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Chapter 5

Untapped Instrument. Sovereign Wealth Funds and Chinese policy toward the Central and Eastern European countries

This chapter aims at looking at the role of Sovereign wealth funds (SWFs) in China's policy toward Central and Eastern European (CEE) countries in the 21st century, especially since the enlargement of the European Union (EU) in 2004. During this time, we could observe an increase of Chinese interest in the region resulting in growing trade, investments and number of contacts on all levels. China has used a wide array of different instruments to achieve its goals in the region: from a big political project such as the "16+1 format" to an unprecedented frequency of contacts between Chinese provinces and their European counterparts (Kaczmarek, Jakóbcowski 2015). Despite a visible growth of economic ties, Beijing presented a very limited will to use investments as a political instrument. Even if Chinese investments in CEE are booming, they are possibly less politically biased and more market-driven than those in other developing countries, like African ones.

The Chinese investment pattern is also different than in the old EU member states (EU-15). Although, similarly to the Western Europe, China's strategy mainly involves purchasing existing companies, rather than making large greenfield investments (Jakóbcowski 2015), Chinese foreign direct investments (FDI) are more greenfield than merger and acquisition (M&A)-oriented. Also strategic alliances have been much rarer in CEE than in the EU-15. Jacoby (2014) claims that this may prove that the Chinese in CEE are motivated more often by market access and less often by gaining access to technology and management practices, both of which are more available through M&A and/or strategic alliances with local firms. Such an approach of the Chinese could explain the very limited engagement of SWFs, which obviously are not interested in greenfield investments. This, however, raises the question about the role of the Chinese SWFs in CEE? Are they going to increase their engagement in the region together with maturing economic ties between China and the region? Could they serve as a convenient instrument of political pressure on CEE countries?

This chapter starts with an overview of Chinese policy toward CEE, its motivations, goals and methods. Then Chinese SWFs investments in CEE are presented against a background of their activities in the whole EU and the fact, that they are perceived as politically-biased. At the end, an analysis of the potential role of Chinese SWFs in the region and the risks linked with it is conducted.

5.1. Background of China-CEEC relations

While China traditionally has had friendly relations with Central and Eastern European countries, dating back to the establishment of the People's Republic of China in 1949, they were highly dependent on the overall state of China-Soviet relations. This resulted in almost three decades of practically frozen cooperation after a period of intensified and comprehensive relations during the 1950s. This fact, as well as internal difficulties in China, i.e. the Cultural Revolution, meant that the full potential of China-CEE relations could not be realized during the Cold War period. On the Chinese side, this historical legacy was also visible in the fact that CEE affairs were treated by state agencies together with Soviet issues, and geographically put together as Eurasian Affairs.

The end of the Cold War, the democratization and economic transformation of CEE countries opened new chapter in China's relations with the region. Unfortunately, the abovementioned processes coincided with internal problems in China. 9 June 1989 became a symbol in this matter, as it marked the subversion of the student protest in Tiananmen Square and the first semi-free parliamentary elections in Poland since World War Two. Although mutual interest did not disappear completely, the period immediately after 1989 was marked by a lack of trust between China and the newly democratized Central European countries.

China first tried to build its position in the region in the 1990s, but at that time cooperation with China was often used in internal political disputes. Many former democratic opposition members in CEE countries criticized, on moral grounds, post-Communist politicians who at that time were more eager to develop friendly relations with Beijing. On the other hand, one has to remember that in the last decade of the 20th century both sides had other political priorities than the development of China-CEE relations. Notably, in the CEE countries it was the EU and NATO accession that occupied their minds and used resources. Economically, both China and Central European countries were westwards oriented, and therefore generally did not perceive each other as attractive partners. Moreover, to a certain extent they became competitors among emerging markets (Zhu 2012).

It was not until the beginning of 21st century that China changed its perception of Central Europe. The EU enlargement in 2004 and the Eurozone crisis became major factors behind the change. The importance of the EU enlargement in 2004 for China-Central Europe relations rested both on Chinese

recognition of the positive impact of the process, and on the Central European countries' realization of strategic diplomatic goals regarding their entrance into the EU and NATO. This new situation opened space for cooperation as the new EU members had more resources to develop relations with more distant countries, and the economic benefits of EU membership brought new opportunities for cooperation with China. A report by the renowned China Institute of Contemporary International Relations published in November 2003 clearly stresses respect for the political choices made by CEE countries, acknowledging as well that both sides politically will not be strategic partners for each other (CICIR 2003). From this point CEE countries were also firmly treated by China as part of Europe (as opposed to Eurasia during the Cold War), and a new channel for conducting relations with them was opened. On the other hand, at that point China seemed to not have a specific policy for dealing with the whole region, although intensified interest was clearly visible.

