European versus American Perspectives on the Belt and Road Initiative

Madi Sarsenbayev, Nicolas Véron*

Abstract

China has started to deploy its Belt and Road Initiative (BRI) in the European Union (EU), and the EU in turn has regional and global interests that intersect with the BRI’s scope. Subject to future adjustments of China’s BRI strategy, the initiative’s potential contribution to the EU requirements for infrastructure development could be significant, even though its modalities in the EU are inevitably different from those in countries that are poorer or have more difficult financial market access. The EU’s attitude to the BRI, however, has not yet fully coalesced. Despite superficial similarities in public discourses, the EU has a profoundly distinct perspective from that of the US on the BRI, and more generally on the rise of China and its growing global influence. For the EU, the BRI generates challenges but also potential benefits. The EU should improve its ability to welcome sensible BRI projects, including through the adoption of greater reform of screening frameworks for foreign direct investment. More generally, the EU should enhance its ability to define policies independent of the US on China and the challenges resulting from China’s rise. China should also make further efforts to foster a constructive relationship with the EU.

Key words: Belt and Road Initiative, European Union, infrastructure investment, multiannual financial framework

JEL codes: F1, F2, F5, F6

Debate over the Belt and Road Initiative (BRI) in both China and the US often assumes a polarity between China and “the West,” with some analysts mistakenly believing that the West is essentially synonymous with the US and its interests and strategy. The reality, of course, is more complex. This paper focuses on the largest non-US component of the West, the European Union (EU), and how it relates to the BRI. Section I describes the BRI as it has been implemented so far, both in general and specifically in the EU.

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Section II analyzes the economic case for BRI projects and investments in the EU. Section III assesses strategic considerations for the EU and its member states. Section IV concludes with recommendations to the EU and others.

I. The Belt and Road Initiative and the European Union

1. The Belt and Road Initiative at a Glance

The BRI is a cooperation framework first articulated by President Xi Jinping during visits to Kazakhstan and Indonesia in September and October 2013, respectively (MFAPRC, 2013). It aims to promote connectivity, policy coordination and development on a transcontinental scale. Its formulation and substance have evolved over the years. In its early phase, it was referred to in English as “One Belt, One Road,” explained as consisting of a (continental) Silk Road Economic Belt connecting China to Europe through Central Asia and Turkey, and a seaborne 21st Century Maritime Silk Road, adding sea routes to Southeast and South Asia and East Africa. The scope was later broadened, with less specific emphasis on one belt or road and the corresponding rebranding (in English) as BRI from 2015 on, although the Chinese expression remains unchanged.

The definition of the BRI is highly flexible, and its geographical boundaries have expanded over the years. The Chinese government does not appear to release BRI-related data in a systematic or time consistent manner, leaving specification and quantitative analysis to others. Along with overhauling hard and soft infrastructure to enable higher trade flows, other goals referred to by Chinese officials under the BRI umbrella include developing various industries to facilitate financial integration, promoting people-to-people exchanges and building a digital Silk Road (NDRC et al., 2015; The Economist, 2018). In line with many other analysts, this paper envisages the BRI as mostly focused on “hard” infrastructure investment (especially in transportation and energy), which does not include agriculture, real-estate, tourism, manufacturing or telecommunications investment, such as fifth-generation networks, in its scope.

The geographical scope of the initiative is also not precisely defined and has expanded from its initial Eurasian focus to Africa and then all the way to Oceania and the Americas. The list of participating countries is correspondingly elastic. In an April 2019 report, the Office of the Leading Group for Promoting the Belt and Road Initiative, an organ of the Communist Party of China (CPC), stated that 125 countries had signed up for the BRI (OLGPBRI, 2019). In its reference study of BRI economics, the World Bank (2019) identified 70 BRI corridor economies (situated along the BRI transport
corridors), which, alongside China, collectively accounted for approximately 40 percent of global merchandise exports and 35 percent of global foreign direct investment (FDI) inflows in 2017. Ultimately, it appears that any country in the world is potentially a BRI country. This paper considers the BRI a global project that does not have any intrinsic restrictions in terms of its potential geographical scope.

The institutional framework of the BRI is similarly flexible. The Chinese government created a Silk Road Fund to invest in infrastructure projects in 2014 and organized two successive high-level Belt and Road Forum events in Beijing in May 2017 and April 2019. China has also been instrumental in creating two international financial institutions, the New Development Bank (NDB, initially the BRICS Development Bank) initiated at the 4th BRICS Summit in March 2012 and operational since 2016; and the Asian Infrastructure Investment Bank (AIIB) first announced by President Xi Jinping during his October 2013 visit to Indonesia, also operational since 2016. The NDB was thus born before the BRI, and the AIIB is not exclusively linked to BRI projects; moreover, its name suggests a narrower geographical scope of investment than the BRI.

Even with fuzzy boundaries, the BRI involves big numbers. In 2018, RWR Advisory Group, a private consultancy, identified 2220 BRI-related projects worth approximately US$1.1tn. Other scholars have assessed the size of the BRI at over US$4tn (Djankov, 2016) or even US$8tn (Wo-lap, 2016; Balding, 2017; Moser, 2017; Hurley et al., 2018). The World Bank (2019) estimated that the total BRI investments already executed, in the implementation phase or planned in 70 corridor economies (excluding China) amount to US$575bn.

