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The possibilities and risks for Central and Eastern European countries concerning the New Chinese Silk Road and Silk Road Belt projects

Introduction

The Chinese plan regarding the New Chinese Silk Road is extremely ambitious; it would affect 65 countries of the world. By fast trains and ports and by dramatically expanding their commercial relationships, they intend to build a larger commercial network than ever before. However, is this beneficial for Europe, for the Central and Eastern European countries and for Hungary? What are the possibilities this project offers and what risks may the implementation of the project bring? Is there a chance that the Central and Eastern European countries finally emerge from the peripheral countries, or is there a risk that they will fall behind once again if they offer too much commitment to this project?

The initiatives of the New Silk Road Economic Belt and the 21st Century Maritime Silk Road

The first known travel book about the Silk Road is from the 5th or 4th century B.C., which is about the journey of King Mu (Mu Wang), the king of Western Chuo. The commercial road network from Ancient China to Africa and Europe started during the Han dynasty in approximately 114 B.C. due to the explorations of Zhang Qian. Chinese silk was one of the most important goods transported on this road network; this is why Ferdinand von Richthofen, German geographer named it this way in 1877. During the centuries, numerous luxuries were sold with the assistance of this road. The trade carried out on the

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Silk Road had an important role in the development of great civilisations like China, Egypt, Persia, Arabia, India, Rome and Byzantium.² The Silk Road has not only served for transporting silk and other important goods for millennia, but it also provided a cultural and technological connection between continents. Merchants, pilgrims, monks, soldiers, nomads and citizens were travelling on it everywhere between China and the Mediterranean Sea.³ The over 8,000 kilometres long route allowed luxuries to get from one corner of the world to another, including silk, satin, musk, ruby, diamond, pearl and rhubarb. Even though the Silk Road was spanning over thousands of kilometres, only a few merchants were travelling on the full length; goods were travelling through numerous intermediaries, the actual trade was carried out on the busy markets of important oasis cities.⁴ The over 8,000 kilometres long Silk Road had been connecting the Eastern civilisations to the West for centuries.

The name Silk Road rings nicely even today, there is no wonder that China brought it up; what is more, it made this a significant element of its foreign policy. The Chinese President, Xi Jinping announced the New Silk Road Economic Belt and the 21st Century Maritime Silk Road on his journey to Kazakhstan in 2013. China is preparing a new megaproject that would connect the Asian, European and African countries formerly affected by the ancient land and marine Silk Roads by spanning over Eurasia and the ocean. The new Chinese Silk Road project would affect sixty-five countries with over 60% of the Earth's population. The originally quite complicated names of "Silk Road Economic Belt" and "21st Century Maritime Silk Road" became simpler to "One Belt, One Road" (OBOR), which refers to the New Silk Road Economic Belt that will connect China and Europe through Central and Western Asia, while the 21st Century Maritime Silk Road is going to connect China to Southwestern Asia, Africa and Europe. The total population of the countries covered by OBOR is approximately 4.4 billion people, which is 63% of the total population of the world. Their total GDP is around 2.1 billion dollars, which is 29% of the world economy.⁵

In the coming decades, China intends to create an infrastructural, communication, logistics, trading and political network and cooperation extending from Central and Southern Asian regions, through the Near East and East Africa all

² Harmatta János: A selyemút nyelvei [Languages of the Silk Road]. *Antik Tanulmányok*, 47. (2003), 1. 81–88; Daniel Waugh: Richthofen's "Silk Roads": Toward the archaeology of a concept. *The Silk Road*, 5. (2007), 1. 1–10.

³ Daniel Waugh: *Travellers on the Silk Road*. Silkroad Foundation, 1997.

⁴ Francis Wood: *The Silk Road: Two thousand years in the heart of Asia*. Berkeley (US-CA), University of California Press, 2002. 13–23.

