One Belt One Road and the reconfiguration of China-EU relations
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The context of EU-China relations has dramatically changed over the past five years. China's interest in Europe has expanded geographically and substantially. At the broader diplomatic and strategic level, the OBOR initiative has come to symbolize China's growing significance in international affairs, reshaping regional dynamics. The European Commission and the Chinese government have agreed to enhance synergies in connectivity platforms. However, new investment trends and trade relations with China are highly differentiated across Europe and across sectors. The lack of a clearly defined OBOR plan in most European countries is weakening their bargaining power. In the meantime, China is following its flexible foreign policy approach when dealing with the EU. So far, the OBOR projects in Europe are mainly focusing on transport and infrastructure in Central, Eastern and Southern Europe. We are witnessing the reconfiguration of international institutions and the emergence of a more multi-polar global order.

Keywords: One Belt One Road, connectivity, infrastructure, investment, governance

JEL Codes: F02

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Chapter 2 One Belt One Road and the refiguration of EU-China relations

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Introduction: caring for globalization

At the 2017 Davos Economic Forum, Chinese President Xi Jinping asserted the merits of globalization and called for more effective measures and structural reforms to establish equitable governance and build new growth models. The “One Belt One Road” (OBOR) initiative accelerated with the Chinese presidency of the G20 in 2016, advocating for more inclusive regional cooperation and offering ambitious plans to further tighten connections across Eurasian and North African continents.

Although maybe not always on best terms, Europe and China have nonetheless enjoyed long stable political diplomacy and economic exchanges of considerable intensity and quality. Chinese companies’ presence in Europe has become more noticeable since the last financial crisis and cooperation between China and Europe has significantly increased in all domains. With the Trump-governed US withdrawing from the Trans-Pacific Partnership Agreement (TPP) at a time when trade contents are deemed to radically change out of ecological transition (Kraemer, 2017), it becomes even more crucial for Europe and China to work together to safeguard the advances of globalization and to keep a technological and economic edge in the changes to come. The Chinese government has emphasized that OBOR is complementary to existing national and European plans to develop infrastructure and boost connectivity in Europe and beyond. Given the actual geographical, sectoral, institutional and cultural divergence among the EU member countries, a single strategy and mechanism might not work for every country. China’s inclusive approach does not mean that it regards all EU member states as equally relevant for OBOR. Does China have different plans regarding different EU zones? Will they impact the integration of the EU? How is OBOR influencing the activities of Chinese companies and how is this perceived by the host country? Is the collaboration between EU and China producing positive impact in other regions outside the EU? In this chapter, we will focus on the role of OBOR in setting the contours of a new EU-China relation. After some short observations of the increasing exchanges between the EU and China since the recent global economic crisis, we will discuss what role OBOR is playing in the new EU-China relations. We also underline efforts between the Chinese government and the European Commission for finding an integrated approach. Some insights are shared on the positive role EU and China could jointly assume in third countries. In extremely uncertain times, we chose to mostly analyse, and to partly take the wager of (moderate) optimism.

1. EU-China relations since the last crisis
Facts are steady. The EU is China’s 1st trade partner, before the US, and China is the EU’s 2nd trade partner, after the US. Although the WTO has not yet officially recognized China as a market economy and in many cases Chinese companies still face anti-dumping challenges, trade between the EU and China has seen continued increase since the last crisis. In 2015, China represented 20.3% of total EU imports and 9.5% of total EU exports, with average annual growth rate of respectively 4.4% and 5.7% from 2011 to 2015 (European Commission, 2016). While the total EU-China trade volume grew from €297bn in 2009 to €520bn in 2015, the EU imbalance has increased in magnitude but reduced in terms of relative exposition (Figure 1). The EU has been able to accompany with exports the quality rise of the Chinese economy. There are strong asymmetries among the European trading partners of China, the contents of import and export, and the sectoral growth rate (Table 1). Machines and transport equipment occupy an absolute first weight in the trading volume on both ways. Meanwhile, among recent European exports to China, we observe a slight decrease of manufacturing contents and a remarkable increase of food and commodities. In absence of a global treaty regarding the whole EU, these exchanges are generally based on individualistic strategies and differentiated attractiveness of each member state.

Figure 1: EU trade flows and balance with China (2005-2015)

Source: European Commission, Eurostat Comext

Table 1: EU to China Trade flows by SITC section (2012-2015, €bn)

