SUMMER 2019 / ISSUE NO.14

$ 15.00 | € 10.00 | 1500 RSD

HORIZONS

JOURNAL OF INTERNATIONAL RELATIONS AND SUSTAINABLE DEVELOPMENT

ISSN 2406-0402

THE IMPORTANCE OF BEING EARNEST

GEOPOLITICS OF REALISM

ALMAGRO • CLEARY • COUNTRYMAN • DAALDER • EDMONDS • GALLON
HEIPERTZ • KÜHN • LINDSAY • MASAGOS • MEARSHEIMER • PETERSON
POWERS • SAHBAZ • SKALA-KUHMANN • SUROTCHAK • THOMSON • TRIVEDI

cirsd.org

EUROPEAN RESPONSES TO BRI

AN OVERDUE ASSESSMENT

Astrid Skala-Kuhmann

THE BELT and Road Initiative (BRI) is arguably the largest and most ambitious global connectivity initiative of present times, and forms a central part of China's foreign policy strategy and geopolitical vision. Since its launch by President Xi Jinping in Kazakhstan and Indonesia in 2013, BRI has expanded fast from '*one* belt and *one* road' into "*many* belts and *many* roads,' across countries, regions, and continents. China now touts BRI as an economic policy strategy aimed at reviving the ancient Silk Road trade routes to promote connectivity in various forms, mostly through large-scale infrastructure investments, including people-to-people bonds.

What started as a vision within the context of the Shanghai Cooperation Organization (SCO) and ASEAN, developed into a broader global endeavor, which in 2019 includes some one hundred countries that have signed BRI Memoranda of Understanding and other BRI related cooperation agreements with Chinese institutions and corporate China.

In the sixth year of its existence, BRI has still not seen a unified approach from geographical Europe or, for that matter, from the European Union or even EU member states. However, the EU recently came out with a strategy on EU-Asia connectivity and has addressed BRI several times in EU-China dialogues. At the same time, EU member states and non-EU states, as well as European financial institutions such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) have already become engaged in BRI in many different ways.

For instance, half of EU member states have already signed BRI-related agreements, while many top European companies are also already participating in BRI. It is therefore time to take stock of the various European reactions to BRI in three broad categories: the financial sector, corporate Europe, and institutional Europe.

Dr. Astrid Skala-Kuhmann *is an independent Senior Adviser on China and the Belt and Road Initiative as well as former China Country Director on Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ)GmbH.*

Photo: Kremlin.ru

Leaders meet at the 2019 BRI Forum in Beijing

CHINA'S FOOTPRINT IN EUROPE

From the outset, China has situated Europe as the Western terminus of BRI, envisioning the new Silk Road as what amounts to a flagship link between China and the EU. Accordingly, during the five years since BRI's launch, the EU, its member states, and also non-EU states in Southeast Europe became subjects of China's attention in many ways.

Europe became a prime destination for China's FDI. For example, in 2015, China's acquisition of Pirelli in Italy—which gives China access to one of the most important vehicle tire manufacturers globally—was partly financed by the Chinese Silk Road Fund, a BRI financing vehicle. It was a showcase purchase designed to demonstrate significant BRI engagement in Europe.

Another example was the 2016 acquisition of 51 percent of Greece's Piraeus Port Authority by China's COSCO Shipping, the largest shipping company in the world. China touted the investment as a contribution to the future of Sino-

European trade, and as part of the "maritime" portion of BRI. When it comes to the per capita inflows of investment in Europe, Portugal has also become an important BRI target. China engaged in Portugal in investing in a broad range of strategic assets, such as electricity, transportation, oil, financial services, insurance, health and real estate.

However, a recent report released by the Rhodium Group and the Mercator Institute for China Studies shows that the lion's share of Chinese investment in the EU's 28 member states continues to go to the three biggest economies in Europe—namely, the UK, Germany, and France—none of which have formally joined BRI.

The lion's share of Chinese investment in the EU's 28 member states continues to go to the three biggest economies in Europe—namely, the UK, Germany, and France—none of which have formally joined BRI.

The report also shows that Chinese FDI in Europe continued to decline in 2018, which corresponds with the fall of Chinese FDI on a global level. Four main reasons explain this trend. First, stricter capital controls in China, as well as political and regulatory pushbacks against China in advanced economies. Moreover, in Europe in particular, the decline of Chinese FDI is also caused by the fact that EU member states are modernizing their FDI screening regimes. Lastly, the new EU screening framework, which was initiated in 2018, will probably impact Chinese investors and further reduce Chinese FDI in the region.