It was only by the end of the decade that the second of the abovementioned factors took into effect. As states whose development are dependent on foreign investments and export, after 2008 CEE countries started to look for new markets and sources of capital. This new situation was also reflected in their stance on issues regarding EU-China relations, in general, they became more positive toward loosening protectionist measures (Cui 2013). By that time, China was also experiencing new challenges in its development strategy, as well as political relations with its neighbors. All this prompted China to develop a more structuralized approach to CEE, seen in Beijing as an area of new opportunity.

In the period after the first CEE countries entered the EU, economic and trade cooperation of the 16 CEE countries with China sped up, with the trade volume growing from USD 8.7 billion in 2003 to USD 55.1 billion in 2013. China's investment in CEEC¹ increased from less than 100 million USD to about 5 billion USD. CEE investment in China grew from USD 420 million to USD 1.2 billion (MoC PRC 2014). However, due to lack of reliable statistical data²,

1 China treats the following 16 countries as Central and Eastern Europe: Albania, Bosnia and Hercegovina (BiH), Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.

2 „Measurements of the flow of China's foreign direct investments are severely hampered by the significant involvement of offshore financial centres in these

estimations can noticeably differ in terms of actual size of Chinese investments (Jakóbowski 2015)

Although the overall volume of trade, investment as well as rapidly growing contacts, it is asymmetry that defines China-CEE relations. On one hand, it is trade asymmetry, as China became a major import partner for CEE countries, but one with which they have a huge trade imbalance. Although it has to be taken into consideration that after 2004, as CEE has been integrated with the global value chains of multinational firms that have also been developing rapidly in China as well, trade deficit with China is also linked with the transfer of productive factors within the mentioned chains. Nevertheless, trade deficit is often raised by CEE countries during high level political talks. Apart from economic issues, asymmetry is also clearly visible when it comes to overall potential of the interested countries. It can also be observed within CEE itself, where Poland is by far the largest country, and all four Visegrad Group countries dominate the rest (Kong 2014).

5.2. Goals of Chinese policy toward Central Europe

China's policy toward CEE needs to be put into a broader context of overall contemporary Chinese foreign policy, with serving national development of China as its main task since 1978. One of the major means of it was to forge strong links with the world economy as the internationalization of Chinese economy was seen as the key to the revival of China's position in international relations. While the "Go Out" strategy (more commonly known in the West as "Going Global") became part of the 10th Five-Year Plan (2000–2005) in 2001, it was not until the mid-2000s that Chinese companies, organizations and localities began to follow the government's encouragement to internationalize, whilst intensifying soft power initiatives (Shambaugh 2013). This was also evident in the rising interest in CEE that followed general trends of Chinese politics and economy, as it was not until the 11th plan for 2006–2010 that China's investment began to rise in CEE. At that time Chinese investors began to realize the investment potential of the region that was further

type of transactions, by cases of by-passing administrative restrictions imposed on capital flows using unofficial channels, and by deficiencies in statistical methodologies used" (Jakóbowski 2015).

strengthened by economic problems in the Eurozone. In terms of investment opportunities some observers in China began to use the term “window of opportunity” (Liu 2013).

More recent initiatives also seem to follow the common pattern. Since 2013 the new Chinese leadership under Xi Jinping started to actively promote the creation of “the Silk Road Economic Belt” and “21st Century Maritime Silk Road” (often described as “One Belt, One Road”) that would help in economic policy coordination, building transport links, free trade, use of local currencies and friendly people-to-people relations. These proposals, while targeted at foreign partners essentially seem to address the need for a change of the Chinese economic growth model and the development of Western China. Given their location, CEE countries can play an important role since the overland routes pass through Poland, while the maritime route from the Greek port of Piraeus could take a land passage through the Balkans and Hungary. Moreover, the areas of cooperation preferred by CEE countries, especially infrastructure development, are also priorities of the One Belt, One Road strategy (Liu 2014a). The role of CEE countries in the Silk Road Economic Belt is still being discussed, but it is already clear that at least for CEE many proposals were planned and announced much earlier and are being put into the Silk Road framework *ex post* (Li, Zhou 2014).

