The Chinese presence on the periphery of Europe. The "17 + 1 Format"[1], The Trojan horse of China?

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Abstract: - In this contribution, we analyze the presence of China in the countries of eastern and south-eastern Europe, some of which are EU members, others in the accession phase or in the process of becoming candidates, gathered in the 17 + 1 Format. This presence takes different forms: trade and direct investment (still low in volume, especially in comparison with the rest of Europe), the provision of services - construction of railway lines, ports, highways - thanks to bank loans granted by Chinese financial institutions. One wonders about the rationalities of the strategies implemented: search for outlets, especially for Chinese firms in overcapacity, attempt to create regional value chains, junction of the maritime and land routes of the new silk roads, finally, search of influence on the periphery of the European Union.

Key-words: 17+1 Format, China, EU, trade, investment
JEL Classification: F, F0

1. Introduction

In 2013, China launched an ambitious program to expand its overseas investment the *One Belt, One Road* project, (OBOR), which has since become the *Belt and Road Initiative* (BRI): *Belt* for land routes, *Road*, for shipping routes. An ambitious *Initiative* by the number of countries concerned, the financial volumes mobilized and, of course, the expected spin-offs (Zhang, Alon & Lattemann, 2018).

Chinese expansionism in the wake of the global Going out strategy launched in the early 2000? Leading to the refocussing of globalization around the Middle Kingdom? Recycling of the financial surpluses to escape the dependence on the Western markets, especially the US? Looking for opportunities for the overcapacities accumulated in many sectors in China? Continuation by other means of the export-led growth strategy that has made the success of the Chinese economy for several decades? A way to escape the middle-income trap? These are all factors that are behind this initiative, which is becoming increasingly important and whose implementation must make concrete the accomplishment of the "Chinese Dream" promised by President Xi Jinping to his fellow citizens.

In recent years, the *Initiative* has begun to take shape and has materialized through the construction of railway corridors, the modernization of ports, the construction of dry ports, particularly in Central Asia, raising questions about the purpose of these investments and their costs. The road is long and the weight of China seems to be felt more strongly with regard to investments made close to it (Miller, 2017). To date, more than 60 countries have initiated projects under the Initiative andmany more are in the pipeline. The Chinese government has decided to increase the volume of funding; international (World Bank), European (EBRD) and Asian (ADB) banks are approached to contribute financially.

For the moment, one of the main destinations of these routes is Europe, but also other continents and regions of the world are targeted (Africa, Latin America). Europe is today one of China's leading trading partners. It is the 1st importer of Chinese products and China is the second destination for its exports, after the United States.

It has become one of the top destinations for the Chinese foreign direct investment. Their pace has recently increased following the virtual stagnation of Chinese FDI in the United States, where they seem to have reached their pick following the "trade war" triggered by President D. Trump (Hanemann, Huotari & Kratz, 2019). Their geographical distribution is rich in lessons on the strategy pursued by Chinese firms in the European Union (and the rest of Europe: Switzerland, Norway) (Richet, 2019d).

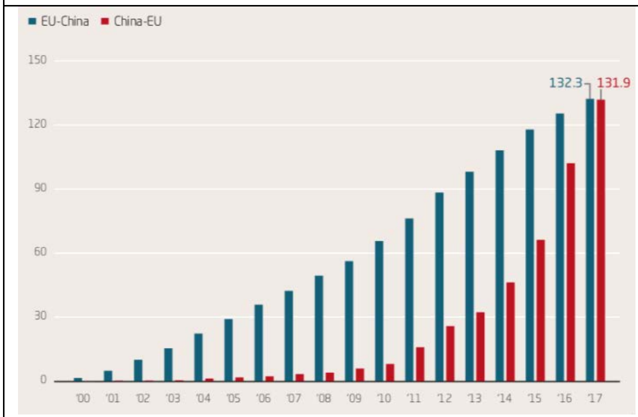
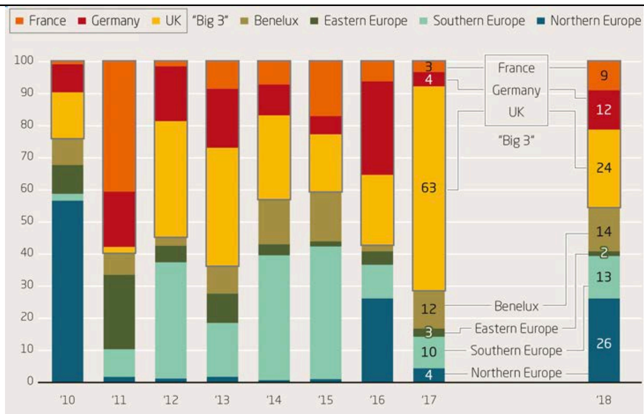
[1] This article was written before the recent 16 + 1 Summit in Dubrovnik on April 11 and 12, 2019, when Greece officially joined the *Format*, which has since become *17 + 1 Format*

They are heading to three distinct areas as shown in Figure 1. New member states (which have joined the EU in the last waves of enlargement) and Western Balkan countries account for a
low share (Table 1)

The *16 + 1 Format* refers to the association between China and 16 countries in Central and South-Eastern Europe (CSEE) that began in the early 2010s. This cooperation has since developed in the area of trade, investments, especially the building of several infrastructure construction projects (bridges, motorways, railways lines, modernization of ports).

The 16 countries comprise two categories of countries, those that have already joined the European Union, following three successive waves (2004, 2007, 2013), and the Accession countries of the Western Balkans[2] (WB6). All have in common to be former socialist economies of different varieties (centralized and relatively closed of Soviet type, decentralized and open of self-management type) before transformed into “dependent capitalist economies” (Richet 2019a).

Figure 1: Chinese FDI in the EU-28 and by group of countries (in US $ million)

Cumulated EU and Chinese FDI (EUR billion), 2000-2017	FDI Chinese concentration in the EU (%)
	

The “Big 3”: includes France, Germany and the UK
Benelux: Belgium, Luxembourg, Netherlands
Eastern Europe: Austria, Bulgaria Czech Republic, Hungary, Poland, Romania, and Slovakia
Southern Europe: Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia and Spain
Northern Europe: Estonia, Denmark, Finland, Ireland, Latvai, Lithuania, Sweden
Source: Hanemann Thilo & Mikko Huotari (2018)

Over the last thirty years, these economies have undergone profound institutional, political, economic and territorial changes[3] following the fall of the Berlin Wall and the collapse of communism. They have been transformed into market economies, by restructuring according to the principles of the "Washington Consensus" and programs imposed by European leaders (privatization, opening and liberalization of markets). The convergence mechanisms, in particular the financial transfers and the structural funds, the massive inflow of foreign direct investment, mainly from the EU-15, have made it possible to transform them in depth, in almost two decades.

