

China invests billions in Eastern Europe, heightening tensions with Germany

By Peter Schwarz
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Chinese investments in Eastern Europe have met with strong criticism from the European Union. Germany in particular views the rapidly expanding Asian economic power as a rival rather than a partner.

The sixth summit of the so-called 16 plus 1 Cooperation took place in Budapest on Monday and Tuesday. It was attended by Chinese Prime Minister Li Keqiang and included some 1,000 businesspeople.

Li committed to providing \$3 billion in investments and development projects for Eastern Europe. He signed 11 bilateral agreements with Hungarian Prime Minister Viktor Orban alone.

Founded in 2012, the 16 plus 1 Cooperation comprises China and the states of the former Soviet-dominated Eastern Bloc. Eleven of its participants are also members of the European Union, while five Balkan states are not.

China's Cooperation with Eastern and Central European states (CEEC) is part of its New Silk Road strategy, also known as "One Belt, One Road" (OBOR), which includes major investments in transportation and economic projects along trade routes between China and Europe.

The most important project agreed at this week's summit was the building of a new railway link from Budapest to the Serbian capital Belgrade. Eighty-five percent of the \$2.1 billion project will be financed by China's Exim Bank. It will link the Greek port of Piraeus, which is under majority control of the Chinese supplier Cosco, to the European rail network. Additional rail and road projects in the Balkans will also be financed by China.

Investment and trade between China and Eastern Europe has grown rapidly within the framework of the 16 plus 1 Cooperation. Total trade grew by 86 percent from 2009 to 2014, to \$100 billion. The percentage of

Chinese imports to the region rose from less than 2 percent to more than 6 percent. Hungary and the Czech Republic now import more goods from the Far East than they do from France, Italy or the Netherlands.

Current Chinese investments in the region total between \$6 billion and \$8 billion. The Washington-based CSIS think tank estimated that planned Chinese investments amount to \$15 billion.

This remains, as before, a small percentage of the total. In Poland alone, total foreign direct investment is \$200 billion, and EU budget transfers for the period 2014-2020 to the Visegrad states—Poland, Czech Republic, Slovakia and Hungary—total up to €150 billion.

The Chinese leadership constantly stresses that its engagement in Eastern Europe is not aimed at challenging the EU's interests. At last year's meeting of the 16 plus 1 Cooperation in the Latvian capital Riga, Li Keqiang stated that the Cooperation is aimed at strengthening peace and stability and developing cooperation between China and the EU. China has an interest in a united, prosperous and stable Europe, he added.

However, Brussels and Berlin see things differently. German Foreign Minister Sigmar Gabriel warned this summer of a division of Europe by China. He described the silk road initiative as a major geopolitical, cultural, economic and ultimately military strategy with which the EU cannot at present compete.

Bernd Lange, chairman of the Trade Committee in the European Parliament, expressed a similar view. "China's investments in Eastern Europe contain the danger of a deepening division of the EU," the German Social Democratic Party politician warned. The fear is that China, with the many billions at its disposal, is "buying influence over European politics."

In a comment titled “China tames Eastern Europe,” the *Süddeutsche Zeitung* noted, “The issue at stake in the conflict with China is nothing less than Europe’s self-assertion.” The newspaper accused the Chinese government of exploiting the “weak spots and dividing lines in Europe” to secure a route into the EU “that does not lead through Brussels.” As in Asia, Africa and Latin America, China also intends in Europe to “satisfy its claim for global power by expanding economically.”

Following the restoration of capitalism, Eastern Europe served for some time as the backyard of Germany and other Western European powers. Corrupt regimes supported by the EU destroyed social services and the education system, while Western European companies exploited well educated workers at poverty wages that often amounted to less than a third of wages in the West.

Right-wing forces, by distancing themselves from Brussels, have exploited the sustained social decline to direct growing anger into nationalist channels. In Hungary, Poland and the Czech Republic, such parties are now in power. For Hungarian Prime Minister Orbán, the state visit from China offered a welcome opportunity to demonstrate his independence from the EU. Berlin and Brussels reacted with outrage.

However, China’s advance into Eastern Europe is only one reason for growing tensions. The German government cooperated closely with China for some time, including by holding regular government consultations since 2011 so as to deepen collaboration. China is the most important sales market for Germany’s machinery and auto industries. Volkswagen, Germany’s largest auto concern, sells more vehicles in China than in Germany.

But Berlin’s attitude has changed since Chinese companies have caught up technologically and begun competing with German firms on the world market and purchasing German companies. While German direct investment in China was several times higher than Chinese investment in Germany in 2015, last year saw a sudden reversal of this trend.

Berlin reacted especially aggressively to the purchase of German hi-tech firms by Chinese companies. After a Chinese firm bought the robot and equipment manufacturer Kuka, the German government adopted a provision last summer enabling it to block similar

takeovers in the future.

In the final analysis, the growing tensions between Beijing, Brussels and Berlin are a product of the intensification of trade war measures that have assumed new global dimensions with Washington’s adoption of Donald Trump’s “America First” policies. The imperialist powers, as they did a century ago, are responding to the global capitalist crisis with a bitter struggle for influence and markets, which is increasingly taking on military forms.

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