Besides Chinese FDI in EU member states, which was in general not classified as part of BRI from the European perspective, BRI arrived in several EU member states through prestigious projects in the transport sector. For example, the Chongqing-Duisburg railway line, established in 2016, reduces the transportation time between the two cities by approximately 12 days.

Duisburg Port has now became Europe's central logistics hub. Around 80 percent of trains from China make it their first European stop now, using the northern Silk Road route via Khorgos on the China-Kazakhstan border. Another example of BRI connecting China and Europe is the new railway service between the Austrian capital of Vienna and the Chinese freight hub of Chengdu, which was launched in 2018. It is the first direct rail service connecting Austria to BRI.

Initially focused on Western Europe as a prime target for Chinese investments, China has turned increasingly to Central and Eastern European Countries (CEECs) in promoting BRI. The institutional framework within which this targeting has taken place is the "16+1 network," which was established in 2012 as a multilateral cooperation format for dialogue and cooperation between China, 11 EU member states, and five Western Balkan countries.

Several BRI projects have been framed in the context of 16+1, with a special focus on the Western Balkans. In the six years since BRI's launch, China has also established a strong footprint in Eastern and Southeast Europe as a provider of loans, as well as both an equity investor and facilitator of infrastructure projects to EU member states and EU candidate and association countries.

Initially focused on western Europe as a prime target for Chinese investments, China has turned increasingly to Central and Eastern European Countries (CEECs) in promoting BRI.

Dissonant Criticisms

Although China's economic and political footprint in Europe began to increase in the wake of BRI's launch in 2013, EU institutions, namely the European Commission, did not respond with a unified approach to China's grand foreign policy design for a long time.

BRI was heavily debated in many European capitals, as well as in Brussels, from the outset. The response amounted to a combination of curiosity, confusion, criticism, and concern. Critical voices in the intra-EU debate tended to characterize BRI as a Chinese geopolitical strategy aimed at achieving global dominance and rewriting global rules. There was a general belief among observers in the EU that BRI would undermine European interests, such as rules-based public tenders, reciprocal market access, and European environmental and social standards.

BRI was also criticized within the EU for lacking an official definition of its geographical scope, as well as for the lack of classification and clear rules for projects to be included.

Furthermore, it was argued that BRI was neither structured as a single institution nor embedded in an overarching international framework, and that its implementation was mostly done in a China-dominated bilateral manner, with individual countries.

BRI was partly seen as a direct threat to Europe, in particular in instances in which China purchased ports (e.g. Greece), built bridges (e.g. Southeast Europe), and invested in the European Union's periphery (e.g. Turkey).

While BRI continued to be debated among European policymakers, institutions, fora, academia and media, lacking a clear response from Brussels, Europe had already started its engagement with BRI in many different ways.

Financial Involvement in BRI

Since 2015, EU member states and European institutions began getting involved in financing BRI projects through different forms of engagement. Out of 57 founding members of the China-led Asian Infrastructure Investment Bank (AIIB), 13 were from the EU, including four G7 countries (Germany, France, the UK, and Italy).

At present, 17 EU member states are members of the AIIB, with wide influence and shares: Germany is the fourth largest shareholder after China, India, and Russia. Engagement and influence by EU member states is growing. For example, the 2019 annual meeting of the AIIB, the first to take place outside Asia, will take place in Luxembourg—with many opportunities for European countries to contribute.

Apart from European memberships in the AIIB, European involvement in BRI materialized through the engagement of European and other international financial institutions with European membership, such as the EBRD and EIB: both have already been involved in BRI projects at an early stage and are expected to enlarge their shares in financing infrastructure projects across the BRI space. For instance, in April 2019, the EBRD signed a groundbreaking Memorandum of Understanding with the People's Bank of China on strengthening cooperation in third party markets within the BRI framework.

At present, 17 EU member states are members of the AIIB, with wide influence and shares: Germany is the fourth largest shareholder after China, India, and Russia. Engagement and influence by EU member states is growing.

