

Belt and Road Initiative trends in the European Union and Iran¹

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Abstract

As a turning point in the functioning of the world economy so far, we can consider the Belt and Road Initiative (BRI), led under the auspices of China (PRC), which promises to establish a world trade order and transport and logistics networks between Asia and Europe. Aim of the presented article is to identify current BRI trends in the EU and Iran. Through analyses of the presence of Chinese BRI investments in EU countries involved in the BRI project, the author found that most Chinese BRI investments are monitored in Italy, Luxembourg and Portugal. The presence of Chinese capital in the EU is particularly evident in the energy sector, transport and in the financial sector. Author also identified declining trend of the inflow of BRI foreign investments of the PRC to EU countries in the monitored period. In the case of the Iranian economy, an analysis of the available data revealed that Chinese BRI investments are mainly presented in sectors such as transport, energy and utilities.

Key words

Belt and Road Initiative, BRI trends, European Union, Iran

JEL Classification: F10, F21, F50

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Introduction

The PRC has an almost thousand-year history with Europe through the ancient network of trade routes of the original Silk Road. However, these efforts have redoubled in recent history. Partly as a result of the debt crisis in the euro area in 2008, continuing deindustrialisation and China's drive to acquire a European brand and technology (Mayer, 2018). According to the author, it took some time for Europeans and Chinese to work together. During the three decades of the "open door policy" (1978-2008), the PRC was originally only a manufacturing country, attracting European companies to invest in Chinese industries. In the PRC, foreign partners are required to set up joint ventures with domestic companies, which is the basis for obtaining natural resources in Australia, Africa and Latin America. The PRC only started investing abroad 15 years ago and became a European country as its destination (Mayer, 2018). According to Mayer (2018), culture and language represent a huge obstacle to the PRC's trade in Europe. The changes that can lead in the framework of the Belt and Road Initiative (BRI) project in main areas of cooperation of which is the support of cultural and academic stays,

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media cooperation and volunteering, which can be partially eliminated by the cultural gap between Europe and China.

The Middle East is of strategic importance to the PRC in the second decade of the 21st century. The region has long been perceived as a battleground for power competition and it is in China's interest for its growing power to manifest itself here as well. The Middle East is a major source of imported energy raw materials and an important region for Chinese trade and investment. This region is becoming a strategic global crossroads for the PRC and the most important region outside of neighbouring Asia and the Pacific. The importance that the PRC attaches to Iran stems from the need to import energy raw materials. Iran is a Chinese source of oil and a host country for Chinese investment, particularly in the development of Iran's oil and gas infrastructure (Xuanli, 2013). These include investments by the Chinese state-owned Sinopec in the National Iranian Oil Company, which built the Yadavaran oil field, and investments by the Chinese National Oil Company in the Iranian Azadegan oil field. Chinese investment in Iran is also directed to the modernization of Iran's transport infrastructure (Scobell, 2018).

1 Methodology

The main aim of the presented article is to identify current BRI trends in the EU and Iran. To achieve our goal, we use a simple method of analysis and synthesis of Chinese investment data in EU countries and Iran. Using the available data of the European Court of Auditors (2020), IMF (2020), IMF - Coordinated Direct Investment Survey (CDIS) (2019) and American Enterprise Institute (2021), we constructed graphs identifying the nature of Chinese investments covered by the BRI project in the monitored countries.

Through the obtained data, we were able to present the development of the inflow of Chinese investments into EU countries in the years 2013-2019, as well as the areas with the highest value of the presence of Chinese capital. In the case of analysis of the BRI project's trends in Iran, we decided to provide data not only of an investment nature but also capital in the form of construction contracts, as the value of Chinese investments is negligible according to available data.

As a limitation of our research, we consider the lack of available data, which is often incomplete or not very transparent in relation to the BRI project.

