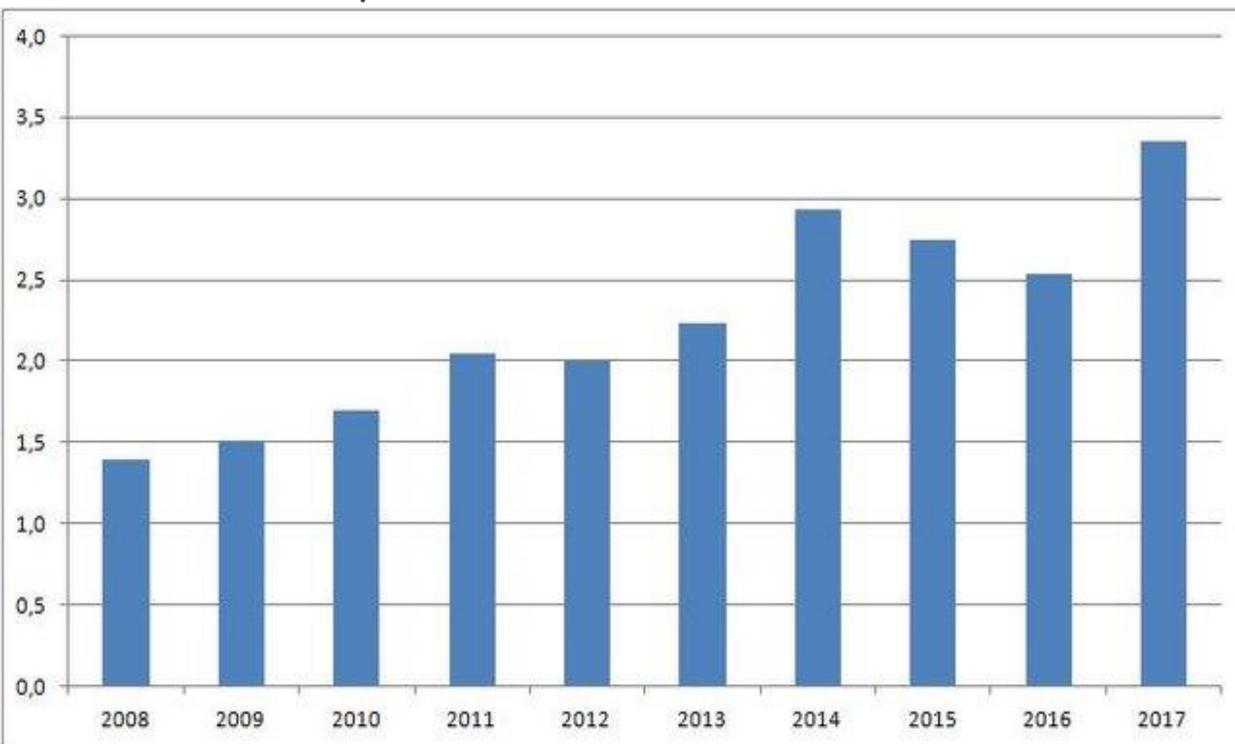
- ▶ 2011: Poland – China Strategic Partnership agreement signed in Beijing by Polish president Bronislaw Komorowski and China's President Hu Jintao.
- ▶ 2012: Chinese Premier Wen Jiabao visited Warsaw. Polish capital city was chosen by the Chinese guest to announce a new initiative, known as “16+1” format.
- ▶ 2015: Polish President Andrzej Duda presided over an official Polish delegation to China for CEE - China (16+1) summit.
- ▶ 2016: PRC's President Xi Jinping visited Poland. China, Poland lifted ties to Comprehensive Strategic Partnership. / Poland joined AIIB.
- ▶ 2017: Prime Minister Beata Szydło attended the Belt and Road Forum for International Cooperation in Beijing.
- ▶ 2018: At the 16+1 summit in Sofia, Poland was represented by Deputy Prime Minister Jarosław Gowin.