Beginning in 2016, European commercial banks, especially in the UK and Germany, have also started seizing the opportunities on offer through BRI. Many of them have held conferences on BRI, tried to enhance their respective roles in the initiative, and set up task forces to coordinate their approaches across different business activities.

It is reported that their efforts are bearing fruit, with dozens of successful financing deals publicized that are in some way BRI related. For instance, in 2017, Deutsche Bank signed a Memorandum of Understanding with the China Development Bank (CDB), agreeing to cooperate with the aim of supporting BRI projects worth $3 billion. CDB and Deutsche Bank also agreed to establish a joint team in order to further cooperate on projects that promote BRI.

In addition, Standard Chartered Bank has reported positively on its BRI engagement and listed 20 financing deals linked to BRI that it has won in the past years. Standard Chartered is also part of the Green Belt and Road Investor Alliance, which was founded in London in 2017 by an international investor group that aims to support sustainable and investable projects along the BRI. The group will focus on creating tools for the efficient crowding-in of private capital to projects that also involve public capital.

Most recently, the level of engagement of EU-based entities in financing BRI projects has increased even more. On the occasion of the latest Belt and Road International Forum, held in Beijing in April 2019, several new cooperation agreements were signed. For instance, Standard Chartered Bank entered into an agreement with the China Export-Import Bank, one of the most active supporters of BRI in terms of lending volume. The two banks will support third-party market cooperation under BRI. The EBRD has also reinforced its BRI engagement and joined several cooperation formats, the most prominent being the Multilateral Cooperation Center for Development Finance, which was established by eight international financial institutions, including the EIB.

Despite the general reluctance on the part of EU institutions, as well as several EU member states, to engage with BRI, the proactive approach of European financial institutions and commercial banks, which has been constant since BRI's inception, should be welcomed.

Despite the general reluctance on the part of EU institutions, as well as several EU member states, to engage with BRI, the proactive approach of European financial institutions and commercial banks, which has been constant since BRI's inception, should be welcomed. This engagement is obviously not without its challenges, but the emphasis is rightly placed on the inherent opportunities to introduce European and internationally recognized standards to ensure maximum benefit for the parties and countries involved in BRI. The engagement of these financial institutions, as well as other multilateral development banks, can also generate development dividends while serving as an accelerator for achieving the UN's Sustainable Development Goals in BRI countries.

Corporate Interest from Europe

In contrast to the position of EU institutions and that of some leaders and policymakers from EU member states like the UK, Germany, and France, who have raised concerns about BRI (which has hampered efforts to allow the EU, as a bloc, to engage in the Initiative), European companies showed great interest in participating in BRI early on.

Half of EU member states have already signed BRI-related agreements, while many top European companies are also already participating in BRI.

They have engaged in trade, logistics, and infrastructure development within the context of BRI. Some have already participated directly in major infrastructure development initiatives and in the energy sector; others have benefited indirectly: for example, in the construction plant machinery industry, where European companies have enjoyed a sales boost as an indirect result of BRI.

Recently, the European insurance industry also became interested in exploring business opportunities in the context of BRI. Studies have shown that most of the countries that encompass the BRI geography have a very low insurance penetration rate. Therefore, the insurance markets in these economies offer considerable catch-up potential for the European insurance industry, and remain the main growth region for the insurance industry—including in marine insurance.

New BRI-created supply chain networks have also provided new opportunities for European companies. With more railway and port development projects, logistics companies could build new supply chain hubs and routes.

For example, in order to connect Lianyungang and Istanbul, global logistics company DHL has arranged to handle more freight traffic and now provides peer-to-peer services along the new route.

Another example of a strong engagement in BRI is German tech-giant Siemens, which decided early on to engage through BRI. Siemens sees itself as being uniquely positioned for BRI through its vast technology portfolio and in-depth knowledge of local market needs, in turn based on having a longstanding local footprint in most, if not all, of the economies in the BRI geography. Siemens was therefore among the first global companies to enter into partnerships with Chinese engineering, procurement, and construction companies (EPCs, for short) in their "go global endeavor."

In 2018, Siemens even opened a Belt and Road office in Beijing and held a BRI international summit in the city, signing nearly a dozen cooperation agreements with leading Chinese enterprises including China Gezhouba Group, Corporation International Engineering Co., China Railway Construction Corporation (International) Ltd., and China Civil Engineering Construction Corporation (CCECC). Joint targets include the market potentials of countries and regions like Indonesia, the Philippines, Africa, and South America.

