The Belt and Road Initiative and its Implications for China-Europe Relations

Zhao Minghao

To cite this article: Zhao Minghao (2016) The Belt and Road Initiative and its Implications for China-Europe Relations, The International Spectator, 51:4, 109-118, DOI: 10.1080/03932729.2016.1235819

To link to this article: https://doi.org/10.1080/03932729.2016.1235819

Published online: 24 Oct 2016.

Submit your article to this journal

Article views: 2785

View Crossmark data

Citing articles: 7 View citing articles
The Belt and Road Initiative and its Implications for China-Europe Relations

Zhao Minghao
China Center for Contemporary World Studies, Beijing

ABSTRACT
The EU brought out a Global Strategy for foreign and security policy in June 2016, which indicates European efforts to reflect on and reshape its grand strategy. Meanwhile, China is also conducting an in-depth assessment of the international order under transition, and strives to rebalance its own national development and foreign policies. Beijing is pursuing a connectivity-oriented grand strategy. The peaceful rise of China depends on whether China and other economies can fully leverage each other’s development opportunities, and become stronger by taking advantage of increasing interconnectedness in the world. The One Belt, One Road (OBOR) initiative is a key element of such a grand strategy and will have far-reaching implications for China-Europe relations.

In 2013, Chinese President Xi Jinping proposed the One Belt, One Road (OBOR) or simply Belt and Road initiative during his trips to Central and Southeast Asia, namely the building of a ‘Silk Road Economic Belt’ and ‘21st Century Maritime Silk Road’. The OBOR aims to promote connectivity in the fields of trade, infrastructure and currency through multi-layered collaboration among relevant countries and international organisations. OBOR projects are expected to connect the vibrant East Asia economic circle, at one end, with the developed European economic circle, at the other. They are also expected to allow the development potential of countries in the hinterland of Asia and Europe to be fully released.1 Indeed, from geopolitical and geo-economic perspectives, the OBOR is bound to alter relations between China and Europe, Russia, the United States and other major powers. It will be consequential in that it will affect the development and regional cooperation models in Central Asia, the Middle East, South Asia and other related areas.

There are several major motivations behind China’s proposed OBOR. First, the OBOR is crucial for sustaining China’s economic momentum. Since the global financial crisis in 2007-08, the world economy has been entering a ‘new mediocre’ phase. China too has been witnessing an economic slowdown at home and struggling to push forward with its domestic reforms. The GDP growth rate of this emerging economy has decreased to less

KEYWORDS
One Belt; One Road; China; Europe; Silk Road

CONTACT Zhao Minghao zhaominghao@126.com

1Brugier, “China’s Way”.

© 2016 Istituto Affari Internazionali
than 7 percent. China is also suffering from soaring labour costs, an ageing population, and overcapacities in manufacturing sectors such as steel, resulting from the huge amounts of money China invested in industries in response to the global financial crisis.\(^2\) China believes that its overcapacity in steel is a repercussion of depressed global demand, so it must figure out how to keep the economic boom alive. Beijing not only has to strengthen common interests with other countries in the context of the economic slowdown, but also to provide new space for China’s economic upgrading and development model transition. This means actively exploring how to tap into the complementary advantages of other countries and build a new win-win cooperation model with them. International production capacity cooperation under the OBOR aims to realise that goal.

Second, through the OBOR, Beijing can add an international policy pillar to the ‘Go West’ drive, previously regarded as a domestic endeavour. In the early 1990s, the Chinese government launched a Go West campaign aimed at addressing the development disparity between China’s coastal areas and the vast western lands, including the provinces of Xinjiang, Ningxia and Qinghai. The wealthier provinces in the eastern part of the country were required to aid the poorer ones in the west by providing financial support, codeveloping large-scale business projects and transferring advanced human resources. Now, China is waking up to the huge potential of its ties with its neighbouring countries further to the west. A rapidly increasing number of Chinese corporations and sub-national governments are upbeat about the OBOR, keen on leveraging the golden opportunity it offers to enhance economic openness.

