Economic Dynamics and Integration in Eastern Europe and Asia

Lecture
Winter semester 2017/18

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• Summary

• The Silk Road Economic Belt and 21st Century Maritime Silk Road (BRI)

• EU-Sino Relations & Future Development
Drivers of Economic Integration

EU

• Fully integrated both politically and economically

• Focused on setting institutions and procedures to integrate economies

• Intraregional trade and finance were key drivers of economic integration

• Economic integration was one of the drivers of the Financial crisis

Asia

• “soft integration”/ soft regionalism

• Market-driven integration, integration without institutionalisation

• International trade and finance were key drivers of economic integration

• The Asia Financial Crisis was one of the drivers of economic integration
The Silk Road Economic Belt and 21st Century Maritime Silk Road (BRI)
The Silk Road Economic Belt and 21st Century Maritime Silk Road (BRI)

Source: Xinfinance (http://en.xinfinance.com/html/OBAOR/)
The Silk Road Economic Belt and 21st Century Maritime Silk Road (BRI)
Key provinces related to BRI

Substantial content of BRI

Wu Tong (Five major connections)

- Policy coordination,
- Facilities connectivity,
- Trade facilitation,
- Financial integration
- People-to-people exchanges
Substantial content of BRI

Policy coordination

• promoting intergovernmental cooperation,
• build a multi-level intergovernmental macro policy exchange and communication mechanism, expand shared interests, enhance mutual political trust, and reach new cooperation consensus,
• Countries along the Belt and Road may fully coordinate their economic development strategies and policies, work out plans and measures for regional cooperation, negotiate to solve cooperation-related issues,
• jointly provide policy support for the implementation of practical cooperation and large-scale projects.
Facilities connectivity

Facilities connectivity is a priority area for implementing the Initiative.

• Improve the connectivity of B&R countries’ infrastructure construction plans and technical standard systems,

• jointly push forward the construction of international trunk passageways, and form an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step,

• Promote green and low-carbon infrastructure construction and operation management,

• jointly advance the construction of cross-border optical cables and other communications trunk line networks.
Substantial content of BRI

Trade facilitation

• remove investment and trade barriers,
• enhance customs cooperation,
• promote bilateral and multilateral cooperation in the fields of inspection and quarantine, certification and accreditation, standard measurement, and statistical information,
• improve the customs clearance facilities of border ports,
• reduce customs clearance costs,
• lower non-tariff barriers,
• develop cross-border e-commerce and other modern business models.
Financial integration

Financial integration is an important underpinning for implementing the OBOR initiative

• deeper financial cooperation,

• expand the scope and scale of currency swaps and settlement

• issue bonds in both RMB and foreign currencies outside China

• strengthen financial regulation cooperation

• create a regional financial risk early-warning system
Substantial content of BRI

People-to-people exchanges

• Deepening mutual understanding can contribute to better relations among nations by eliminating misconception and misunderstanding,

• promoting extensive cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges and volunteer services, so as to win public support for deepening bilateral and multilateral cooperation.
Risks

Political risks

• Which (international, regional) governance? How?
• How to balance the different interests?
  ▪ Weak and risky States...(Pakistan),
  ▪ Strong States Reluctant (Vietnam, India)
  ▪ Emerging Powers (Iran)

Operational risks

• Time horizon, Implementation, Resources (capital, labours...)
• Optimizing the use of transport infrastructures, creating numerous hubs along the road.

Financial risks

• Financing, Returns, Sunk costs
• Degrees of commitments of partners.
Overview of B&R economies_2016

Global share of GDP
- China: 14.9%
- Other Countries: 69.1%
- 64 B&R countries: 16.0%

Global share of population
- China: 18.5%
- Other Countries: 38.1%
- 64 B&R countries: 43.4%

Global share of trade value
- China: 11.2%
- 64 B&R countries: 21.7%
- Other Countries: 67.1%

Source: China state information centre, PWC
Overview of Chinese ODI in B&R countries

Chinese ODI Amounts in the Belt Road Countries: M&A v.s Greenfield

Chinese ODI Amounts in the Sea Road Countries: M&A v.s Greenfield

Chinese M&A investment

### Top 5 target industries before and after BRI announcement_Worldwide

<table>
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<tr>
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<tbody>
<tr>
<td>1</td>
<td>Energy and Power</td>
<td>37353.96</td>
<td>Industrials</td>
<td>16779.23</td>
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<td>2</td>
<td>Industrials</td>
<td>14079.08</td>
<td>High Technology</td>
<td>16661.97</td>
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<td>3</td>
<td>Materials</td>
<td>10084.97</td>
<td>Financials</td>
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<td>4</td>
<td>Consumer Staples</td>
<td>8949.60</td>
<td>Energy and Power</td>
<td>11992.20</td>
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<tr>
<td>5</td>
<td>Financials</td>
<td>3895.15</td>
<td>Materials</td>
<td>10778.29</td>
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### Top 5 target industries before and after BRI announcement_Belt countries

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</thead>
<tbody>
<tr>
<td>1</td>
<td>Energy and Power</td>
<td>12293.49</td>
<td>Energy and Power</td>
<td>8774.22</td>
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<td>2</td>
<td>Industrials</td>
<td>3936.05</td>
<td>Industrials</td>
<td>7207.30</td>
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<tr>
<td>3</td>
<td>Materials</td>
<td>2253.06</td>
<td>High Technology</td>
<td>4674.96</td>
</tr>
<tr>
<td>4</td>
<td>Telecommunications</td>
<td>522.85</td>
<td>Financials</td>
<td>3904.33</td>
</tr>
<tr>
<td>5</td>
<td>Real Estate</td>
<td>190.69</td>
<td>Materials</td>
<td>3901.35</td>
</tr>
</tbody>
</table>