Politically, CEE’s role for Chinese foreign policy increased after the enlargement of the EU. Already in June 2004 during a state visit to Poland, Hungary and Romania Hu Jintao acknowledged the need to strengthen political dialogue and cooperation with new or soon to be EU members, as these countries by being part of the EU will have influence over issues all around the world (Zhu 2012). This is especially true for the Visegrad Group members, as it has been noticed in China that they possess “an intra-European Union voting weight equal to France and Germany combined” (Liu 2014). It also has to be noted that during the Crimean crisis in March 2014, Chinese foreign minister has a telephone consultation with his Polish counterpart.

To sum up, China’s actions in CEE are motivated by the national development of China. Because of this the goals set for Chinese policy reflect the current stage of domestic reforms as well as broader international initiatives. Therefore, in recent years the discussed countries started being considered as an entry point for Chinese investment in Europe and simultaneously a passage area on routes from China to Western Europe, both needed for the outward

movement of Chinese companies. Apart from direct effects visible in bilateral relations, the indirect influence on EU policy toward China can also be traced back in China-CEE interactions.

According to Chinese sources pragmatism, defined by the Chinese as focus on economic cooperation beneficial to all parties (often described in official documents as a “win-win situation”) is the main point of Chinese policy toward Central Europe, while risk avoidance and adhering to market rules are guiding principles (Liu 2013). Therefore, China looks for stable and predictable partners for cooperation. The size of the economy and overall potential also seem to play an important role. Very informative in this matter is a look at the “The rank and rating of CEECs’ investment environment” prepared at the Chinese Academy of Social Science, a leading Chinese think tank that also deals with the CEE issues (Table 5.1)³. Described as a “new designed framework for investment environment indicators from Chinese perspective” (Liu 2014) it emphasizes China’s specific requirements and investment preferences, notably weighing political factors highly (especially bilateral relations).

Comparing China’s relations with Hungary and Poland present an interesting case when it comes to political factors in Chinese considerations. Hungary has a long history of good relations with China, even in the 1990s the government was more open to cooperation with China, than in the neighboring countries, and is also home to the largest Chinese community in Central Europe. Especially since 2003 Hungarian authorities actively seek to enhance their relations with China and with the Viktor Orban coming to power in 2010 these were further intensified. Hungary was willing to become not only a Chinese economic hub in the region but also explored possibilities of very close comprehensive cooperation that to a certain extent could counterweight strained relations with Brussels. Poland on the contrary, was not only politically very distant from China, often bringing up issues sensitive to Beijing i.e. Tibet, but also relatively protectionist in economic matters as well (Fox, Godement 2009). Nevertheless, it was Poland that has practically been chosen as the most important partner which was evidenced by both the signing of strategic

3 Since the time of writing this book the position of some of the countries has most probably changed, i.e. the Czech Republic might have overtaken Hungary after the President of the Czech Republic Milos Zeman’s state visit to China in November 2014, which will possibly give rise to a relatively low mark for bilateral relations.

Table 5.1. The rank and rating of CEE countries investment environment (100 points)

Rank	Country	Score	Political environment	Economic environment	Social environment	Bilateral relations	Rating
1	Poland	88	24	18	18	28	Very good
2	Hungary	79	20	16	16	27	Good
3	Czech Republic	78	24	18	18	18	
4	Slovakia	77	24	16	16	21	
5	Romania	76	18	16	16	26	
6	Serbia	76	18	14	16	28	
7	Estonia	70	20	16	16	18	
8	Latvia	70	20	16	16	18	
9	Lithuania	70	20	16	16	18	
10	Croatia	68	20	14	16	18	
11	Bulgaria	67	18	14	15	20	
12	Slovenia	66	20	12	16	18	
13	Montenegro	65	18	14	15	18	
14	Macedonia	65	18	14	15	18	
15	Albania	64	17	14	15	18	
16	BiH	62	15	14	15	18	

Source: (Liu 2014).

partnership in 2011, as well as hosting the first China-CEE Cooperation Forum in Warsaw, 2012.

China chose Poland due to the size of its economy, good conditions during the Eurozone crisis and political stability. All of these mentioned elements helped to strengthen Poland's role in the EU as well, a fact that was not insignificant for China. Hungary under President Orbán was perceived as too uncertain, both economically and politically, to become a strategic partner. Specifically, relations between the Hungarian government and EU institutions could potentially put at risk Chinese interests. Internal difficulties in administrative coordination also might have played a role (Kałan 2012).