Third, China is confronting the energy security challenge with the OBOR. A burgeoning middle class and consequent incremental demands for energy are becoming a critical knot for Beijing. For example, from 2004 to 2013, China’s crude oil imports from Arab countries grew on average by more than 12 percent annually, reaching 133 million tons per year. Li Wei, the head of the Development Research Center of the State Council pointed out in February 2014 that if measures to crimp energy consumption are not taken, 75 percent of China’s petroleum will depend on imports by 2030.\(^3\) Thus, the matter has become one of national security. In the next two decades, around 300 million peasants will likely flow into urban areas. To feed its rising middle class and create jobs, China needs to secure access to energy and raw materials, while developing new markets for exporting higher value-added goods and services.

Fourth, the OBOR may help in consolidating China’s status as the largest developing country and promoting South-South cooperation. Though China has been quite energetic in upgrading its relations with the US, the EU and other Western countries, it has to adopt a more subtle and forward-looking approach in strengthening its ties with the Global South. As the 2012 World Trade Report notes, South–South trade between developing economies accounted for 24 percent of world trade in 2011, up from 8 percent in 1990.\(^4\) In 2020, more than 80 percent of the world’s population will be living in developing countries, many of which are located along the OBOR. China seeks to position itself as “the state in the middle”,

---

\(^2\)For example, as the biggest steel producer and consumer in the world, in 2015 China’s total crude steel capacity stood at 0.8 billion tons, its production accounting for almost 50 percent of world steel production. Zhongguo Gongxinbu:2015 nian Gangtie Hangye Yunxing Qingkuang ji 2016 nian Zhanwang [PRC Ministry of Information and Industry: National Steel Industry in 2015 and outlook for 2016, 6 February 2016], http://www.miit.gov.cn/n1146285/n1146352/n3054355/n3057569/n3057572/c4636541/content.html

\(^3\)Li, “Zhongguo Weilai Nengyuan Fazhan Zhanlv Tanxi” [“China’s Future Energy Strategy”].

\(^4\)Baracuhy, “The New Geo-economics of Global Trade”.
acting as a bridge between developed and developing countries and maximizing strategic space and resilience in response to the new changes in the international economic landscape.

Last but not least, China and other emerging powers, as well as Western countries are united in their concern about the instability of Eurasian inner land and maritime transportation routes, especially the surge of terrorism and extremism, transnational organised crime and other non-traditional security threats. Both the endless domestic political turmoil and the attacks of terrorists and extremists are threats to Chinese overseas investments. China needs to be more attentive in monitoring the dynamics in Central, South and West Asia, making “creative involvements” to help mitigate tensions, resolving hotspot issues, stabilising weak countries and responding to those countries’ ‘Look East’ policy demands. Beijing believes that economic cooperation within the OBOR framework may help address the deep-rooted causes of instability and radicalisation of poor countries that have been on the periphery of the global economic system.5

Under Xi Jinping’s leadership, China is adopting a new grand strategy centred on connectivity in both physical and conceptual terms. It entails a ‘dual rebalancing’: implementing bold domestic reforms to regain economic momentum, while overhauling China’s global posture and diplomacy. The OBOR embodies the Chinese leadership’s goal to make use of the interplay between internal reforms and external rebalancing acts.

**Working with Europe**

Europe has been playing a pivotal role in China’s foreign affairs in terms of seeking support for modernisation and constructing a multi-polar/interpolar world. The establishment of a lasting China–Europe relationship has laid a firm foundation for their cooperation in the OBOR. By 2015, the EU had been China’s biggest trade partner for 12 consecutive years. In 2014, China–Europe trade volume exceeded USD 600 billion, 250 times the bilateral trade volume when they first established diplomatic relations. The combined economic output of China and the EU accounts for one third of the global total. China and Europe, with a population of nearly 1.4 billion and 500 million, respectively, are the world’s two largest markets. There is no geopolitical conflict between China and the EU, both of which advocate multilateralism in global affairs.6

