



## Europe and China's Belt and Road Initiative: Growing Concerns, More Strategy

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Geopolitical shifts are engendering a transformation of the globalized economic order that has flourished in the post-Cold War period. This trend runs deep and raises structural challenges, - such as the rivalry between different economic models, the competition for technological leadership as well as control over physical and digital connectivity. As the European Union (EU) now accounts for a lower share of world trade, investment, currency holdings, defence expenditure, and development assistance, this shift has also produced growing concerns about the EU's relative decline and its future economic security<sup>1</sup>.

### INTRODUCTION

These concerns are affecting the EU-China relationship, as they are leading the EU to a logic that merges economic with strategic considerations. Faced with the prospect of low economic growth, in Europe the political forces that ask for turning the distorted Sino-EU economic relationship into a level playing field

have become stronger. Through better market access, European exporters should be better placed to sell their goods and services on the rapidly expanding Chinese consumer market and, in the process, remedy the EU's trade deficit with China.

For sure, China continues to be regarded as a promising export market and destination for investment, but the image of China as a fierce and unfair competitor has gotten a strong foothold. Voices demanding that China take up greater responsibilities in redressing bilateral trade imbalances and supporting a sustainable global economy are becoming louder and more determined. A growing part of the European business community feels thwarted by China's trade barriers, industrial policies, and ineffective enforcement of intellectual property rights. Calls for more assertive trade policies and trade defence measures are resounding all the more loudly in the lobbying corridors in Brussels and the capitals of the EU Member States.

Shifts in the global distribution of economic power have changed the EU's relative position vis-à-vis China and in the process have put the

relationship on a more realist footing. As a result, concerns about relative gains are becoming more prominent. While the EU has not lost in absolute terms, since its overall trade balance is still positive, the economic basis for sustaining its high levels of welfare and consumption is eroding. Europe has come to realize that the fundamentals of its socioeconomic system of choice are at stake.

### **THE BELT AND ROAD INITIATIVE**

Against this background, Europe's initial enthusiasm for the Belt and Road Initiative (BRI) has abated. In the eyes of a growing number of critical observers, BRI is not only undermining the EU's internal cohesion, but it is also creating tough competition for European companies in terms of trade, investment and market access in Europe and Asia. European policymakers have increasingly come to realise that the impact of BRI goes beyond the European continent and is affecting the power balance and stability in Asia. As Asian markets are important export destinations for Europe and a majority of its sea-borne trade transits through the Indo-Pacific, it is vital for Europe's economic security to maintain a rules-based order and keep open the trade flows in the Indian and Pacific Oceans.

From that perspective, China's growing influence is not only having an impact on the position of the Western developed nations in the global distribution of capabilities. It also constitutes a challenge to the values and organizational principles that they stand for. China's growing economic clout has increased its political influence well beyond its borders and is turning it into a more confident player. Beijing is also developing alternative discourses of modernity and spelling out its own narrative of global governance. The Chinese narrative questions the ability of the present regime of global governance to provide economic and monetary stability, as

well as its authority in setting norms of good governance.

Meanwhile, the changing constellation of world power is affecting the EU's appeal as a model of integration and its status as a transformative power in international politics<sup>2</sup>. Europe is going through a process of "de-centring". The fact that most emerging countries – and China foremost among them – "are accumulating sovereignty or the means to stronger sovereignty, not sharing sovereignty as the European experience promotes, means that the European region remains quite exceptional in both its political dynamics and its strategic organization<sup>3</sup>".

Realising this, the EU has begun to take a more alert attitude toward China's rise. In March 2019 the EU issued a landmark communication stating that Beijing is a systemic rival in some areas, as well as a competitor and potential partner in others<sup>4</sup>.

### **EU-CHINA CONNECTIVITY**

This change in attitude has also affected Europe's response to BRI, which has turned more ambivalent. For one, the EU remains very much interested in engaging with and participating in BRI, hoping to shape the initiative, including through the EU-China Connectivity Platform. This platform offers a concrete possibility to engage in mutually beneficial projects of infrastructure construction, which would not only open up new ground for EU-China cooperation but also offer the opportunity for the two to join forces to promote stability and development in the vast Eurasian continent in between them. Seen from that angle, the Connectivity Platform is an experiment in reciprocal socialization that can bring the EU and China closer together<sup>5</sup>.

While substantive results have yet to materialize, so far the meetings of the Platform have enabled modest progress on: (1) policy exchange and alignment on the principles and the priorities in fostering transport connections between the EU and China, based on the Trans-European Transport Network policy and BRI, and involving relevant third countries; (2) cooperation on promoting solutions at the international level with a focus on green transport solutions; and (3) concrete projects based on agreed criteria including sustainability, transparency, inclusiveness, and a level playing field<sup>6</sup>.

As to future progress, much will depend on the extent to which analyses and viewpoints evolve and become increasingly aligned, and successful cooperative projects can be set up. If that would be the case, participants on both sides are more likely to gravitate toward consensus and step up their engagement in shaping a new order in concert.