The motivations behind the BRI are subject to extensive debate. There is broad consensus on the need for greater investment in infrastructure. The McKinsey Global Institute estimated that the world requires investment of an average of US$3.3tn annually in infrastructure, with emerging economies accounting for approximately 60 percent of that need (Woetzel et al., 2016). The Asian Development Bank (2017) reported that infrastructure requirements for developing Asia alone amount to US$1.7tn per year. Transnational infrastructure is comparatively underdeveloped as it involves collective action challenges. The BRI potentially fills both these funding and coordination gaps, contributing to improvement in global welfare. The World Bank (2019) estimates that BRI transport projects increase trade by 2.8–9.7 percent for BRI corridor economies and by 1.7–6.2 percent for the world as a whole. It also estimates increased trade to raise global real income by 0.7–2.9 percent, with corridor economies

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1Cited in Kynge (2018), which also refers to Center for Strategic and International Studies (CSIS) data.
enjoying the largest gains between 1.2 and 3.4 percent. The same analysis concludes that BRI transport projects could lift 7.6 million people from extreme poverty and 32 million from moderate poverty.

Other observers, however, contend that China is advancing the BRI to strengthen its own geopolitical clout. Chatzky and McBride (2019) view it as first conceived to counter the Obama administration’s efforts to forge closer economic ties with Asia ("pivot"). Peking University scholar Wang Jisi is often cited as having contributed to the vision of China “marching West” (i.e. toward Central Asia) as a non-confrontational offset of the Obama pivot and specifically to the Trans-Pacific Partnership initiative then promoted by the US, a vision that he promoted in several influential articles in 2010–2011 (e.g. Wang, 2011). Some have denounced BRI projects as Chinese “debt-trap diplomacy” that seeks to take control of BRI countries’ critical infrastructure by driving up their debts to unsustainable levels (Chellaney, 2017). Malaysian Prime Minister Mahathir Mohamad referred to “new colonialism” during a state visit to China in August 2018 (Hornby, 2018). An oft-cited case to support this argument is the port of Hambantota in Sri Lanka, which (together with 15,000 acres of land around it) was handed over to China in 2017 for 99 years following heavy losses (Abi-Habib, 2018). This narrative is far from universally accepted, however. Several scholars have noted that Sri Lankan debt repayment challenges are mostly unrelated to Chinese lending, that the port’s debt-equity swap includes a clause ruling out its use for military purposes and that Hambantota appears unique among Chinese investment projects in terms of fitting a debt-trap theory template (Dollar, 2019; The Economist, 2019; Weerakoon and Jayasuriya, 2019).

The Chinese authorities have taken note of such criticism and from 2019 have increasingly signaled their intent to correct their course on aspects such as debt sustainability, transparency and corruption. At the Second Belt and Road Forum in April 2019, President Xi Jinping emphasized the “commercial and fiscal sustainability of all projects;” mentioned the Debt Sustainability Framework for Participating Countries published by the Ministry of Finance of China (MFPRC, 2019); and encouraged other parties, such as multilateral and national financial institutions as well as private lenders, to take part in BRI financing (Xi, 2019). If implemented, the latter would constitute a significant departure from an earlier practice of funding BRI projects, which tended to exclusively involve Chinese money. Chinese officials have also vigorously denied that the BRI is motivated by strategic considerations (Mitchell, 2018). Dollar (2017, 2019) concluded that Chinese lending does not seem to discriminate in terms of geography and governance, implying that it was demand-driven rather than supply-driven by Chinese
planning. This finding may be further tested as more countries become associated with the BRI.

There is no shortage of domestic economic motivations for China to promote the BRI (Djankov, 2016; Cai, 2017). First, by investing in infrastructure along trade routes, China may hope to reduce trade costs and secure new markets for its goods. Second, it may seek to alleviate its chronic excess capacity, as BRI loan agreements often contain conditions requiring recipient countries to use Chinese companies and labor in infrastructure construction projects. Third, by denominating some of the loans in Chinese currency, it may strengthen the role of the renminbi in international transactions. Fourth, China has an interest in securing stable and uninterrupted energy supplies, with the BRI promoting several oil and gas pipelines. Fifth, by invigorating growth in BRI countries, China may shore up demand for its own exports. Sixth, the BRI may stimulate economic development in China’s western territories, such as Xinjiang autonomous region, which have historically lagged behind the eastern seaboard.

Besides China’s motives, the BRI is also shaped by reactions from recipient countries that have unsurprisingly evolved over time. Bangladesh, Malaysia, the Maldives, Myanmar, Pakistan and Sierra Leone have all cancelled or renegotiated BRI projects and/or related debts. In Central Asia, China’s rising presence has sparked concern over governance, environment, labor practices, corruption and mass migration from China (Le Corre, 2018). The initiative has also generated domestic criticism in China, for example, as a waste of Chinese wealth (Schrader, 2018).

2. The Belt and Road Initiative in the European Union

To the extent that the BRI (as initially formulated) is a project of Eurasian connectivity, Western Europe, most of which constitutes the EU, may be viewed as one of its two poles on a symbolic par with China. Seventeen out of 27 EU countries, located predominantly in South and Central Europe, have formally joined the BRI through the signature of a bilateral memorandum of understanding (MoU). Twelve of these are also members of the 17+1 Initiative, a separate project initially set up (as 16+1) in 2012 to promote economic integration through better connectivity between China and 16 Central and Eastern European (CEE) countries, subsequently joined by Greece in April 2019. Table 1 shows the respective status of EU member states with respect to the BRI and 17+1 Initiative, as of late 2019.

Chinese investments in the EU so far include a broad range of industries (Kirkegaard, 2020). BRI-type investments in transportation and energy infrastructure are particularly prominent in Greece and Portugal, and potentially in Italy as well.
Table 1. EU Member States in the BRI and 17+1 Initiative

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<tr>
<th>Country</th>
<th>BRI MoU</th>
<th>17+1 Initiative</th>
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<td>Belgium</td>
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<td>Cyprus</td>
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<td>Czech Republic</td>
<td>November 2015</td>
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<td>Denmark</td>
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<td>Germany</td>
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<td>Greece</td>
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<td>Italy</td>
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<td>Latvia</td>
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<td>Luxembourg</td>
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<td>Malta</td>
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<td>Poland</td>
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<td>Portugal</td>
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<td>Romania</td>
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<td>The Netherlands</td>
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Source: Authors’ own compilation based on publicly available information.
Notes: BRI, Belt and Road Initiative; MoU, memorandum of understanding.