[2] Albania, Bosnia & Herzegovina, Macedonia, Montenegro, Kosovo, Serbia. Kosovo, which has seceded from Serbia, is not recognized by China, Russia, as well as by several States of the European Union. It is therefore not concerned by the BRI project, although Chinese products are in abundance in the country's markets.

[3] With the dissolution of former supranational entities that emerged during (USSR) and after (Czechoslovakia, Yugoslavia) World War I, the absorption of another (the GDR) after the Second World War. Poland, following the fall of the Berlin Wall and the disappearance of the USSR, has increased from three (GDR, Czechoslovakia, USSR) to seven neighbors (Germany, Czech Republic, Slovakia, Ukraine, Belarus, Lithuania, Russia) without changing its physical boundaries.

Several economies, including those in the north-east Poland, Hungary, Czech Republic, Slovakia (aka the Visegrad Group) have become the hinterlands of Germany. Further south, delays in the political process and the nature of investments under socialism made adjustment and convergence more difficult (Romania, Bulgaria).
The Western Balkans, for their part, with the brutal collapse of the former Yugoslavia and the violent inter-ethnic conflicts which preceded it, enter the third category with the disintegration of their former markets, the contraction of the new ones, their narrow specialization. Their rapprochement with Albania in a *Western Balkans Economic Area*, recently decided at the EU Trieste Summit in July 2017, can be considered as a sort of air lock before their future (possible?) integration into the European Union, that could be delayed with the establishment a multi-speed Europe, advocated by some member countries of the "first circle" of the Union (Richet, 2018).
The integration and enlargement of the EU has become a reality even though there is still a strong asymmetry between the three Europes, the EU-15 (with the pending departure of the UK), the New Member States (NEM-11), the Western Balkan countries in accession (WB-6). Today, due to the gravity effect, most of the trade of these countries takes place within the EU, especially the Western Balkans (Figure 2).
It is in this context that China is entering this region - the peripheral Europe - and its segmented markets, most of them very narrow but close to the dynamic markets of the EU-15. It increases trade in goods and services, the acquisition of businesses, its investments in the sectors of transport, energy, manufacturing[4] (Table 1), but its share in Europe is still low compared to its world distribution.

Table 1: Chinese FDI outward flows and exports to the EU-15, the New EU Members and WB-6, USD, Millions, 2006-2015

EU-15	**2006**	**2009**	**2011**	**2013**	**2015**
FDI Inward/Inflows	108,95	2928,9	7341,8	4356,5	5318,75
% of total Chinese investments	1,2	3,1	5,9	3,5	4,2
Export	93581	209275	314,843	285974	311871
New EU members					
FDI Inward/Inflows	19,2	37,5	219,0	167,0	160,6
% of total Chinese investments	0	0,04	0,18	0,13	0,13
Export	19850	27009	41177	41621	43116
Western Balkans					
FDI Inward/Inflows	n.a	1,5	0,25	12,6	19,97
% of total Chinese investments	n.a	0,002	0,00	0,01	0,02

Source : China custom, UNCTAD Data

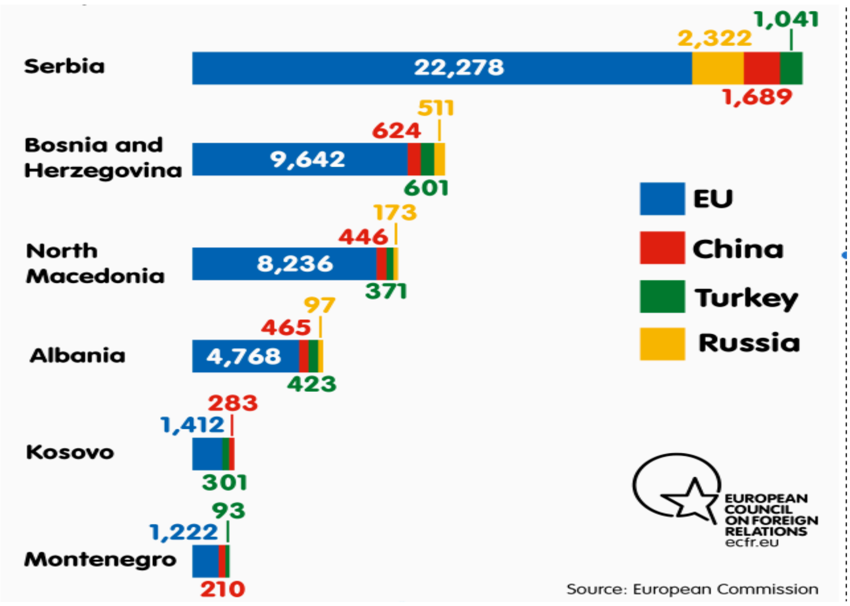
Motivations that push China and Chinese companies in the region are beginning to be identified:

- The economic and geographical zone represented by the 16 is a section of the New Silk Road that arrives by two routes: a land route, in the north, in Poland which crosses it to reach the

heart of Europe, a sea route to the south, in Greece[5]. Between both, a railway line Piraeus-Budapest will, later on, connect the north and south routes.

[4] We must distinguish foreign direct investment (acquisition of enterprises, construction of new enterprises, greenfield investment) from the provision of services (construction of a railway line, a nuclear power plant) against payment and whose operation will return to the sponsoring country.
[5] Which remains the most important access route for Chinese goods arriving in Europe: 94% arrive by sea, 1,8% by air, 3% by road, the remaining by train (Pairault, 2019).