<table>
<thead>
<tr>
<th></th>
<th>IMPORTS</th>
<th></th>
<th>EXPORTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and live animals</td>
<td>4.18</td>
<td>4.21</td>
<td>4.19</td>
<td>4.71</td>
</tr>
<tr>
<td>Beverages and tobacco</td>
<td>0.16</td>
<td>0.14</td>
<td>0.17</td>
<td>0.13</td>
</tr>
<tr>
<td>Crude materials, inedible, expt fuels</td>
<td>2.86</td>
<td>2.58</td>
<td>2.71</td>
<td>2.85</td>
</tr>
<tr>
<td>Mineral fuels, lubricants</td>
<td>0.31</td>
<td>0.21</td>
<td>0.18</td>
<td>0.41</td>
</tr>
<tr>
<td>Animal &amp; vegetable oils, fats, waxes</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.09</td>
</tr>
<tr>
<td>Chemicals and related products</td>
<td>13.01</td>
<td>13.16</td>
<td>14.29</td>
<td>16.27</td>
</tr>
<tr>
<td>Manufacture goods</td>
<td>36.17</td>
<td>35.11</td>
<td>40.37</td>
<td>45.34</td>
</tr>
</tbody>
</table>
So much for trade. But the flavour of the coming globalization is investment. In recent years, EU member-states and countries waiting to join the EU in the Western Balkans have attracted significant and growing Chinese investment in nearly every economic sector. The EU crisis and the depreciation of euro further offered a unique opportunity for Chinese firms. Between 2000 and 2014, over 50% of cumulative FDI targeted the UK, Germany and France. In recent years, Chinese FDI has become more geographically diverse, particularly in the PIGS, taking advantage of the privatization of some previously state-controlled sectors, especially utilities and transportation. FDI in New Member States (NMSs) are notably oriented to manufacturing, agriculture, and infrastructure. However, Chinese investments in NMSs are insignificant compared to FDI emanating from the EU. The distribution of Chinese FDI in Europe does not follow a single logic, primarily due to the variety of investors and the convergence of economic policies in host countries. Still, Chinese investors appear to be motivated by traditional factors, including the institutional context, factor costs, resources, market growth, and integration in regional value chains. Richet (2016) suggested a three-axis categorization of the Chinese investment flows: an East-West axis with FDI heading towards the high-mid technology sector in the EU-15 and greenfield investments with low labour costs in the NMSs; a North-South axis inside the EU-15 with FDI towards the North concentrated in high value-added sectors and towards the South in low value-added sectors; a South-East axis in countries awaiting accession and Southeast European countries to take advantage of pre-accession opportunities and a lack of EU regulation to involve into regional activities.

Table 2: Chinese FDI Stock in the EU by Sector (€mn)

<table>
<thead>
<tr>
<th>UE-15</th>
<th>EU-NMS</th>
<th>By sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Britain</td>
<td>12212</td>
<td>Estonia 23 Energy 28</td>
</tr>
<tr>
<td>Ireland</td>
<td>99</td>
<td>Latvia 3 Automobile 13</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2997</td>
<td>Lithuania 30 Agriculture, Agro-business 12</td>
</tr>
<tr>
<td>Belgium</td>
<td>928</td>
<td>Czech Republic 138 Real estate 11</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>432</td>
<td>Poland 453 Heavy equipment 9</td>
</tr>
<tr>
<td>France</td>
<td>5907</td>
<td>Hungary 1891 Information technologies 6</td>
</tr>
<tr>
<td>Spain</td>
<td>1096</td>
<td>Romania 733 Raw materials 5</td>
</tr>
<tr>
<td>Portugal</td>
<td>5138</td>
<td>Slovenia 8 Finance and financial services 4</td>
</tr>
<tr>
<td>Italy</td>
<td>4202</td>
<td>Croatia 4 Transportation and construction 4</td>
</tr>
<tr>
<td>Greece</td>
<td>405</td>
<td>Bulgaria 207 Health and biotechnology 2</td>
</tr>
<tr>
<td>Germany</td>
<td>6827</td>
<td>Cyprus 31 Consumer goods and services 2</td>
</tr>
</tbody>
</table>

Source: European Commission, Eurostat Comext

1 Portugal, Italy, Greece and Spain.
2 NWMs (New Member States) refer to countries that joined the EU since 2004, including Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia, 10 countries joining the EU in 2004, Bulgaria and Romania joining in 2007, and Croatia in 2013.
3 EU-15 refers to the member countries in the EU prior to the accession of new members from Central Europe in 2004. It includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom (before the Brexit). Generally they are countries more economically developed of the EU.
Gaining access to technology know-how and management experience by investing in mature market-based economies has been the greatest driving force behind the internationalization of Chinese companies (Chaminade, 2015). Based on type of investment, firms can be separated into two categories: specialized (Lenovo, Haier, Huawei) or diversified (Fosun, Wanda). Some Chinese firms were able to acquire relatively undervalued assets and a few are capable of keeping the original management. Some deals however met problems due to opaque governance, low global coverage, and strong disparities in terms of market, size, growth reserves and acquisition price (Nolan, 2012). Endorsed by the Chinese government’s Going-out policy, Chinese banks and institutions remain heavily involved in credit financing regarding Chinese FDI in Europe. Meanwhile, the presence of Chinese firms in South and East Europe might be a conflict of interest with some Western European firms that have been crucial in the region’s industrial transformation.

In other fields, the EU and China have also developed closer relationship and cooperation. Industrial forums and bilateral delegations are taking place much more frequently. Some of the successful Chinese firms (Huawei, ZTE, Haier, Chang’an) have set up R&D and design centers in the EU, taking advantage of the engineering expertise and industrial know-how offered by the region. At the same time, some European firms have financed research centers and incubators in China, hoping to be inspired by the Chinese market (Orange, L’Oréal, BASF, Bayer) and its new e-business models (Alibaba, Tencent), and to take advantage of the Green policy of the Chinese government (the “China EU Future City” in Shenzhen). Economic cooperation between Chinese and European companies also takes forms of technology transfer and joint-venture. Accordingly, more bilateral student exchange programs are set up to facilitate the education of future experts with a global vision. Chinese tourists in Europe have been keeping a steady growth rate of above 10% since 2010, according to China Tourism Research Institute.

