

BRI and the Countries of Southern Europe: The Risks for the European Markets and the Prospects for Southern Europe Development

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Abstract—The Belt and Road Initiative today is one of the biggest integrational projects in the world. It connects Asia, Africa and Europe, so it is no surprise that the European countries tend to assess their benefits and losses from taking part in it. The Southern European economies are willing to participate in the BRI, as it may bring them serious economic boosts; on the other hand, Brussels warns on dangers of BRI and sees numerous negative sides of such cooperation. The article is devoted to revealing the pros and cons of cooperation with BRI for Southern Europe, the real instruments that China possesses in this project and the motivation of Brussels position. The authors have revealed the main opportunities for the Southern European countries in BRI and the real dangers of such cooperation and proved that the dangers feared by Brussels do not correlate with the real ones.

Keywords—Southern European countries; BRI; dangers; instruments; development; FD; trade

I. INTRODUCTION

The Chinese Belt and Road Initiative (BRI) is one of the most ambitious projects of interregional cooperation in modern world. It encompasses a number of developing economies in Asia and Africa, especially the ones, which are in search of the drivers for economic development. China is the dominant player in the project, but it states that the Initiative is open to all the new participators, including the USA. In this way, China is on the way of proving, that BRI does not bear any harm to the economies of the countries, which take part in it [1].

Despite the numerous Chinese claims and proofs of the mutual beneficence of BRI, the EU countries treat it with cautiousness, Brussels plays a special role in this process. The reasons for this behavior will be described hereinafter. At the same time, many EU countries have already signed memorandums of understanding with China on BRI. Lately, Italy has joined this group of countries and offered assistance in the development of BRI in Europe. The EU has been divided by the attitude towards the project, the less developed countries and the countries suffering from harsh economic (mainly debt) problems seek support for their economies in BRI, while the more developed countries follow the strategy of cautiously negative attitude to the Initiative after Brussels [2].

The countries of Southern Europe are mainly new members of the EU, especially those, situated on the Balkan

peninsula, and have suffered from the EU debt crisis, experiencing low effectiveness of the EU anti-crisis mechanisms on their economies. This led to the social unrest concerning the positive influence of the EU institutions on their economies and provoked the search for new development drivers. BRI seems to be the best way to exit the crisis situation for them.

Taking the above into account, the authors reveal the true effect of BRI on the EU and on the Southern European countries. Hence, the aims of the research are to clarify the meaning of the tendencies in the Southern Europe to join BRI for the EU in general and to figure out whether the benefits for national economies are more important for the EU countries, than positive effect for the Union as a whole.

II. METHODOLOGY

In this article the authors research a specific region – Southern Europe, which includes the following countries: Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, and Spain.

The main method of the research includes revealing the instruments, which may be used by China in the promotion of the BRI and the fears of Brussels concerning the Initiative. The comparison of the two lists allows to conclude, whether the fears are relevant or not – in case the fear matches the instrument, it can be considered real, as in this case, China may have the motive and the possibility and the instrument of producing pressure on the EU countries.

The statistical analysis of the FDI flows between China and the EU and Southern European countries is conducted on base of linear smoothening for the EU forecasts, based on the period variables for neutral forecast, zero period + 1.75 period row for positive and zero period plus 0.75 period row for negative. Such trend of higher values for a positive scenario is explained by the hypothesis on a positive synergetic effect of BRI and the EU [3]. The forecasts for Southern Europe were made based on the ARIMA regression instrument in Gretl, with EU development scenarios as main variables and time as the second variable.

The authors give an opinion on the reasons for the Brussels negative attitude to the BRI, based on the analysis of the forecasts and on the effects that BRI can provide on the Southern Europe economies.

III. ANALYSIS OF THE BRI INSTRUMENTS IN SOUTHERN EUROPE

As we have already mentioned, BRI is positioned by China as an open initiative that can be transformed according to the needs of its participators. In addition to that, China also denies that it forces the BRI member countries to adapt its vision of cooperation, institutes and standards. If it is true, the key instruments left for China to promote its interests and to enlarge the number of countries, participating in BRI are economic and financial.

- Foreign direct investment (FDI) in the countries, participating in BRI, or considering their participation, is one of the best ways to stimulate the needed decision in the specific country. In addition to that, FDI allows the Chinese companies to penetrate the local markets and to enlarge the Chinese presence in the region.
- The investments in the most problematic spheres of economy of a recipient country, for instance, the majority of the developing economies suffer from the low quality of infrastructure, so the investment in such a sphere can push the country to a decision, profitable for China.
- Support to the country provided by the China-established Asian Infrastructure Investment Bank, which services the BRI projects and attracts money to the projects under the BRI framework.
- The significant help to the local financial system development from the Chinese transnational banks. The less developed countries suffer from the lack of access to the financial services, so the Chinese banks provide them the opportunity to cooperate with one of the best-developed banking systems – the Chinese one. This, for sure, brings major benefits to the Chinese banks, but in addition to that, it stimulates the development of the local economy.