2 Results and Discussion

At the end of 2013, the new Chinese President, Xi Jinping, presented a proposal for the 21st Century Silk Road and Maritime Silk Road, which was recently known as "One Belt, One Road", or as the "New Silk Road". Today, the project is particularly known as the "Belt and Road Initiative", which has quickly gained widespread international economic and political support. The construction of new strategic transport routes and logistics should address the most significant causes of instability in individual regions, as

well as poorly developed mutual economic and political relations between Asian countries. This project is also seen as a new tool for economic, political and cultural unification of all parts of Asia. Cooperation between the countries in the field of the project is ensured by the PRC through Memoranda of understanding and cooperation. Participation in the project has already been confirmed by more than 140 countries, including Belarus, Iran, Kazakhstan, Pakistan, Russia and the EU (Green BRI, 2021). It is logical that the Iranian economy, which for political reasons is unable to realize its huge economic potential in the long run, expects that the implementation of this project will help mitigate the negative effects of the measures in place, especially by the US. Among other things, Iran believes that it will be able to activate its own production base, supply the world with strategic raw materials and other commodities, and be able to revitalize its economy.

The OECD report (2018) includes in its statistics the 65 countries that are part of the BRI project, as it characterizes the economies that were officially included in the Chinese BRI Action Plan published in March 2015 and the 7 countries that were included in the project later. Nevertheless, China signed a Memorandum of Understanding with 140 countries around the world by 2021, making them part of the project (Yidaiyilu, 2021). BRI contains:

- 40 countries in sub-Saharan Africa;
- 34 countries in Europe and Central Asia (18 EU countries);
- 25 countries of East Asia and the Pacific;
- 17 countries in the Middle East and North Africa;
- 18 countries in Latin America and Caribbean;
- 6 countries of Southeast Asia.

For the purposes of the article, we have decided to list the 18 EU countries that are part of the initiative as of January 1, 2021 (Green BRI, 2021). Listed countries are Luxembourg, Austria, Italy, Malta, Cyprus, Slovenia, Estonia, Czech Republic, Portugal, Greece, Lithuania, Slovak Republic, Latvia, Hungary, Poland, Croatia, Romania and Bulgaria.

2.1 Analysis of current BRI trends in the EU

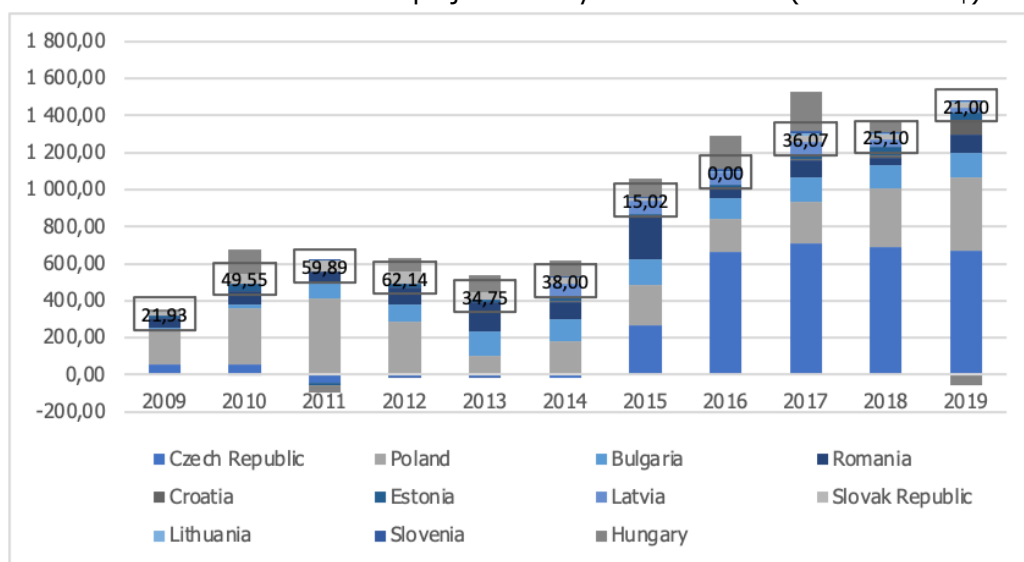
The BRI is the China's most important investment strategy for economic growth. One of the political goals is to increase China's influence abroad and thus also in EU countries. The initiative supports China's geostrategic ambitions to expand globally by sustaining domestic growth, developing regional and global connectivity, introducing Chinese standards in less developed countries and providing further trade facilitation between markets along the initiative (European Court of Auditors, 2020).