Figure 2: Major Western Balkans trade partners, in 2017 (EUR, millions)



- Opportunities for Chinese state-owned enterprises, in overcapacity, particularly in the infrastructure sector, to participate - mainly through loans provided by Chinese banks (subsequently reimbursed by the beneficiary states) - to the construction of highways, of ports in the Balkan countries in particular, by addressing needs that are neglected in EU pre-accession programs.
- A "network effect" with investments made by some major high-tech Chinese telecommunication groups (ZTE, Huawei), medium and high technology investments (nuclear industry), investments in traditional and declining industries: iron and steel industry in Serbia, mining coal in Bosnia, the chemical industry in Hungary.
- Paving the way to create a regional value chain around a few sectors (cars, electric batteries in Bulgaria, Serbia, Croatia) like what other Chinese groups are doing more insistently in European advanced market economies (Germany, France, UK).
- More targeted, albeit limited, investments and cooperation in the high-tech sectors, in the Baltic States.

On the geopolitical level, does China's presence pose a threat to the EU? Does China seek to influence the governments of the periphery, to interfere in the internal affairs of the Union, to circumvent European regulations (Godement & Vasselier, 2018; Benner, 2018)?

For China, the challenge, besides the success of its establishment in the region, lies in its articulation with its overall European strategy, which is not yet assured because of the opposition that still exists between China and the European Union (absence of an EU-China bilateral investment agreement, non-recognition of China as a market economy within the WTO, recent statements of the EU concerning the China-EU relations).

Cooperation or competition? Does China have the means or does it seek to interfere in the affairs of Europe, at its margins? How can it seek cooperation with the EU, while pushing a corner in the EU squares? These questions have been highlighted during the last visit of President Xi in Italy and in France (March 2019) and by the publication of a recent statement by the European Commission, reminding that China is both a cooperation partner, a negotiating partner, an economic competitor and a systemic rival promoting alternative models of governance (EC 2019).

In this contribution, we address the following points:
1) the different aspects of the Chinese presence in the region,
2) the motivations of the 16 countries to cooperate with China
3) the likely impact of this Chinese presence in terms of investment, trade volumes, services procurement, and indirect diplomatic influence on the European affairs.

It will be emphasized that the future of the *16 + 1 Format* is ultimately linked to the relations between China and the EU, that the Chinese presence, through its realization, can create a leverage effect (Bastian, 2018; Hackaj, 2018) to accelerate the upgrading of the least developed economies in the region by integrating China into the European procedures and regulations.

2. Developing cooperation with a new sub-regional bloc

The Chinese presence in CSEEE dates back to the beginning of this decade, although historically, the links between China and the 16 are older, and date back to the fifties of the last century, at the time of the "friendship and cooperation" between the socialist countries. After the great Sino-Soviet schism, only the small Albania and Romania maintained their trade relations with China to a certain level. Subsequently and globally, trade flows have never been very important. At a time when Chinese growth was taking off at the beginning of 1980s, Eastern Europe was plunged into a long economic decline that lead to the disappearance of the socialist system in the region in 1989 (and of the USSR in 1992) and the implosion of Yugoslavia (1991) before undergoing the shock of transition, the systemic transformation and integration into the European Union.

In 2012, China founded an association with 16 countries in the region to promote exchanges between partners: *Cooperation between China and Central and Eastern European Countries* (aka *China-CEE*, the *16 + 1 Format*). The Association, headquartered in Beijing, officially gathers its members alternately in China and in one of the capitals of the 16. It has given rise to a myriad of institutions, of which the Chinese diplomacy is very fond of, with various concerns (academic, sectoral). It has set up specific funds and credit lines abounded by Chinese financial institutions. But up to now, the *16 + 1 Format* is an empty shell, a leaf of vines, it is more a regional institutional gathering which masks the bilateral character of the relations which are established between countries (contracts, financing) (Szczudlik 2019). Moreover, the *Format* can hardly be mobilized as a political instrument as 11 countries belong to the EU and are required to comply with the European regulations, despite the manifestations of "illiberalism" displayed by some of its members[6]. The loss of hope that accession to the EU could bring, the length of the waiting period for the acceding countries to become a member have fostered positive feelings about the Chinese presence in the region (an also towards Russia in Serbia?).

The 16 European member countries form a heterogeneous group as much by history, size, population, level of development as institutional membership (Figure 3).
Eleven countries are members of the European Union (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, Bulgaria), and have joined it in several waves (2004, 2007, 2013). Five of them are already members of the euro area (Estonia, Latvia, Lithuania, Slovakia, Slovenia) and three (Bosnia and Herzegovina, Kosovo, Montenegro) use the European currency without being members of the Euro zone. Five other countries in the Western Balkans (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, Serbia and Kosovo) are in the process of joining the European Union and are already subject to European regulations stemming from their status as future members. As such, they benefit from financial support from the EU. Following the 2017 Trieste European Summit, they have joined a new entity, the *Western Balkans Economic Area*. Two of these countries, Bosnia and Herzegovina and Kosovo, fragile and unstable state structure are "states built from outside", monitored by foreign powers and international institutions.

[6] Which must be economically relativized, as these countries rely heavily on EU-15 investment for employment and exports (Richet, 2019a)

Figure 3: Market size of the Central and South East European economies

(2015)	Market Size (population, mn)	Purchasing Power (Per-capita GDP, US$)
Hungary	9.9	12,240
Poland	38.0	12,495
Czech Republic	10.5	17,257
Romania	19.9	8,906
Slovakia	5.4	15,992
Serbia	7.1	5,120
Estonia	1.3	17,288
Slovenia	2.1	20,732
Bulgaria	7.2	6,832
Lithuania	2.9	14,210
Latvia	2.0	13,619
Croatia	4.2	11,573
Bosnia and Herzegovina	3.9	4,088
Macedonia	2.1	4,787
Albania	2.9	3,995
Montenegro	0.6	6,489

Source : IMF

Serbia - which has to deal politically with the secession of Kosovo and Montenegro, and it still has large-scale corruption =, has officially started negotiating with the EU and is expected, according to optimist views, to join the Union by 2025.

Some countries could be included in the *16 + 1 Format*: Greece (seniority in the European Union?)[7], Ukraine (instability and conflict with Russia?), Kosovo (support to Serbia), Belarus, Moldova (too close to Russia?).
It would therefore seem that the socialist past of the sixteen countries and their accession (including ongoing) to the EU are the ones that serve, primarily, as a common denominator for this regional gathering. This is a small common denominator. And it is a little surprising, considering that the countries of the region have quickly abandoned any reference to their socialist past and erased everything that could recall it.
It rather seems to be primarily a geopolitical motivation: to act at the margins to acquire more power vis-à-vis the core of Europe.