Trade 2017 : 21.23 bln USD

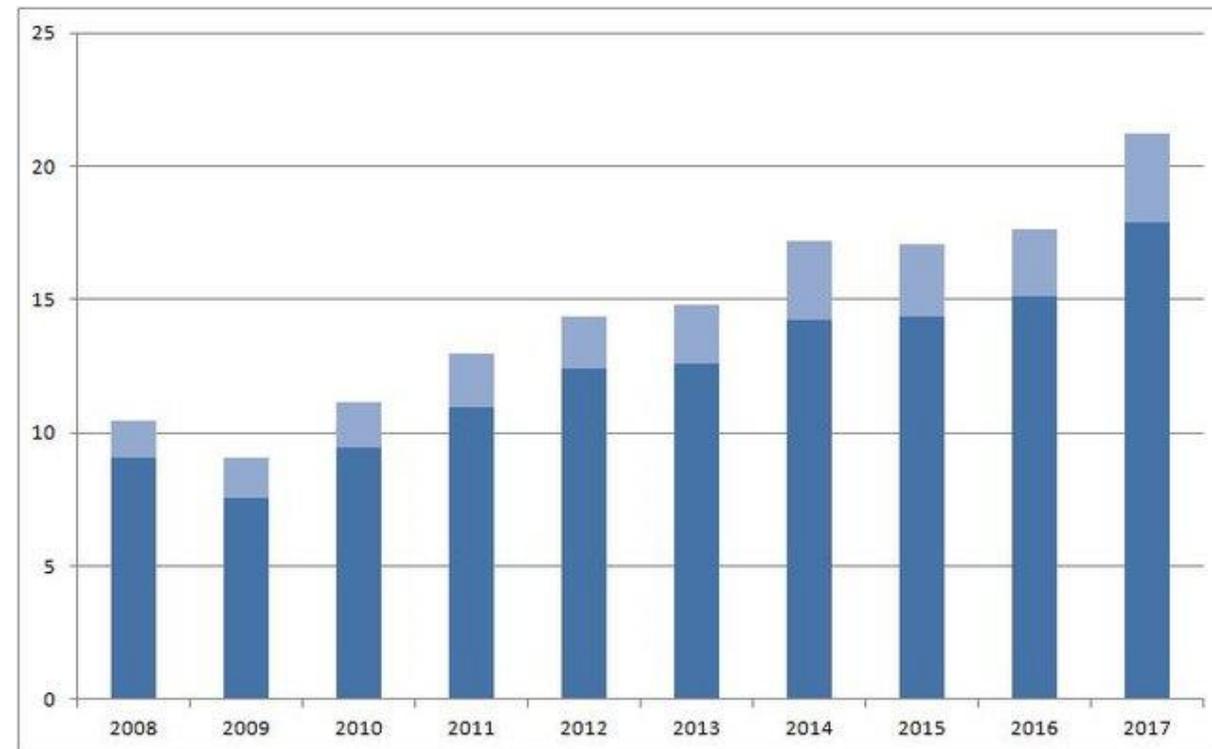


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- ▶ Exports
- ▶ 3,350 bn USD



- ▶ Imports
- ▶ 18 bn USD



Chinese investments in Poland - FDI



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- ▶ **2016:** 563 mln USD (Knight Frank)
 - ▶ Other estimates: 800 mln USD
 - ▶ **2017:** 100 mln USD (Rhodium Group)
 - ▶ **2018:** declared investments
 - ▶ 1 bn?
- ▶ **2000 – 2017:** 1 bn USD

Chinese investments in Poland: structure



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- ▶ **ICT**
- ▶ **Electronics**
- ▶ **Electromechanics**
- ▶ **Metallurgy**
- ▶ **Machine manufacturing**
- ▶ **Aviation industry**
- ▶ **Chemicals and electro-chemicals**
- ▶ **Transportation**
- ▶ **Distribution**
- ▶ **Food industry**
- ▶ **Renewable energy**
- ▶ **Environment / bio-fuels**
- ▶ **Electric infrastructure**
- ▶ **Real estate**
- ▶ **Hospitality**
- ▶ **Banking**

Chinese investments in Poland: structure



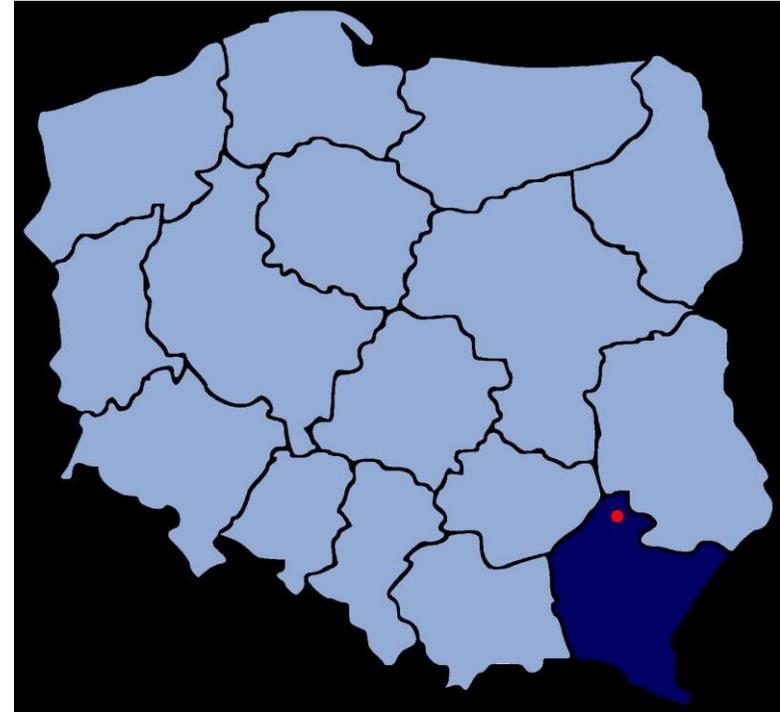
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- ▶ ICT: Huawei, ZTE
- ▶ Electronics: **TCL Corporation**: production of TV sets and LCD monitors
- ▶ Electromechanics: **Nuctech Warsaw**: manufacturer of scanners and integrated technological solutions for airports, train stations, tax and customs services, etc.
- ▶ Metallurgy: **Dong Yun**
- ▶ Machine manufacturing: **LiuGong Dressta Machinery** (Stalowa Wola), **Tri-Ring Group** Co. (Rolling Bearings Factory - Kraśnik SA).
- ▶ Shaanxi **Ligeance Mineral Resources** acquisition of Gardner Aerospace Holdings Limited: Mielec, Tczew: aviation industry

LiuGong Dressta Machinery

a global manufacturer of heavy construction equipment and a member of the Guangxi LiuGong Machinery.