5.2.1. European and regional look (16+1 format)

Apart from the abovementioned focus on economic cooperation, pragmatism as understood by China is also a combination of the “European point of view” (*Ouzhou shijiao*) and “Central and Eastern Europe regional pattern” (*Zhongdongou diqu fangshi*). The former refers to the already mentioned acknowledgement of CEE orientation in the EU, and the subsequent treatment of this region by Beijing as part of its broader European policy. The latter is more often described in the West as the “16+1 format” according to which China is willing to conduct its relations together with the 16 CEE countries. By doing so China shows that CEE countries are not only considered part of Europe, but a part of Europe that deserves special attention so that Chinese policies and initiatives could catch up with those developed earlier with other parts of the EU (Scandinavia, West and South Europe). It also appears that China realizes that those among the 16 CEE countries that are currently not part of the EU eventually will become members, or at least their policies will continue to be Brussels oriented.

The “16+1 format” deserves special attention as it became the first comprehensive Chinese strategy aimed at all of the countries in that the region. The first signs of China's new approach and introduction of the “16+1 format” could be observed in June 2011 when the China-Central and Eastern European Countries Economic and Trade Forum was organized in Budapest. During the event the former Chinese Premier Wen Jiabao made five proposals on increasing bilateral trade, increasing two-way investments, enhancing infrastructure construction cooperation, deepening fiscal and financial

cooperation, as well as expanding people-to-people and cultural exchanges. Although the Premier opened the Budapest event personally, it was not until 2012 in Warsaw that it took the form of a summit attended by the heads of government. At that point it was already clear that China had chosen the so-called “16+1” format when dealing with the region.

In 2012 original proposals made by Wen in Budapest were developed into the so-called 12 cooperation measures for China-Central Europe cooperation. This list of initiatives, mostly in the economic sphere, was to put a new dynamic in it. Among them were pledges to open a USD 10 billion credit line for cooperation projects as well as a USD 500 million investment fund. It is important to note that the measures were formally a one-side declaration by China, and while welcomed by the 16 countries, they did not fully reflect their expectations. This divergence became evident soon after the meeting as more details were disclosed. And only were some of the proposed measures not attractive for a few countries (notably the EU members who were not allowed to provide special treatment for Chinese companies), but the overall development raised concerns in Brussels that the new initiative was undermining EU’s policy toward China.

The new Chinese Premier Li Keqiang confirmed the previously taken path in Bucharest, in November 2013. At the meeting, “The Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries” were signed by all 17 parties and proposals of both China and CEE countries were put on agenda. This shows that the new platform improved and used the experiences of the previous year, as well as the fact that it is also used for bilateral relations between individual states and China. The guidelines, apart from outlining several specific initiatives to be taken up during 2014, focused on creating joint mechanisms of cooperation in particular fields and further learning about possible cooperation and expectations. Out of 8 points, 6 were related to the economic sphere. The guidelines also addressed concerns related to the EU by committing to follow EU law.

It was also in 2014 that one of the proposals raised by Wen Jiabao in Warsaw, namely the establishment of the China-CEE Investment Cooperation Fund with the initial capital of USD 500 million, was finalized. The Fund was eventually established by China Exim Bank in partnership with other institutional investors from CEE, and Warsaw based CEE-Equity Partners Ltd became the investment advisor. It is interested in projects typically

requiring USD 25–75 million of equity with larger transactions also financed with partners or with bank debt. The first investment was announced in September 2014 and together with two partners was aimed at three wind power projects in Poland (CEE Equity Partners).

In December 2014 the third meeting took place in Belgrade. Like in Bucharest, the meeting resulted in signing the Belgrade guidelines for cooperation. Further developing ideas announced a year before, economy still dominated with improving connectivity and logistics on top of the list. This, together with the declaration that a medium-term cooperation agenda will be discussed in 2015 showed that the format is evolving into a more matured form, with a growing number of common initiatives (Belgrade Guidelines 2014). Apart from the guidelines, Premier Li Keqiang pledged that China will establish a new investment fund worth USD 3 billion, that will take advantage of public-private partnerships and leasing, forms of investment that CEE countries seek but are not so appealing to China (Tanjung 2014a). “Despite the general success of the Meeting, there were setbacks as well. The signing of the two agreements on HSR [Belgrade-Budapest High-Speed Railway] appear to be a face-saving exercise: the final contract – previously expected to be signed in Belgrade – did not materialize since the involved parties could not reach an agreement on the modality of financing” (Pavličević 2014).