### Top 5 target industries before and after BRI announcement_Sea countries

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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Energy and Power</td>
<td>25060.47</td>
<td>Financials</td>
<td>12347.18</td>
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<tr>
<td>2</td>
<td>Industrials</td>
<td>10143.03</td>
<td>High Technology</td>
<td>11987.01</td>
</tr>
<tr>
<td>3</td>
<td>Consumer Staples</td>
<td>8844.01</td>
<td>Industrials</td>
<td>9571.93</td>
</tr>
<tr>
<td>4</td>
<td>Materials</td>
<td>7831.91</td>
<td>Media and Entertainment</td>
<td>7388.58</td>
</tr>
<tr>
<td>5</td>
<td>Financials</td>
<td>3799.47</td>
<td>Materials</td>
<td>6876.94</td>
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</table>

Sources of Chinese and multilateral funding for the BRI Multilateral

<table>
<thead>
<tr>
<th>Multilateral banks</th>
<th>Capital</th>
<th>Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian Infrastructure Investment Bank</td>
<td>$100 bn</td>
<td>$10–14 bn expected to 2020</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$1.7 bn loans in 2016</td>
</tr>
<tr>
<td>New Development Bank</td>
<td>$100 bn</td>
<td>$5–7 bn expected to 2020</td>
</tr>
<tr>
<td>Silk Road Fund</td>
<td>$40 bn + $15 bn*</td>
<td>$4 bn</td>
</tr>
</tbody>
</table>

**Chinese banks**

<table>
<thead>
<tr>
<th>Chinese banks</th>
<th>Capital</th>
<th>Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Development Bank</td>
<td>RMB 421 bn</td>
<td>$36 bn**</td>
</tr>
<tr>
<td>Export-Import Bank of China</td>
<td>RMB 150 bn</td>
<td>$19 bn**</td>
</tr>
<tr>
<td>Bank of China</td>
<td>RMB 294 bn</td>
<td>$20 bn</td>
</tr>
<tr>
<td>Industrial and Commercial Bank of China</td>
<td>RMB 356 bn</td>
<td>$67 bn disbursed</td>
</tr>
</tbody>
</table>

**Funds**

| Funding to conduct overseas renminbi business | N/A | $44 bn |

* Additional capital recapitalized
** Additional special loan announced


Source: García-Herrero et al. 2017
Sources of cross-border bank lending into the BRI countries

Source: García-Herrero et al. 2017
EU-Sino Relations
EU-Sino Relations

- Asymmetric (volumes, contents, Trade, Investment ...)
- China: not yet be recognised as a market economy
- no global treaty on investments
- For China, Europe 28(/27) states and more...
  - Core EU (Most industrialized, EU-15)
  - New Members States (and others: 16+1..)
  - Accession countries (Western Balkans): The southern entry?
- Differentiated attractiveness: EU-15, CEES, Balkans
- Individualistic strategies followed by member states
- Contention between EU-China has been over dumping and anti-dumping
EU-Sino’s Trade & Investment Relations in 2015

% of total EU’s exports, imports or FDI flows

EU-Sino’s Trade & Investment Relations in 2015

€168 billion
EU FDI stock in China

€35 billion
Chinese FDI stock in the EU

China’s oversea FDI

Opportunities

- Growing presence of China in Europe: trade, finance, investments
- Beneficiary of the BRI due to a reduction in transport costs from infrastructure development
- The depth and expertise of European financial markets, as well as private lenders will play a critical role. It is undertaken in a way that contributes to sustainable growth of EU’s economy
- UK: from a ‘special relationship’ with the US to a ‘golden era’ with China? But up to now only 1% of total outflow of Chinese FDI. Brexit: a concern for China
- Other interests for Europe in Asia (South Korea, Vietnam, Japan, ASEAN)
Concerns

• Strong asymmetries, unsettled questions
• Still difficult access to the market in China for EU companies (and other Western): Many non-market entry barriers for foreign companies
• Fears in Europe to see National champions, crown jewels fall into the hands of Chinese buyers
• Lack of transparency
• Permanent changes in the rule of the game (investment and intellectual property protection)
• Finance access
Appendices

Energy and Power:
Alternative Energy Sources; Oil & Gas; Petrochemicals; Pipelines; Power; Water and Waste Management

Industrials:
Aerospace & Defense; Automobiles & Components; Building/Construction & Engineering; Industrial Conglomerates; Machinery; Transportation & Infrastructure

Materials:
Chemicals; Construction Materials; Containers & Packaging; Metals & Mining; Paper & Forest Products

High Technology:
Computers & Peripherals; E-commerce / B2B; Electronics; Hardware; Internet Infrastructure; Internet Software & Services; IT Consulting & Services; Semiconductors; Software

Financials:
Asset Management; Banks; Brokerage; Credit Institutions; Diversified Financials; Government Sponsored Enterprises; Insurance

Consumer Staples:
Agriculture & Livestock; Food and Beverage; Household & Personal Products; TEXTILE Textiles & Apparel; Tobacco

Real Estate:
Non Residential; Residential; Real Estate Management & Development; Real Estate Investment Trust

Media and Entertainment:
Advertising & Marketing; Broadcasting; Cable; Casinos & Gaming; Hotels and Lodging; Motion Pictures / Audio Visual; Publishing; Recreation & Leisure


Thank You

for

Your Attention!