LiuGong Dressta Machinery's 2017 investments included opening of the European R&D Centre, European Parts Distribution Centre and New Manufacturing & Assembly Line for excavators and wheel loaders in **Stalowa Wola** factory.



Chinese investments in Poland: structure



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- ▶ Chemicals and Food industry:electro-chemicals: Petrochemia Blachowania SA; **Guotai-Huarong Poland**: production of electric car batteries
- ▶ Meat processing: Animex, Pini - Smithfield / **Shuanghui International Holdings**
- ▶ Fruit Juice Industry: **Zhonglu Fruit Juice/Appol**
- ▶ Estonian international transportation network company **Taxify (like Didi or Uber)** with undisclosed Chinese capital
- ▶ Hospitality industry: **Louvre Hotels** owned by **Jin Jiang**: 18 hotels in Poland

Chinese investments in Poland: structure



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- ▶ Renewable energy: **Three Gorges Corporation**: wind farms
- ▶ Environment / bio-fuels: **Everbright International/ Novago**: municipal waste processing, recycling and the production of alternative fuels
- ▶ Electric infrastructure: **Pinggao Group and Sinohydro Corporation**
- ▶ Real estate: **China Invest Corporation**: acquisition of **Logicor's** warehouse portfolio from Blackstone: 900 000 sq. meters of commercial space in Poland.
- ▶ Distribution of goods: **GD Poland**
- ▶ Banking: **Bank of China, China Construction Bank, Industrial and Commercial Bank of China (ICBC), and Haitong**
- ▶ Law firms: **Dacheng Law Offices and Yingke Law Firm**

Hongbo Clean Energy Europe sp. z.o.o

- ▶ Chinese-owned **Hongbo Clean Energy Europe sp. z.o.o** has set up a new plant in Opole, in Poland's south-western part, and created about 100 new jobs. The factory is producing LED lighting equipment.
- ▶ Hongbo Group invested USD 100 million to build its LED lamp factory in Opole, Poland.



Contentious cases



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- ▶ **Military Property Agency** cancelled the sale of a plot planned for a container terminal in the central Polish city of Łódź.
- ▶ The Chinese were involved in the investment, and Łódź was keen -and still is- to become a logistics hub for the Belt and Road Initiative.
- ▶ Decision taken by Antoni Macierewicz – then Defense Minister.
- ▶ Mr Macierewicz cited **security reasons**



Contentious cases



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- ▶ Consortium including the Chinese company **Stecol Corp.** won the tender for the construction of the northern section of the Krakow ring road.
- ▶ **However, the National Board of Appeal cancelled the results and excluded Stecol from the tender.**
- ▶ Earlier, Stecol Corp. won the tender for the construction of a section of the new two-lane national road 47.
- ▶ **Again, the National Board of Appeal rejected Stecol's offer.**



Legal instruments to control and block risky investments



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Legal tools :

2015: „Act on the control of certain investments”.

Institutions:

Office of Competition and Consumer Protection

Financial Supervision Authority

Conclusions



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- China is a „demanding business partner”: former Polish PM Beata Szydło.
- Poland as other European and US nations expect more reciprocity in business with China, lower trade deficit, easier access to the Chinese market.
- There are more high quality Chinese investments in recent years, including green field, more in R&D.
- Poland relatively attractive for Chinese investors but there are issues relating to the complementarity of both economies.

Conclusions



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- Poland expecting more green field and jobs, China seeking state assistance, lucrative tenders, brands.
- Generally, Chinese FDIs in Poland are not very significant comparing to FDI's from the EU countries.
- Recently, Polish government has become more 'realistic' and 'reserved' in its assessment of Warsaw – Beijing economic relations and Chinese investments in Poland.
- China – US trade war affecting Poland's attitude and policies.

Czech Republic: restart of Sino-Czech relations in 2013



Czech Republic: restart of Sino-Czech relations in 2013

- ▶ 2013, the Social Democrats formed the government and Miloš Zeman was elected president.
- ▶ Since 2013 it is possible to speak about a “restart” in Sino-Czech relations.
- ▶ President Zeman met President Xi Jinping in Beijing in 2014, and subsequently was the only Western leader to attend Beijing’s military parade in September 2015.
- ▶ **In March 2016, Xi Jinping paid a state visit to Prague - the strategic partnership agreement was signed during this occasion.**
- ▶ As a strong supporter of the New Silk Road, Zeman took part in the Belt and Road Forum hosted in Beijing in May 2017.
- ▶ In November 2018, he visited China International Import Expo in Shanghai.

Chinese investments in Czech Republic: political context

- ▶ Attracting Chinese investment has been declared as one of the key economic objectives of Social Democrat-led coalition government, which was in power from 2013 until 2017.
- ▶ A strong driving force connected to improving relations with China is represented by “**influence groups**”, often former members of the **Social Democratic Party** (mainly former defense minister Jaroslav Tvrdík, former foreign minister Jan Kohout, former prime minister Petr Nečas, and most recently former EU Commissionaire Štefan Fule).



Chinese investments in Czech Republic: political context

- ▶ Since October 2017 the new government led by ANO-party and PM **Andrej Babiš** started to re-shape former non-critical rhetoric about Chinese investments.



