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CHINA'S INVESTMENTS IN SOUTHERN AND SOUTH-EASTERN EUROPE ARE NO THREAT TO THE EUROPEAN UNION

China's involvement in Europe and European relations with China are controversial. Many political commentators warn of China's growing influence. The ratification of the Commission Investment Agreement (CAI), negotiated between China and the EU at the end of 2020, has been put on hold by the European Parliament. In the future, the EU Commission plans to take action against state-supported foreign investments in Europe—an initiative clearly directed against China. The fear behind it is that China could weaken Europe in the long term.

Large capital groups are taking a stand against this increasing protectionism. Representatives of the Swedish Wallenberg family, which holds shares in AstraZeneca, ABB, and Ericsson among others, are calling for more commitment and openness towards China. They believe that Europe should stand on its own two feet rather than copy the USA's aggressive position.[1]

Yet China does not intend to weaken Europe or the EU. The country advocates internationally for a multilateral world order, and that includes a strong Europe. The long-term commitments Chinese companies have made in Southern and South-eastern Europe are based on solid business interests: these companies get better access to the European market and thereby further their own internationalization. Infrastructure projects co-financed by China promote the economic integration of Europe, but at the same time they make clear the deficits and lack of direction of EU policy.

China's rise to an industrial and technological world power also presents a challenge for the dominant powers in the EU and especially for Germany, which see China as a "systemic rival". Because of this, the exaggerated narrative that China is buying its way into Europe is spreading.

NO "MASTER PLAN" BEHIND THE INVESTMENTS IN SOUTHERN AND SOUTH-EASTERN EUROPE

After Chinese investments and corporate acquisitions increased significantly, from 2010 onward workers and unions were the first to fear negative repercussions. Governments, business representatives and the media viewed Chinese investors more favourably. But in the last few years the discourse has shifted: it is not just the supposed drain of know-how and key technologies that is lamented[2]—the idea that investors from China are "making off" with patents, construction plans and so on, to the extent that works and development departments in Germany would close down. It is also increasingly insinuated that China is exerting an "expansionist" influence in Europe.[3] The country is supposedly pursuing a strategy of dividing Europe. It wants to use its investments in companies and strategic infrastructures to wield influence in order to pursue its geopolitical goals. To this end, it concentrates on the smaller and economically weaker European countries in particular. In addition, China supposedly also wants to export its autocratic political system.

In addition to Greece, Italy and Portugal in particular faced massive economic slumps and social upheaval in the financial crisis of 2008–09 and in the euro crisis of 2011–12. Faced with this situation in addition to the unreasonable demands of the Eurozone's austerity policies, Chinese investors were particularly welcome in these countries. When the Troika pressured the Greek government to privatize the port of Piraeus, the only willing investor was the Chinese state-owned corporation Cosco. The German media presented EU members Hungary and Serbia as China's gateway to Europe, and insinuated that the governments of both countries are sympathetic to the Chinese political system.

But a closer look at individual cases of Chinese investment in Hungary and Serbia—these countries account for the lion's share of Chinese foreign investment in Eastern and South-eastern Europe—as well as in Italy and Portugal, countries whose economies have been made particularly

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weak by EU austerity policy, shows that they are primarily driven by business decisions.[4] The same goes for Chinese corporations' involvement in companies in the small EU member state Slovenia. These corporations want to expand internationally and open up new markets. China's large state and private corporations have long been developing into global players. Their internationalization strategies also include the acquisition of European companies and the establishment of new production and development centres in Europe, since the EU is that world's largest domestic market and has modern production facilities and skilled workers.

It is questionable whether these investments will allow China to increase its political influence in Europe. Some of the investments investigated in this study fall within the New Silk Road initiative. They serve China's construction, railway, and electricity companies, but above all they serve to open up new markets and to gain a foothold in developed economies for the first time.

At over 23 percent of gross national product (GNP), *Italy's* manufacturing sector is the second-largest among the European economies, which makes it a preferred destination for industrial investment from China. The focus is on the automotive and supply industries, mechanical engineering, luxury goods, and food and beverages. At the end of 2019, the total volume of Chinese foreign investment in Italy was at almost 16 billion euros. In the largest transaction to date, in 2015, the state-owned company ChemChina took over a majority of Pirelli, the world's fifth largest tyre manufacturer. In 2014, Shanghai Electric Group bought a 40 percent share in the power plant manufacturer Ansaldo Energia. The state-owned Chinese electricity grid operator State Grid bought a 35 percent share of state-controlled electricity grid operator CDP Reti. In 2018, Haier, the world's largest home appliance corporation, which until now has hardly been present in Europe, took over all shares in the family-run Candy Group, a manufacturer of home appliances.