In general, the “16+1 format” was also seen in China as a means toward overcoming the asymmetry problem by conducting relations with a single bloc. The problem is that while China treats these 16 countries together, those countries do not constitute a unified group. Moreover, even in their relations with China under the “16+1 format” these countries perceive each other rather as competitors for Chinese investment and business opportunities. Even with mechanism developed in 2014 “there is also reluctance to institutionalize the 16+1 format. For CEE, it is 16 bilateral dialogues, while new mechanisms are instruments facilitating contacts rather than institutions, as they do not have internal structure or budget” (Szczudlik-Tatar 2014). The Chinese are already aware of the fact that because of the differences among the 16 countries future relations would be more like “one country toward many sides” (*yiguo dui duobian*) rather than one country toward a single bloc (Liu 2013).

It also appears that a very important part of the “16+1 format” was policy coordination on the Chinese side. In 2012 the Secretariat for Cooperation between China and Central and Eastern European Countries was established

in Beijing⁴. It is “mainly responsible for coordinating Chinese institutions, implementing the outcome of the leaders’ meeting through the collaboration with the authorities of the 16 CEE countries, planning key directions and priorities for future cooperation between China and CEE countries, and organizing and promoting the work of the Secretariat.” The creation of such a body not only helped in the abovementioned areas but also gave a clear sign to central government ministries and agencies, local governments and state owned companies that development of relations with CEE partners is accepted by the highest authorities.

It has to be mentioned that cooperation is not only conducted on the central level as Chinese local governments are also playing an increasingly important role. Interestingly their behavior often follow the patterns of relations on the central level (i.e. they initiate projects that Central European partners respond to). The “16+1 format” has been used at this level as well, notably with the Local Leaders Forum organized in Chongqing and Prague. Relations between cities, CEE regions and China are a fast growing phenomenon but their potential has not been yet fully realized.

The “16+1 format” did raise suspicion in Brussels though, with the EU worrying that China wants to divide its members. It seems that, among others, it was a matter of communication as after the initial discussions on that issue in 2012 it appears to have been solved. Both Bucharest and Belgrade guidelines addressed this issue explicitly by both declaring that the cooperation is contributing to the EU-China partnership, and in the case of EU members it will be conducted with respect to EU laws and regulations. In Belgrade Premier Li Keqiang specifically mentioned that “China supports the European

4 The Secretariat consists of 18 member units and they are: the Ministry of Foreign Affairs; International Liaison Department of the Central Committee of the Communist Party of China; National Development and Reform Commission; Ministry of Education; Ministry of Science and Technology; Ministry of Finance; Ministry of Transport (including National Railway Administration); Ministry of Agriculture; Ministry of Commerce; Ministry of Culture; People’s Bank; General Administration of Press and Publication, Radio, Film and Television; National Tourism Administration; Civil Aviation Administration; Central Committee of the Communist Youth League of China; Council for the Promotion of International Trade; Development Bank; and Export-Import Bank. The Secretariat office is located in the department of European Affairs of China’s Foreign Ministry to handle daily affairs.

integration process,” “China’s cooperation with the 16 CEECs will not result in fragmenting the European Union [...] it will help deepen cooperation between China and the European Union,” and “China-CEEC cooperation is undoubtedly part and parcel of China-Europe cooperation, and the two could naturally go in parallel and be mutually reinforcing” (Tanjung 2014b).

Addressing the needs brought up by CEECs, China has already announced a series of measures to facilitate trade relations with the region i.e. the hosting of round table meetings with commerce ministers, exhibition CEE products in China and running of an agricultural and trade forum. However, these kind of actions will take some time to bear fruit, reflecting the issue of trade imbalances brought by the CEE countries.

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After a period of mutual disengagement, the EU Eastwards expansion as well the Eurozone crisis opened new perspectives for China-CEE relations that resulted in high dynamics of cooperation. A gradual and rather cautious Chinese policy, meant to learn the new situation and explore opportunities, has been the major factor of the change. China had the initiating role, including decisions on key partners and methods (16+1) with CEECs initially only responding to it, and then gradually putting forward their own proposals. The “16+1 format” revealed more structured approach to the region, being firmly a part of broader European policy.

Consequently, especially since 2011, Central Europe has experienced China’s comprehensive offensive into the region. It was focused mainly on the Visegrad Group members, Romania and Serbia, with economic cooperation being the major area of interaction and political and public diplomacy aspects playing a supportive role. It has to be stressed though that China’s internal development plays an important role as well, which is also clearly visible in new Chinese proposals like the Silk Road Economic Belt and 21st Century Maritime Silk Road. It is yet hard to decide on the effects of Chinese policy toward the region, mostly because at the time of writing this piece there were few examples of visible impact. However, expectations, especially on the side of the new export market and investment seeking CEECs, are high.