The Greek port of Piraeus has become the second largest port in the Mediterranean (behind Valencia) and the 36th largest in the world (as ranked by Lloyd’s list) in the decade since China’s state-owned shipping and logistics conglomerate, COSCO, started investing in it in 2008 (TNH Staff, 2019). Separately, in December 2016, China State Grid acquired a 24 percent stake in Independent Power Transmission Operator (ADMIE per the Greek acronym), the national electricity grid utility (Koutantou, 2016).

In 2011, China Three Gorges, a state-owned major electricity enterprise, started investing into Energias de Portugal, an integrated electricity operator and the country’s
largest firm by assets, and now owns a controlling 28.3 percent stake (alongside China Ningbo International Corporation Co. Ltd., another Chinese state-owned investment company) (Le Corre, 2018). Separately, in 2012, State Grid of China acquired 25 percent of the equity of REN, the country’s electricity grid utility (De Clercq et al., 2014). As part of the BRI MoU signed with Portugal on 5 December 2018, China also concluded an agreement to invest in the southwestern Portuguese deepwater port of Sines.

The BRI MoU signed between China and Italy on 23 March 2019 includes pledges of investment into the Italian ports of Genoa, Palermo and Trieste, the latter boasting direct railway links to central European economies and a customs duty exemption (Chatzky, 2019).

China has also committed to provide the bulk of US$3bn needed to upgrade a high-speed railway line between Budapest (Hungary) and Belgrade (Serbia), although this project has suffered delays and difficulties that illustrate the potential friction between BRI practices and EU policy frameworks for its internal market and competition policy. In 2017, the European Commission (EC) was reported to have launched an investigation aiming to assess the project’s financial viability and determine whether the EU’s procurement rules had been violated. At the end of 2018, Hungary announced a new public procurement procedure as the best offer in the preceding tender significantly exceeded the original cost estimate (Kynge et al., 2017; Ferchen et al., 2018; Hungary Today, 2018). The Hungarian government is planning to finance 85 percent of the investment cost with a loan from China’s Export–Import Bank (Daily News Hungary, 2019). In other EU member states (e.g. Czechia and Poland), initial support for the BRI by public authorities has waned and no major investment project has materialized as yet (e.g. Dębiec et al., 2019; Sarek, 2019).

3. Perspectives on the Belt and Road Initiative outside the European Union

The EU has neither the intent nor the capability to project influence on a global scale the way the US does, even though several of its member states and various European institutions are involved in numerous efforts to promote development. The key relevant players at the European level are the EC; the European External Action Service (EEAS), a separate diplomatic service established in 2010; the European Investment Bank (EIB), an EU institution that is one of the world’s largest players in development finance (with the bulk of its financing going to projects inside the EU); and the European Bank for Reconstruction and Development (EBRD), a smaller institution that was created by a 1990 international agreement to help the former Communist countries of Eastern Europe.

\[2\] Serbia, unlike Hungary, is not an EU member state and thus is not specifically covered in this subsection.
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and Central Asia transition to market economy structures.

There is insufficient space in this paper to detail the interactions between EU development initiatives and China’s BRI in non-EU countries. Suffice to say that the latter lead to very different perceptions in the EU depending on whether they are targeted at countries in the immediate EU periphery, and particularly the Western Balkan countries, or in more distant geographies. The Western Balkans are either formally EU candidate countries (North Macedonia since 2005, Montenegro since 2010, Serbia since 2012 and Albania since 2014) or viewed as future candidates. Although there is no set date for their future accession to EU membership, their relationship with the EU is a strategic one. In other parts of the BRI geographical scope, relationships are generally less intense and, in many cases, are mostly directed at specific EU member states (e.g. former colonial powers) rather than at the EU as a whole.

Recently, the EU has been working on developing a more unified policy response to China’s BRI. On 15 October 2018, the Council of the EU endorsed a joint communication of the EC and the EU High Representative for Foreign Affairs and Security Policy (the EU foreign minister who relies on the EEAS; EC and EUHR, 2018). This communication was evidently drafted with the BRI in mind, although it does not explicitly refer to it. While announcing the communication, High Representative Federica Mogherini said that “our approach is the European Union’s way […] based on a respect for common rules,” and Jyrki Katainen, one of the EC Vice-presidents, stated that “we want to work with our Asian partners to improve connections […] while bringing our values and approach in doing so” (EC, 2018a). The text emphasizes that connectivity investments should be economically, fiscally, environmentally and socially sustainable in the long term (EC, 2018a) – implying higher standards than the BRI, which has been criticized in the EU for leading to sovereign over-indebtedness and supporting projects that make little economic sense.

This EU connectivity initiative, however, does not seek to isolate the BRI (Brattberg and Soula, 2018). It pledges the fostering of bilateral partnerships with Asian countries, including with China. The EU has underlined that it hopes to continue the existing dialogue with Beijing under frameworks already in place, such as the 2015 EU–China Connectivity Platform, to create synergies and find commonalities (EC, 2018b). In the joint statement of the 21st EU–China Summit held on 9 April 2019, the EU and China reaffirmed that they would continue to cooperate on their respective connectivity initiatives and strengthen mutual communication (EU–China Summit, 2019). However,

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3Five non-EU Western Balkans countries participate in the 17+1 group: Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia. China does not recognize the independence of Kosovo.
the Connectivity Platform has not yet delivered palpable results (Stanzel, 2019). Over the next multiannual budget cycle of 2021–2027, the EU plans to allocate EU€60bn to the EEAS to guarantee connectivity-related investments (Brattberg and Soula, 2018). It remains to be seen whether and to what extent the EU’s connectivity strategy will be able to tap into different financial resources and rally behind it a large pool of private investors.