In 2016, the People's Bank of China (PBOC), China's central bank, also bought a two-percent share in each of the ten largest publicly listed companies in Italy. With these interventions, China supported Italy against speculation in the financial markets that the country would exit the Eurozone.

In addition, the financial crisis and later the euro crisis served as catalysts for China's growing influence in *Portugal.* Under the pressure of the Eurozone and the dictates of the Troika, i.e. the International Monetary Fund (IMF), European Central Bank (ECB), and the EU Commission, the country had to privatize state-owned assets and companies, with Chinese companies securing themselves the lion's share of those sold. Given the relatively underdeveloped industrial base, investments focused on public utilities and the financial sector, which had been particularly hard hit by the financial and euro crises. In mid-2018, Chinese investments in Portugal totalled over twelve billion euros. They were made in the energy sector with the company Galp (oil and gas), the electricity grid operator REN and the electricity producer EDP-Energias de Portugal, aviation (TAP Air Portugal), the financial sector, the insurance industry (Fidelidade), the health sector (Grupo Luz Saúde), media, and real estate.

In 2012, the Chinese state-owned company China Three Gorges (CTG) took a more than 20 percent share in the electricity supplier EDP, the largest publicly-listed Portuguese company, which is active in Brazil, Spain, the USA, and elsewhere. In 2013, CTG also took over 49 percent of the renewable-energy EDP subsidiary EDP Renováveis Portugal (EDPR). CTG is thereby involved in the electricity generation of various European countries, the USA, Africa, and Latin America, and following the takeover of eight Brazilian hydropower plants it is also the second-largest electricity producer in Brazil. Via EDPR, the state-owned company also has wind power capacities in Poland, Italy, Great Britain, and the USA. Together, EDP and CTG want to become world market leader in renewable energies—EDP in Europe, North and South America, CTG in Asia. Also in 2012, the state-owned Chinese network operator State Grid took a 25 percent share in the electricity provider REN. Together with the Portuguese government, State Grid is planning to link the Portuguese and North African power grids. The construction of Eurasian and intercontinental power grids, the Global Energy Interconnection,[5] is part of the New Silk Road project.

According to estimates by the World Bank, the large industrial sector of *Slovenia* generated 20 percent of gross national product and employed more than 30 percent of workers in 2019. Until the takeover of the home appliance manufacturer Gorenje by Hisense in 2018, China was only a minor player among Slovenia's trading partners and investors. With 6,300 employees, Gorenje is one of the largest private employers in Slovenia and is one of the four largest European manufacturers of home appliances and consumer electronics. Since Hisense, one of the world's largest TV manufacturers, bought in, Gorenje products are now also sold in China. Hisense is also bringing new technologies to Slovenia, for example in the production of automotive parts. For *The Economist* (17 July 2021), Hisense is exemplary of Chinese multinational corporations, which despite an increasingly frosty reception—the Slovenian government described the group as a "tool of the Communist Party of China"—is internationalizing successfully. The group wants its foreign sales to increase to US$24 billion by 2025, triple that of 2020.

In *Serbia,* there were a total of US$44 billion in foreign investment at the end of 2019.[6] 70 percent came from the EU, followed by Russia, Switzerland, and Hong Kong (China). 20 percent of all foreign investment in 2018 was by Chinese companies,[7] making China one of the largest investors in Serbia. But shrill propaganda, primarily from the USA, about the "Chinese vassal state"[8] of Serbia, obscure the country's much larger economic dependence on the West and especially on the EU. Warnings from the EU about China's influence in Serbia and in other potential EU member states are hypocritical, as there is exponentially more Chinese capital in the EU countries than in Eastern and South-eastern Europe.