The 16 member countries can also be classified into sub-regions and sub-groups, taking into account their level of development, size and population, their previous institutional membership and progress in transforming themselves into market economies: there is the Baltic bloc (small countries, formerly part of the former USSR), the bloc of the Visegrad countries (Hungary, Poland, Czech Republic, Slovakia), the most developed and the nearest to the EU-15 markets (especially to Germany), then the laggards in the transformation (Bulgaria, Romania), less developed than the previous ones and, finally, the former Yugoslav bloc, the most economically open before the collapse of socialism and the disintegration of the country, plus Albania, the former hermit socialist economy of the region.

[7] Greece officially joined the 16 + 1 format in April 2019. For an analysis of this decision and its scope, consult Tonchev (2019)

Foreign direct investment coming mainly from the EU-15 countries (almost 80%), the balance coming from the United States and from the Asian countries (Japan, South Korea) has played a major role in reshaping these economies and liking them to the EU (Richet 2019d) .
In just two decades, trade within the EU has changed dramatically. The existing specializations, qualifications and low labour costs have led to a profound transformation of the industrial landscape. Countries of the Visegrad group have become major industrial centers in a number of sectors, including automotive and electronics. Today, the most dynamic sectors of the region are in the hands of the largest European, American, or even Southeast Asian countries (Japan, South Korea).

3. All roads lead to Rome...

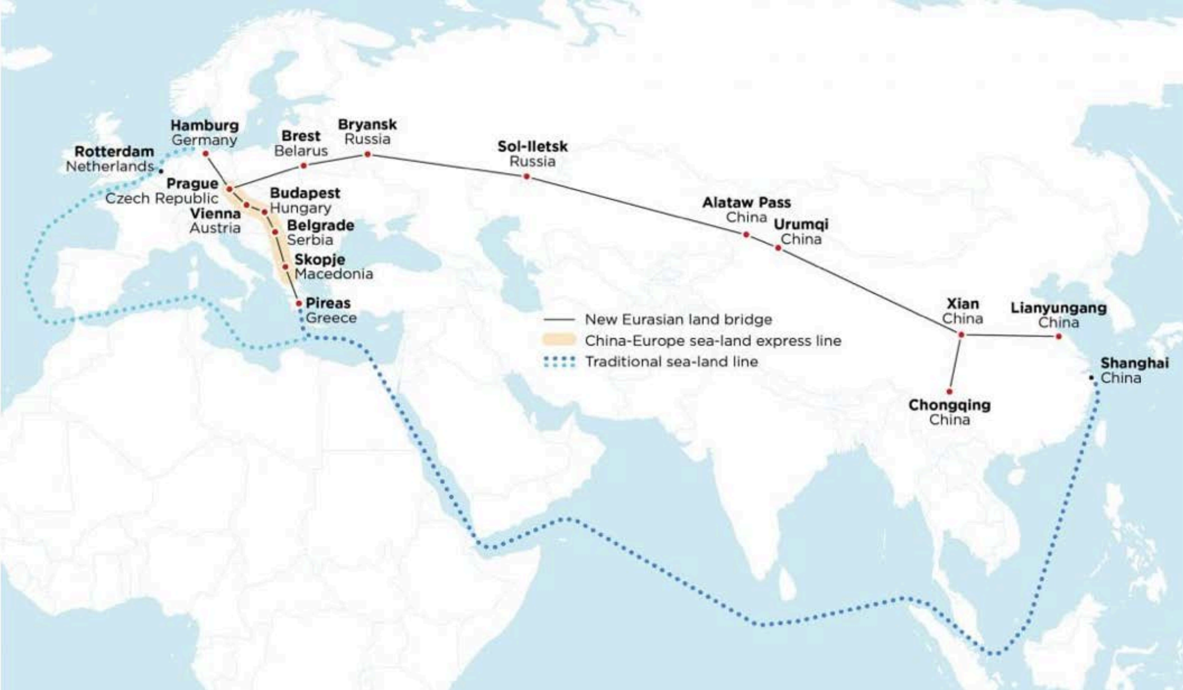
As part of the *Initiative*, China traces a land route from the Western Middle Kingdom, the less developed and land-locked regions of China, through the Central Asia and the former Soviet space (Frankopan, 2018). A sea route reaches southern Europe via the Suez Canal (Fabre, 2019).
For China, the CSEEE region is both a gateway, a market of nearly 100 million consumers, a stepping stone to the EU-15 and a part of Europe where infrastructure needs are important. A passage first. Poland, to the north-east, is on the land route connecting Belarus to the point of arrival of the trains that pass through the Eurasian Economic Union and continue on their way to Germany, Italy, France and even to Great Britain. In southern Europe, the sea route via the Suez Canal joins the port of Piraeus in Greece. Other nearby port terminals are of interest to China, including Bulgaria and Turkey, near Istanbul, the arrival point of another land route through Iran, Georgia and Turkey, an alternative to Russia (Figure 4).

The region is an important market in terms of consumers (more than 100 million people) enjoying growing purchasing power, albeit still far from per capita income in the more developed regions of the EU (figure 3).

For the Chinese companies investing in the project might be a way to join and built regional value chains, to get closer to technology centers in the heart of Europe, to support the internationalization of Chinese companies in search of new locations (Huawei, ZTE). Major investments in the sectors of railways, ports and highways illustrate the "infrastructure diplomacy" that China has become an expert in the world.
This plentiful supply of projects expresses both the know-how acquired by China at the national level (via cooperation and technology transfers from Western firms[8]) and mobilizes the overcapacities developed in these sectors in recent decades in the country. For these indebted companies, most of them state-owned, the exchange of debts against BRI credits allows them to continue their activities by using their overcapacity for other use.

[8] Process currently at the heart of Western accusations of looting the technology which is the cause of US sanctions: increase in customs duties, pressure from allied governments to close their markets to Chinese equipment manufacturers.