The EU initiative takes place in an environment where other global players are simultaneously adapting to the BRI. The US recently overhauled its international development assistance with the creation in 2018 of the US International Development Finance Corporation (branded DFC) to “facilitate the participation of private sector capital and skills in the economic development of countries with low- or lower-middle-income economies”4 based on the prior resources of Overseas Private Investment Corporation (OPIC) and the USAID’s Development Credit Authority (Ingram, 2018). DFC will have a spending cap of US$60bn, a twofold increase from OPIC’s US$29bn (Runde and Bandura, 2018).

Japan has branded its infrastructure investment as the Partnership for Quality Infrastructure, emphasizing quality, transparency and debt sustainability, with a pledge to spend approximately US$200bn during 2017–2021 on infrastructure projects around the world (Brinza, 2018). In addition, Japan sponsored an increase in the lending capacity of the Asian Development Bank and introduced reforms to make the Japan Bank for International Cooperation (JBIC) less risk averse (Solis, 2019). In September 2019, Japan and the EU signed a Connectivity Partnership by which they seek to coordinate their connectivity efforts, particularly in such regions as the Western Balkans, Eastern Europe, Central Asia, Indo–Pacific and Africa (European External Action Service, 2019).

Australia, a comparatively smaller player, provides another noteworthy case study. While its federal government refused to sign on to the BRI, stating that it would consider projects on a case-by-case basis, the government of Victoria, a state in Australia, signed an MoU with China to advance cooperation within the BRI framework (8 October 2018). This has led to controversy not unlike in the EU (see Section III), as some have viewed the signing of the MoU as Chinese interference in Australia’s domestic affairs (Harrison, 2018).

In 2018, Australia, Japan and the US formed a Trilateral Infrastructure Project to address the infrastructure needs of the Indo–Pacific region. The initiative will draw on the resources of Australia’s Department of Foreign Affairs and Trade (DFAT) and Export Finance and Insurance Corporation, JBIC and OPIC (Wyeth, 2019).

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II. The Economic Case for the Belt and Road Initiative in the European Union

1. Infrastructure Gaps in the European Union

Investment in infrastructure in the EU has declined significantly in the past decade of financial and economic crisis. The European Investment Bank Investment Report 2018/2019 (EIB, 2018) notes that in 2016, overall infrastructure investment stood at 1.7 percent of GDP, down 0.5 percentage points from its peak of 2.2 percent in 2009. Furthermore, the EIB contends that growth in infrastructure investment has lagged behind potential GDP growth in six out of the last eight years.

This adverse trend has sparked intense debate in the EU over the causes and impact of Europe’s low spending on infrastructure. Some argue that the observed decline in infrastructure investment might reflect a saturation effect, meaning that most of the infrastructure the EU needs already exists. Others, however, contend that this narrative fails to account for the depreciation of existing infrastructure and, as a result, the need to maintain and replace worn-down structures and facilities. Moreover, continuous investments are needed to remove connectivity bottlenecks and accommodate social, migratory, demographic, technological and other changes (Brutscher and Kappeler, 2018; Zachariadis, 2018).

The EIB (2018) estimates the infrastructure investment gap in the EU (of 27 member states following Brexit) at approximately EU€155bn a year until 2030. This represents 1.2 percent of EU GDP. The largest gaps have been identified in the information and communication technology (ICT) and transportation/mobility sectors, where current investment levels fall short of investment needs collectively by approximately EU€100bn per year, or 0.76 percent of GDP. Health and energy generation and grids face the next largest investment gaps, which together add up to approximately EU€34bn per year, or 0.26 percent of GDP. Survey results further corroborate this picture. In a 2017 survey, which covered 555 municipalities across the EU, one in three municipalities indicated that infrastructure investments had been lower than needed in the past five years. Municipalities cite a lack of investment in urban transport, ICT and social housing in particular (EIB, 2017).

The EIB (2018) also states that the government sector accounted for 80 percent of the decline in total infrastructure investment over the previous decade. Fiscal pressure resulting from the euro area crisis of 2007–2017 played a major role in reducing government investment, which tended to shift fiscal outlays to current expenditure. According to the same 2017 EIB survey, 58 percent of municipalities named tight budgets as a major obstacle to their investment in infrastructure.
Another source, the Global Infrastructure Hub established by the G20, estimated the total infrastructure investment gap (across sectors such as energy, telecommunications, transport and water) in seven countries covering most of the EU (Croatia, France, Germany, Italy, Poland, Romania and Spain) at approximately US$1.1tn in 2016–2040.\(^5\)

2. European Union Vehicles to Promote Infrastructure Investment

The EU funds infrastructure projects out of its general budget, known as the multiannual financial framework. Some of its funding instruments tackle infrastructure investment directly, while other vehicles complement them by either allocating a certain portion of their budget to infrastructure schemes or making infrastructure-related investment under the broad scope of their mandates. The following is a brief summary of key EU mechanisms that have some relevance to infrastructure financing in EU member states. Overall, these mechanisms are financially significant.

The “Connecting Europe Facility” (CEF) makes infrastructure investment to develop cross-border transport, energy and digital connections among EU member states. Under the current MFF 2014–2020, the CEF has a total budget of EU€30bn.\(^6\) As part of the next MFF 2021–2027 currently under negotiation, the EC has proposed to increase CEF funds to EU€42bn (in current prices; Zachariadis, 2018).