It is notable that there are several fields, which lie out of the economic sphere, but are used by China to achieve its goals in the partner countries. These actions do not have such a high importance, as the previous ones, but are interesting in the context of the research of the fears of Brussel.

- Political, social and cultural cooperation. This sphere is the most sophisticated and almost no clear and secure information can be provided on it, but the probability of the Chinese influence of a number of developing economies through the personal influence on their leaders or establishment and on the political elites of these countries is high [4]. In this article this point will be missed out, as no relevant proof has been found by the authors.
- The technological pressure. This aspect is a new word in the political technologies, but China actively uses it through the promotion of the hi-tech infrastructure development, serviced by its companies, with the intention of further pressure on them through the new contracts in the same sphere signed only on terms of some actions fulfilment that is beneficial for China [5].

These instruments do not include the instruments of direct pressure on the countries involved in BRI. The main fears

expressed by Brussels on the BRI development in Europe are the following:

- The significant rise of the indebtedness of the EU countries by the ways of receiving credits and support from China (at the same time, the less developed EU countries get majorly indebted by the cooperation with other EU economies) [6].
- The high political risks of such cooperation for the promotion of democratic values in the EU.
- The low ecological and security standards, promoted by BRI via corporate cooperation.
- The dangers for the EU disintegration (or division into supporters and foes of BRI).

Still, the instrument of China in the framework of BRI are relatively scarce, compared to the EU instruments, so the main reason for such behavior of Brussels lies in another sphere – the political one.

IV. MEANING OF THE BRI FOR SOUTHERN EUROPE

The Southern Europe countries, especially, Greece, Italy and Spain have faced severe debt problems during the 2012 European debt crisis. After that, the European financial system has formed a negative attitude to the support of the financial development of these countries. The Junkers plan has temporary failed in the region and the economies of the named states have not managed to overcome depression. The other economies of Southern Europe need support for their economic development as they face the slowdown in their development [7]. BRI is the way for them to gain access to the Asian financial markets and to establish tight trade connections, as the European markets have higher entrance barriers than the Asian ones. It is especially true in the context of the development of cooperation with the ASEAN countries, or signing the free trade agreement with customs unions in Asia (for instance, the Eurasian Economic Union). In this article we assess the two main aspects of the cooperation of Southern Europe countries and BRI – FDI and international trade. Generally, the Chinese FDI in Europe has been decreasing lately, so in order to assess the main trends of the FDI in Southern Europe we have formed the three scenarios of the Chinese FDI dynamic to Europe – the neutral one, positive and negative. The dynamics and forecasts of the FDI export from China to the named countries is presented in Fig. 1.

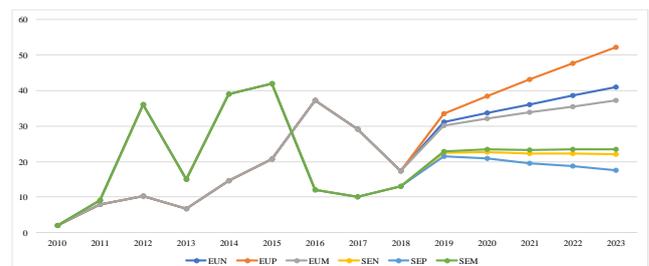


Fig. 1. FDI data and forecasts. ^a

^a EUN, EUP and EUM are the forecasts for the Chinese FDI in EU-28, SEN, SEP and SEM are the forecasts for FDI Southern European countries, where the last letter N stands for neutral, P for positive and M for negative scenarios.

Source: developed by the authors, based on [8].

Fig. 1 demonstrates the overall stable growth of the Chinese investments in EU, and the low rate of growth for the Southern Europe countries, with considerable chances for the gradual decline in their share of investments to the EU.

When speaking about trade relations between China and the countries of Southern Europe, it is necessary to say that the Chinese companies conduct a mighty policy of expansion all over the world. Furthermore, the Chinese trade with other countries should be regarded with respect to the “made in China” effect, when the majority of goods has been manufactured, at least partially, in China. In case of Southern Europe this observation is true enough, but as the exports of the Balkan countries, for instance, are mainly represented by services and unique goods of local origin, and Greek export is similar to the Balkan, Chinese participation in the global value-added chains with the named countries is quite low. The dynamic of the Chinese trade with Southern Europe is presented in Fig. 2.

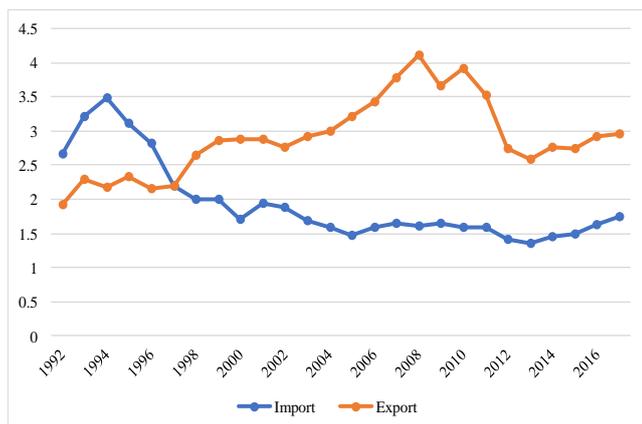


Fig. 2. Share of the Chinese trade with Southern Europe countries.