⁵ Privátbankár: Új selyemút: így válhat még erősebbé Kína [New Silk Road: This is how China may become even stronger]. *Privátbankár.hu*.

the way to the European Union, mainly using Chinese financial resources. The financial background will be provided by two institutions: the 40 billion dollar Silk Road Foundation and the Asian Infrastructure Investment Bank operating with a 100 billion dollar capital. Hungary also indicated its intention to join the latter institution.⁶

The New Silk Road programme may offer an important opportunity for the Chinese economy from various aspects. It may be surprising, but there is too much money in China. Due to the success in the past years and the savings of the residents, thousands of billions of dollars of capital piled up in the country, and investment opportunities for this capital has continuously been sought, even abroad lately. 2016 may be the first year when China becomes from capital importer to net capital exporter, and the programme spanning through the whole of Eurasia would offer an unbelievable potential for investment. It is also an essential issue for China. A side effect of the governmental measures to increase earnings was to generate a world record level of excess capacity in numerous industrial sectors of the country, especially in steel and cement manufacturing and construction. In the Silk Road Programme, everything in the countries between Europe and Southern Asia would be built by Chinese companies from Chinese raw materials financed by the Chinese excess capital. Moreover, the financial cooperation would take place mostly in the form of loans, so the project can be interpreted as a Chinese Marshall Plan offering long-term investment for China while also commit lots of countries to Beijing. The increasing economic influence of China would, of course, also strengthen the political power of Beijing in the region.⁷

According to the plans, the first phase of the programme will mainly be infrastructural development, the construction of fast railroad network and marine ports. However, it also means the coordination of mutual supply of energy, the car production, the trading of agricultural products, what is more, the latest breakthroughs in education, science and research.

Opportunities and potential risks

Numerous analyses and studies show that the centre of economic growth in Europe may relocate from the West to Central Europe after the crisis, and the

⁶ Profit7: Az „új selyemút” Magyarországnak is új távlatokat nyit [The New Silk Road also Opens New Opportunities for Hungary]. *Profit7.hu*, 7 May 2015.

⁷ Matura Tamás: A kínai selyemút és a magyar szál. Távol-keleti referenciaberuházások az európai infrastruktúra-fejlesztések esetén [The Chinese Silk Road and the Hungarian aspect. Reference investments of the Far East in the development of European infrastructure]. *Magyar Idők*, 22 April 2016.

region of the Carpathian Basin may have an opportunity of historical significance to become the meeting point of the dynamically developing Asian region and the innovation based region of North and Western Europe. However, people living in the Carpathian Basin are not only connected by the common historical path, but the current problems and challenges arising from the increasing and expanding globalisation are nearly the same as well. By 2020, an economic area may develop in the Carpathian Basin, where the economic integration level of the countries may reach that of the Western European countries. The countries of the region have high hopes for the future. This is the most dynamically developing region of Europe.

In the past, the primary objective of Central and Eastern European countries was to integrate into the Euro-Atlantic structure. After achieving this objective, the foreign policy of these countries expanded significantly, and it also includes other areas today. Nowadays, these countries endeavour to promote the Central European identity within the EU and support the regional co-operation of Central European countries. The purpose of the study is to establish what changes the increasing dominance of China may bring into the Central and Western European countries, where the United States, Russia or even Germany traditionally have more significant influence for a longer period of time. At the moment, it is also unclear how the countries are directly or indirectly affected by the strategic, political and security consequences of the Chinese initiative.

The region constitutes one market and one economic unit for the purposes of trading with distant and stronger economies. Accordingly, the countries located in the region and the people living here must realise as soon as possible that it is beneficial to guide their economies towards each other, to coordinate their development plans and ideas as well as to tighten the social and economic relations between them. It is also important for the reason that China is not looking for charitable aid, but finances market-based investments it expects to recover, and they are looking for Chinese and foreign investors for it.

Eastern and Central Europe, also including Hungary, is a region with 80 million residents that currently represents the driving force of European growth. The region is foreseeing a prosperous decade after the financial-economic crisis, it is competent, and it is “back on the map”. Accordingly, this region offers good opportunities for investors, and it is presumably the best location to reach the markets of the European Union.

China and the Eastern and Central European countries can cooperate in numerous ways, as China has enormous capital, while the Eastern and Central European countries have significant natural resources, technology and well-educated professionals.