The EU Cohesion Fund and European Regional Development Fund support investments that reduce disparities between European regions and countries, including in transport and energy/environmental infrastructure. The Cohesion Fund has a total budget of EU€63bn in the MFF 2014–2020.\(^7\) Under the proposed MFF 2021–2027, this would be reduced to EU€47bn, of which EU€11.3bn is planned to be channeled to CEF Transport (EC, 2018c). The ERDF assists structural adjustment and economic transition, with infrastructure projects among its key priority areas.\(^8\) The MFF 2021–2027 proposal allocates to it EU€226bn (EC, 2018c).

The European Fund for Strategic Investments (EFSI), often referred to as “the Juncker Plan,” is a recent addition conceived in 2014 and extended in 2017. Its budget

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\(^5\)Source: Global Infrastructure Hub, “Infrastructure outlook, investment forecasts for Europe.” Available from: https://outlook.gihub.org/region/Europe (online; cited 31 May 2019); and authors’ calculations, excluding Russia and the UK.


of EU€33.5bn can be used to guarantee EIB loans to business and infrastructure schemes (EC, EIB and EIF et al., 2019). As of 12 December 2019, projects that may generate EU€459bn worth of investments have been approved under this scheme. Energy accounts for 17 percent of these investments, the digital sector for 10 percent, transport for 7 percent, and environment and resource efficiency for 4 percent.9 As a continuation of the EFSI, the EC has proposed an InvestEU Fund as part of MFF 2021–2027, calibrated at EU€38bn, of which EU€12bn would be allocated to sustainable infrastructure (EC, 2018c).

The Digital Europe program, proposed in MFF 2021–2027, is expected to invest EU€9bn in key digital sectors (EC, 2018c).

The European Agricultural Fund for Rural Development (with a budget of EU€79bn in MFF 2021–2027) and the European Maritime and Fisheries Fund (EU€6bn) also make some infrastructure-related investments in their respective industries (EC, 2018c; Zachariadis, 2018).

3. Potential Avenues for China’s Involvement

China’s BRI funds can potentially alleviate some of the financing pressure faced by EU member states, but not without some qualifications and conditions. EU member states all have access to debt capital markets (including Greece since its exit from program assistance in 2018) and it is doubtful that Chinese entities can offer any better credit conditions without potentially harmful covenants. Thus, the value added of BRI projects in the EU is whether Chinese entities are willing to take equity risk, as opposed to purely debt-financed projects. Indeed, most of the above-mentioned Chinese investment, particularly in Greece and Portugal, is in equity. By contrast, debt-financed projects, such as the Belgrade–Budapest rail line, have often proved more problematic in the EU environment.

In addition to Chinese equity investment, Chinese companies should also in principle be welcomed as suppliers and contractors on infrastructure projects if they comply with EU standards, particularly regarding public procurement. There are no apparent reasons not to extend such a welcoming approach to Chinese companies when a project involves EU funds. Some cases, such as that of the Pelješac bridge in Croatia, have generated

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9EC, investment plan results available from: https://ec.europa.eu/commission/strategy/priorities-2019-2024/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results_en (online; cited 14 January 2020). It should be noted, however, that not all analysts agree with the EC attribution of causality to the EFSI for these projects. In a report published in January 2019, the European Court of Auditors concluded that the EC and the EIB overstated the plan’s effectiveness and allocated almost one third of its loans to projects that did not actually require financial assistance from the EU, i.e. benefited from a windfall effect (Wallace, 2019).
controversy, but the court system has effectively affirmed the possibility for Chinese firms to contend (Blockmans and Hu, 2019).

The telecommunications sector in this respect is a special case because it is linked with concerns over data privacy and security, which have been given considerable public exposure with recent controversy over major Chinese players such as ZTE and Huawei. These, however, are private-sector companies that do not operate primarily within the (admittedly loosely defined) framework of the BRI, therefore we view them as outside the scope of this paper.

Even so, BRI-related investments in the EU may raise legitimate questions about national and European security in critical infrastructure areas such as ports or energy utilities. Changes in the EU’s geo-economic environment have led to increasing acknowledgement of the need to adopt an EU-level framework for screening FDI projects for security purposes, a shift that is long overdue. The principle must be one of non-discrimination and reliance on a sufficiently narrow definition of national/European security, without which the screening mechanism could easily be used as a cover for protectionism.

In a 2019 report, the EC noted that foreign company ownership has been continuously rising in key EU sectors and that investments from emerging economies, particularly from China, have been increasing (EC, 2019a). In response to growing security concerns, in March 2019 the Council of the EU approved a new framework for the screening of inward FDI in the EU, creating processes for information exchange and allowing the EC to issue opinions when it deems an investment as a security threat of relevance beyond a single member state (EC, 2019b). The EC’s role under this legislation remains mostly advisory, and member states retain the power to allow or deny specific investment in their territory. This framework should and probably will develop further in the future, with natural next steps being a unified EU legal framework for national screening procedures (as proposed by Röller and Véron, 2008) and, on a more distant horizon, a pooling at the EU level of the security assessment and decision-making authority, at least for those investments that are significant on a European scale.

Changes in the EU’s geopolitical environment and growing economic nationalist impulses in the formulation of industrial policies by EU member states (e.g. Altmaier and Le Maire, 2019) have rendered an effective FDI screening mechanism in the EU more important. Resisting old temptations of industrial protectionism will be critical to the EU’s future economic (and political) success (Zettelmeyer, 2019), but will arguably not be possible if a parallel effort is not made to address existing gaps in EU security protection. This is why an effective FDI screening process is increasingly viewed as an integral component of the EU single market policy.
III. European Union Strategic Considerations and Outlook

The BRI, however, cannot be reduced to economic calculus, no matter how important that may be. It is, after all, a highly political project in China itself, so much so as to have been specifically inserted into the CPC’s Constitution in 2017 (Xinhuanet, 2017). The EU, too, must take strategic considerations into account in order to determine its stance.