In recent years, facing new challenges in the international economic, political and security systems, China and the EU are seeking to ‘rediscover’ each other and explore new paths tailored to their respective development and reform objectives. The aim is to promote mutually beneficial cooperation.7 In 2013, the EU-China Strategic Agenda for Cooperation was issued, outlining the blueprint for furthering ties among China, the EU and its member states. In March 2014, Xi Jinping’s visit to Brussels was hailed as a key moment in furthering a “China-EU Comprehensive Strategic Partnership”. The leaders of China and the EU decided to forge a “partnership for peace, growth, reform and civilization” to guide the development of China-EU relations in the decades to come.8

---

6 Ministry of Foreign Affairs of China, “China’s Policy Paper on the EU”.
7 Fallon, “China’s Pivot to Europe”.
8 Feng, “Xi’s Initiatives for EU Partnership”; Shi, *China and Europe*. 
The OBOR is in line with the above goals for China-Europe relations and the existing bilateral cooperation arrangements. The implementation of this initiative is expected to bring new opportunities for China-Europe ties. Above all, the OBOR could effectively deepen China-Europe trade and investment cooperation. Under the OBOR framework, the countries involved will work together to create a new Eurasian land bridge and other international economic corridors, which will significantly reduce the cost of trade between China and Europe. In addition, the OBOR will enable China and the EU to make substantial progress in international cooperation on production capacity and ‘third party’ cooperation.

The initiative will also provide new impetus for economic growth and structural reforms in China and Europe. After the sovereign debt crisis in 2008, a number of European countries have taken austerity measures and the level of investment within the EU has plummeted. This is not only delaying the recovery process, but will also have a negative impact on the competitiveness and integration of Europe in the long run. The economic hardships in Southern and Eastern European countries are especially obvious. The Czech Republic, Hungary and other countries have seen negative growth in investment. The OBOR will help these countries address their problems and thus contribute to a balanced development within Europe, thus facilitating the European integration process.

Furthermore, the OBOR could promote long-term stability and common prosperity in Eurasia, which is in line with the long-term interests of both China and the EU. In recent years, Europe has faced a series of crises, including the Ukraine crisis, the Syrian crisis and the refugee crisis, which demonstrate that underdevelopment in the areas surrounding Europe is increasing, and political instability and security are deteriorating. Europe cannot solve these problems single-handedly. In addition, the OBOR not only covers nearly all of Eurasia, but extends to Eastern Africa, the Mediterranean and other regions. Stability and development in these areas is also in Europe’s interests.9

Since 2014, China and Europe have made progress in enhancing strategic communication, establishing cooperation mechanisms and implementing specific projects. Efforts have been made by both sides to promote coordinated bilateral, sub-regional and multilateral collaboration. The “16+1” framework between China and Central and Eastern European (CEE) countries is also being tied into the overall China-Europe partnership arrangement.

During Chinese Premier Li Keqiang’s visit to Brussels in June 2015, the two sides decided to integrate the OBOR with the Juncker plan, and establish a China-Europe joint investment fund as well as the China-EU Connectivity Platform to facilitate the implementation of the integration program. China became the first non-EU country to announce its participation in the Juncker Plan.10 During the EU-China High Level Economic and Trade Dialogue held in Beijing in September 2015, the two sides decided to establish a joint working group to develop a roadmap and concrete recommendations for cooperation. The working group consists of experts and officials from the Silk Road Fund, the European Investment Bank and the European Commission, among other relevant bodies.11

As one pillar of China-Europe cooperation under the OBOR, the development of China-Europe ‘block trains’ has achieved progress. A preliminary block train operation mechanism

---

9Verlare and van der Putten, ‘One Belt, One Road’.  
10"China Plans to Inject Billions into EU Infrastructure Fund”, South China Morning Post, 18 June 2015.  
has been established and has eased the China-Europe trade bottleneck.\textsuperscript{12} A number of China-Europe rail freight routes have been put into operation, including the Yu’Xin’Ou Railway which links Chongqing to Duisburg, Germany, and the Xiang’Ou Expess which connects Hunan province and Duisburg. There is also a railway route connecting China’s inland province Si Chuan with the Polish city of Lodz. To tackle related problems better, Poland has started offering consular services in Cheng Du, the capital of Si Chuan. The Lodz municipal government has also set up an office there. By the end of 2015, 815 China-Europe block trains were in operation, an increase of 165 percent in just one year and the number of return trains reached 265.\textsuperscript{13} China and relevant European countries are seeking to improve rail transport, customs clearance and other coordination mechanisms and build a more convenient and efficient international logistics network and service system.