When Serbia was looking for investors for state-owned raw materials companies, only China was ready: in 2016, the Chinese state-owned company Hesteel (HBIS) took over the Smederevo steelworks and thus obtained duty-free access to the European steel market. In 2018, the Zijin Mining group took a majority share in copper mining and smelting in Bor in eastern Serbia, with 5,000 employees. Chinese automotive suppliers such as Mei Ta and Johnson Electric, tyre manufacturers Linglong and Minth Automotive are also investing in Serbia.

Hungary's biggest trading partner is the EU, with Germany alone accounting for 27 Percent of exports and 25 percent of imports. China is in third place after Germany and Austria. Hungary is considered a contract manufacturer, especially for the electronics industry and the automotive and supply industries. By investing in Hungary, Chinese corporations

gain access to these international supply chains. At the same time, Hungary has a long tradition of vehicle manufacturing, mechanical engineering, and chemicals production. Chinese investors in Hungary have set up "greenfield" production lines, but also taken over former state-owned companies.

In 2019, foreign investment in Hungary totalled around US$97 billion. With an investment volume of almost US$5 billion, China ranked third after Germany and France. Major Chinese investors include BYD, a leading manufacturer of e-cars, electric buses and batteries; the telecommunications equipment supplier Huawei, which set up a research centre and its largest delivery centre outside of China; the state Chinese rail manufacturer CRRC, which took over the Hungarian bus manufacturer Ikarus and which wants also build trains for the high-speed Budapest–Belgrade line; SEG Automotive, a subsidiary sold to China by the Bosch Group; Wanhua-BorsodChem, a former Hungarian state-owned company; as well as the private automotive parts suppliers Le Belier, WesCast and Yanfeng YFAI.

China and Hungary have long had an intensive economic and political relationship, not just since the Orban government and Hungary's entry into the New Silk Road project. After the fall of the Iron Curtain in 1989, a huge Chinese market developed in Budapest and Hungary became a magnet for Chinese traders and migrants. Today, Chinese immigrants make up the largest migrant community in Hungary.

"SYSTEMIC RIVAL" CHINA: FAR BEHIND THE EU AND GERMANY

The industrial investments in Southern and South-eastern Europe mentioned here show that Chinese capital groups are systematically expanding in Europe, and that they are using countries in Eastern and South-eastern Europe in particular as export platforms for their industrial products. Yet the foreign investments discussed in five countries in Southern and South-eastern Europe show that claims that China is dominating these countries economically (and thus also politically in the long term) do not correspond to reality. On the contrary: most foreign investment in these countries still comes from Europe, the EU, and especially from Germany.[9]

In addition, after a peak in 2016 and 2017, China's investments in the EU as a whole and in Southern and South-eastern Europe in particular massively decreased,[10] reaching a ten-year low in 2020. But that's not so much because Chinese investors are no longer receiving the "red carpet treatment" in Europe, nor because the political and media climate has become significantly more negative and most investments are now subject to state inspections. Rather, the absolute decline of Chinese investments in Europe must primarily be attributed to economic and fiscal reasons: the Chinese government wants to reduce the high credit indebtedness of the Chinese state and private companies and to control the draining of currency reserves. It also reviews the economic benefit of individual foreign investments—not least because in the past a lot of Chinese capital flowed into economically questionable investments (e.g. European football clubs) and into luxury real estate around the world.

But disappointment is now also taking hold among the elites of Eastern and South-eastern European countries, because they had expected more Chinese investment and thereby also more economic and political leeway vis-à-vis the EU and the dominance of German influence.[11] The attractiveness of the ten-year-old 17+1 Initiative, a loose alliance between China and 17 Central and Eastern European countries including EU member Estonia, Lithuania, Latvia, Poland, Czech Republic, Slovakia, Hungary, Croatia, Romania, Bulgaria, and Greece, is waning. Lithuania has since left the alliance. At the virtual meeting of the 17+1 Initiative in 2021, the Chinese President attended, but not all the heads of state of the other countries were present.

So there is no substance to the narrative, widespread in the EU and especially among the political elites of the major EU members, that China would "buy" the countries of Eastern and South-eastern Europe and thus win influence in the EU. But the fairy tale of "bad" China, which wants to gain influence with huge investments, can be used for political ends: in an official document from 2019, the Federation of German Industries (BDI) designated China as a "systemic rival". The EU later took up this terminology. Today all foreign investment in EU companies from non-EU countries that is over 10 percent is subject to state approval. This regulation is also known as "Lex China" because it is practically directed exclusively at China. Germany pushed ahead with this regulation as early as 2019; meanwhile the governments of individual EU countries have prohibited Chinese investment in European companies, often to the chagrin of the owners looking to sell.