Source: developed by the authors, based on [9].

Fig. 2 demonstrates that the share of the Chinese trade with the countries of Southern Europe is relatively stable and balances between 2.5–3% on average. Hence, the other fear of China conquering the EU market through active penetration and conquest of the Southern European markets proves to be unjustified.

V. DISCUSSION

The results above demonstrate that the total impact of the Chinese actions on the Southern European countries is weakly correlated with the Chinese presence in Europe – the dependency between the Chinese FDI in Southern Europe and in EU-28 is negative (the more China invests in EU-28, the lesser the share of its investments in Southern Europe is), The trade dynamic with the researched region does demonstrate 0.1% growth of the Chinese exports annually, but it is far slower than the growth of China–EU trade [11]. It is explained by the new options for trade provided by the BRI for the Asian and African countries that transport their goods through the Suez Channel via the Balkan peninsula and Italy to other European countries, and the Western African countries are doing the same via Spain.

The main characteristic of the Chinese participation in the economic relations with the countries of Southern Europe is

rationality – the modern world dictates that the most rational model of economic cooperation is mutual profits cooperation; that is why China offers the countries of Southern Europe the options to develop their economies in alternative way through the instruments of BRI.

The key benefits for the countries of Southern Europe from BRI are the following:

- The development of infrastructure with the help of BRI investments.
- The cooperation on trade standards development, allowing the researched countries to have more benefits from trade with China.
- The cooperation with the Chinese high-tech companies and implementation of their solutions in the national economies.
- Higher possibilities for economic development through better trade conditions.
- Faster economy development via the investment instruments of BRI.

There is no doubt that the dangers of this cooperation exist and are mainly about the deep penetration of the Chinese companies on the local markets. In addition to that, the countries of Southern Europe (except for Italy and Spain) do not have mighty financial systems, so the Chinese banks can easily conquer the local financial markets and through this dictate the economic policy on the open markets (the markets of the European countries for now are relatively open). The other danger is sinoization, which can be disseminated in the countries with loose ties to the European culture and values. Still, this danger is true for the integration in the EU too – Brussels forces the EU countries to accept the European economic and social institutions transforming the culture of the countries too. The newcomers to the EU are still to feel it in the nearest future (refers to the Southern European countries) [10].

The main fears promoted by the Brussels concerning the BRI in Europe are provoked by other reasons. First of all, the EU is losing economic drivers and due to historic and economic factors the countries of Southern Europe are the first to engage in conflicts with each other, especially in the Balkan region. The local conflicts will endanger the stability of the EU, which will not be able to control them without the serious economic and financial support to all the parties. In current conditions such kind of support is unaffordable to Europe (the failure of the Juncker plan is a proof for this). At the same time, China is capable to provide enough resources to form a block of countries supporting it in Europe and ruining the efforts of the Union to conduct a policy of Chinese deterrence. This policy pursues the interests of the EU multinational companies, which benefit from the pre-divided EU market. In addition to that, it distorts the common USA – EU policy of counteracting China and Russia in all fields.

In this regard, the main reasons for the anti-BRI policy of the EU lies in the field of political, not economic matters.

VI. CONCLUSION

The Belt and Road Initiative can contribute greatly to the development of the Southern European countries. It allows

them to count on stable FDI inflow and trade development, while the cooperation with the EU cannot provide the same benefits. At the same time, the cooperation with the EU allows the named countries to adopt the best European Union economic and legislative practices, which BRI lacks.

The impact of BRI on the EU is much greater on a level of Europe in general, as the contribution of Southern Europe to the FDI flows between the EU and China and the trade between the EU and BRI countries stays relatively low. At the same time, the economic effects of BRI in Southern Europe are considerable.

BRI stimulates the economic development of the researched countries, but provides basis for proving the ineffectiveness of the EU mechanisms of development in Southern Europe – this leads to the general negative attitude of Brussels to the project. At the same time, a number of European countries ignore the official position of the EU authorities and have signed different kinds of deals with the Chinese companies in the framework of BRI. The countries of Southern Europe have fallen under the biggest pressure from Brussels due to the weakness of their representation in the EU organs, and weaker economic development, compared to the EU leaders. The national benefits of the leading EU economies prevail over the common EU good, but when the less developed economies of the EU get in the same position, they are denounced.

The dangers, put forward by Brussels are not the main issues with BRI project, as its main threats for European economies lies in the sphere of corporate interactions. In addition to the mentioned, the other EU issues form a good basis for the formation of “Europe of two paces” integration model and the cooperation of the Southern European countries with BRI may be just the motive for beginning the process of the European integration transformation process.

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