CEE countries play a leading role in China-Europe cooperation under the OBOR. Hungary has become the first EU country to sign an MOU with China on integrating the OBOR with its ‘Opening to the East’ and ‘Opening to the South’ initiatives.\textsuperscript{14} Polish President Andrzej Duda expressed his hope that Poland would serve as a hub in the OBOR. For example, there is talk of the development of several Polish harbours, including Gdansk, to benefit from the OBOR. For these countries, the initiative provides opportunities to update their economic infrastructure, enhance their access to Asian markets and improve their positions within Europe.\textsuperscript{15} Another example is the construction of the Hungary-Serbian Railway, a part of the “land-sea express passage” linking China and Europe, which is about to start. The express passage will help upgrade and connect transport infrastructure in Central and Southern Europe to reduce the transportation costs of goods and stimulate the development of related industries and bolster economic growth in countries along the railway.\textsuperscript{16} China has also put forward a multilateral cooperation program that involves ports in coastal areas of the Adriatic Sea, the Baltic Sea and the Black Sea. In addition, production capacity cooperation has been started in an attempt to combine China’s equipment production with European advanced technology and the CEE market.

Meanwhile, Britain, France and other EU member states are providing support for the OBOR.\textsuperscript{17} The UK government led by David Cameron believed that the OBOR would help bolster the development of the UK; in particular, investments from China can push the ‘Northern Economic Engine’ program forward. In June 2015, China and France signed a joint statement on cooperation in third-party markets, which is the first such cooperation document between China and a Western power. It is a major bright spot in Chinese-French cooperation under the OBOR. The two countries will also establish a China-France joint investment fund to promote cooperation in third markets like Africa and help explore new ways of enhancing North-South cooperation in global affairs.

Moreover, 14 European countries, including Britain, France and Germany, have joined the China-proposed Asian Infrastructure Investment Bank (AIIB), despite US opposition.

\begin{footnotesize}
\textsuperscript{12} Arduino, “The New Silk Road”.
\textsuperscript{15} Tiezzi, “Where is China’s Silk Road Going”; Szczudlik-Tatar, “Silk Road as a Tool”; “Poland Can Act as An ‘Ambassador’ for the Belt and Road Initiative”, Economic Information Daily, 25 Nov. 2015.
\textsuperscript{16} Szczudlik-Tatar, Ibid.
\textsuperscript{17} Godement, “Europe Scrambles to Benefit”.
\end{footnotesize}
It is estimated that the global demand for infrastructure investment will amount to more than USD 90 trillion over the next 15 years. This means the annual investment in infrastructure has to rise to USD 6 trillion from the current USD 2.5-3 trillion. Investment in Asia will make up the lion’s share. The Asian Development Bank estimated in 2010 that Asia will need USD 8 trillion for infrastructure construction in the next decade. The AIIB is expected to provide financial support for that, including the infrastructure involved in the OBOR. But the AIIB defines infrastructure in a broader sense. Besides basic facilities and installations, it will also invest in such areas as health and education, which are “infrastructure for a sustainable future”.18

The AIIB embodies China’s desire to practice multilateralism in international finance, and Jin Liqun, the AIIB head, has vowed to run the bank in accordance with the commitment to be “lean, clean and green”.19 The AIIB is expected to demonstrate high efficiency, zero tolerance for corruption and a commitment to sustainable development. In addition to joining hands with the World Bank and the Asian Development Bank to facilitate a number of infrastructure projects in Pakistan and other developing nations, the AIIB will also cooperate with the European Commission and the European Investment Bank. In January 2016, China formally joined the European Bank for Reconstruction and Development, and the two sides will focus on strengthening cooperation in financing programs related to the OBOR.

The challenges ahead

No doubt, the OBOR is a strategic necessity for China’s involvement in great power dynamics unfolding in Eurasia, improvement of its international environment and the strengthening of its development resilience. However, China also faces a number of daunting challenges in implementing this initiative, including seeking support from other major powers like Russia, Europe and the US.20 In particular, China-Europe interaction with regard to the OBOR still faces a number of problems.