1. Americans are from Mars, Europeans are from Venus

The main such consideration, although far from the only one, is the EU’s general stance vis-a-vis China in the context of China’s rising wealth, power and influence since the start of its reform and opening-up era four decades ago. Attitudes vary across EU member states but are generally and significantly less adversarial than in the US. Hostility toward China now dominates in the discourse of the US executive branch (e.g. Trump, 2017; Pence, 2018). It is also increasingly prevalent within the Democratic Party, and in apparently growing segments of the business community, although not necessarily in broader American public opinion. The EU’s attitude, by contrast, is a more nuanced mix of constructive and adversarial proclivities, although the resulting position has trended more hawkish recently, as discussed further.

To start with, the EU does not act consistently as a global power. It has neither military forces nor an intelligence community of its own, even as cooperation among its member states in these areas has been developing gradually since the first affirmation of a “Common Foreign and Security Policy” in the 1992 Maastricht Treaty. Its complex governance arrangements force it to contend with the diverse positions of its member states, ranging from Luxembourg (which has less than 500 professional military personnel) to France, which is a nuclear power and permanent member of the United Nations Security Council with almost continuous involvement in active military operations. Correspondingly, the EU has some instruments of a globally relevant power, such as its trade policy, but has not ostensibly displayed the ambition to behave as such, despite recent rhetoric about a “geopolitical [European] Commission.”

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10This phrase was provocatively coined by the conservative US essayist Robert Kagan in 2003 in the context of the Iraq invasion, in playful reference to the 1992 bestseller Men Are from Mars, Women Are from Venus by John Gray (Kagan, 2003).

11The EU was dubbed a “fragmented power” in a book published just before the global financial crisis (Sapir, 2007).

view itself primarily as a global power, let alone a hegemonic one, the EU does not experience feelings of displacement by China’s rise as may be observed in the US.

The history of the EU and its member states’ relations with China is also very different from the US. One EU member state, Portugal, had a permanent colony in China (Macao) until the late 1990s.13 So did the UK (with Chinese Hong Kong), which was an EU member until January 2020. The First Opium War between China and the UK in 1839–1842 is a major theme of China’s national narrative. Later in the 19th and early 20th centuries, European nations were granted semi-colonial concessions on Chinese territory, including Austria-Hungary (1902–1917), Belgium (1902–1931), France (1849–1946), Germany (1895–1917) and Italy (1901–1947), alongside Portugal and the UK, as well as Japan (1895–1945) and Russia (1896–1955).14 The US was also initially involved in the concession system but not long on comparatively a stand-alone basis.15 During World War II and the ensuing Chinese Civil War, the US provided significant military and financial assistance to the Nationalist Government, while Europeans generally retreated from China. The US also fought directly against China during the Korean War,16 maintains a significant military presence in Japan and the Republic of Korea, and has continued to sell military equipment to Chinese Taipei to this day. After the establishment of the People’s Republic in 1949, Europeans were quicker to establish diplomatic relations with it (e.g. the UK in 1950,17 France in 1964, Italy in 1970, Germany in 1972) than the US (1979). At the EU (European Community until 1992) level, relationships were established in 1975 and resulted in an EC–China Trade and Cooperation Agreement in 1985. Geography also contributes to a difference in perspectives and attitudes, not least regarding the BRI, as China and the EU are directly connected by the Eurasian landmass.

The differences in attitudes were vividly illustrated when the Asian International Infrastructure Bank (AIIB) was created, which was widely viewed as a China-sponsored project with some strategic undertones – even as the extent of these has not been a matter of consensus. EU member states were quick to join the AIIB as founding members, despite the US urging them not to (Domínguez, 2015). As of April 2019, 18

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13In addition, Spain and the Netherlands had colonial presence on the island of Taiwan in the 17th century.
14Including the Soviet concession in Dalian.
15The American concession in Shanghai started in 1848, merged in 1863 into the Shanghai International Settlement (which ended in 1945), and the Tianjin concession merged into the British one in 1902. The US was also involved in the Beijing Legation Quarter from 1863 to 1945, and on Gulangyu Island of Xiamen.
16European countries also fought in Korea under the UN banner, but their involvement was considerably smaller and has not left comparable memories on either side.
17Relations were not fully normalized until 1972.
EU member states are AIIB shareholders with an aggregate equity stake of US$19.5bn (or 20.2 percent of total subscriptions), compared with China’s US$29.8bn (or 30.9 percent of total subscriptions).\(^{18}\)

### 2. Recent Hardening

EU attitudes to China are far from static, however, and (as in the US) have rapidly evolved in recent years. On the face of it, the current trend is of a hardening of attitudes, which suggests a parallelism with the US even though the starting points have been very different. On further analysis, however, this apparent recent convergence should be viewed as more superficial than structural. The EU, of course, has a deep and historically anchored relationship with the US, supported by multiple formal agreements, not least the North Atlantic Treaty Organization, and widespread (although far from universal or unequivocal) feelings of shared culture and values. Fundamentally, however, and like much of the rest of the world, the EU is currently unwilling to take sides in the current US–China tension and has critical common interests (as well as important differences) with both.