2. The role of OBOR in the European Commission coordinated EU-China relations

Even before the emergence of the OBOR initiative, the EU and China already held regular dialogues on railway, maritime, aviation, customs facilitation, as well as other issues related to connectivity. Interestingly, during the negotiations on the EU-China 2020 strategic Agenda for Cooperation in 2013, the Chinese government did not advocate an inclusion of the OBOR initiative (announced in the same period) into the Agenda, although it contained a number of ambitious goals in developing fully interconnected infrastructure systems and smart supply-chain logistics networks between Asia and Europe. It was during the visit of President Xi to the EU in March 2014 that the Chinese leadership began to officially include the EU in the initiative. OBOR-related projects were quickly developed in Central Europe under the CEE 16+1 mechanism, in Greece regarding investments in the port of Piraeus, and in Germany for the Chongqing-Duisburg railway, but were almost inexistent in the Western and Northern EU.
Globalization is also about shared norms, and these are integral part to WTO discussions and agreements, even though sometimes a few exceptions could be accorded. Investment rules are much more model-specific till date, and the very state-driven dimension of the OBOR, an “initiative”, literally, more than a mere policy framework, EU-style, raise questions of a new type. More bluntly maybe, for Chinese actors, the European Commission, with its emphasis on rules and regulations, could be a potential problem for projects in the OBOR frame, while seen from the EU’s lens inherited from anti-trust free competition dogma, after having long overlooked at investments at the specific / project / unit level, OBOR might suddenly turn to be problematic if seen as a whole. The Chinese model of infrastructure financing generally involves state guarantees and requires direct contract offer to Chinese companies without an open tender. This is against the EU’s rules on state aid and public procurement, but this is the practice Chinese companies most comfortably know, as it has been as central in Chinese technological catching-up as was a whole ecosystem of state technological and policy support (Ruet, 2006 and 2006a).

Two developments summarize China’s approach regarding OBOR at the EU level: the search for tangible projects for cooperation; and slow acceptance of the EU’s role in shaping the rules for China’s engagement with individual EU member states. After the first period of a general slow advancement of OBOR projects in Europe, the Chinese government has realized that the EU institutions hold a central role in the dialogue of EU-wide rules regarding Chinese investments and in coordination of different projects with EU member states. For successful accomplishment of the project, it is crucial that the EU officially endorses OBOR and that OBOR complies with the framework of the EU. For the EU, the opportunities for cooperation with China under OBOR would materialize only if the cooperation is based on open and transparent rules. The EU’s approach with OBOR is based on the objective to seek a level playing field and to channel Chinese investments in accordance with EU frameworks and priorities. The decision of EU member states to join the China-led AIIB in an uncoordinated way successfully triggered a joint EU action in designing the rules governing the AIIB during the negotiations for its articles of association. Both the European Commission and the European External Action Service quickly understood that OBOR had strong political support in China and that it was going to be implemented regardless of the position that the EU took (ETNC, 2016). This forced the EU to adopt a proactive approach to seek engagement and to try to influence decisions.

Although the EU has not communicated a comprehensive strategic approach in responding to the impact of OBOR on regional dynamics, some high-level initiatives to achieve more transparency were made. In September 2015, the European Commission and the Chinese government signed a Memorandum on the EU-China Connectivity Platform to enhance synergies between China’s OBOR initiative and the EU’s connectivity initiatives such as the Trans-European Transport Network. The Platform will promote cooperation in areas such as infrastructure, equipment, technologies and governance standards. It will help coordinate infrastructure plans in Europe through information exchange and ensure a level playing field for all investors. It will also help identify investment opportunities through European Fund for Strategic Investments (EFSI), open to the Chinese Silk Road Fund. It promotes high standards in terms of government procurement and environmental protection not only inside the EU but also for countries along the OBOR. In this occasion, China also pronounced its intention to contribute to the European Commission’s €315 billion Investment Plan for Europe. Since then,
the EU and China have had further discussions on policies, access for investments, and a shortlist of pilot projects under the Connectivity Platform. However, the 18th EU-China Summit in July 2016 did not result in a joint communiqué settling relevant elements, probably due to China’s difficulty to accept open public procurement rules for the projects.

Here clearly the nexus of the conversation is on whether linking or not the macro-economics of Investment Plan and the micro-economics of project financing. While the EU is willing to welcome the Chinese contribution to the Investment Plan, it wants to retain what it considers sovereignty. This kind of issues arises when European countries bring bilateral “aid” to “developing” countries with bounded aid for quite a few aiding countries (and the EU would tend to adopt un-bound practices). A possible way-out is a deal-based capital call scheme allowing the Chinese fund to gradually contribute to the Investment Plan and providing the chance for Chinese partners to negotiate on deal-specific conditions. Another solution the authors might venture (as creative policy-making would be needed), which is adopted by some emerging countries but would be a major departure to the post-Reaganomics practice established in Europe and raise huge issues given the EU legal framework, is the reservation of some share of the consortium to their national companies.

It is hoped that OBOR-related financial cooperation between China and Europe may further expand as a result of China’s membership in the European Bank for Reconstruction and Development (EBRD) since January 2016 and the recent opening of the European Investment Bank Beijing office. Finally, the EU encourages deepened collaboration between China and the EBRD, including the examination of a possible membership in the EBRD in line with its rules. At any rate, these multi-zillion dollar questions pave the way for a potential dent into the existing globalization and framing new avenues.

3. The impact of OBOR in different EU zones

Leaving (near)-future questions, where does Europe as “not a whole” stand today? Generally, EU members welcome a closer engagement with China and Chinese firms, seeing it as a potential to complement insufficient local source to finance growth and to export European products to Asian and global markets, and also, under aging demography and lack of banking support to young entrepreneurs, as a solution to the succession problem of many family businesses. It is also hoped that Chinese capital together with its corporate investors could help industrial development in NMSs and the Western Balkan regions. Therefore, when “One Belt One Road” was officially announced by the Xi Jinping-led Chinese government in 2013, some EU member states embraced it with enthusiasm. Theoretically, West Europe, situating at the very symbolic end of the New Silk Road and being an important final market for Chinese goods, should be given a primary place in the OBOR project. However, China’s inclusive approach does not mean that it regards all EU member states as equally relevant for OBOR. Within Europe, OBOR-labelled projects are in fact concentrated in two particular regions: Central and Eastern Europe and the European Mediterranean countries. Meanwhile, President Xi also addressed OBOR in speeches delivered in Germany and Belgium in 2014 and the United Kingdom in 2015. Some OBOR activities go beyond these two regions, such as the rail services to Germany and other Western European countries. China also considers the RMB
internationalization process in London as highly relevant for OBOR. While promoting OBOR, China has understood that an EU-led integrated Europe must be respected.