BRI was heavily debated in many European capitals, as well as in Brussels, from the outset. The response amounted to a combination of curiosity, confusion, criticism, and concern.

With the aim of strengthening cooperation on jointly building BRI, Siemens also took part in the Belt and Road International Forum in April 2019, and signed a cooperation agreement in 2019 with the National Reform and Development Commission (NDRC).

A good overview of the rising level of engagement and interest European companies have shown in BRI is presented by the European Chamber of Commerce's *Business Confidence Survey in China* (2018).

More than half of respondents see opportunities in BRI and indicate that they have already benefited (directly or indirectly), or would like to do so. Strong opportunities are mentioned in particular in sectors such as civil engineering and construction. The financing, structuring, and insuring of BRI projects has reportedly seen active participation from European financial sector participants. In addition, 35 European legal firms have reported in the survey that they are also optimistic about BRI opportunities, as their expertise in foreign jurisdictions may facilitate cross-border deals and help resolve contract disputes.

A similar picture was observed in the German Chamber of Commerce's *Business Confidence Survey in China* (2017), which reports that about 30 percent of German companies operating in China are involved in BRI projects or are considering participating. Approximately 13 percent of the German companies said that they are already cooperating successfully with Chinese partners in the scope of BRI.

A wide range of engagement in BRI was indicated in the survey. The ranking is led by companies from the automotive industry (37 percent), followed by rail and shipping technology (21 percent), construction (20 percent), energy (15 percent), logistics (10 percent), and business services (10 percent). Existing involvement in these and more specialized fields is a good indication of the broad opportunities for foreign companies in BRI.

Another survey carried out (2018) by the *German Engineering Federation* (VDMA), Europe's largest industry federation, which has offices in Beijing and Shanghai, reports that 49 percent of VDMA member companies doing business in China have already benefited directly or indirectly, or see opportunities to join BRI.

That being said, it is evident that challenges and risks lie in wait for European companies in the context of BRI. All three surveys report the need for increased transparency and better access to projects and funding for European companies, in particular in the case of SMEs—as they often lack information and access to potential BRI projects.

To address this need, several initiatives have been launched by European industry federations, business councils, and industry associations. Some of these are based in Europe, while others are based in China.

All told, these initiatives—working separately or together—aim to fill the information gap and support European companies in seizing opportunities. For example, a guide was published recently by Germany Trade & Invest (GTAI) and the Association of German Chambers of Commerce and Industry to help companies better navigate BRI. Other business councils, like the Asia Pacific Committee of German Business, have formed task forces on BRI, together with individual member companies, in order to provide information on how to access BRI projects.

It is not enough for EU and national leaders to express reservations about the lack of reciprocity between Europe and China; they now need to take concrete steps to improve the business climate, deepen opportunities, and mitigate risks for corporate Europe.

In addition, British business associations have started providing information and other services on BRI for interested companies. For example, the China-Britain Business Council (CBBC) issued a belt and road report that aims to promote services to various business stakeholders that are working on, or wish to work on, BRI projects. In December 2017, the City of London became a partner of the Hong Kong-based Infrastructure Financing Facilitation Office (IFFO) to strengthen cooperation between the UK's central financial center and Chinese banks on projects related to BRI.

The EU's SME Centre in Beijing, funded by the EU and implemented by a consortium of six partners—CBBC, the Benelux Chamber of Commerce, the China-Italy Chamber of Commerce, the French Chamber of Commerce in China, EUROCHAMBRES, and the European Chamber of Commerce in China—generally provides a range of support services to European SMEs, getting them ready to do business in China. The EU SME Centre recently started offering special services to European SMEs interested in BRI.

Other commercial service providers, such as law firms and international consulting firms, but also commercial banks, have set up BRI task forces and issue relevant reports in China and European countries. They offer various services to their clients, including BRI dedicated websites, databanks, BRI briefings to newsletters, and individual support to help their clients monitor BRI closely for new opportunities and risks.

In summary, it is obvious that European companies have been, and still are, interested in BRI opportunities. They continue to show a strong willingness to engage within its framework, despite some difficulties regarding information, transparency, and access.

It is now up to EU institutions and the governments of member states to support this trend and establish appropriate policies and frameworks for helping corporate Europe better engage in BRI—and particularly in third markets along the BRI geography.