First, there is a significant trust deficit between China and Europe. China’s tremendous economic stakes in Eurasia and the expansion of its influence have gradually drawn the attention of the international community, including Europe.21 The European side fears that, as China increases its supports for Central Asia and other regions under the OBOR, Europe will be further challenged by China on many fronts, including its export of national development models and challenging international development norms.22 Some European policy elites argue that the OBOR is China’s own Marshall Plan, and that China intends to leverage the initiative to transform its economic power into geopolitical influence, increase its control over the Eurasian continent, and promote the Chinese version of globalisation. This will lead to a weaker position for Europe in the world arena.23 At the same time, economic competition between China and Europe is on the rise and Europe is very cautious about investments from China. In the midst of the Greek debt crisis, Chinese state-owned enterprises (SOEs) made efforts to strengthen their economic and political support for

18Qureshi, “Infrastructure for Sustainable Future”.
19Zheng, “AIIB to Be ‘Lean, Clean and Green’”.
20Rudolf, “China’s Silk Road is at Risk”.
21Huotari and Otero-Iglesias, Mapping Out Europe-China Relations.
22Rudolf, “China’s Shadow World Order”.
23Ekman, “China: Reshaping the Global Order?”.
Athens, but this was considered a disturbing development by some European leaders. The EU is afraid the Chinese government is intent on advancing its foreign policy goals by increasing the investment of Chinese SOEs in Europe.24

Second, the EU and some of its member states express concern that China may use the OBOR to play the ‘divide and rule’ game in Europe thereby aggravating internal disunity in Europe. The CEE countries are at the end of the Silk Road Economic Belt and can play a key role given their status as gateway to European inner lands. In June 2016, Chinese President Xi Jinping made an official tour to Serbia and Poland. He visited the Czech Republic in March. The frequent visits show Beijing’s desire to strengthen its ties with the CEE countries. However, due to the economic crisis and refugee challenge, CEE countries like Poland and Hungary have more difficulties in their relations with Brussels than “the Old Europe”. This situation requires China to conduct smart diplomacy to make its engagements in Europe more balanced. To address concerns from the EU, China has proposed to include its connectivity programs with CEE countries in the framework of China-Europe infrastructure cooperation. Besides, to ease anxieties from Western European powers such as France and Germany, China needs to promote triple-win cooperation with them in CEE countries.

Third, there are many obstacles in the fields of norms, mechanisms and laws affecting China-Europe cooperation. EU laws and regulations are very complicated, posing many challenges to Chinese enterprises in their efforts to adapt to and integrate into European markets. On Europe’s part, concerns over the establishment of ‘special economic zones’ that provide Chinese enterprises with special treatment in Europe have been voiced.25 Some criticize that Chinese firms do not respect measures for environmental protection, lack respect for the rights and benefits of local workers and are even reluctant to hire locals. Others argue that the subsidies provided by the Chinese government to the SOEs would put European enterprises at a disadvantage because of unfair competition.26 The EU also has concerns about China’s policy vis-à-vis maritime issues as well as doubts as to whether international norms and standards could be respected by the AIIB and other new China-led institutions.27

In addition, China-Europe cooperation under the OBOR faces a series of commercial, political and security risks. Particularly, the investments in pipelines, factories, roads and other infrastructure require China to engage in security affairs more proactively, and there is no mechanism to coordinate China-EU efforts in this regard. Beijing and Brussels should engage with each other in safeguarding their enlarging economic presence and protecting citizens along the OBOR. This could include conducting institutional information exchanges and joint crisis-management exercises involving civilians, as well as strengthening capacity-building in emergency management of third countries.