In fact, rather divergent opinions among EU states are given on OBOR. A survey in the ETNC 2016 December Report on the New Silk Road showed that a majority of governments being thought to have a “neutral” to “rather positive” attitude and many of them consider OBOR not relevant enough for their country. Therefore few states show strong incentive to take the initiative although they may be cautiously positive about OBOR. Meanwhile, some local or regional authorities, such as Duisburg, Hamburg and Lyon, are proactive as they perceive concrete potential interest in attracting Chinese investment under OBOR. The most consequential response to OBOR so far by European governments, in particular those in the West, has been joining the AIIB. On the other side, various European companies have responded positively to the new opportunities that come with OBOR. For the moment, many of these opportunities involve container terminals, railways and logistic services. Direct railways have been opened to link Poland, Germany, the Netherlands, France and Spain to China. The privatization process taking place in the public transport sector in some Southern Europe countries also offers acquisition and investment chances to Chinese firms. COSCO and other Chinese port companies are investing in seaports in Belgium, the Netherlands, Croatia, Slovenia, Italy, Portugal, Spain, Latvia and Lithuania. As one feature of OBOR, it is worth noting that many of these projects date from before the launch of OBOR and have been given the OBOR label since 2013.

- **Western and Northern EU: limited impact**

In general, Western and Northern EU states’ engagement with the OBOR initiative remains mainly limited to their membership of the Asian Infrastructure Investment Bank (AIIB). The Chinese government also appears not to consider this part of EU as one of its priority regarding OBOR implementation. Still, some states or local governments are more actively involved, trying to take advantages of potential Chinese investments. We selected a few examples to demonstrate how OBOR is impacting or could impact China’s relation with these countries.

Among the Western EU members, Germany is probably the most directly concerned by OBOR as five German-Chinese railway projects (Leipzig-Shenyang, Duisburg-Chongqing, Hamburg-Zhengzhou, Hamburg-Harbin and Nurnberg-Chengdu) have come into place and more OBOR-labelled railway projects are envisaged. The railway connection between Duisburg and Chongqing has received high attention and strong promotion from both municipalities, leading to regular political and business delegations visiting on both sides. OBOR-related investment forum and research conference have taken place in Duisburg in 2015 and 2016. However, while trains importing merchandises from China are generally fully filled up by electronic products and others, trains back to China often have problem finding insufficient goods. Russian sanctions on European goods further complicate the situation. Public and private efforts have been made to increase the efficiency and frequency of these railway connections, but there are still technical details, such as the refrigeration system and temperature variations, to be solved. As so far, except the railways, OBOR has not brought further infrastructure investments, nor M&A investments, nor greenfield investments in Germany. Germany has been advocating in Brussels the EU-China Connectivity Platform as a way to
ensure that OBOR-related Chinese investments in Europe comply with EU rules and standards. A German director together with two French and Dutch alternative directors hold 15% voting rights on the AIIB board on behalf of the Eurozone members, which could also play an indirect role in shaping OBOR activities. Berlin will certainly take advantage of its G20 presidency in 2017 to integrate OBOR with its development policy and to push forward EU-China connections and cooperation based on mutual interest.

Compared to Germany, France has received much less attention from the Chinese government and few Chinese investments within the OBOR frame. China’s strategy has been very low key in France, which consists more of discussing potential economic opportunities and brainstorming with businessmen, officials and researchers. The French government also lacks a clear position on the topic. More actively involved are a few French regions. Lyon, the French “City of Silk”, has welcomed its role as a historic, commercial and political hub in Europe, and seeks opportunities to attract Chinese investment and open the Chinese market. The Chongqing-Duisburg Yuxinou express has extended to Lyon since April 2016. The region of Normandy tries to interest Chinese investors by its deep-water port Le Havre and connections to the inland ports of Rouen and Paris. In fact, in the past years, in order to attract Chinese investors, many French regions and municipals have taken active actions to promote their local advantages and business ecosystem. A few recent Chinese investments in France have also made huge sensations, such as the Symbiose Consortium’s acquisition of a 49.9% stake in the operator of the Toulouse Blagnac airport in 2014, Fosun’s full acquisition of Club Med and Jin Jiang International’s takeover of Louvre Hotels Group in 2015. Aging French infrastructure and reducing public resources provide privatization potentials. Opportunities also present in sectors such as transport, telecommunications, tourism and pharmaceuticals. It is however rare to perceive OBOR-labelled projects in France. The only symbolic action has been a Silk Road partnership agreement signed in June 2015 between French shipping company CMA CGM and China Merchants Holdings International. CMA CGM obtained a US$ 1 billion credit line from the Export-Import Bank of China to purchase Chinese container ships (ETNC, 2016).