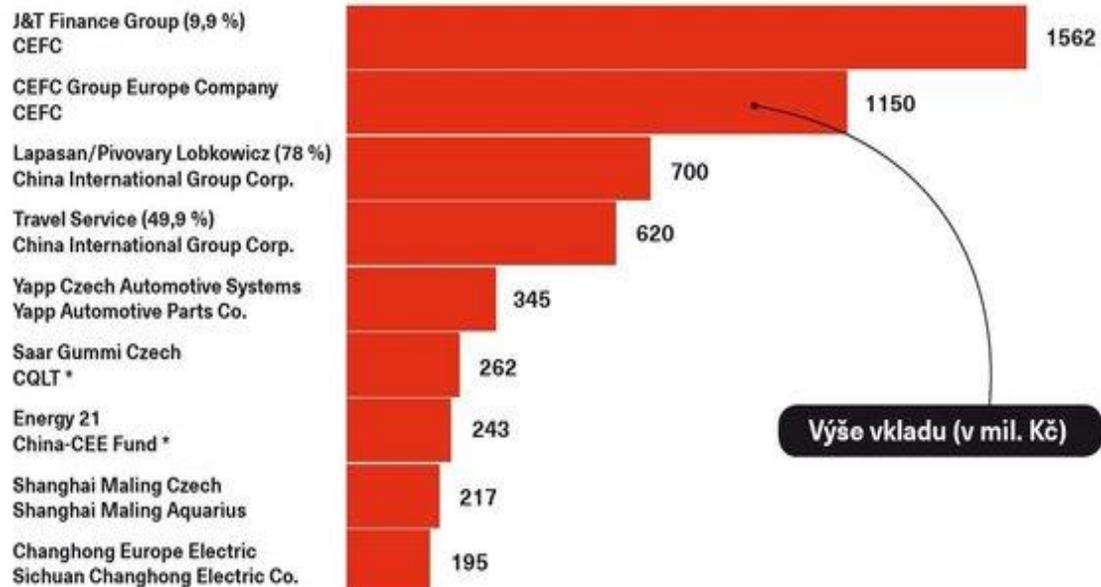
Chinese investments in Czech Republic

- ▶ According to the Czech National Bank in **2016** the total value of China investments was 631 million euros (0.5% of the total FDI stock)
- ▶ in **2014** it totalled 220 million euros (0.35% of the total FDI stock).

Největší čínské investice

České firmy s čínskými majiteli či spoluvlastníky, seřazené dle výše vkladu v základním kapitálu

Firma (podíl)
Čínský vlastník



Výše vkladu (v mil. Kč)

POZN: * PODÍL NEPŘÍMO VLASTNĚNÝ PROSTŘEDNICTVÍM FIREM REGISTROVANÝCH NA KYPRU A V LUCSEMBURSKU
ZDROJ: BISNODE, EURO

Chinese investments in Czech Republic

- ▶ **China Energy Company Limited (CEFC):**
- ▶ The company established its European base in Prague in 2015.
- ▶ In recent years, CEFC acquisitions included:
 - ▶ 9.9% share in Slovak-Czech J&T Financial Group,
 - ▶ 49.9% share in the Czech Republic's largest private airline, Travel Service,
 - ▶ Florentinum office buildings,
 - ▶ majority share in the largest Czech online travel agency Invia.cz,



Chinese investments in Czech Republic

- ▶ **China Energy Company Limited (CEFC):**
 - ▶ majority stake in the Lobkowicz brewery,
 - ▶ takeover of ZDAS machine engineering company,
 - ▶ railway transporter TSS Cargo,
 - ▶ takeover of the Slavia Praha football club,
 - ▶ minority stakes in media organizations Medea Group and Empressa Media,
 - ▶ two five-star hotels the Mandarin Oriental Prague and Le Palais Art Hotel.



中国华信
CEFC CHINA

Chinese investments in Czech Republic

► Screening mechanism:

- In response to the European framework for screening FDI, in June 2018 the National Security Council in the Czech Republic created a working group (a „working group for assessing the impact of possible FDI screening due to the state’s security“)



Chinese investments in Slovakia

- ▶ Low level of investments.
- ▶ 2016: Chinese FDI: 32.9 million EUR.
- ▶ Few successful projects: Lenovo, Huawei
- ▶ Slovakia not ready or China not interested?