Fourth, given their interaction under the OBOR, China and Europe will need to handle the US factor in an appropriate manner. Many observers tend to look at China’s ‘westward march’ strategy from the perspective of China-US geopolitical interaction, if not rivalry. Without doubt, the US factor has been among the most significant variables in defining Chinese foreign policy. As Peking University Professor Wang Jisi noted, the logic of China’s “march west” is rather simple and reflects the complex regional

---

24Verlare and van der Putten, 'One Belt, One Road', 2.
25Szczudlik-Tatar, 'Silk Road as a Tool'.
26Smith, 'EU-China Relations'.
27Rogers, From Suez to Shanghai.
quagmire in which China finds itself. As Washington rebalances to Asia, the relation between the US and China has become increasingly contentious and zero-sum. In analysing the US’ obstructionism regarding the AIIB, Financial Times chief commentator Martin Wolf said what the US was truly worried about was that China-initiated mechanisms could undermine American influence on the global economy. Indeed, Britain’s decision to join the AIIB was a significant blow to the US. US policy circles are fretting over the closer ties between China and Europe as a result of the OBOR. It is also widely agreed among European policy elites that the US’ reaction to China-Europe cooperation under the OBOR needs to be taken seriously.

Actually, Beijing is open to Washington regarding the OBOR. During his visit to the US in September 2015, President Xi Jinping stated in explicit terms that the US is welcome to participate in the initiative. In order to promote Afghan economic development and economic integration in Central and South Asia, the US put forward the ‘New Silk Road’ program in 2011. By 2014, the focus had been narrowed down to four main fields, namely developing regional energy markets, promoting trade and transportation, upgrading customs and border control, and enhancing business and personnel exchanges. These are very similar to the goals of the Silk Road Economic Belt proposed by China, so it should be possible to dovetail the two programs. Europe has been supporting the stabilisation of Afghanistan and Central Asia at large, so China-EU-US trilateral cooperation deserves more consideration.

Conclusion

For China-EU relations, the OBOR may present both challenges and opportunities. In principle, the EU welcomes China’s shouldering more responsibility in engaging with international development through the OBOR. However, China must take note of the fact that the EU and its member states are not united in their attitudes toward the OBOR. They are looking for more detailed information about the OBOR, so it is still a challenge to upgrade cooperation mechanisms between China, the EU and its member states. In addition, the EU worries that the OBOR lacks transparency rules and that opaque financing deals may threaten the competitiveness of European enterprises. On the other hand, the OBOR could be helpful in facilitating EU-China trade routes, safeguarding sea lines of communication, financing infrastructure in the EU and opening up long-neglected markets along the routes. Moreover, the OBOR is conducive to the stability and long-time prosperity of the Eurasian region and the greater Middle East, which serves Europe’s interests. It could inject incentives into China-EU collaboration in the security field. In light of these potential gains, how to take advantage of the OBOR, create new EU-China synergies and tackle relevant challenges are questions to which EU leaders should be attentive.

28Wang, “Zhongguo Diyuan” (‘Marching Westwards’).
29Wolf, “A Rebuff is Folly”.
30Twining, “China’s Trans-Atlantic Wedge”; Pollack and Le Corre, “Why China Goes to Europe”.
31Viehe, “US and China Silk Road Visions”.
Acknowledgements

The article is part of a joint research project co-sponsored by China Development Research Foundation and the Peterson Institute for International Economics, Washington DC.

Notes on contributor

Zhao Minghao is Research Fellow at the China Center for Contemporary World Studies, International Department, the Central Committee of CPC. The views expressed in the article are the author’s own.

References

Arduino, A. The New Silk Road, Short Term Policy Brief 91. Brussels: Europe China Research and Advice Network (ECRAN), May 2014.
Fallon, T. “China’s Pivot to Europe." American Foreign Policy Interests 36, no. 3 (2014).
Feng Z. “Xi’s Initiatives for EU Partnership”. China Daily 3 April 2014.
Godement, F. “Europe Scrambles to Benefit from China's 21st-Century Silk Road”. Global Asia, 26 September 2015.
Rudolf, M. “China’s Silk Road Initiative is at Risk of Failure”. The Diplomat, 24 September 2015.
Smith, M. “EU-China Relations and the Limits of Economic Diplomacy”. Asia Europe Journal 12, no.1 (March 2014).
Tiezzi, S. “Where is China’s Silk Road Actually Going”. The Diplomat, 30 March 2015.