The Netherlands is among China’s largest trade partners in the EU. Imports from China account for 1/3 of all goods arriving at the port of Rotterdam, which plays a crucial role for the Dutch economy. Schiphol Airport, opening direct links with various Chinese cities in recent years, has benefited fast growth in air freight from the Netherlands to China. Yet, on his first visit to the Netherlands in March 2014 President Xi did not mention OBOR, while during his subsequent visit to Germany at the inland port of Duisburg he publicly called for Sino-German cooperation to expand the Silk Road’s overland route. Nevertheless, some companies are actively promoting OBOR-related businesses. One is China COSCO Shipping’s acquisition of a 35% stake in the Euromax Terminal at Rotterdam in May 2016. Another is the weekly freight train between Chengdu and Tilburg started in April 2016, which was further extended to Rotterdam since September 2016. Trains from Chengdu contain consumer electronics from companies such as Sony, Samsung and Fuji, while trains from Tilburg carry products for the oil industry, cars, wine and trees. In July 2016, three Dutch transport companies launched a joint venture called New Silkway Logistics (NSWL), providing service for end-to-end transport of goods via the Duisburg-Chongqing railway.
Even though the impact of Brexit is still uncertain, the UK’s engagement in OBOR as a major European country is affirmative. Also, the geographic limit of OBOR has not prevented the UK government and business from responding proactively to the initiative. A good demonstration is the UK being the first European country to join the AIIB in March 2015, which was a political message supporting a Beijing-led institution that the UK sees as being useful in the long-term economic development of Asia and Europe. The primary logic behind the desire to engage with the OBOR initiative is the opportunities it could bring for British companies and for the financial services sector in London. The main focus is an “infrastructure alliance” with Chinese companies in third markets through the role of financial hub for OBOR. A major report entitled “One Belt, One Road” issued in 2015 by the CBBC (China-Britain Business Council) highlighted particular opportunities in a range of sectors. The CBBC has produced another report of OBOR case studies in collaboration with Tsinghua University⁴, citing cooperation between British companies, such as HSBC, BP, Linklaters and KPMG, and Chinese partners in forms of consultancy, engineering, technologies know-how and construction expertise. The UK’s proactive attitude indicates the primacy it gives to economic and commercial diplomacy, as well as its pragmatic response to the growth of Chinese influence in global affairs.

Regarding the Northern EU, OBOR’s impact has been even more limited. There are hardly diplomatic exchanges upon the topic of OBOR and few references to OBOR in the public vision. Although a Swedish high-speed railway and two private windmill projects are labelled OBOR projects by the Chinese, there are no actual OBOR projects in Sweden according to the Swedish Foreign Ministry. It is more likely that these states, already frequently present in Central and Southeast Asia, could contribute to OBOR through participation in activities in third regions and by providing green technology to infrastructure and energy projects.

- **Central and Eastern Europe: the “16+1” frame**

The “16+1” mechanism is a platform created in April 2012 by the Chinese leadership which seeks a stronger connection between China and the 16 CEE countries, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia. Under this approach, China and the 16 CEE are working closely to increase trade volume; a US$10 billion special credit line was established in 2012; an investment fund between China and CEE was set up with the goal of raising US$500 million in the first stage; a three-year currency swap of €1.2 billion was made with Hungary, and another €240 million with Albania (ECRAN, 2014). The main driver of China’s new focus is the Eurozone crisis and the promising growth performance of CEE countries. Trade between China and the CEE countries reached $56.2 billion in 2015, up 28% over 2010. Chinese investment in the 16 CEE countries exceeded $5 billion, while the CEE nations have invested more than $1.2 billion in China. CEE countries increasingly import higher technology products from China, while exports to China remain largely low-tech.

From the CEE perspective, the OBOR initiative can be described more as an ad-hoc integration of the previous regional CEE 16+1 project into a broader framework, which is only distantly linked to the EU-China strategic partnership. In the same logic, many previously agreed joint

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projects have been given the OBOR label later. Still, CEE countries showed that they are able to adopt an active policy of cooperation with China and the status of Central Europe within the region and in the EU has been raised. Countries which hosted 16+1 summits, such as Serbia and Romania, also observed increased interest from enlarged foreign investors. However, there are evident discrepancies between EU and non-EU members, especially in terms of investments and infrastructural projects. The Chinese credit line has been used mostly by non-EU countries due to regulatory frameworks, for example, in Bosnia and Herzegovina for the construction of a thermal power plant, in Macedonia for building highways, in Serbia for a Belgrade bypass, and in Belgrade for building a bridge over the Danube (PISM, 2016). Overall, the level of Chinese investments has been modest until now and manufacturing bases that China has announced to set up in Central Europe are still to be located.

The 16+1 flagship project and the most visible OBOR project so far in CEE is the reconstruction of railway line between Budapest and Belgrade by a consortium of the China Railway Group, China Railway Corporation and the Hungarian State Railways. The project was first agreed in 2013 and according to the original plan should be completed by late 2017. However, at the end of 2016, there has been little progress. Many agreements are not yet implemented and there are concerns about the $1.9 billion credit line providing by the Export-Import Bank of China increasing Hungary’s national debt. Moreover, given that the consortium is based on an inter-governmental agreement but not through tender procedures, the European Commission has initiated preliminary infringement proceedings against Hungary. In the recent Riga summit, it was agreed that that the consortium will announce a tender and sign agreements with contractors. In fact, besides obvious connection advantages, this project would also be an opportunity for Chinese construction companies to create a tract record within the EU and to mitigate their overcapacity problem.

Another important project under OBOR and “16+1” is the Adriatic-Baltic-Black Sea seaport cooperation, announced at the Suzhou Summit in 2015, which aims to integrate the development of ports, including those in the hinterland, as well as logistic hubs, economic zones and transport corridors in the related regions. Still in planning, it is regarded as complementary to the land transport developed under the OBOR initiative.