Given its intricate and evolutionary governance, the EU is keen to preserve its ability to foster common positions among its diverse member states and is understandably wary of any attempts to organize subsets of these as permanent blocs – especially if such blocs also include non-EU countries. In this context, it is not surprising that the China-sponsored 16+1 (now 17+1) Initiative has been received with concern and occasionally even alarm in EU circles. The anxiety has been amplified by a perception of recent increasing difficulty in reaching EU consensus on international matters of specific interest to China, which supports the critical narrative of a carefully planned Chinese policy of “divide and rule” among EU member states. The most prominent cases have been: (i) in July 2016, when Hungary and Greece forced the EU to water down its statement about the Permanent Court of Arbitration’s ruling on the China–Philippines dispute in the South China Sea (Emmott, 2016; Fallon, 2016; Brattberg and Soula, 2018);\(^{19}\) (ii) in March 2017, when Hungary’s opposition precluded the EU from signing a joint letter criticizing the reported torture of human rights lawyers in China (Vanderklippe, 2017); (iii) in June 2017, when Greece vetoed an EU statement

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*In the end, the statement took a neutral stand and mentioned that the EU and its member states merely “acknowledge the Award rendered by the Arbitral Tribunal” (EEAS, 2016). Breaking established EU norms and discipline, Hungary later issued its own statement saying that “external pressure and interference may have an adverse effect on the current situation” (MFAT, 2016).*
at the UN Human Rights Council denouncing China’s human rights record, calling it “unconstructive criticism of China” (Emmott and Koutantou, 2017), and (iv) in April 2018, when Hungary refused to sign a report compiled by national EU ambassadors to Beijing, which stated that the BRI “runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies” (Heide et al., 2018). It must be noted, however, that not all observers agree that such moves were made under compulsion from China. Greece and Hungary, for different reasons, have had broader issues with EU governance in recent years, and may have used China-related topics to signal their differences on their own initiative. Ferchen et al., while recognizing that China played on the economic woes of Greece and Hungary, ended up “unable to conclude that Chinese investments and loans […] clearly led to a quid pro quo political influence, let alone forms of strategic capture of European local or national governments” (2018, p. v).

Beside the perception, justified or not, of Chinese interference according to a divide-and-rule strategy, another factor may have contributed to a hardening of the EU stance or at least its public discourse on China, namely a willingness to align as much as reasonably possible with US positions in a context of otherwise difficult and even tense current relationships between the EU and the US in areas that include trade policy (e.g. Dadush and Wolff, 2019), the Joint Comprehensive Plan of Action with Iran and the fight against climate change. This motivation is likely to have played a significant role in shaping the language of a high-profile EU strategy paper on the relationship with China published in March 2019, which includes the following key paragraph:

China is, simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance. This requires a flexible and pragmatic whole-of-EU approach enabling a principled defence of interests and values. (EC and EUHR, 2019)

20The article also notes that according to Amnesty International and Human Rights Watch, this was the first time the EU had failed to make a statement at the UN’s top rights body.
21Reflecting the EU’s frustration with its member states signing bilateral MoUs and other agreements with China one after another, the report also noted that “this bilateral structure leads to an unequal distribution of power which China exploits.”
22Later on, the same paper pointedly adds: “Neither the EU nor any of its Member States can effectively achieve their aims with China without full unity. In cooperating with China, all Member States, individually and within sub-regional cooperation frameworks, such as the 16+1 format, have a responsibility to ensure consistency with EU law, rules and policies.”
Our understanding, based on interviews with relevant participants, is that the phrase labelling China “a systemic rival promoting alternative models of governance” was inserted at the very end of the document drafting sequence out of considerations of political opportunity rather than a structured process of elaboration of a collective strategic stance. This interpretation is supported by the intriguing reference to “promoting alternative models of governance” that does not evidently accord with China’s behavior, even in the narratives of most of its harshest critics: China is accused of many things, but generally not of supporting some countries more than others based on their governance regime, let alone of actively seeking regime changes, as the phrase ostensibly implies. As for the expression “systemic rival,” it is ambiguous at best. On the face of it, it appears to assume systemic leadership ambitions on the side of the EU itself, which as suggested above is far from the default EU stance in general. A less literal reading would imply that the EU views China as undermining its own “systemic efforts” to “promote a model of governance,” for example, democratic or environmental standards embedded in EU development assistance programs – but then again, this may assume more consistency in EU action than really exists, and cases of EU member states providing development assistance to dictatorships are far from unheard of. We suggest, therefore, that this phrase of the EU strategy paper, while evidently significant and memorable, may be read as more opportunistic than strategic; and is aimed more at a US governmental audience than at China, or indeed than at a domestic audience within the EU – even as it is likely to have been vetted in at least a few national capitals. The rest of the paper is comparatively uncontroversial.

More generally, and despite the obvious common interests, the EU remains very far from a position of alignment with the US in terms of its general stance toward China. There is no EU document that comes close to the aforementioned US administration pronouncements in terms of expressing an overwhelmingly negative view of China’s role in the world. Importantly, and unlike, for example, the US National Security Strategy (Trump, 2017), the EU does not bundle China and Russia together in strategic risk analysis. The EU also has different perspectives than the US in their analysis of world affairs. For example, the EU (unlike some of its member states) appears not to have followed the US semantic shift to using “Indo-Pacific” to refer to that region, and has remained ambivalent at best about the so-called quadrilateral security dialogue or “Quad” established by the US together with Australia, India and Japan to support a “free and open Indo-Pacific” (Mohan, 2018).

This is not to say that China’s rise does not generate profound concerns in the EU. A range of opinions unsurprisingly exists in EU debate over the nature of the Chinese political regime, and many stakeholders do not view it as benign. Evolving Chinese
government policies regarding religious and/or ethnic minorities are a particular focus of attention and concern, albeit far from the only one. Many EU observers and commentators consider contemporary China in comparison to other countries, as opposed to comparing its behavior to earlier Chinese practice during the country’s tumultuous 20th century history. Ultimately, the future evolution of China’s own policies will be the most important driver of future perceptions of China by EU public opinion and the EU policy community, and steer them in either a more trustful or a more confrontational direction.