Figure 4: Maritime and land routes of the New Silk Road



Source : Tschinderle (2018)

Chinese companies can rely on the importance of financial resources accumulated and available through different channels: "political banks" under the control of the government (Exim Bank, China Development Bank), national banks, specific investment funds, lines of credit, international banks (New Development Bank, AIIDB) in which Chinese capital is dominant. The credibility of the project is an important factor for the future, especially with the aim to associate Western lenders in their financing (ADB, WB, EBRD, EIB).
Finally, the construction of the new Silk Road, including on this section, is the means to promote the use and thus the internationalization of the Chinese currency, the RMB as a means of exchange and investment (Richet 2019b)

The *16 +1 Format* benefits from a credit line of more than USD 10 billion, with specific funds allocated to project financing in the region (about USD 3 billion). Still, the modalities of access to this financing, the economic benefits and the expected benefits of this windfall raise many questions (Barisitz & Radzyner, 2018) and lead to a lot of criticisms formulated by recipient countries in particular, on the the quasi-monopoly of Chinese companies that carry out the projects, especially in the field of infrastructures, on the opacity of contracts, the cost of financing[9], the corruption - the interruption of construction projects in Macedonia (Makocki & Nechev, 2017) -, not to mention, consequently, the high indebtedness of the welcoming countries (Bosnia and Herzegovina, Montenegro) joining the growing list of countries heavily indebted to China (e.g. Pakistan, Sri Lanka, Laos, Myanmar, Venezuela). A risk for China is to generate a "Malaysia effect" with the request for abandonment or downward revision of projects signed between China and its partners, to reduce the burden of debt.

The Chinese presence, in terms of FDI volume, is still very modest (Table 1), in addition, Chinese investors have a strong preference to invest in the most developed part of the EU (Figure 3) where opportunities for acquiring firms are limited.

[9] The interest rate may decline due to the size of the contract contracted: the cost of a railway line plus the train order will result in a cheaper price than the financing only one track of the railway...

Table 2: Chinese direct investment stock in Central and South-Eastern Europe in 2009 and 2014 (Millions of USD)

	2009	2010	2011	2012	2013	2014	2009-2014 growth	Share of total Chinese investment in CEE (2014)
Hungary	97.41	465.70	475.35	507.41	532.35	556.35	471.14%	32.79%
Poland	120.30	140.31	201.26	208.11	257.04	329.35	173.77%	19.41%
Czech Republic	49.34	52.33	66.83	202.45	204.68	242.69	391.87%	14.31%
Romania	93.34	124.95	125.83	161.09	145.13	191.37	105.02%	11.28%
Bulgaria	2.31	18.60	72.56	126.74	149.85	170.27	7271.00%	10.04%
Slovakia	9.36	9.82	25.78	86.01	82.77	127.79	1265.28%	7.53%
Serbia	2.68	4.84	5.05	6.57	18.54	29.71	1008.58%	1.75%
Lithuania	3.93	3.93	3.93	6.97	12.48	12.48	217.56%	0.74%
Croatia	8.10	8.13	8.18	8.63	8.31	11.87	46.54%	0.70%
Albania	4.35	4.43	4.43	4.43	7.03	7.03	61.61%	0.41%
Bosnia-Herzegovina	5.92	5.98	6.01	6.07	6.13	6.13	3.55%	0.36%
Slovenia	5.00	5.00	5.00	5.00	5.00	5.00	0.00%	0.29%
Estonia	7.50	7.50	7.50	3.50	3.50	3.50	-53.33%	0.21%
Macedonia	0.20	0.20	0.20	0.26	2.09	2.11	955.00%	0.12%
Latvia	0.54	0.54	0.54	0.54	0.54	0.54	0.00%	0.03%
Montenegro	0.32	0.32	0.32	0.32	0.32	0.32	0.00%	0.02%
Total	**410.60**	**852.58**	**1008.77**	**1334.00**	**1435.76**	**1696.51**	**3.13**	**100%**

Source: China's Analysis (2016)

Box 1

Financing Piraeus-Budapest Railway

One attraction of the CSEEE is also the opportunity to connect to and penetrate the European markets, including for building infrastructure, which is insufficient in different countries, especially in the Balkans. To date, the flagship project remains the construction of a high-speed rail line between Belgrade and Budapest, bringing the journey along the the rail link from more than eight hours. to two and a half hours. The line is to be completed later by the sections of Belgrade-Skopje in Macedonia, then Skopje-Athens but it may also be postponed indefinitely because of the weak financing capacity of the economies concerned (Vörös, 2018). The project is financed by loans from the Chinese banks to the tune of 75%, the rest by the regional States, that will repay the Chinese banks for the committed credits. The construction of this line binds Chinese companies and the States concerned to comply with the European regulations on public procurement and environmental constraints. This is why the section of the line in Hungary has not yet started. The country must comply with the European regulations. Technically, the profitability of such a train raises doubts, given the limited number of users of this rapid service on the population basin concerned[10]. But this is not the problem of the Chinese builders who are not related to the operation of this new service. The search for sovereign guarantees is therefore very important, as several countries in the region are unable to cope with the risk of non-repayment because of their financial situation. Financial institutions (EIB, EBRD) are starting to be associated with these financial arrangements, by guaranteeing loans granted by the Chinese banks (Briant, 2018).

On the FDI side, the opportunities to acquire assets are limited following the privatizations and restructurings of the companies that have accompanied the transformation of the economies of the region. The volume of

[10] The future profitability of such projects is not an *a priori* constraint for the Chinese operators. The pharaonic construction of the bridge between Hong Kong and Macau, recently completed, currently generates a daily flow of 3,000 vehicles whereas it should have between 9,000 and 12,000 per day.

Chinese FDI in the CSEEE is low; it is even residual compared to investments made in the rest of the EU by China (Figure 4). The effect of proximity to the heart of Europe has made the region the backyard of major European industrial groups. A limited number of countries in the region account for the largest share of Chinese FDI. 6 countries, Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia host 95% of Chinese FDI, the rest only 5%. The mode of entry of the Chinese investors through acquisitions has necessarily a limited, or no effect in terms of spin-offs, or job creation in the region.