Poland, Hungary and Slovakia were among the first countries to sign a memorandum with China on the OBOR initiative. In Poland, one of the leading economies of the CEE 16, OBOR is perceived as an opportunity to expand exports to China and to attract Chinese investments for improving local infrastructure and for reindustrialization. But there has been no specific strategy or institution devoted to OBOR so far. Polish companies are not very active regarding OBOR as they do not have enough knowledge about the Chinese market. To date, China has rather recast existing projects under the OBOR, in particular the Lodz-Chengdu line, launched in April 2013 and further extended to Xiamen in August 2015, and Warsaw-Suzhou line, launched in September 2013. The Lodz-Chengdu-Xiamen railway is operated by a Chinese-Polish joint venture. A future plan is to link Lodz to Malaszewicze in Belarus and to include the Lodz terminal into Lodz Special Economic Zone so that good arriving from China could enjoy custom-free treatment.
Hungary has the chance to be one of the first CEE 16 to host a major OBOR-labelled project. But besides the Budapest-Belgrade railway, Hungary so far has offered rather little interest for Chinese companies in other domains such as infrastructure, industry and investment. Local companies are too small to join construction projects in third countries and their knowledge on OBOR is very limited. Meanwhile, Hungarian politicians have been actively promoting Hungary’s position as the tourist and cultural centre in the CEE region, which led to the opening of the first office of China National Tourism Administration in Budapest in March 2016 and an advertisement campaign of “Beautiful China, Silk Road”. The Europe China OBOR Culture & Tourism Development Committee was also formed in Brussels in April 2016.

Similarly, Slovakia has offered China collaboration opportunities in a number of fields, including constructing a terminal at Bratislava airport and extending the express railway from Belgrade-Budapest up to Slovakia and beyond, which, however, failed to gain interest from Chinese partners. The only deal so far made in Slovakia was the purchase of a 10% stake in J&F Finance Group, operating in banking, property and energy and is active in the markets of the Czech Republic, Slovakia, Croatia and Russia, by CEFC China Energy Company Limited in 2015.

Czech Republic has attracted Chinese investments in financial services, healthcare, aviation, transportation, media, tourism and real estate, even though the share of Chinese FDI represents only 0.35% of its total FDI in 2015 and might not have an impact on the national economic performance. Many of these deals were made or led by the CEFC China Energy Company Limited, which is increasing its investments in the CEE region and has chosen Prague as the strategic centre of its expansion. It is expected that Chinese investments would bring both financial resources and political influence to Czech groups. However, these deals mostly do not match the country’s need to increase exports, boost high-tech industries and create employment. So far, the only OBOR-related investment is the plan to connect the Danube, the Oder and the Elbe through a canal over Czech territory.

At the China-CEE summit in November 2016, with the issuing of Riga Declaration, China and CEE leaders agreed to further enhance cooperation and increase people-to-people exchanges within the OBOR and 16+1 frames. The Riga Guidelines are a clear attempt to find synergy between the 16+1 and EU-China relations. It stressed that infrastructure and logistics projects under the OBOR initiative are in line with the EU-China Connectivity Platform, including the Investment Plan for Europe and projects within the Trans-European Transport Network (TEN-T) policy. Potentially, Chinese equipment, European technology and CEE markets combined will be a great model for cooperation between China and CEE countries. To this end, a €10 billion investment fund was set up during the summit (with the aim to raise €50 billion in total), which will be run by the financial holding of the Chinese bank ICBC (PISM, 2016). There are also plans to set up a 16+1 inter-bank association.

For China, even though OBOR has a grander application, the 16+1 remains a useful instrument for gaining knowledge about the region, obtaining investment opportunities, and leveraging political support on international issues. China has been promoting recently the 16+1 as “open”. With more countries joining the 16+1, China may enjoy a rising international status and attract more allies for its interests. For example, Hungary has declared support for granting China market economy status and sustained earlier than other EU states China’s
position on the South China Sea issue. It is obvious that the 16 countries will certainly continue to use the format to strengthen bilateral relations with China and secure their own interests. Meanwhile, China is becoming more proactive in seeking opportunities for OBOR. During a rent visit to Poland, the Chairwomen of the Foreign Affairs Committee of the Chinese Parliament urged Central European countries to loosen administrative barriers for OBOR projects in exchange for the status of the Silk Road logistical hub.

- **Southern Europe: strategic investment**

The Southern Europe is uniquely situated at the intersection of the Chinese geopolitical, commercial and investment strategies that have involved into the OBOR. Since the announcement of the OBOR initiative, the Chinese government has kept a more proactive attitude towards Mediterranean countries. As we have shown, the interest and actual engagement in OBOR not only diverge a lot among EU members but also vary significantly inside one country regarding different municipals and regions based on their own logistical and business connections with OBOR. Even among different sectors and businesses, those with stakes in Eurasian trade are much more actively involved in promoting OBOR-related activities. Regarding Southern Europe, the actual deployment of OBOR is more of a cherry-picking Chinese strategic investment in some important and undervalued ports and facilities in the region, rather than a clearly defined cooperation schedule among China and local governments and business. One particular condition in the Southern Europe is the on-going privatization of public transport and large facilities due to the economic slowdown and public debt crisis, and diminished financial resources.