The international as well as the European community praises but also criticizes the BRI project. China's strategy can have positive effects on both the European and global economies, for example by supporting employment growth. However, the EU has expressed concern about the dependence of Chinese investment in strategic sectors, their concentration in sensitive or strategically important sectors and the non-reciprocity of access to the European single market (European Court of Auditors, 2020). However, we also see a problem in the heterogeneous perception of the PRC and the BRI project in

EU countries. Member States often have different preferences when it comes to establishing partnerships with China. Pagán Sánchez (2020), also noticed this problem in his research, noting the heterogeneity of member states' attitudes towards the BRI. We monitor heterogeneity not only in the perception of the project but also in the structure of the EU countries that participated in the BRI project with the PRC.

In terms of population in 2019, the largest EU country joined in the BRI is Italy (60.36 million), followed by Poland (37.97 million), Romania (19.41 million), Greece (10.73 million), and the Czech Republic (10.65 million). According to IMF forecasts (2020), in 2025 the countries: Italy, Poland, Romania, the Czech Republic and Greece will be the most populous BRI economies in the EU. In terms of the economic level of individual countries, measured by GDP p.c., the BRI includes a diversified group of countries. The most developed BRI economy in the EU is Luxembourg with a level of \$ 115,838.77 million, Austria (\$ 50,380 million) and Italy (\$ 33,159.07 million). The Slovak Republic is in 12th place in the ranking of the economic level with the level of GDP p.c. in the amount of \$ 19,344 million. The IMF (2020) predicts a high level of GDP p.c. by 2025 in Luxembourg, Austria, Malta and Italy. HDP p.c. of the Slovak Republic should increase to the level of \$ 27,172.06 million. The initiative's investment projects can accelerate economic growth, yet some countries are exposed to debt risk. EU countries with the biggest amount of gross government debt in 2019 involved in the BRI project, Greece (180.92% of GDP), Italy (134%) and Portugal (117.74%) have the highest indebtedness. The IMF (2020) predicts a reduction in Greece's government debt to 165.91% by 2025. Debt is also projected to decline in Portugal, Cyprus and Hungary.

Graph 1 Overview of the development of FDI volumes of the PRC in selected EU countries involved in the BRI project in the years 2009–2019 (in millions of \$)



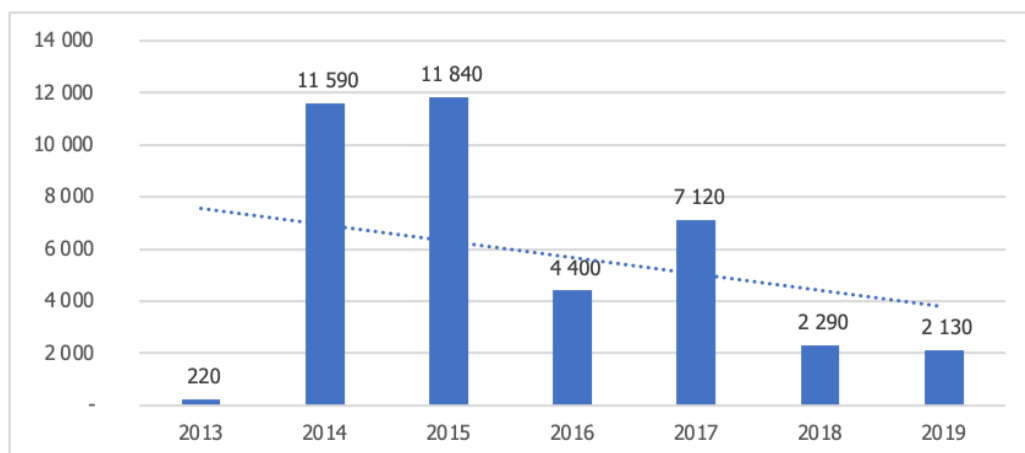
Source: Author's own processing according to MMF – Coordinated Direct Investment Survey (CDIS) (2019)