Attractive assets on display are limited. Chinese investors acquired companies in difficulty that could not be recapitalized by the domestic investors, in sectors such as steel (Serbia), chemicals (Hungary). They participate in the modernization and expansion of nuclear power plants (Romania) and in the construction and expansion of coal-fired power plants in Serbia and Bosnia and Herzegovina, building over-capacities which contribute to the pollution of the region. Investments committed to these sectors are financed by the Chinese political banks and not by the international banks with Chinese capital - CBD, AIIB - which link credits to green investments. Other sectors attract foreign direct investment in order to benefit from higher value-added local know-how (the Northern and Central Europe, the Baltic countries), to create a regional resource base in certain areas (information technology in Hungary, Romania) that can serve as a springboard to enter the EU-15 markets. In other cases, such as investments in car assembly in Bulgaria and production of electric batteries in Serbia and Croatia, FDI could favour the emergence of an automotive hub in the region. The recent bankruptcy of the Bulgarian-Chinese joint venture in the automotive industry illustrates the difficulty of developing a regional value chain in narrow, low-cost markets. The participation of Chinese investors in the future waves of companies' privatizations in Serbia should increase its presence and increase the phenomenon of sectoral diversification without being able to measure the coherence of these participations.

For the host countries, the Chinese presence is welcomed with interest, but also with some skepticism. The countries of the region, as in other parts of Europe, roll out the red carpet to accommodate Chinese investments. By some, they are seen as a way to escape the heavy dependence on the Western firms, a dependency that is unlikely to be reduced when we consider that the bulk of investments, employment, exports come from multinational firms located in these countries, especially in the Visegrad group.

Table 3: Chinese presence in Central and South East Europe

Country	Investments
Albania	Construction of a section of highway. China's financing of an industrial park in the coastal city of Durres. Project to build a deep water port. Estimated value of the project: € 2.2 million
Bosnia & Herzegovina	Construction and modernization by Chinese companies of three coal-fired power plants, investment in energy projects in the Serbian part (Republic of Srpska). Chinese financing reaching 85% (785 million euros). Project to build another power plant in the east of the country, by a Chinese consortium.
Bulgaria	Investment in infrastructure in the agri-food sector. Investment in bus construction by Great Wall. This was the first vehicle manufacturing company from China investing in the EU, but the project failed. Project of Chinese companies participation to the construction of the Black Sea highway linking Varna to Burgas. Chinese participation in the construction of a new nuclear reactor at the Kozloduy NPP.
Croatia	Investment project worth 30 million dollars in the car battery sector, by the car manufacturer Camel into the company Rimac Automobili. Project to open a Chongching-Zadar airline to transport 25,000 Chinese tourists during the summer months.
Czech Republic	Investment worth up to 1.4 billion euros by a Chinese conglomerate in financial services. The beneficiary is a local J & T company. Otherwise, minor investments,

	such as the investment projects in the pharmaceutical industry, or the USD 130 million investments in renewable energies.
Estonia	USD 130 million investment in renewable energy.
Hungary	Acquisition of a chemical group; electronics, ITC.
Latvia	Purchase of land to acquire residence permits in the EU against a minimum investment of € 70,000 recently raised to € 250,000. Real estate investments represent 40% of the overall Chinese investments. Investment projects in the port infrastructure of Riga, in communication infrastructures with the three Baltic capitals. Small investments in the agricultural sector.
Lithuania	Investments made by Huawei, ZTE, Lenovo, China National Petroleum and SAIC Chery Automobile.
Macedonia	Construction of two motorways financed by Exim bank for 680 million euros. Construction project of the gas network of the country. Chinese participation in the construction of the Macedonian section of the Athens-Belgrade railway line.
Montenegro	Construction of a 170 km highway financed by China and built by a Chinese firm. Renewal of the Montenegrin fleet with the construction of four vessels. Investments in several energy projects: hydroelectric and thermal plants. Project to participate in the construction of motorway sections, as part of the "Blue Corridor" project which will link Italy to Greece, along the Adriatic coast.
Poland	The largest country in the region, where trade with China is largest, but Chinese investment are still weak. It should increase soon.
Romania	Project to build new units of the Cernavoda nuclear power plant on the Danube for 6 billion euros. Several European companies have declined this market. Construction (Rovinari) and modernization (Mintia-Deva) of two coal-fired power plants and a hydrothermal power station (Tarnita-Lapustesti). Presence in the residential construction, electronics and communications market (Huwei).
Serbia	Construction of a bridge over the Danube, a coal-fired power plant, which is part of the Belgrade ring road. Construction of the Belgrade-Budapest high-speed railway line (already far behind). Construction of a motorway linking Serbia to Montenegro. Investment projects in the construction of electric cars, participation of China in the privatization program of 18 state-owned enterprises.
Slovakia	Very little Chinese investment exceeding $ 100 million.

Source: compilation by the author

Railway lines provide the access of the Chinese goods to the EU markets, but do not contribute to the creation of many jobs, as opposed to greenfield investment. In addition, Chinese demand for products in the region remains limited and trade remains highly skewed (Figure 5).