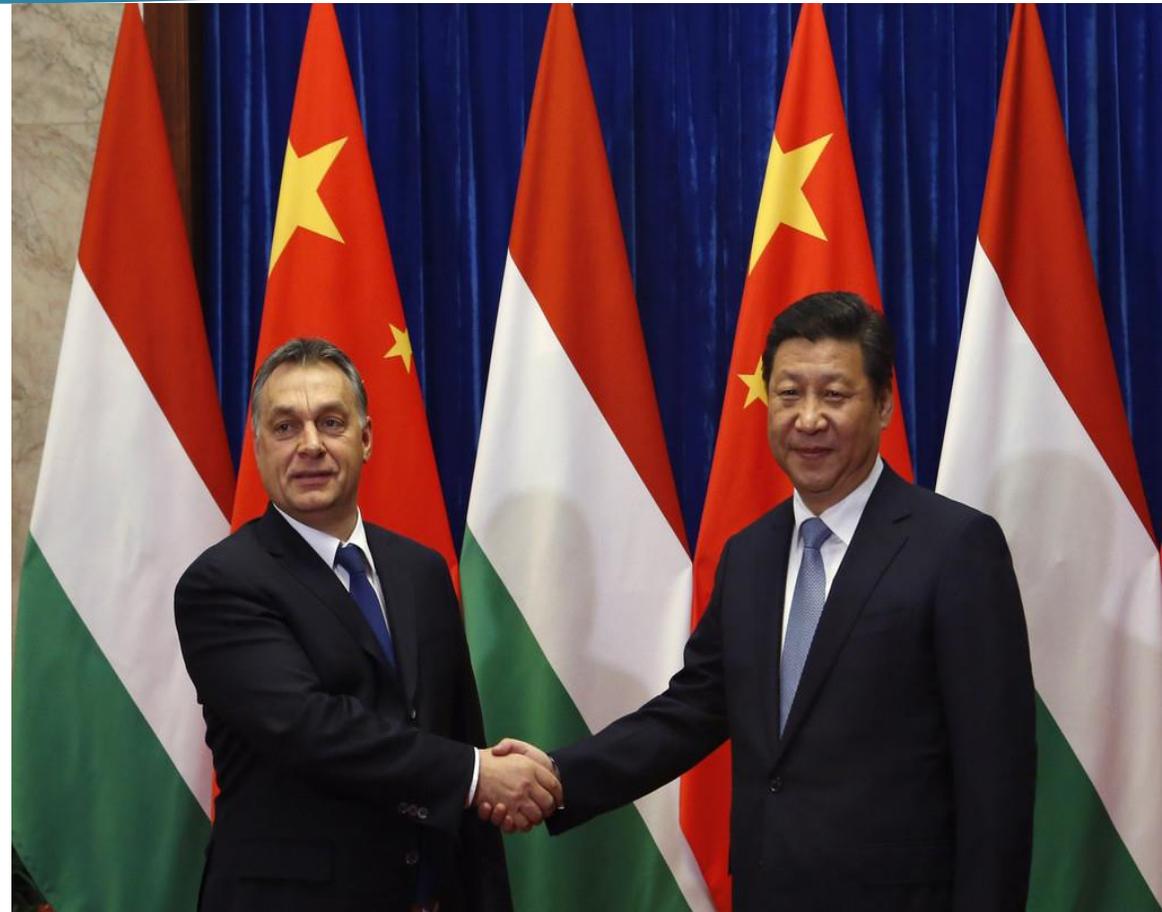
Chinese investments in Slovakia

- ▶ 2017: Concept of developing economic relations with China 2017-2020
- ▶ Attracting Chinese investments with high added value.
- ▶ Attracting Chinese tourists



Chinese investments in Hungary

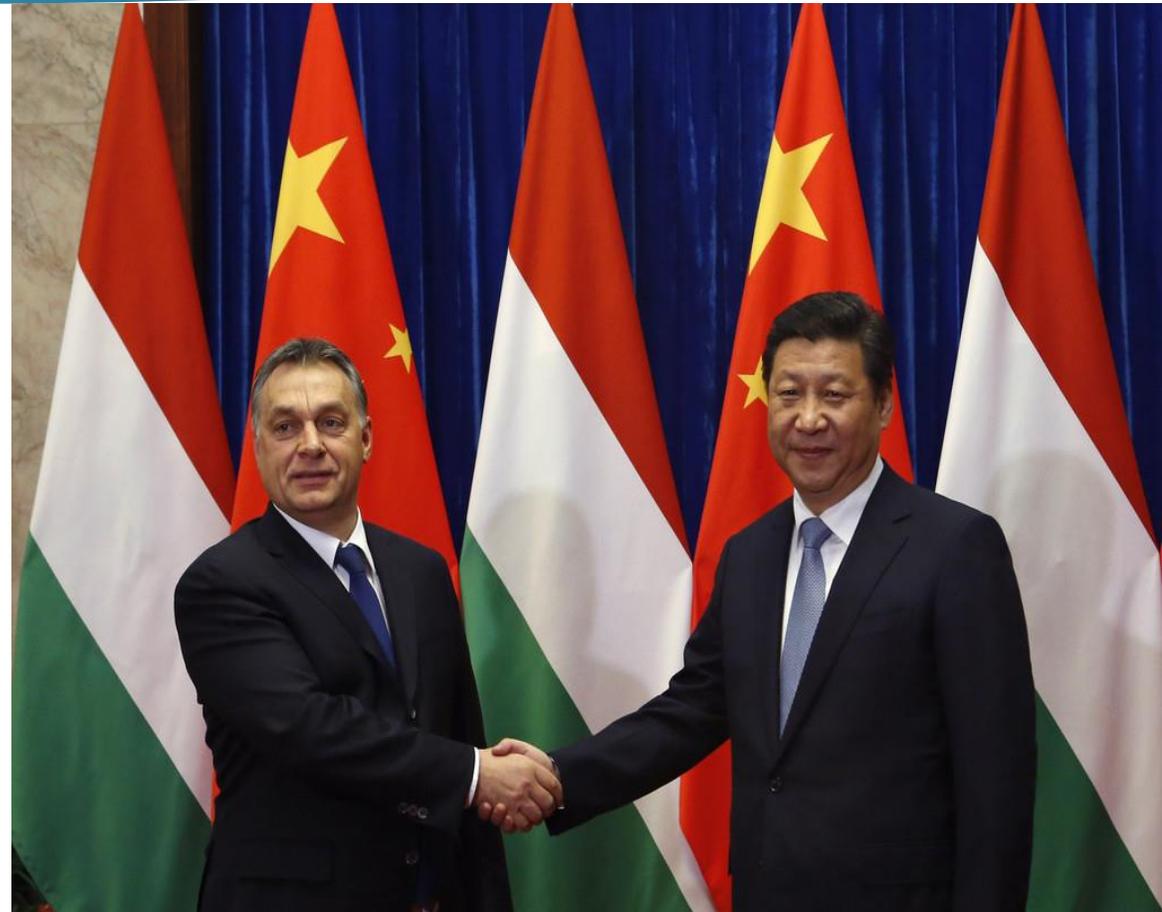
- ▶ **Hungary for China means:**
- ▶ new frontiers for export expansion
- ▶ (one of the) strategic entry points for Europe
- ▶ dynamic, largely developed, less saturated economies
- ▶ cheap but qualified labour
- ▶ less political expectations, economic complaints,
- ▶ protectionist barriers, national security concerns...
- ▶ friendly gestures, confidence-building measures
- ▶ **China for Hungary means:**
- ▶ new opportunities for investment, trade, financial
- ▶ cooperation, infrastructure, diversification