According to Graph 1, the largest volumes of Chinese FDI (2019) are in the Czech Republic (\$ 672.52 million), Poland (\$ 393.40 million), Bulgaria (\$ 132.69 million) and Romania (\$ 101.81 million). It is followed by Croatia (\$ 78.47 million), Estonia

(\$ 36.39 million) and Latvia (\$ 30.33 million). The outflow of Chinese FDI to the Slovak Republic in 2019 amounted to \$ 21 million with a year-on-year decrease (18/19) \$ 3.90 million. We noticed less Chinese investment in Lithuania (\$ 9.07 million), Slovenia (\$ 4.78 million) and Hungary, with a negative value of \$ 54.45 million. We can also note an increase in the volume of Chinese investment since 2013 and thus since the announcement of the implementation of the New Silk Road project by the Chinese President, Xi Jinping. The highest volume of Chinese investments in selected EU countries involved in the project is observed in 2017 with a slightly declining trend until 2018 and a further increase in 2019.

In the case of the Slovak Republic, data from 2016 are absent from IMF statistics, but we nevertheless observe an increase in the volume of Chinese investments in the Slovak Republic from 2009 to 2012, when we recorded a maximum of Chinese FDI in 2012 of \$ 62.12 million. In the year of the announcement of the initiative (2013), we observe a decrease in the state of investments of the PRC by \$ 27.39 million to the value of \$ 34.47 million. The recovery took place in 2014, but in the following year the stock of Chinese FDI in the Slovak Republic decreased again and thus reached its minimum in the monitored period, amounting to \$ 15.02 million. In 2017, the investment position of the PRC in the Slovak Republic strengthened again and in the given year the volume of Chinese FDI reached the level of \$ 36.07 million. Until 2019, however, we see a renewed decline in the volume of investments. Based on the above, we state that the presence of Chinese investments in selected EU countries involved in the BRI project is not very significant in the Slovak Republic compared to other economies. On the contrary, we observe that of the countries under comparison, the presence of the PRC through investments is significant, especially in the Czech Republic, Poland, Bulgaria and Romania.

Graph 2 Development of the PRC's foreign investment inflow within the BRI project in the EU in 2013–2019 (in millions of \$)



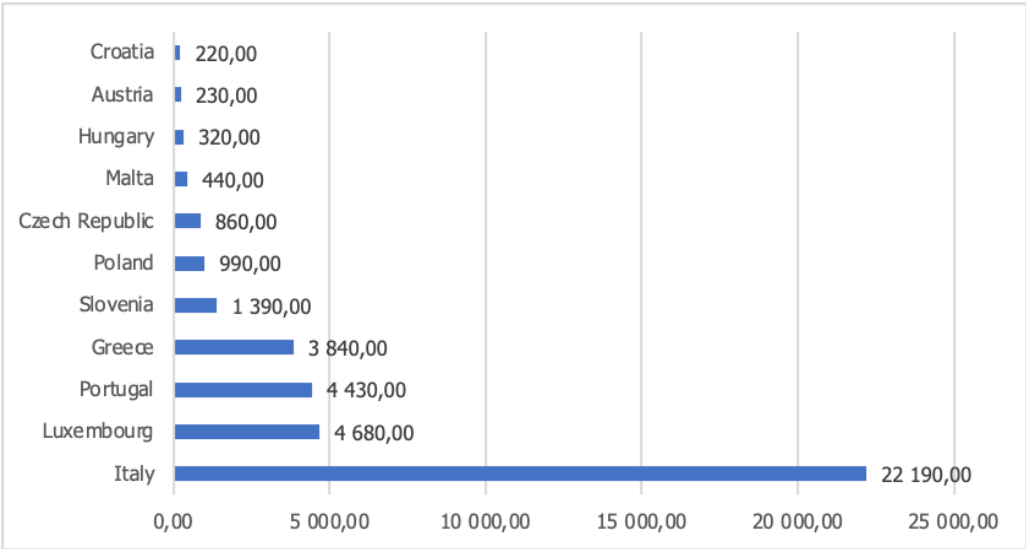
Source: Author's own processing according to American Enterprise Institute (2021)

According to the European Court of Auditors (2020), Chinese FDI sectors in the EU between 2000-2019 include strategically important areas such as transport and infrastructure (29.1%), information and communication technologies (ICT) (12.4%), energy

(10.1%) and automotive industry (14.1%). This is followed by investments in real estate, hotels and restaurants (11.2%), industrial machinery and equipment (6.7%), agriculture and food (5.9%). It is transport and infrastructure that are the basic pillars of the BRI project, which corresponds to the attention of Chinese investors in EU countries.