Finally, a particular aspect of Chinese policy toward CEECs should also be noted. One can argue that better mutual understanding can also be an important

goal of the policy. Given the fact that for many years there have been very little working level contacts, and the general understanding expectations is low, then this could have a profound impact on China's policy in the future. Special coordination mechanisms for Chinese institutions engaged in contacts with CEECs, as well as sectorial China-CEEC cooperation mechanisms that follow the "16+1 format" bring forward some new potential for development.

5.3. Chinese SWFs' investments in Europe

The People's Republic of China has several public investment vehicles but among them two major SWFs can be indicated. The first is China Investment Corporation (CIC) formally established in September 2007 to manage and diversify Chinese foreign exchange reserves beyond its traditional investments in dollar-denominated bonds. This is a flagship fund, officially acknowledged as a SWF. The second is SAFE Investment Company (SIC), a Hong Kong based subsidiary of the State Administration for Foreign Exchange (SAFE). This institution is primarily responsible for the management of Chinese foreign exchange. On the contrary to CIC, SIC is much more obscure, and China has repeatedly refused to acknowledge its existence until it was confronted with incontrovertible evidence collected amid a media probe in 2008 (Anderlini 2008). Both funds have a total of USD 1.2 trillion under management (SWF Institute 2014).

The characteristics of investment patterns and performance of the two largest Chinese SWFs indicate that they are tools of the state's "Go Global" strategy and the politics of maintaining raw materials and energy security. Through SWFs, China invests in projects related to its political goals (Norris 2016; Cieřlik 2014). Therefore, they are widely viewed as highly politicized and run in an obscure fashion, which has triggered a debate in Western countries as to whether the SWFs might serve as a source of market stability or as a potential threat to Europe (Bu 2010).

The debate about these SWFs has been echoed in a wider debate on rising Chinese investment and its potential consequences for the European Union. The problem has attracted the attention of business consultants (Hanemann, Rosen 2012) as well as academics (Meunier 2014; Zhang, v.d. Buckle 2014) and finally politicians – e.g. research studies on this topic have been ordered by the European Commission (Apoteker 2012; Clegg, Voss 2012). The majority

of voices in the debate sounds rather soothing. Despite growing concerns among EU member states over the rising Chinese presence in Europe, there is no evidence that it threatens security in any way. Chinese investments activities are still limited in number and value and have a rather positive (if any) influence on the European economy and markets (Kamiński 2014).

As far as SWF investments in the EU are concerned, it is noticeable that their value has also remained rather low. After a buying spree in 2008 when China snapped up USD 8.4 billion worth of European “troubled assets,” annual exposure in the subsequent years has hovered below USD 5 billion (Figure 5.1).

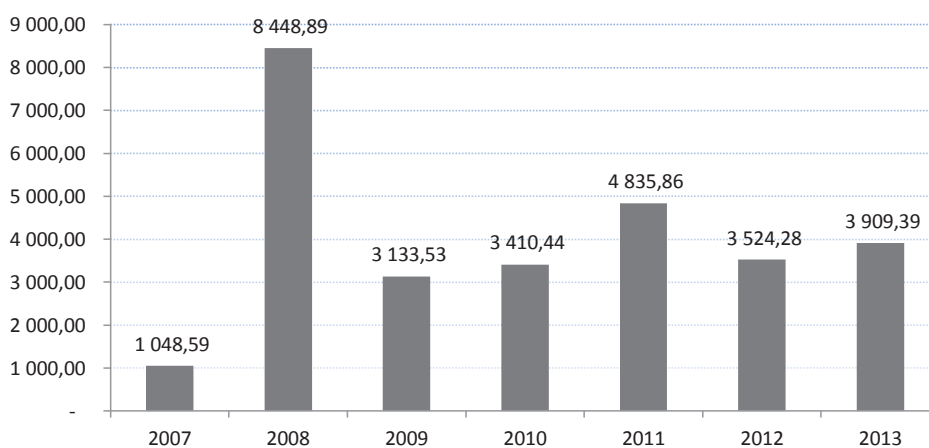


Figure 5.1. The value of Chinese SWF investments in the EU in 2007–2013 (in USD million)

Source: own calculations based on SWF Institute Transaction Database and SWF Center Transaction Database [accessed: 20.08.2014].