### CHALLENGES

However, along with opportunities, there is an increasing awareness among European policymakers of the challenges posed by BRI. In the spring of 2019, EU ambassadors in China issued a report that was very critical of the BRI for being economically, environmentally, socially, and financially unsustainable. The report also criticized China for discriminating against foreign businesses, the lack of transparent tender procedures, and the limited market access for European businesses in China<sup>7</sup>.

China's growing involvement in the EU and its neighbourhood has also raised concerns. A telling example is Montenegro, "which in 2014 concluded an agreement with China Exim Bank on the financing for 85 percent of a highway construction project, with the estimated cost

close to 25 percent of the country's GDP. The IMF has repeatedly stated that construction should only continue on the basis of concessional loans. Many believe that a debt default is likely, which may result in the involuntary handover of critical infrastructure to China. There is already worrying precedent in that regard. Sri Lanka has been unable to repay Chinese loans for the construction of the Hambantota port. As a result, the port and surrounding acres of land, strategically located at the crossroads of the Indian Ocean, the Bay of Bengal and the Arabian Sea, will now be under Chinese control until the year 2116<sup>8</sup>".

Likewise, "China's entire or partial acquisition of ports in Belgium, the Netherlands, Spain, Italy, and most notably Greece", has generated mixed feelings<sup>9</sup>. In the absence of serious monitoring, China is buying up strategic infrastructure in Europe, whereas European foreign direct investment in China remains highly restricted.

European officials have also raised questions about the environmental and economic sustainability of various Chinese connectivity projects. For example, the planned construction of six coal-based power plants in Pakistan, whose joint output capacity equals 27 percent of the country's current capacity, has been criticized as environmentally unsustainable<sup>10</sup>.

All this has increased EU concerns about China's expanding influence in Asia, Central Asia, and Europe, which is not only about money and politics, but also involves technical standards and unbalanced trade.

### EU STRATEGY

To better secure its own political and economic interests, the EU has launched a new strategy for connecting Europe and Asia<sup>11</sup>. The strategy's emphasis is on sustainable, comprehensive and rules-based connectivity. Investments should

respect labour rights, avoid political and financial dependencies, and guarantee a level playing field for businesses. The strategy offers Asian and European states an alternative for BRI and indicates how the EU wishes to engage with them and what they can expect.

A crucial factor is the feasibility of the project, which will depend heavily on the allocation of sufficient funds by the EU, and the mobilization of additional investment from private and multilateral investors. United support from member states is crucial and outreach programs to get pivotal EU partners on board – including China – also need - to be put in place.

At any rate, the EU means business. Testifying to this is the recent signing by the EU and Japan of an ambitious deal to build infrastructure and set development standards in joint projects around the world. It is a riposte to China's growing assertiveness in regional and global order-shaping. The so-called EU-Japan connectivity partnership “will cover sectors from transport to digital industries as part of a wider effort to revive multilateral cooperation in the face of the US withdrawal from international agreements such as the Iran nuclear deal and the Paris climate change agreement”<sup>12</sup>. In line with the principles laid down in the EU's new connectivity strategy, the EU-Japan agreement calls for transparent procurement practices, the ensuring of debt sustainability and high standards of economic, fiscal, financial, social and environmental sustainability.

As the geopolitical competition in Eurasia is set to increase, with China, Russia, the United States and the EU competing for influence, the new connectivity strategy shows the EU's ambition to be part of the game. The infrastructure drive resonates with a wider EU push to transform itself into a true strategic player — “to better use the bloc's economic heft in trade, aid and investment to achieve strategic foreign policy goals”<sup>13</sup>.

## CONCLUSION

This strategic move has implications for EU-China connectivity. With the boundary conditions of their relationship in flux, cooperation between China and the EU on BRI faces serious challenges. While they have many interests in common, they are also competitors and rivals within the confines of an international order under stress. The relationship between China and the EU is mixed, consisting of cooperative and competitive elements. Two distinct underlying logics drive it: a power-based one and a transformational one<sup>14</sup>.

The power-based logic rests on a belief that because of anarchy it is impossible to overcome power politics and conflicts of interest. Interaction between the EU and China reflects their relative power positions and is therefore bound to display concerns about relative gains, making cooperation difficult. In contrast, the transformational logic resonates with a more liberal perspective. It suggests that under conditions of complex interdependence, rules and shared norms can sharply reduce conflicts of interest and mitigate concerns about relative gains through the creation of trust and reciprocal socialization, making enduring cooperation more likely. The power logic feeds into diverging trends; the transformational logic generates converging trends. The direction in which EU-China connectivity can evolve – more competition or more cooperation – is moulded by the relative strength of diverging and converging trends.

Building EU-China connectivity will not come easy. Growing concerns about economic security and relative gains, together with fundamental differences in their respective identities and societal systems, will continue to pose challenges on the road to concerted order-shaping. Policymakers and officials on both sides will need to engage in mutual learning if they are to overcome the differences that separate them.

EU-China connectivity will be a difficult balancing act between diverging and converging trends. At any point in the future, the resulting equilibrium will reside somewhere along a spectrum that extends from pure cooperation at one end to unrestrained competition at the other.

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## ENDNOTES

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