It is not enough for EU and national leaders to express reservations about the lack of reciprocity between Europe and China; they now need to take concrete steps to improve the business climate, deepen opportunities, and mitigate risks for corporate Europe.

The EU's Institutional Response

While almost half of EU member states have already signed bilateral cooperation agreements, and taking into account the fact that major financial institutions, as well as first-tier European companies, are increasingly engaged in BRI, the European Union itself had until recently failed to agree on an EU strategy to manage growing Chinese influence in Eurasia.

It was only in early 2018 that senior EU officials called for a collective response to BRI. The joint statement of the July 2018 EU-China Summit related explicitly to BRI and underlined the willingness of both sides "to continue to forge synergies between China's BRI and the EU's initiatives, including the EU Investment Plan and extended Trans-European Transport Networks, and to promote cooperation in hardware and software connectivity."

The statement also stressed the willingness of both sides "that this cooperation should improve the economic, social, fiscal, financial and environmental sustainability of Europe-Asia connectivity," and that "principles of market rules, transparency, open procurement and a level playing field for all investors" should be taken into account.

The summit statement also relates to the progress achieved under the EU-China Connectivity Platform, which was established in 2015 between the European Commission and the National Reform and Development Commission (NDRC) of China as a first response to BRI, with the objective "to strengthen information exchange on transport connections and transport facilitation and synergize related policies and projects, as well as create cooperation opportunities for Chinese and European enterprises."

In April 2019, during the 4th Chairs' Meeting of the EU-China Connectivity Platform, progress in raising the level of cooperation was underlined and an action plan was issued in which, among others, the exploration of joint projects is agreed. Already from the outset, this Platform aimed to identify projects for joint cooperation. During the 3rd Chairs' Meeting, both sides had agreed for the first time to look into third markets projects, which was highlighted as representing a new promising form of cooperation to engage more European enterprises in BRI.

In September 2018, an EU connectivity strategy for Asia was finally unveiled by the EEAS and the European Commission—five years after China's launch of BRI.

In September 2018, an EU connectivity strategy for Asia was finally unveiled by the EEAS and the European Commission—five years after China's launch of BRI. Its authors called it "Connecting Europe and Asia—Building Blocks for an EU Strategy." The document was presented as a European way to enhance connectivity and outlined, very generally, the EU's objectives in different areas related to connectivity, such as air, sea, and land transportation, as well as in the areas of digital and energy connectivity.

This document reads like a counternarrative to the ongoing infrastructure development with Chinese characteristics under BRI, even though BRI is not explicitly mentioned in the document even once. The strategy has therefore been cited by European observers for not offering a clear response on how to engage in, and with, BRI.

However, at the April 2019 EU-China Summit, a willingness on both sides to improve Europe-Asia connectivity was reaffirmed—as was a willingness to continue to forge synergies between the EU strategy on connecting Europe and Asia and the EU Trans-European Transport Networks, and BRI. The EU-Connectivity Platform is mentioned again as an important instrument to enhance communication and identify cooperation projects.

In addition, the European Union has also started reacting to China's 'go-global endeavor' through the promotion of foreign investment screening. In 2018, the European Commission released an agreement with EU member states on a framework for stronger FDI screening. The proposal was subsequently endorsed by the European Parliament and can be seen as a tool to find a more coherent and unified approach on FDI policies—and thus a more qualified response to China's FDI in Europe.

During the second Belt and Road Summit, in late April 2019, the European Union was again not represented at the highest level; on the other hand, some EU member states were. The latter category signed BRI-related agreements. In addition, European companies were also very visible at the highest level, as were EU-based finance institutions (these last entered into various BRI-related partnerships and agreements). The EU's highest-level representative at this summit was European Commission Vice President Maroš Šefčovič. His most notable quote from the time he spent at the event was that European companies "would love to be more involved in the Belt and Road Initiative, but we need a little bit more information."

So, instead of repeating concerns about BRI, or trying to counter BRI in Eurasia, or generally seeking to block Chinese investments in the European Union, the EU and its member states should instead build on already introduced policies and frameworks, such as the EU-China Connectivity Platform, as well as agreements signed by EU member states, to engage in BRI in a concerted manner and a more coherent and effective way, so as to maximize the benefits of BRI and simultaneously manage China's growing influence and impact in an effective way.