PRESS RELEASE

Sofia 16+1 Summit: Chinese investment could drive major infrastructure improvement

Chinese money could deliver a much-needed upgrading of Eastern Europe's creaking infrastructure, but also brings with it big risks for the region

China's massive planned investments in Central, East and Southeast Europe (CESEE) as part of its Belt and Road Initiative have the potential to deliver much-needed infrastructure upgrading across the region. Particularly in the Western Balkans, where a large share of the investments are planned, infrastructure deficiencies—in terms of roads, railways and energy—are acute. In this context, Chinese investment is extremely welcome.

A recent wiiw studies conclude that China's economic footprint in the CESEE region could increase substantially in the coming years. However, while the potential infrastructure and wider growth benefits are huge, we also see major risks. In particular, we note the potential for an unsustainable build-up of public debt, unwelcome political influence, increased corruption, and limited growth spill-overs if local labour and materials are not used.

A major 16+1 summit will take place in Sofia on July 7th, involving China and 16 countries in Central, East and Southeast Europe (CESEE). The summit takes place in the context of China's wider Belt and Road Initiative (BRI), also termed the "new Silk Road", which involves massive planned infrastructure investments across Eurasia and Africa. CESEE is set to play a significant role in this, as the gateway to major Western European markets. Within CESEE, the Western Balkans has a particularly important role, given its location between the Greek port of Piraeus—now majority Chinese owned—and Western Europe.

wiiw recently published a major new study dealing with the implications of this initiative. We find that the potential upsides for the CESEE region, and especially the Western Balkans, are significant. At present, the infrastructure deficit of the Western Balkans is in the range of 8-14 percentage points of GDP per year, and money currently available from the EU is far from sufficient to address this gap. A major step-up in road, railway and energy infrastructure quality would significantly boost the region's level of development, and help push it further along the road to EU membership.

Cumulatively, we find that the planned projects would generate a 10% of GDP boost for Montenegro and Bosnia, 7% for Serbia, and 2% for Macedonia. For the rest of CESEE the effects are lower, but still over 1% of GDP in the case of Hungary. We also find that the investments would reduce transport times, diversify the region's economic structure, improve inter-regional cooperation, and have positive trade effects.

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However, questions remain. First, it is not clear to what extent all planned investments will materialise. Second, if Chinese firms use their own production networks rather than local suppliers and labour, the positive effects for CESEE will be much lower. Third, the scale of investment could exacerbate corruption, lead to an unsustainable build-up of public debt in some countries, and bring unwelcome political influence.

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Full study
'Economic Policy Implications of the Belt and Road Initiative for CESEE and Austria', wiiw Policy Note No. 23, June 2018

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