Foreign investments in Hungary

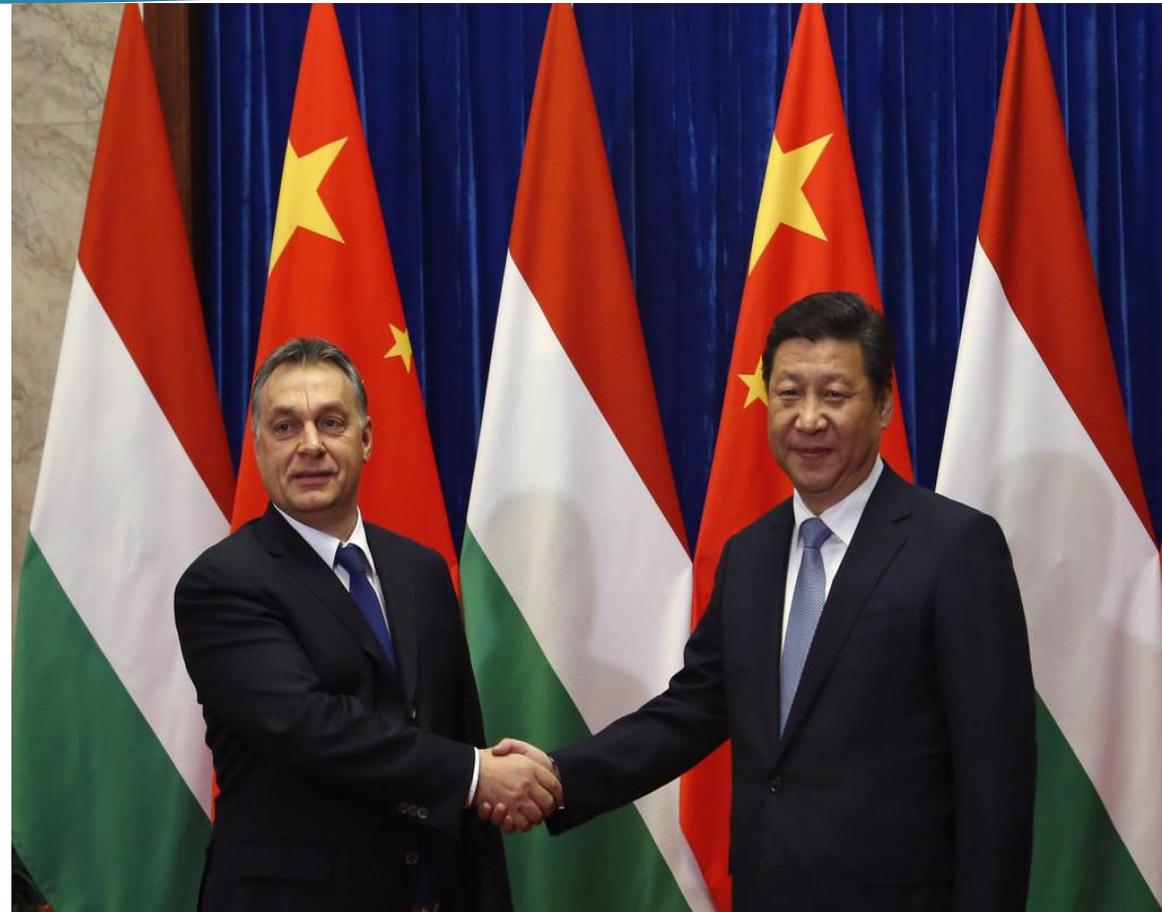
By 2015, the amount of Chinese investments has reached 571 million USD according to MOFCOM (Ministry of Commerce of the People's Republic of China) data, then – in 2016 - due to some disinvestments - decreased to 314 million USD.

Nevertheless, this amount is far greater when taking ultimate ownership into account, since a significant portion of Chinese investment is received via intermediary countries or companies: **according to Hungarian reports, Chinese investment in Hungary is about 2,5-3 billion USD.**



Foreign investments in Hungary

- ▶ more than 75 % comes from the EU
- ▶ more than 25% from Germany
- ▶ from China: 2,4 %



China – Serbia „Steel Friendship”

- ▶ In 2017, total trade exchange between Serbia and China has been: 1.837.000 USD.
- ▶ • Of that amount, Serbian export to China was only 62 million USD.
- ▶ • The Serbian trade deficit toward China in 2017 was 1.775,6 million USD



China – Serbia „Steel Friendship”

- ▶ **Smederevo steel factory:**
- ▶ Chinese company Hesteel (Now HBIS) the majority owner of the Smederevo steel factory, with more than 5000 workers and it is the 3rd biggest exporter in Serbia. HBIS bought factory for 46 million USD.