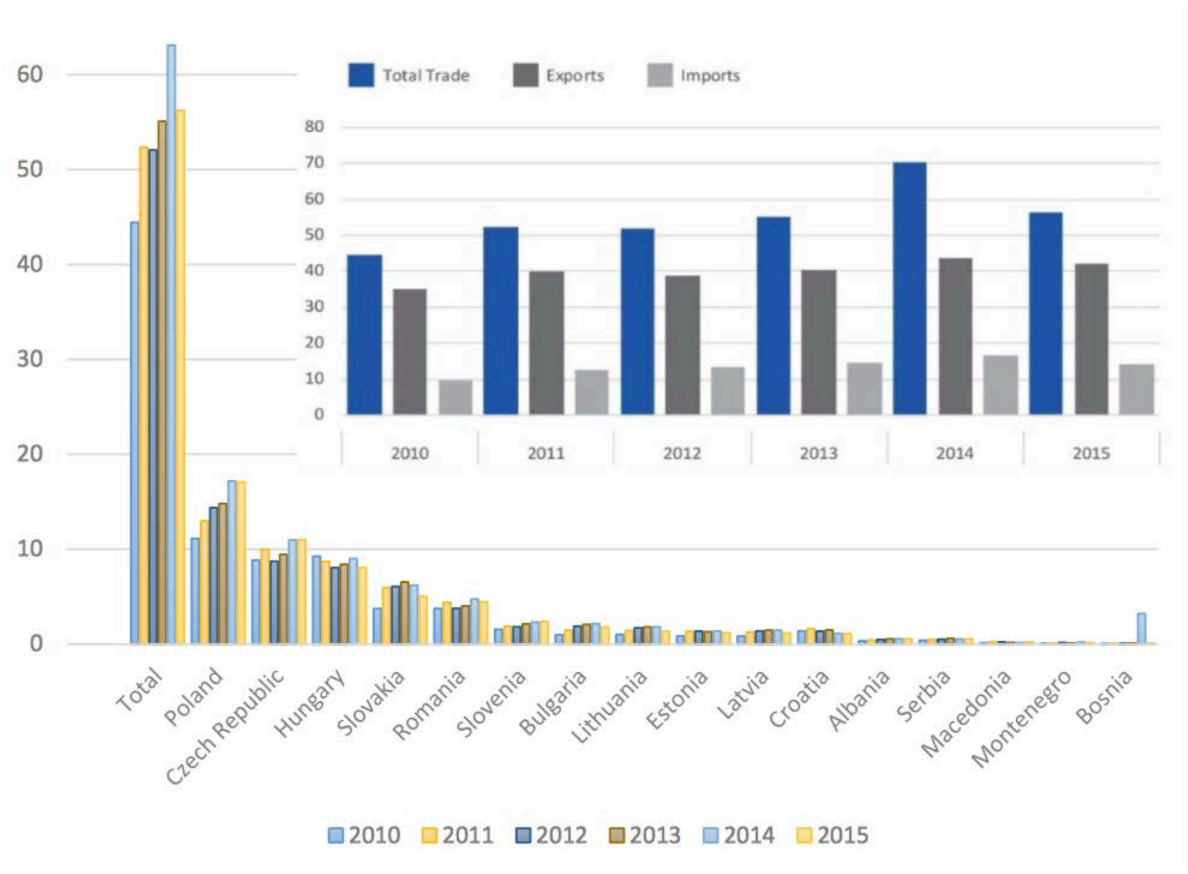
The 16 wish to extend their cooperation with China to other areas (airways, tourism). Making greenfield investments rather than building railways, opening up the Chinese market to products from the region would contribute more to job creation. Observers underline the skepticism of the region's leaders about China's true commitment. Governments do not forget that their development is fundamentally linked to the EU and they cannot ignore the many regulations on procurement that constrain them (concerning mainly the investment bidding procedure). Additionally, the limited amounts of Chinese investments, resulted, up to now, from the strategy of scattering investment (a little for everyone) are disappointing and the strategy is quickly reaching its limits.

True regional anchoring or watering, to facilitate the crossing of this area? Finally, the Chinese economic presence in the region remains weak. In percentage terms, Chinese FDI is low and represents only a very small share of the Chinese FDI in the EU. They remain modest and concentrated in a few countries, with no apparent link to the size of the markets. This is the case of Poland, the largest country in the region (population, share in regional GDP, geopolitical position) which has one of the lowest rates of entry of Chinese capital[11] and relatively low bilateral trade volumes (Figure 4).

Some analyses mention China's interference in the EU politics, or, in the Balkan countries (in Serbia in particular), China's foothold as a way of countering the Russian presence. It is not certain that Serbia is the object of such an issue. The country remains unstable despite recent progress, is heavily indebted, is still strongly influenced by the impact of the Milosevic years (lack of investment, destruction by NATO, the Kosovo independence) and, as such, its room for maneuver is quite limited.

As the largest country in the Western Balkans, still heavily affected by the economic crisis that followed the implosion of the former Yugoslavia, Serbia has great investment needs in many areas that it cannot support itself. Welcoming Chinese investment in infrastructure remains an economic rather than a political challenge.

Figure 4: Volume and composition of trade between China and CSEEE (2010-15, USD million)



Source: National Bureau of Statistics of China

4. Implementing of the project in the 16 countries: some questions

For its designers, the Initiative is not a plan, the materialization of a concept, an idea that must be realized quickly. Like other major works in the past, their usefulness and full use can only be profitable in the long term, even if the motives underlying the launching of such programs must be considered to fit into a shorter time.

[11] Chinese investors may have been scalded by the disappointment of the COVEC Group which was unable to complete its project to build a motorway segment in the west of the country after winning the contract by breaking prices (Polytika, 2011).

The implementation of this project raises many institutional, technical, financial, economic and geopolitical issues.

At the institutional level, the *16 + 1 Format* remains a curious construction: a regional institutional structure, a vine leaf, which masks a network of bilateral relations which apparently does not aim at unifying the various projects. Bilateralism reflects the absence of a global vision of the Chinese presence in the region around structuring projects.

From a technical point of view, some of the projects fall into the category of services production, (railways lines, ports, motorways) whose use will continue to compete with other means of transport (especially maritime) in terms of costs. For the moment, on the existing lines, the utilization rate remains low, the cost of transporting goods is high (and subsidized), between two and three times the cost of goods transported by sea. On the other hand, the construction of motorways in the Balkans responds to the need for essential infrastructure, neglected until recently by the European Union. However, the implementation of these projects puts the host countries in difficulty (debt of Bosnia and Herzegovina, or of Montenegro, to finance their share of investments), it induces corruption leading to the abandonment of certain projects (e.g. the construction of a motorway in Macedonia) (Makock & Nechev, 2017). Moreover, in proportion of about 80%, projects are implemented by Chinese companies and their subcontractors and their workforce, so that they have little impact on the economies concerned in terms of employment, or spin-offs.

On the financial side, the opening of a credit line and the creation of a specific fund do not seem to attract many projects. Most of the available funds have not yet been committed. On the one hand, there are not many investment projects to finance, Chinese investors do not always take into account the demands of the host countries, especially for the construction of road infrastructure (highways in Romania), and, on the other hand, the European funding is also, if not more, competitive. The financing policy does not automatically encourage Chinese or local investors.

The result, if one considers the projects realized or in progress, is rather an "archipelago" type of approach: the investments made with the help of Chinese financing are part of the landscape of the region, but do not contribute to the emergence of local growth poles, structured around a few activities, with strong implications in terms of leverage, of economic spin-offs, creation of value chains, like the attempt by Chinese firms to acquire or make new investments in EU core countries. The acquisition of local businesses in Bosnia and Herzegovina (coal), Serbia (steel), Hungary (chemicals) reflects limited opportunities (declining sectors) and risky opportunities. The investment in the coal industry violates the environmental commitments made by the recipient country, as well as the commitments of Chinese-owned international banks to respect the environment. The weakness of local attractiveness reflects both the still limited opportunities of these economies, which are still looking forward to become EU members, particularly in the south (Richet 2019c), and the strong appeal of core Europe for Chinese investments.