In connection with the analysis of the PRC's foreign investments in the EU, which fall under the implementation of the BRI project, we constructed a Graph 2 using data from the American Enterprise Institute (2021), which illustrates the development of Chinese BRI investment inflows to EU countries in 2013-2019. It follows from the above that within the BRI project we observe a sharp year-on-year increase in Chinese investment in the years 2013/2014, which amounted to \$ 11,370 million. The following years 2014 and 2015 are characterized by an increased inflow of investments in BRI projects within the EU countries. In 2015, we monitor the maximum inflow of Chinese foreign investment, the value of which reached \$ 11,840 million. In the following years, there was a decline and the inflow of investment in the EU was not as high as in previous years. Based on data from the American Enterprise Institute (2021), we finally state a declining trend in the inflow of foreign investments of the PRC within the BRI project to EU countries in the period under review.

Graph 3 Overview of the state of foreign investments of the PRC within the BRI project in selected EU countries in the years 2013–2019 (in millions of \$)



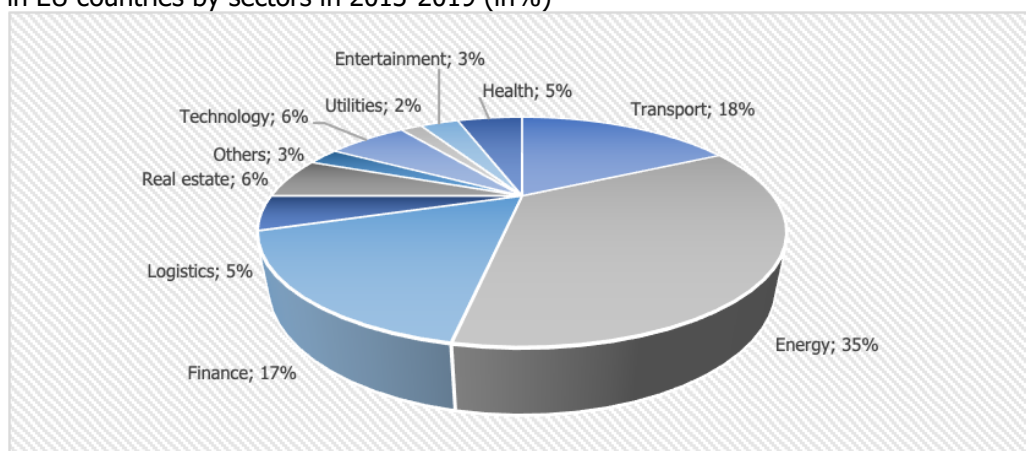
Source: Author's own processing according to American Enterprise Institute (2021)

Under the BRI initiative, in 2013-2019, the PRC began to implement various investment projects in EU countries. For the purpose of examining this issue, we work with the available data of the American Enterprise Institute (2021) as well. During the period under review, the highest cumulative Chinese investments were in Italy (\$ 22,190 million), Luxembourg (\$ 4,680 million), Portugal (\$ 4,330 million) and Greece (\$ 3,840 million). In the period from 2013-2019, 58 Chinese investments have been made in the EU

in connection with the BRI project so far, of which only 7 of them were greenfield investments.