The value seems particularly unassuming, relative to the size of all SWF investments allocated to Europe. From 2007 to August 2014 they have totaled approximately USD 248 billion. This is significant if compared to other alternative investors (e.g. private equity funds whose routine investment strategy also involves acquisitions of shares or stakes in companies). Private equity vehicles allocated about USD 401 billion in 2007–2013 (EVCA Yearbook 2013). Chinese funds, with slightly more than USD 29 billion, are responsible for less than 12% of the value of SWF investments, on a par with Singapore (about USD 33 billion) and the United Arab Emirates (UAE) (about USD 29 billion).

As shown in Table 5.2, the United Kingdom (UK) attracted more than 60% of Chinese SWF investments. When combined with France, we see

the vast majority (more than 90%) of SWF activity revolves around those two economies. Interestingly, Germany has managed to lure a relatively puny proportion of Chinese SWF commitments, given its undisputable status as the most powerful economy in Europe. Perhaps it is due to the relatively lukewarm approach to SWFs adopted so far by Chancellor Angela Merkel's cabinet. In 2009, Germany passed a law authorizing the government to bar non-EU investments in German companies greater than 25% if deemed a "public order and security" risk (Chaisse 2012). Although this regulation is broadly in line with similar rules already in force in the UK and France – Germany enacted it in a knee-jerk reaction to the rapid proliferation of SWFs.

Table 5.2. Chinese SWFs' investments in the EU member states (2007–Aug 2014) USD million

Country	Value	Share in total
UK	18,905.08	64.00%
Netherlands	1,517.88	5.14%
Germany	484.97	1.64%
France	8,391.75	28.41%
Other states	241.15	0.82%
Total	29,540.83	100.00%

Source: own calculations based on SWF Institute Transaction Database and SWF Center Transaction Database [accessed: 20.08.2014].

Due to the limited magnitude of Chinese SWF investments in comparison with all SWF acquisitions undertaken so far in the EU, the resultant share in the overall SWF portfolio allocated to Europe has remained low. In none of the member states, except for France, China has ranked as a major SWF investor (Table 5.2).

Chinese SWFs invest in Europe directly or through subsidiaries (sometimes in the form of Special Purposes Vehicles). For example, CIC has set up subsidiaries such as Best Investment Corporation or Stable Investment Corporation. Behind some of SAFE's investments in Europe stands Gingko Tree Investment Ltd. a subsidiary specializing in real estate acquisitions and registered in London. However, Gingko does not always invest directly, moving to set up its own subsidiaries. Such a practice makes monitoring Chinese SWF investments a highly complex effort (MacMahon, Wei 2013).

Table 5.3. Chinese SWF investments in EU member states in comparison with all SWF investments (2007–Aug 2014) in USD million

Country	All SWFs	China	Chinese share
UK	11,9202.5	18,905.08	15.86%
Spain	16,416.48	0.00	0.00%
Netherlands	9,489.79	1,517.88	15.99%
Italy	10,232.17	0.00	0.00%
Germany	50,661.46	484.97	0.96%
France	28,142.72	8391.75	29.82%
Others	14,047.96	241.15	1.72%
Total	248,193.08	29,540.83	11.90%

Source: own calculations based on SWF Institute Transaction Database and SWF Center Transaction Database [accessed: 20.08.2014].

There is obviously a question to what extent are Chinese investment activities subordinated to a state's foreign policy goals. Academics tend to agree that the link between Chinese outward investments and the political objectives is close and that Chinese companies are often instruments used to implement Beijing's foreign policy (Norris 2016; Pietrasiak et al. 2014; Freeman 2013). The best examples are large infrastructure projects that are included in Chinese foreign aid in third world countries. They are usually financed by Chinese banks and constructed by Chinese companies.

However, the aforementioned studies on Chinese investment in Europe seem to demonstrate that, so far, their political dimension has not been significant and none of the EU countries is seen as being "in China's pocket." Primarily, the scale of Chinese investment in Europe is still rather limited. Even if the growth of the volume of Chinese investment might be impressive, the share of Chinese firms in the European market remains marginal. Obviously, if the rapid growth of the investments turns out to be sustainable, the political pressure on Europe will grow.