It would be tempting to say that associating the least developed parts of China[12], which are supposed to be the actors and beneficiaries of the Initiative, to the countries on the periphery of the EU necessarily leads to a thwarted dynamic in terms of trade development. and investments.

This brings us to **the last point, geopolitical**, induced by the Chinese presence in this region.

Can China count on this growing presence to influence the European Union? The Chinese existence in the region presents an opportunity, an alternative and a threat. Opportunity in terms of developing new activities (trade, investment, service provision), generating jobs that the European integration cannot fully provide (country Member States), but limited due to the European constraints, often easier access to EU sources of funding, and lastly because of the selective nature of the investment operations carried out by Chinese companies that first see their own interests, or are not motivated to fund the desired projects by the host country. An alternative for the host countries needing infrastructure. As for the threat posed by the Chinese presence, it seems limited for the moment, even if it is strongly emphasized by several analysts. The "illiberalism" displayed by some countries (Hungary, Poland) has its limits which are linked to the strong

[12] Even though Chinese operators investing in these projects are not always clearly identified. Firms in Guangzhou Province, in order to take advantage of attractive loans, support Gansu province firms that can access subsidized credits distributed under the B & R Initiative.

dependence of these economies on the EU. Structural and Cohesion Funds that Hungary receives from the EU account for almost 6% of the country's GDP and further south, recurrent political instability (Bosnia and Herzegovina, Serbia and Kosovo) is certainly not an incentive for China to intervene in these cases.

Box 2
The Silk Roads, an instrument at the service of Chinese hegemony?

For several analysts (Guichard, 2014; Godement & Vasselier, 2018; Miller, 2017), the deployment of the Silk Road on different continents, which is accompanied through the internationalization of Chinese state and private enterprises, contributes to the hegemony of the Middle Kingdom by combining trade development, foreign direct investment, major works, paving the way, finally, to the conclusion of security and military agreements.
By observing the modalities of entry and the development of the Chinese presence in several countries in Latin America and the Central Europe, Horia Ciurtin (2018) proposes a model describing the different stages of China’s penetration into these economic spaces.

A Chinese model of entry and penetration through trade and investments

Phase 1: Trade:
Chinese firms enter the market and gradually take increasing market shares. China becomes the main economic partner of the country. China controls the financial flows that enter the country. The country is becoming sensitive to any change in China's trade and financial policy.

Phase 2: Foreign direct investment:
Trade relations open doors, FDI keep them open for a long time. First of all, investment is made by state-owned enterprises in the sectors concerned by trade (raw materials in the first place, and then other sectors). These sectors are formally controlled by the Chinese firms. Economic and political risk factors are not taken into account by Chinese investors. Host countries remain sovereign, but become dependent on a single source of income and investment.

Phase 3: Infrastructures:
Infrastructure investments related to the industries concerned and other sectors (roads, ports, railways) are undertaken. They are financed by mature Chinese loans provided by the Chinese state banks and reimbursed by the receiving countries.

Phase 4: Military and Security Cooperation
Signing military agreements, security, purchase of military equipment, joint maneuvers

Does this model reflect China's strategy in CSEEE?
It does not seem to be applicable to the Chinese presence in central and south-eastern Europe. The level of trade remains low and even in the future it could not be reversed to the detriment of the European Union, which remains the main partner of the countries of the region. The volume of FDI is also very low and cannot grow particularly in their current form (acquisitions). In addition, China's FDI has very little, if any, spin-off effect. Only greenfield investments could reverse this trend.
The construction of infrastructures in the countries of the region may represent a form of dependence with regard to their repayment (high level of indebtedness for certain receiving countries such as Montenegro, Bosnia and Herzegovina).
As for military cooperation, it is limited and does not seem to be able to develop in the future, including in Serbia. All other countries are members, or future members of NATO, a sufficient deterrent motive.

Conclusions

The BRI, in this part of Europe, is still in its infancy and many investments are not yet completed or have not reached maturity and been used, particularly with regard to the development of land routes, accompanied by investments allowing their optimal use. They could induce in the future, according to recent studies, a strong growth of the exchanges in the region of the Balkan countries (Briant, 2018)

However, we can see the outline of this ambitious project which, according to the Chinese designers, is more a state of mind, a new concept of exchanges based on cooperation, rather than a rigid framework imposed on the involved partners.

Several interesting lessons can already be learned.

- Recycling the financial surpluses by creating new channels of exchanges centered on the interests of China: supply and security of natural resources, access to new trade destinations.
- A logic of market penetration favoring Chinese companies, especially the state-owned, in sectors where China companies have skills, overcapacities, where they are confronted to more competition on the domestic market (automobile)
- This policy is based on substantial financial resources and favorable allocation conditions for borrowers, almost all Chinese companies, through political banks, in support of its development strategies.
- The implementation of these projects has not, for the moment, an integrating and structuring effect. In some countries, along the road, it induces significant asymmetries for the benefit of China. In Asia, the implementation of the initiative reflects the growing power of China and feeds tensions between the BRICS partners (Russia, India). In Europe, the Chinese presence is less important, the CSEEE remains a place of passage and not yet anchored: the market of the EU-15 and in particular those of core Europe are more important targets, but more difficult to achieve (BDI 2019).

This project involves risks.

First, those related to its profitability: will the infrastructure generate enough business to ensure the profitability of investments? Is China guaranteed to generate annually, through its exchanges, the level of resources needed to finance projects? Will the control of outside flows of Chinese FDI reduce the amount of capital leaving China?

Finally, the political and financial risks should not be neglected, especially with several host countries (some of which will not be able to repay), with neighbours worried about China's rise to power and not taking advantage of this Initiative presented as a "win-win" solution by its promoters, but perceived as "loser-winner" by its receivers.

Three recent events should help shed light on Chinese projects in this region and more generally in Europe:

- ➢ The recent declaration of the EU Balkan summit, reaffirming the interest of making progress in the enlargement and integration of the Western Balkans to the European Union, with economic projects involving important investments in infrastructure;
- ➢ The 10 points declaration of the European Commission concerning its relations with China and its consequences concerning the reception and control of Chinese investments in Europe,
- ➢ Finally, the signing of a memorandum between China and Italy which foresaw an increase of the Chinese presence in this country.

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