China – Serbia „Steel Friendship”

- ▶ **Kostolac B power plant:**
- ▶ Serbian Government borrowed 608 million USD from the Chinese Export-Import (Exim) bank, and secured the loan with its budget.
- ▶ **The bank has the right to cede the contract on loan to a third party, while in case of a dispute, Chinese law is the applicable law.**
- ▶ Chinese company China Machinery Engineering Corporation (CMEC) is the main contractor for the works on enlargement of the thermal power plant and opencast.



China – Serbia „Steel Friendship”

- ▶ **Chinese** companies are interested in cooperation (trade and investment) with **Serbian** partners in the following areas:
- ▶ **ICT, environmental protection and sustainable development, electrical industry, textile industry, pharmaceutical industry and medical equipment industry, agriculture, education, real estate, services, etc.**



China – Serbia „Steel Friendship” – and 16+1 countries

Non-EU members lead in China investments into eastern Europe

Chinese investment, 2016-17 (\$m)

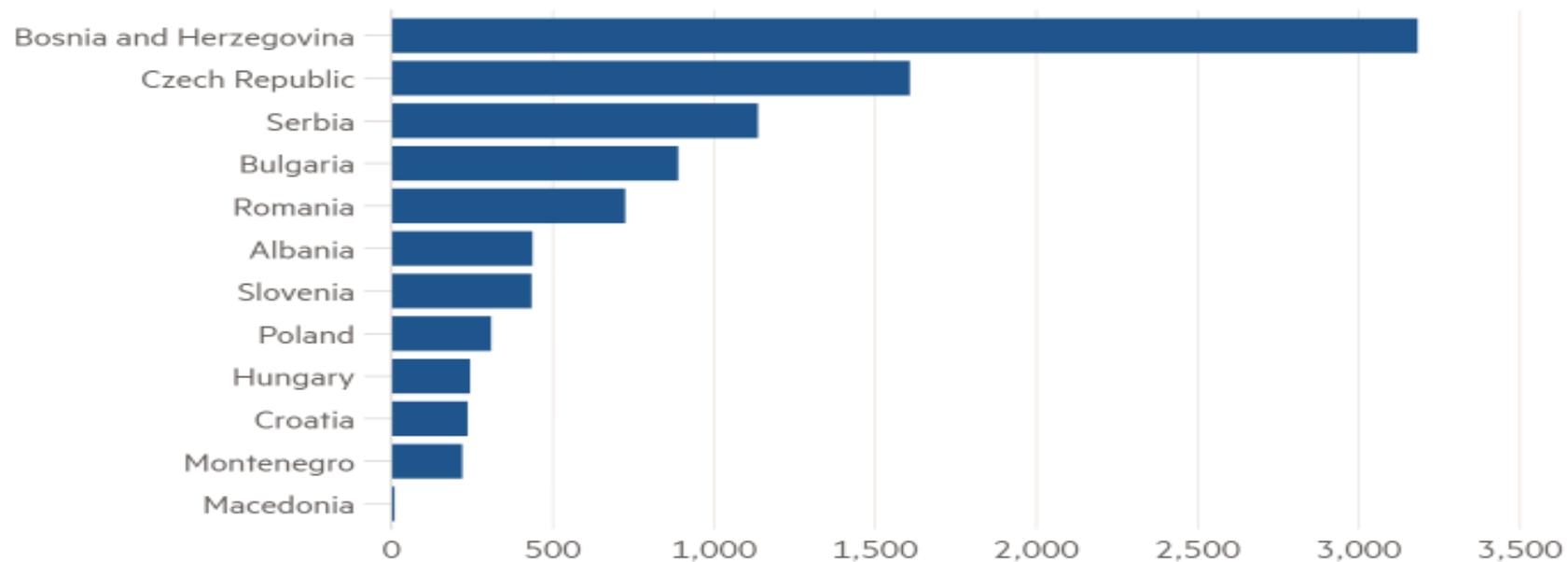


Chart includes Chinese investment in transport infrastructure, energy, real estate and M&A

Source: Center for Strategic and International Studies

© FT

European Union's reaction to Chinese investments

- ▶ „As China has invested heavily in infrastructure projects such as ports in Central and Eastern European countries, the EU, afraid of China's rising presence in the region, intends to use new rules to curb its influence there” ---- Cui Hongjian, a senior research fellow at the Beijing-based Center for China and Globalization. / Global Times/