Greece hosts one of the few large-scale OBOR-labelled projects in Europe: a potential $4.3 billion investment by the China Ocean Shipping Company (COSCO) at the port of Piraeus that aims to promote Chinese commodities in South-East and Central Europe. The following table resumes the progressive actions of COSCO. Consequently, the annual throughput of COSCO’s subsidiary Piraeus Container Terminal (PCT) nearly quadrupled from 0.88 million TEU (Twenty-foot Equivalent Unit) in 2010 to 3.36 million TEU in 2015, making it the world’s fastest growing container port. COSCO Shipping is now the majority shareholder, taking over the port’s management and operation and the sale gives COSCO rights to run Piraeus until 2052. The deal was signed by COSCO and the Hellenic Republic Asset Development Fund (HRADF), which is in charge of privatizing public utilities given Greece’s current severe fiscal crisis. The investment will help boost Greek GDP and create new jobs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>COSCO invested in the port’s infrastructure and has brought in other leading operators (Hewlett Packard, Maersk and the Mediterranean Shipping Company).</td>
</tr>
<tr>
<td>April 2016</td>
<td>COSCO gained the majority 51% stake of the Piraeus Port Authority for €350 million.</td>
</tr>
<tr>
<td>August 2016</td>
<td>COSCO increased its current acquisition to a 67% stake of the Piraeus Port Authority for a total €368.5 million.</td>
</tr>
<tr>
<td>2016-2025</td>
<td>COSCO will invest €350 million over the next decade to improve the port’s facilities.</td>
</tr>
</tbody>
</table>

The Piraeus OBOR project is a key driver of Sino-Greek relations and Greece is certainly an important gateway in sea routes between Asia and Europe. Nevertheless, there is no clear OBOR strategy from Greek government or from China’s side regarding Greece. After winning
the bid for Piraeus port, COSCO was expected to integrate Greece’s rail network in order to build a major transhipment hub and access to markets in the north. However, the bid was won by the Italian State railway group, probably because COSCO was concerned with the political uncertainty in Greece aggravated by the migrant crisis. Another privatization scheme regarding the Thessaloniki Port Authority (THPA) in northern Greece could enter China’s OBOR strategy and interest COSCO.

Both the Spanish government and big Spanish companies have shown interest in OBOR, particularly regarding three sectors: construction and the management of large infrastructures; cultural tourism; and food exports. So far, the most developed OBOR-related project in Spain has been the train connection between Yiwu and Madrid through Kazakhstan, Russia, Belarus, Poland, Germany and France, which is the world’s longest railway. Different from the Chongqing-Duisburg railway, Yiwu-Madrid railway is loaded with low added-value goods: toys, stationary and other low-cost goods are sent from China, while olive oil, juice and food are exported by Spain. The train from Madrid was generally not fully filled. Russian economic sanctions on EU also preclude agricultural products from EU to China. The railway is not yet able to be self-profitable. Other OBOR-labelled projects concern the Spanish Mediterranean ports. A few investments have been made by Chinese groups in the Barcelona Europe South Terminal. However, China has also invested $3.3 billion to build a deep sea port in Cherchell, Algeria, which would compete with the Spanish ports. Regarding the cultural tourism, Valencia has been given the label of “City of Silk”. Together with other historic Spanish cities, Valencia could attract more Asian, and particularly Chinese, cultural tourists in the near future.

Table 4: Chinese investments in Spanish ports

<table>
<thead>
<tr>
<th>Year</th>
<th>Chinese investor</th>
<th>Spanish ports</th>
<th>Investment amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Hutchison Port Holdings</td>
<td>Barcelona Europe South Terminal</td>
<td>€300 million</td>
</tr>
<tr>
<td>2014</td>
<td>Hutchison Port Holdings</td>
<td>Barcelona Europe South Terminal</td>
<td>€150 million</td>
</tr>
<tr>
<td>2016-17</td>
<td>COSCO/China Merchants (potential investors)</td>
<td>The Port Authority of Valencia</td>
<td>€500 million</td>
</tr>
</tbody>
</table>

The “Five Ports Alliance”, a major container terminal project by the Northern Adriatic Port Association (NAPA) that involves ports in Italy (Venice, Trieste and Ravenna), Slovenia (Capodistria) and Croatia (Fiume), appears to be a regional response to the OBOR initiative. The project aims to create a docking system by building a giant offshore platform at the city-port of Malamocco near Venice in order to allow the huge Chinese cargo ships coming via the Suez Canal to unload goods and send them by railway connections through Germany and Switzerland to markets in Central and Northern Europe. It has received large interest from Italy and China and is financed by the Italian government and OBOR capital from the Chinese government and Chinese SOEs. Potentially, the “Five Port Alliance” will challenge the position of Piraeus and Istanbul in South-East European and Rotterdam, Antwerp and Hamburg in Northern Europe. Apart this flagship project, OBOR has not aroused much media and public attention in Italy. The few Italian companies that are lobbying at the government for a more positive involvement in OBOR are those operating in the logistics and infrastructure sectors. Another movement that has attracted the attention of some Italian political and business leaders is the takeover of Italy’s premium tyre maker Pirelli by China National Chemical and the Silk Road Fund in 2015. The ICBC has also opened a few branches in Italy recently to
provide loans to OBOR-related projects. However, as for many other EU states, an overall OBOR strategy is lacking, which impedes more companies to take concrete actions.

Even though Portuguese authorities have not produced any statement indicating an official OBOR strategy, this has not prevented China from taking interest in making Portugal part of the Maritime Silk Road. Under the pro-privatization stance of the Portuguese government, Chinese FDI in Portugal, mainly by large SOEs, has registered considerable growth in the last five years (see the following table). Moreover, these investments are mostly strategic investments, as Portugal can help China expand into markets in Africa and Latin America because of its colonial history. The Chinese government and companies perceive Portugal as relevant for enhancing connections between China, Western Europe and Africa. Recently, a Chinese delegation from Ningbo-Zhoushan, which ranks fifth in the world in terms of container handling, visited the Port of Sines in search for investment opportunities.