5.4. Chinese SWFs in CEEC and potential methods of their political use

As far as CEE is concerned, very little is known about the Chinese SWF investments in those countries. There were a few official announcements and declaration of interests, but not many transactions materialized. For example,

according to Reuters (2012) CIC has signed a deal with Poland's investment body, the Polish Information and Foreign Investment Agency (PAIiIZ), that could see China's SWF snap up assets in the coming years. "As for the size of their investments, the sky is the limit," PAIiIZ chief Slawomir Majman commented to Reuters. But two years later, in November 2014, according to a PAIiIZ official communicate on the website, a CIC representative stated that they had only "explored" the potential of Poland during his meeting with Mr Majman. Hitherto, there has been no single CIC acquisition in Poland revealed, however, Gao Xiqing, the former president of CIC, admitted in May 2013 that the fund had already invested around USD 1 billion in Polish listed companies (Rożyński 2013). The executive did not give any more precise data concerning these investments and this information has not been confirmed by other sources.

The largest transaction in CEE, with participation of a Chinese SWF, was the sale of the Silesia City Center shopping mall in southern Poland's industrial city of Katowice for EUR 412 million. It was bought by a consortium headed by Germany's Allianz Real Estate, which also includes Chinese Ginkgo, the subsidiary of Chinese SAFE (Property Investor Europe 2015; Cienski 2014).

Even if we do not know the exact value of Chinese SWF investments in CEE, we can estimate that it is low in comparison to Western Europe. The whole region has not managed to attract much Chinese money, even if particular countries have tried. Apart from the already mentioned case of Poland, a Czech minister has also met with the head of the CIC (Richter 2014) but with no effect so far.

This situation can change in the near future. CIC, or precisely its subsidiary CIC Capital, may have received USD 100 billion from a Ministry of Finance (MOF) bond issued in part for overseas direct investment in the framework of the One Belt, One Road initiative (Hsu 2015). CEECs are an important part of this Chinese program and due to this fact may attract some SWFs investments.

Even if until now the Chinese SWFs investments in CEE are not significant in terms of value, we could easily point out at least four methods of potential political usage of SWFs in the future. First of all, China could directly exploit its SWFs in so-called "chequebook diplomacy," aiming at pressuring a CEEC to behave in a way that is in line with Chinese interests. As Costa Rica's case has shown, described in Chapter 2, China is able to use its foreign exchange reserves to reach political goals. Small countries of CEE are particularly vulnerable to such a pressure.

Secondly, China could pressure CEE countries with the threats of disinvestment from the region. Due to the fact, that real value of SWFs pocket investments are not really known, Beijing could politically use this method even without great financial involvement. The announcement of disinvestment, refraining from investing in CEE or simply a lack of confidence in CEE markets, could entail great financial losses. Therefore, governments could be vulnerable to pressures from the Chinese side.

Thirdly, Chinese SWFs could take stakes in companies that are strategically important for the CEE states. Even if unable to control them, they could have enough shares to install their representatives on boards. That would give them an opportunity to have access to company secrets. Those secrets could then be passed on to Chinese competitors or used in any other way in line with the China's interests.

Finally, SWFs could be valuable tool in building a positive image of China. For the purposes of public diplomacy, it is very profitable to present China as an engaged and responsible investor, ready to salvage in case of crisis (Godemont, Parello-Plesner 2011). The above mentioned, unverifiable claims of Gao Xiqing about the USD 1 billion investment in Poland could serve as a good example of such a behavior.

Conclusions

Central and Eastern Europe is playing a more and more important role in Chinese policy. After decades of a mutual lack of interest, as well as lack of trust, China-CEEC relations have not only seen increased and deepened contacts, but also institutionalization and development of new cooperation formats. However, the relative novelty, as well as high dynamics in the creation of new initiatives, make it hard to provide any final judgments. Trends seem to be undisputable, but the mentioned deficits in knowledge and experience result in policies not always suitable for particular countries. It has to be mentioned though, that Chinese decision makers already started to take into consideration the variety of conditions in all 16 CEECs.

Beijing tries to use a variety of political instruments to reach their goals in CEE. Until now, the state's capital pooled in SWFs belongs to the group of the tools that are not frequently used in the region. However, assets of Chinese SWFs are rising and one can expect that in future they will more

often explore investment opportunities in CEECs. Increased engagement in the region gives China a convenient instrument of political pressure on the states in the region. That is going to be a great challenge for CEE governments due to the fact that today it is in principle impossible to close the doors on the capital market for Chinese funds. Their money is needed and their long term investment perspective can serve as a stabilizer for unstable stock exchanges and provide them with the necessary liquidity. On the other hand, so long as it is the state's capital one has to remember that behind this capital stands a powerful country with its interests and ambitions.

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