CHINESE ENGAGEMENT REVEALS THE ERRORS AND FAILURES OF THE EU

While Chinese investors that buy into German companies today usually pay a hefty premium, some Chinese acquisitions in Southern and South-eastern Europe have meanwhile proven to be bargains. Given the long sustained low growth rates in Europe, which hit Southern and South-eastern Europe particularly hard, there are simply no other interested parties or bidders. This applies to the acquisitions in the Serbian steel and copper industries, but also for investments in Portugal at the height of the euro crisis. Even the investment in Italian tyre company Pirelli and the later partial sale of its shares was a good business move for state-owned corporation ChemChina. But according to the rules of the market, supply and demand determine price. The belated lament about Chinese acquisitions therefore only masks the failure of the European actors—the major capital groups, dominant EU members, and the EU.

There is no evidence to suggest that Chinese investments in Southern and South-eastern Europe are systematically shaped by overriding geopolitical interests or are part of a Chinese master plan. The threatening scenarios that are cooked up in the media, in which China is supposedly buying our "silverware" or wants to use its investments to weaken Europe, cannot be substantiated.

At most, one might suspect geopolitical motives to be at play behind the investment in the electricity network operators in Italy and Portugal, in the Portuguese electricity producer and in the Chinese port projects. But this misses the fact that the New Silk Road project also includes the construction of power lines in Asia, Europe, and North Africa, which will transport power from regions with excess electricity to regions with a lack of electricity. But these investments have nothing to do with maintaining a controlling stake in these socially critical infrastructures. In addition, given the necessary energy transition, investments in supranational and intercontinental power grids are overdue, as can be seen in the example of the German solar project Desertec

in North Africa, which has since been abandoned. Chinese investment in Europe's network operators can accelerate the expansion and equal distribution of the network and correct Europe's failings—unless one assumes that China wants to turn off the lights in Europe at some point.

The New Silk Road project also includes the expansion of European ports for the maritime transport of goods between Europe, Asia, and the Far East. The prime example is the Greek port of Piraeus, which is situated on the most important shipping route from the Far East to Europe through the Suez Canal. Since its privatization and the entry of the Chinese state-owned company Cosco, Piraeus is now the fourth largest port for container handling in Europe after Rotterdam, Antwerp and Hamburg. In 2010, Piraeus was still back in tenth place—in this respect, this investment has long since paid off for China.

Italy's ports can also serve as toeholds on the Maritime Silk Road. In a 2017 study,[12] Italian scientists warned that EU–China trade would largely bypass Italy if it did not participate in the New Silk Road. For the expansion of the Italian port of Trieste, however, the operator of the Port of Hamburg (HHLA) won its bid against the Chinese competition.[13] The Portuguese government also wants the deep water port of Sines on the Atlantic Ocean, as well as the Azores, to become part of the Maritime Silk Road. Chinese President Xi Jinping said that China supports and promotes Portugal's participation in the New Silk Road project, and called for cooperation in the field of marine research and port logistics.[14]

In 2019, Italy became the first and only large EU member to join the New Silk Road project; the new coalition government under the former ECB boss Mario Draghi is currently reviewing all the agreements that were concluded with China. In contrast, the other large EU member states are steering clear of the Chinese initiative—as China supposedly only wants to deepen its economic and political influence in Europe and to open up new business opportunities for its state-owned construction and railway companies. The Greek port Piraeus and the new construction of the Budapest–Belgrade high-speed railway line by Chinese corporations are cited as examples of this. Undoubtedly, China's Silk Road initiative is also an economic stimulus programme for China's infrastructure companies. However, this logic omits the fact that traffic routes always run in two directions, connecting societies and economic regions.