Table 5: Chinese investments in Portugal

<table>
<thead>
<tr>
<th>Chinese investor</th>
<th>Portuguese company</th>
<th>Shareholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 China Three Gorges Corporations</td>
<td>Electricidade de Portugal (Portugal’s public electrical power supply company)</td>
<td>21% stake</td>
</tr>
<tr>
<td>2012 State Grid Corporation of China</td>
<td>Rede Energética Nacional (Portugal’s national electrical grid operator)</td>
<td>25% stake</td>
</tr>
<tr>
<td>2014 Fosun International</td>
<td>Caixa Seguros e Saude SGPS SA (Portugal’s largest insurance group)</td>
<td>80% stake</td>
</tr>
<tr>
<td>2016 China Hainan Airlines</td>
<td>TAP Portugal Portugal’s national air carrier</td>
<td>23% stake</td>
</tr>
</tbody>
</table>

Conclusion

The context of EU-China relations has dramatically changed over the past five years. China’s interest in Europe has expanded geographically and substantially. While some common patterns exist, new trends in investment and trade relations with China are highly differentiated across Europe and across sectors. China is following its own distinct and flexible foreign policy approach when dealing with the EU. The lack of clearly defined OBOR-response plan in most European countries is weakening the bargaining power of their cities and companies. Chinese players are constantly examining new development in European markets and are attentive to seize opportunities whenever they emerge. The EU is important for China as an economic partner but the individual member states are also key players in China’s broader global strategic initiatives, in particular the on-going OBOR project, and probably each of them has a different role to play given their wide divergence. We are now witnessing the reconfiguration of multilateral and international institutions, as well as the emergence of a more multi-polar global order that precisely expresses itself and draws from concrete projects like OBOR.

According to MOFCOM, during 2016 Chinese firms have invested $14.5 billion in non financial projects in countries along the OBOR, with the majority of investment directed to Singapore, Indonesia, India, Thailand and Malaysia. At the same time Chinese firms have won $126 billion
project contracts in 61 countries, marking a significant 36% periodic growth. However, three years after the launch of the OBOR initiative, the economic impact of concrete OBOR projects in Europe remains relatively limited. Meanwhile, in some sectors, in particular railway transport, maritime ports, public facilities and financial investments, we observed active expansion of Chinese shareholders. Their actions generally follow the connectivity logic of the OBOR while privileging undervalued strategic investment opportunities. As a result, a two-axis connectivity map of OBOR in Europe starts to emerge, with an east-west railway network between different Chinese cities and several terminals in Western and Southern Europe, and a south-north logistics network linking the Piraeus Port of Greece, ports in Italy and Baltic region through Central Europe.

Differentiated attitudes are manifested by individual member countries of the EU. While Western and Northern European countries often adopt pragmatic and wait-and-see attitude, CEE 16 countries and Mediterranean governments are more engaged with OBOR and offer substantial opportunities to attract Chinese investment. Departing from its previous focus on the large EU member states, China and Chinese investors are now paying more attention to countries in the Central and Southeast Europe. At the same time, China’s increasing economic impact in these regions also results in a stronger capacity of Beijing to influence the political position of these states, which will challenge EU’s rule setting power and complicate the diplomatic relations among member states.

OBOR increases China’s presence in Europe’s neighbouring countries and in critical areas of European interest, such as the Middle East and East Africa. Therefore, the OBOR initiative should also be a platform for EU-China cooperation in third markets, including the Central Asia, the Middle East, the Southeast Asia and Africa. China could also leverage European countries’ knowledge and experience regarding these regions. Even though third-country cooperation is still in early stage, some joint actions are already going-on: Germany and China plan to launch joint projects to support Afghanistan with regard to infrastructure, energy, transport, environmental protection, agriculture and health; a joint declaration for “trilateral” cooperation between France, China and Africa was signed in June 2015 in addition to a vehicle for developing “roads of green growth”; the Silk Road Fund has financed the development of the Yamal liquefied natural gas terminal in Russia, in which Total has a 20% stake.

As China’s interests abroad expand along with the deployment of OBOR, the need to provide security to both railways and sea roads and to protect the interests of Chinese companies inevitably grows. China has built its own blue-water navy and has made investments in ports throughout the Indian Ocean (Colombo in Sri Lanka and Gwadar in Pakistan), around the Horn of Africa (Djibouti) and in the Mediterranean (Cherchell in Algeria) (ETNC, 2016). A Chinese military logistics facility was opened in Djibouti in 2016, alongside the existing French, American and Japanese facilities. These movements are within the rationale of OBOR and are coherent with China’s ambition to participate more actively in global affairs, but could be felt as a potential threat by states in nearby zones and by foreign troops already present.

At the broader diplomatic and strategic level, OBOR has come to symbolize China’s growing significance in international affairs, reshaping regional dynamics and renewing global order. It

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5 http://hzs.mofcom.gov.cn/article/date/201701/20170102504429.shtml
most well manifests China’s increasing willingness to take a proactive part in regional and 
global issues, including trade, infrastructure development, project financing, governance 
reform and international security. The AIIB is already an alternative to the traditional western-
institutions-led development financing. The EU, as a perfect representative of the Western 
institutions, has met some difficulty engaging with the very Chinese style OBOR initiative. The 
EU's core value, which underlines civil laws and human security, is still different from the 
Chinese government’s emphasis on regime stability and state-centric security. The EU’s 
insistence to regulations and procedures sometimes is confronted by the flexible pragmatism 
of the Chinese capitalism. But their responsibility as regional powers, their shared interest in 
promoting a rule-based and inclusive global order, forms a solid foundation for EU-China 
dialogue and cooperation on OBOR-related issues. With the US getting more concentrated on 
its own territory, a more proactive and engaged EU-China relation revitalized by the OBOR 
initiative will be an indispensable catalyst for deeper Eurasian trans-continental economic 
integration and higher regional security.

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