In the case of foreign investment in Italy, the PRC invested mainly in energy, finance, technology and transport. The largest investors were the Chinese companies SAFE, Shanghai Electric, State Grid, ChemChina, Three Gorges, Fosun and Huawei. The inflow of Chinese investment into Luxembourg was mainly in the areas of transport (aviation), logistics, finance and public services. The largest investors were the Chinese companies Henan Civil Aviation, China Minsheng Investment, Schadong Heavy, Legend and Southern Power. In Portugal, the PRC has invested the most in the finance, healthcare and energy sectors. Fosun, SAFE, China Reform Holdings, Haitong Securities and Three Gorges are among the largest Chinese investors in Portugal. Chinese investments in Greece went mainly to the areas of transport (logistics and aviation), energy and technology, while the largest investors in Greece include the Chinese companies State Energy Investment, China Ocean Shipping, Shanghai Gongbao, KaiXinRong and State Grid.

Graph 4 Structure of the state of foreign investments of the PRC within the BRI project in EU countries by sectors in 2013-2019 (in%)



Source: Author's own processing according to American Enterprise Institute (2021)

Since the beginning of the BRI initiative, most Chinese investments in EU countries have been directed mainly in the energy sector (oil industry and renewable energy sources), accounting for 35% of all Chinese BRI investments in the EU. The PRC investments were further attracted by the transport sector (automotive, aerospace) with a share of 18%. About 17% of Chinese investments were reported in the financial sector, mainly in banking and investment sub sector. A relatively high percentage of Chinese investment in the EU went to technology (6%) and real estate (6%). It is clear from the above that the PRC is strengthening its position mainly through investments in energy, transport and finance, the mainstays of the BRI investment project.

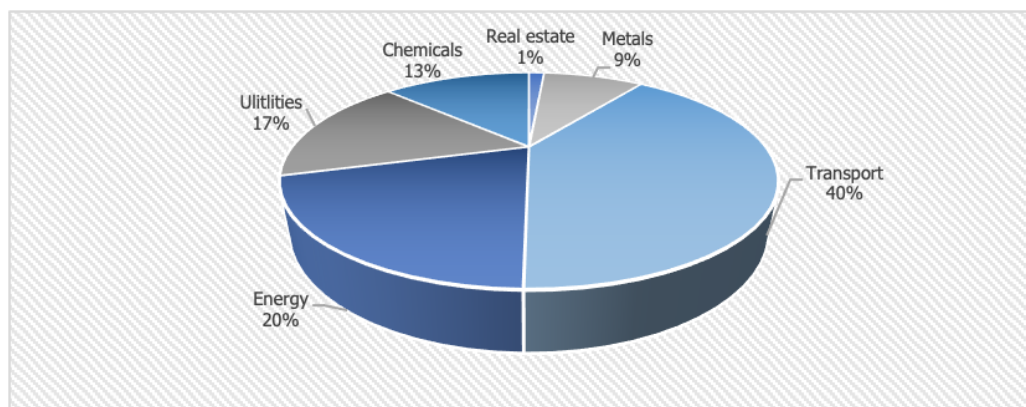
2.2 Analysis of current BRI trends in Iran

Despite Chinese significant energy dependence on Iran, it is in the PRC's interest to improve the country's position in the world economy. As one of the BRI's goals is to increase economic growth in the countries on the project axis, China's foreign capital is also channelled to other, vital sectors of the Iranian economy. In order to analyse Chinese capital in Iran, we constructed a Graph 5 using available data, which indicates Iranian sectors with a share of Chinese capital not only in relation to investment but also the presence of Chinese capital in Iran through the implementation of construction contracts.

According to available data, by 2019, only 4 Chinese investments totalling \$ 4,720 million had been recorded in Iran. In 2007, the Chinese oil company Sinopec invested \$ 2,010 million in the National Iranian Oil Company (NIOC) and secured a stake valued in 51%. According to the American Enterprise Institute (2021), it was reported as greenfield investment. In January 2009, the National Oil Company of China (CNPC) invested \$ 1,760 mil. As in 2007, this investment was also greenfield in nature. Both investments went to the Iranian energy sector, specifically to the oil industry.