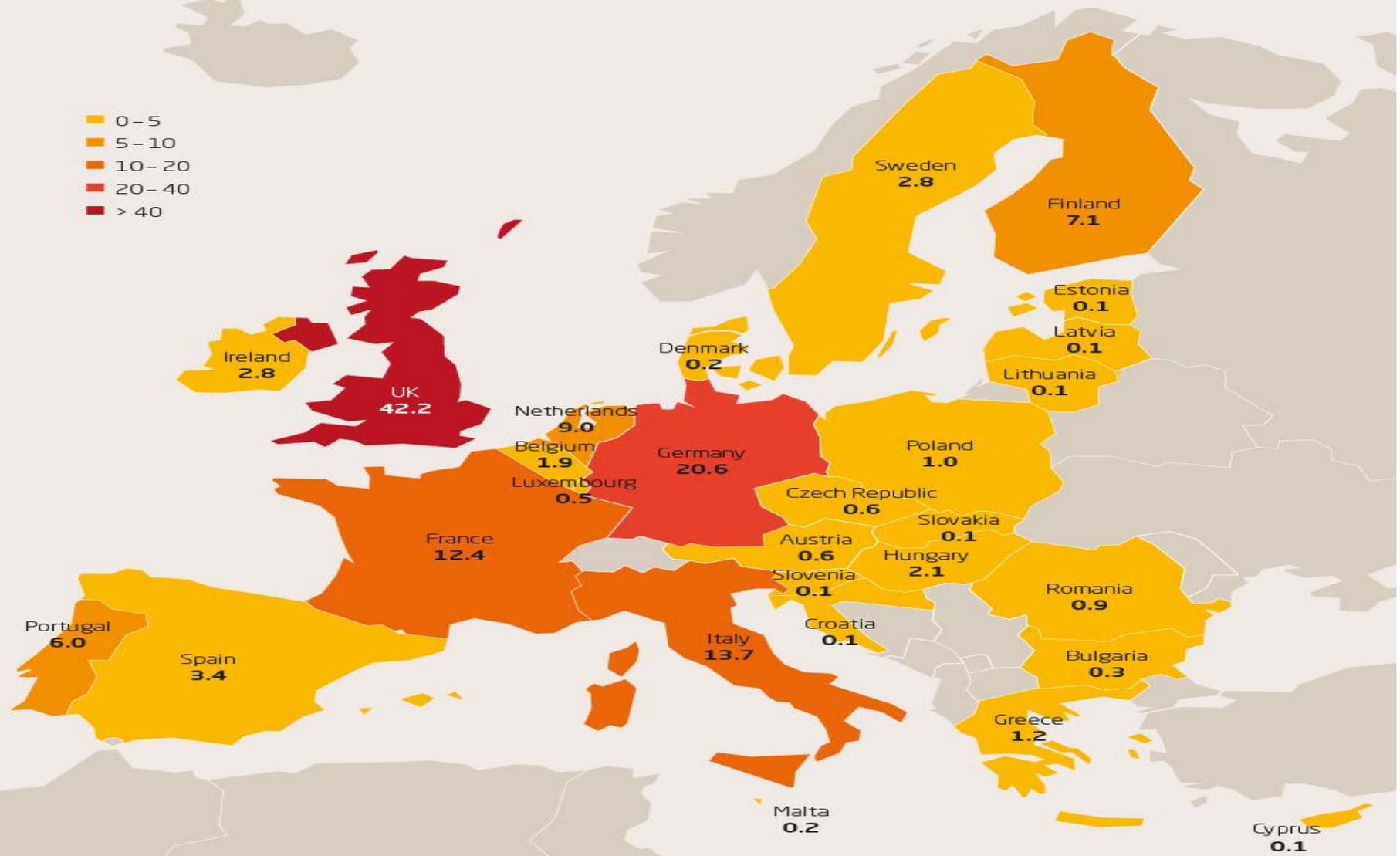
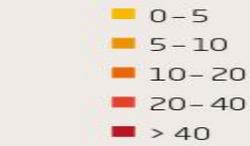
European Union's reaction to Chinese investments

Chinese investors put nine times more money into Europe than North America in the first half of 2018, as Chinese M&A deals reached **\$22 billion in Europe** but **only \$2.5 billion in North America** --- Baker McKenzie law firm report.

Chinese investments in the European Union, 2000 – 2017.

Chinese FDI is distributed widely across Europe

Chinese FDI transactions in the EU by country, 2000-2017, EUR billion



European Union's reaction to Chinese investments

- ▶ On November 20, 2018, European Union negotiators approved the first bloc-wide rules to prevent foreign investments from threatening national security in a sign of growing political unease over Chinese acquisitions.
- ▶ **Representatives of EU governments and the European Parliament agreed on draft legislation to screen foreign direct investments.**

European Union's reaction to Chinese investments

- ▶ The goal, according to the commission, is to **limit foreign threats to “critical infrastructure,”** including in the energy, transport, communications, data, space and financial industries, and to “critical technologies” such as semiconductors, robotics and artificial intelligence.
- ▶ The deal on Tuesday endorses these provisions while adding such areas as water, health, defense, media, biotechnology and food security to the scope and rejigging aspects of the proposed cooperation mechanism.
- ▶ /Bloomberg and European Union Press release, Nov. 20, 2018/

European Union's reaction to Chinese investments

- ▶ **“Cooperation mechanism” for foreign direct investments through a combination of data collection, information exchange and peer pressure.**
- ▶ EU governments will be allowed to request information and offer comments on a foreign investment in a particular member country. In addition, the commission will have the right to ask for information and issue an opinion
- ▶ /Bloomberg and European Union Press release, Nov. 20, 2018/

Chinese investments in V4 countries and Serbia

The lecture was delivered in the framework of a project
„**Comparative analysis of the approach to China: V4+ and One Belt One Road**”
implemented by the Centre for International Relations in partnership with:

Prague Security Studies Institute
Institute of World Economics-HAS
Institute of Asian Studies
i Belgrade Fund for Political Excellence

The project was supported by
International Visegrad Fund.

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