In 2017, Xi Jinping, in front of nearly 30 heads of state and delegates from 130 countries, officially launched the Silk Road Initiative. He announced that China will invest around US$1 trillion in infrastructure projects, mainly in developing countries. Adjusted for inflation, this sum is about seven times the amount invested by the US Marshall Plan to rebuild Europe after the Second World War. Even if the financing of individual projects as part of the New Silk Road is being scrutinized[15] and some projects have turned out to be "white elephants", China and many other countries will stick with the programme. The New Silk Road has the potential to change the economic geography of the world in the long term, and to re-establish millennia-old, but long-blocked intercontinental economic and trade relations across the Eurasian landmass.[16] Allegations from the EU that the projects will create new dependencies only obscure Europe's inaction in the development of the Eurasian economic region, despite the huge economic and political opportunities. That the urgently needed expansion of the rail network from Central Europe via the Balkans to Greece and the Middle East is only progressing thanks to money and railway and construction companies from China exemplifies Europe's failure.

CONCLUSION

China's investment in industrial companies and infrastructure projects in Southern and South-eastern Europe is economically sound and strengthens the regions involved. Unlike what some critics claim, they do not create any new dependencies on China. But they do establish a counterweight to the previous supremacy of the EU core countries and especially to Germany. The European Union should finally take a clear stance in regard to China's Silk Road Initiative and make a contribution to its ambitious programme, which also offers huge opportunities for Europe.

Wolfgang Müller is a social scientist and computer scientist and worked for IG Metal Bavaria until 2014. He lived in China for several years and publishes regularly on development and industrial relations in China. In spring 2021 his book *The Riddles of China: The Rise of a World Power* was published by VSA-Verlag.

1 See *Financial Times,* 6 July 2021. **2** The takeover of the German robotics manufacturer Kuka by the Chinese Midea Group in 2017 ultimately led to a tightening of state controls on business takeovers by investors from non-EU countries ("Lex China"). **3** See for example, Bütikofer, Reinhard and in der Beek, Olaf, "Neun Thesen von Grünen und FDP zum Umgang mit China", in *Der Tagesspiegel,* 13 June 2021. **4** That is one of the conclusions of a study by the Rosa-Luxemburg-Stiftung, which investigated Chinese investment in industrial companies in four EU members, Italy, Portugal, Slovenia, and Hungary, as well as Serbia, and the development of employment relations in those companies. The study will soon be available on the Rosa-Luxemburg-Stiftung homepage. **5** See Cornell, Phillip, "Energy Governance and China's Bid for Global Grid Integration", in *Atlantic Council,* 30 May 2019, https://www.atlanticcouncil.org/blogs/energysource/energy-governance-and-china-s-bid-forglobal-grid-integration. **6** See https://www.nordeatrade.com/en/explore-new-market/serbia/overview?vider_sticky=oui. **7** See *Financial Times,* 17 June 2020. **8** According to the title of a US think tank; see https://www.csis.org/analysis/becoming-chinese-client-state-caseserbia. **9** See Matura, Tamás, "Chinese Investment in Central and Eastern Europe, 2021", https://www.china-cee-investment.org. **10** See Kratz, Agatha, Zenglein, Max J., and Sebastian, Gregor, "Chinese FDI in Europe. 2020 Update", 16 June 2021, https://merics.org/en/report/chinese-fdi-europe-2020-update. **11** See Matura, "Chinese Investment". **12** Fardella, Enrico and Prodi, Giorgio, "The Belt and Road Initiative Impact on Europe: An Italian Perspective", in *China & World Economy,* 5/2017, pp. 125–138, https://www.researchgate.net/publication/319905529_The_Belt_and_Road_Initiative_Impact_on_Europe_An_Italian_Perspective. **13** Meanwhile a Chinese state-owned company is aiming to participate in the development of the HHLA's new container terminal in Hamburg. **14** Rodrigues, Carlos, "Chinese Investment in Portugal: Gaining Access to Cutting-Edge Knowledge and Extending Global Influence", in *Chinese Investment in Europe: A Country-Level Approach,* ETNC Report, December 2017, https://www.clingendael.org/sites/default/files/2017-12/ETNC_Report_2017.PDF&ved=2ahUKEwiakrOegqnzAhUGMewKHdELAmkQFnoECCMQAQ&usg=AOvVaw0SnCZ2WW46OI2yXJFETG07. **15** See *Financial Times,* 12 December 2020. **16** In *The Silk Roads* (2016), British economic historian Peter Frankopan impressively demonstrates the millennia-long significance of the trade routes between Europe and the Far East.

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