Since the announcement of the BRI, 2 Chinese investments have been recorded in Iran, a total of \$ 950 million. In May 2014, the Chinese Metallurgical Group Corporation (MCC) invested \$ 350 million in Iranian economy. In November 2016, before the French oil company Total left Iran, CNPC invested \$ 600 million and bought a 30% stake. The French oil company Total announced its departure from Iran in August 2018 after US President D. Trump threatened that under no circumstances would any company trading with Iran be able to trade with US. Both investments were made as part of the BRI project and went to the metallurgical industry, specifically to the production and processing of steel and the energy sector, specifically to the extraction of natural gas.

Graph 5 Overview of Chinese investments and construction orders of the BRI project in Iran in the years 2014-2019 (in%)



Source: Author's own processing according to American Enterprise Institute (2021)

As the presence of Chinese capital through foreign investment in Iran is quite negligible, we have also decided to compile an overview of construction contracts in which Chinese companies participate in. Between 2013-2019, the BRI project carried out 15 construction contracts in Iran in cooperation with Chinese business partners (American Enterprise Institute, 2021). The total value of these contracts is \$ 10,930 million. The main Chinese suppliers include Chinese companies: China Energy Engineering, Norinco, Sinopec, Genertec and Beijing Power, operating in the areas of transport, in particular the railway construction and the energy sector (oil and coal processing).

Graph 5 shows the presence of Chinese capital through BRI investments and construction contracts in Iran in 2014-2019. Cumulatively, most Chinese capital in Iran is in the area of transport, specifically in rail transport (40%), followed by energy (in the area of processing of oil, natural gas and coal; hydropower) valued as 20% of Chinese capital, in Iranian public services (17%), in the chemical industry (13%) and in the metallurgical industry (production and processing of aluminium and steel) valued at 9%. Of the total amount of Chinese capital in Iran, the lowest value is in construction and real estate (1%).

The success of the BRI initiative depends to a large extent on the participation and support of Iran, especially in terms of geopolitical and logistical aspects. For this reason, the PRC will make a great effort to meet the needs of its Iranian counterparts. On the contrary, Iran will try to do everything in the future to attract Chinese investors and benefit from participating in the project.

Conclusion

In the case of EU countries, the BRI project is particularly relevant in the field of the development of European railway networks and in the involvement of European construction companies, operators, logistics network shippers in transport and infrastructure projects. However, the implementation of the initiative also poses threats to cooperation with the PRC for EU countries associated with insufficient screening of Chinese investments, possible indebtedness of the participating economies and the protection of strategic sectors of the EU. In the practical part of the work, we identified current trends in the BRI project in the EU in terms of the presence of Chinese investment in the countries under review, as a result, we found that in 2013-2019 most Chinese BRI investment went to Italy (\$ 201,190 million), Luxembourg (\$ 4,680 million) Portugal (\$ 4,430 million) and Greece (\$ 3,840 million). BRI investments in EU countries were noticed mainly in the energy sector (36%), transport (18%), the financial sector (17%), technology (6%) and real estate (6%).

In the case of the Iranian economy, we perceive the importance of the BRI project in the modernization of the country. Through Chinese investment, Iran has the opportunity to rehabilitate its transport and technology infrastructure and integrate into the world economy. The importance of the BRI initiative is indeed important to Iran, but this relationship is directly proportional to the PRC's efforts to secure a stable supply of oil and other minerals. Between 2014-2019, Chinese BRI investments in Iran aimed mainly to the renewal of transport infrastructure, especially rail transport (40%) and to the energy sector in the field of oil, gas and coal processing (20%). Chinese investment went further into Iranian public services (17%), the chemical industry (13%) and the

metallurgical industry (9%). As Chinese investments in Iran are mainly reported in the transport, infrastructure and energy sector, a partnership between these countries is essential for both countries in terms of the BRI infrastructure project.

The results of the research on the BRI project confirm that it is a project of a global nature and that the positive and negative consequences of its implementation can now only be generally predicted. Its success depends on many other socio-political, economic and cultural processes taking place throughout the world economy. At the political level, it can be seen as a tool to unite all parts of Asia and, ultimately, to move global economic lines to this region of the world. The group of countries involved in the current form of the BRI project consists of economies that can ensure re-exports between Asian and European countries located on this transport axis, accelerate various specialization processes and expand international industrial cooperation.

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