China started negotiations with 16 countries of the region at the same time, as it looks at the region as a whole. The audience commented on the conference that it is like the cordon sanitaire established between Western Europe and the Soviet Union in 1919.⁸ China established a three billion dollar investment fund for the Central and Eastern European countries, which is in addition to the discounted rate credit facility that the affected countries agreed on the China–CEE Summit held in Bucharest. The ministers of China, Serbia, Hungary, Slovenia, Slovakia, the Czech Republic, Romania, Latvia, Lithuania, Estonia, Bosnia and Herzegovina, Macedonia, Montenegro, Bulgaria and Albania, as well as the deputy ministers of Poland and Croatia attended the summit. China and the 16 Central and Eastern European countries established a business council.

The first regional meeting between China and countries of the region was held back in 2012, and the process continued in Warsaw in 2012. Out of the 12 points of the action plan approved in Poland, 10 points were about touristic cooperation; and the establishment of regional centres for six professional fields was agreed on the China–CEE Summit in Bucharest in 2013. Accordingly, Poland coordinates the cooperation between the trade chambers, and the co-operation is coordinated by the Czech Republic for regional and county councils, by Romania for the higher education institutions, by Bulgaria for agriculture, by Serbia for infrastructural developments and by Hungary for tourism.

The Chinese head of government highlighted on this meeting that in relation to Eastern and Central European states, his country was primarily interested in the implementation of infrastructural projects and the strengthening of financial cooperation. He called the countries of the region for trying to double the turnover from the trade conducted with China in the following five years.

An agreement was reached on the modernisation of the Budapest–Belgrade railway. By extending the high-speed railway towards Macedonia and Greece, the main express line connecting China to Eastern and Central Europe may be built. On the railway capable of a maximum speed of 160 km/h, the travel time of trains would decrease below the current three hours.

On 24 November 2015 in Suzhou, an agreement was reached between the Hungarian and Chinese governments in relation to implementation and financing of the development of the Hungarian section of the Budapest–Belgrade railway. In accordance with the contract that came into effect in 2016, the Hungarian railway company and the appointed companies, in particular, China Railway International Corporation and China Railway International Group, established

⁸ Matus Tibor: Határokon átnyúló gazdaságfejlesztés [Cross-border development of the economy]. *Gazdasag.sk*, 28 October 2016.

a joint venture with 85% of the shares for China and 15% for Hungary. The name of the company is Chinese–Hungarian Railway Non-profit Ltd. The duty of the joint venture will be the preparation and execution of various tenders for the selection of design and construction companies, the conclusion of contracts, as well as the project management and monitoring during implementation. The joint venture may not conduct construction works, it will coordinate the work of the main contractor, in addition to an independent engineer and the certification bodies of the European Union. An inseparable appendix of the international contract is the procurement policy of the project, which applies to the selection of the design and construction company of the updating and modernisation. The procurement policy is EU-compatible, it complies with the requirements of the European Union. In relation to the Hungarian section of the line, the technical regulations effective in the European Union and in Hungary must be complied with.⁹

The railway may significantly boost the logistics of nearby countries, and it may assist the movement of people, capital and goods. The Eastern and Central European countries have excellent ports and motorways; if these are connected, the land and maritime express line can be created between China and Europe, which would provide for lower costs.

The China – Central and Eastern Europe Regional Tourism Centre was established in Budapest in 2014; by establishing the tourism centre, Hungary may become one of the key parties in the cooperation between China and Eastern and Central Europe. The main objective of the centre is to ensure that the region appears on the Chinese tourism market more effectively as a destination. The most important task of the institution is to make the region an attractive destination for Chinese tourists. In order to achieve this, the bureaucratic obstacles like visa must be removed in addition to generating new tourist routes and products. In order to increase the number of Chinese tourists, the procedure will be simplified, so that persons travelling to the region get their visas as soon as possible. Negotiations started regarding a new aviation convention and on the restoration of a direct flight. The number of Chinese tourists travelling abroad has been continuously increasing; 7.5 million of them arrived in Europe in 2013, and out of them, 2.5 million travelled to the region. Out of the Asian countries, the most tourists arriving to the region were Chinese. According to the plans, the aim is to increase the number of people arriving to the region by 50%, to 3.8 million by 2018.

⁹ ChinaCham: Kínával fejleszti Magyarország a Budapest–Belgrád vasútvonalat [Hungary develops the Budapest–Belgrade railway together with China]. *ChinaCham Hungary*, 7 November 2016.

The most frequent concern expressed by the professionals is that an even higher quantity of Chinese products will flood to Europe due to the New Silk Road. Anna Katharina Stahl, the analyst of the EU–China Research Centre in the College of Europe in Brugge, observes that this is not something to worry about, as the economic relationship between the European Union and China was about mutual dependence and commercial relationship supplementing each other. This is exactly why the New Silk Road is rather a great opportunity for the Member States of the European Union, since they may increase their commercial relationships and thereby their competitiveness.¹⁰

There are, however, European analysts who have some reservations about the Chinese initiative. They highlight that the Chinese interest in Europe and Asia is not by chance; the Asian country intends to gain as much foreign and economic influence as possible. Some experts even talk about the Chinese Marshall Plan and the birth of a new superpower. The European Union is also careful with these plans. Although the European Union intends to have a closer relationship with China by the new Silk Road, it is also clear that the infrastructure development plans of China contradict the trans-European transport development plans from a number of aspects. The researchers of the College of Europe also highlighted that it could not be a coincidence that China endeavours to negotiate with the Member States of the European Union separately, as this weakens the negotiating position of the EU, as a uniform political power. Nevertheless, it seems that the Eastern and Central European countries may have a great opportunity through the Chinese plans: it is especially true in case of the Western Balkan region, where people may reasonably think that the EU left them alone. For example, the 1.5 kilometres long Danube bridge in Belgrade was completed from Chinese investment last year, and the fast railroad between Belgrade and Budapest is getting increasingly specific.

Based on the experience of other countries, the most significant risk concerning cooperation with China is that it can easily become unilateral. Accordingly, critical points may be the lack of balance between the financial outcomes of projects, disproportionately high amounts of money flowing out to China, extensive import penetration, uneven level of technology, disproportionate growth of turnover of the Chinese party in the retail and wholesale market.¹¹

In the past years, there has been a really significant improvement in the foreign trade between China and Hungary. Nevertheless, the share of China in

¹⁰ Interview with Anna Katharina Stahl, the researcher of the EU–China Research Centre in *Magyar Nemzet*. Albert Enikő: A Selyemúttal a fél világot lefednék [Half the world would be covered with the Silk Road]. *Magyar Nemzet*, 8 June 2015.

¹¹ Ting Shi: Commodities crash boosts China's New Silk Road. *Bloomberg*, 20 January 2016.

the Hungarian foreign trade is still low. The balance of foreign trade has been increasing significantly year after year since 2010, even though it still had an 838 billion forints of negative balance in 2015.¹²

At the same time, the weight of China in the shares of the Hungarian corporate sector is quite low, especially compared to the role of China in the world economy.¹³

Analysing the economic effects of the assembly plant of the Chinese bus company, BYD in Komárom may answer the question whether Chinese investments serve the purpose of increasing the competitiveness of the country, employment creation and achieving the objectives of the Hungarian climate change policy, or they rather constitute competition for the Hungarian buses without creating significant added value. According to the plans, a number of assembly plants could be established based on the Chinese components arriving by train, which would create employment and further investment for the development of the Hungarian economy. According to the newest plans of the Chinese Government, it is willing to move part of their production capacity to Eastern and Central European countries in order to reduce the foreign trade deficit of the partner countries.

Summary

The Chinese plans regarding the New Silk Road offer numerous opportunities for Central and Eastern European countries for achieving several times higher rate of development and growth compared to the current situation. However, it is also clear that the implementation of this project carries numerous risks as well, especially that an even higher imbalance may arise in the foreign trade with China and in the financial balance of the involved countries, in favour of China. In my opinion, the success and results of the first joint projects will have a special significance, and the first projects will have a decisive role for the rest of the initiative.

¹² Source: Hungarian Central Statistical Office: *A külkereskedelmi termékforgalom forintban, országok szerint* [Foreign product sales in Forints by country]. 2016.

¹³ Source: Hungarian Central Bank: *A külföldiek magyarországi közvetlentőke-befektetés állományának végső befektetők szerinti bontása* [The amount of direct capital investment in Hungary of foreigners shown by final investors]. 2016. 7.

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