IV. Outlook and Recommendations

The EU’s stance on China in general and on the BRI in particular is evolving in the context of the rapid worsening of the US–China relationship, and its future development will be significantly shaped by that context. At the time of writing, it appears unlikely that the US–China relationship will improve any time soon and revert to the status of the mid-2010s. Even with the conclusion of a trade agreement in January 2020, the baseline scenario is one of further deterioration driven by US mistrust if not outright hostility, interpreting China’s expected continued rise in a generally negative light rather than seeking insight from individual facts. Meanwhile, the road ahead for China is also uncertain. Relatively high continued economic growth compared with the rest of the world is widely expected, but its pace will significantly depend on China’s domestic policies (Lardy, 2019). How the numerous tensions and contradictions that exist in contemporary Chinese society may be managed or resolved will also significantly impact the EU’s perceptions and attitudes.

The EU itself, of course, is far from static. The ongoing debate on euro-area reform and the still-evolving discussion of the modalities of Brexit are just two of many developments that will have significant impacts on its future, which also include economic, social and political trends in individual member states and events in the EU’s immediate periphery and in the rest of the world. This fast-moving environment is the backdrop for the recommendations that follow.

The EU should not aim to follow the US in any unreasonable escalation with China. This may quite possibly entail some difficult or even painful moments for the EU–US relationship. Such a prospect, however, is partly mitigated by the fact that the EU will almost certainly be far from alone in that situation. Thus, it is more important than ever for the EU to cultivate relationships with other parties that may be similarly caught in the midst of the tension between the US and China. These include most of the rest of the G20 group and advanced economies, the only significant exception currently being
More broadly, the EU should prepare itself for a world in which it may need to further affirm its strategic autonomy. A US–China escalation is neither inevitable nor desirable. But if it happens, it could well become a powerful catalyst, forcing the EU to arm itself with more instruments of an independent actor on the global stage. Both the euro crisis and the Brexit negotiations suggest that, when confronted with a vital threat, the EU has the capacity to achieve unity of purpose, despite the evident disarray of its governance and the inefficiencies that stem from it. A world-changing deterioration of the US–China relationship could plausibly be the crucible of a more self-aware EU on the international stage.

In the immediate near term, the EU needs to considerably improve its knowledge of China and its capacity to make informed assessment of the risks and/or opportunities associated with China-related projects, such as the BRI. The EU policy community knows the US reasonably well, despite the occasional prejudice or misunderstanding. But when it comes to China, many senior EU-level and national officials who make impactful policy decisions (as opposed to China specialists, who by and large have the required expertise) display an alarmingly superficial level of knowledge, and in some cases, complete ignorance. This asymmetry of insight carries a high risk of misjudgement. There is no easy fix, but avenues for improvement could include dedicated programs of training and learning in China for high-ranking officials in both the EU institutions and the member state governments.

The EU should welcome sensible BRI projects on its territory, including relevant Chinese equity investments in infrastructure or competitive bids by Chinese companies for infrastructure contracts. As explained in the previous section, Chinese debt financing for infrastructure projects is unlikely to be useful to EU member states, unlike in other locations. Projects should be assessed on their individual merits. National BRI MoUs should not overly concern the EU as long as they are made public24 and of a mostly symbolic nature, as they appear to have been so far.

In parallel, the EU also needs to beef up its framework for screening FDI projects for national/European security purposes. The recently agreed EU legislation is a first but insufficient step in that direction. The next step should be the harmonization of the legal framework.

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23Despite ongoing disagreements and tensions with China, in our view, India is no exception to this general pattern. It is not a participant in the BRI but does participate in cross-border cooperative infrastructure projects, (e.g. the Bangladesh–China–India–Myanmar Corridor) even as it does not view them as BRI-related. See for example Krishnan (2019).

24Unlike most BRI MoUs in other parts of the world (the abovementioned MoU with Victoria in Australia being a rare exception), the MoU with Italy has been published by the Italian government.
framework for national screening, and due coordination for projects that have an impact in more than one member state (Röller and Véron, 2008). Ultimately, FDI security screening needs to occur at an EU level, at least for the most significant projects, but that can only be a long-term prospect as it implies the existence of an EU-level threat-assessment capability.

The EU should strengthen its involvement in its immediate neighborhood (particularly Western Balkans, Eastern Partnership countries and North Africa) in order to reduce the current incentives that may exist for these countries to try to play China and the EU against each other. The increased commitment should include more financial assistance, possibly through the improvement of relevant development instruments, such as at the EBRD and EIB. Beyond this immediate neighborhood, however, in the rest of the geographical scope of the BRI (as elsewhere in the developing world), the EU should offer technical assistance on development but should not aim to match China’s engagement with comparable financial commitments, as this would not necessarily be the best use of its limited financial resources.

As for China, it should keep the EU engaged in parallel to its relationships with individual member states. That may justify deemphasizing the 17+1 Initiative, which is structurally an irritant to the EU for the reasons explained above and is not a necessary component of the BRI itself. Further knowledge of the EU and understanding of its unique institutional arrangements should also to be encouraged among Chinese policy and political elites.

Particularly, as the secretariat of the Paris Club is currently provided by an EU member state (France), the adaptation of that forum to a radically changed context in which China has become a major development lender should also feature on the agenda for the EU, China and other relevant parties. It is in the best interest of the world, not to mention borrowers and other creditors, that China join the Paris Club. It is also in the best long-term interest of China. The fact that China views itself as a developing country should not be an obstacle, especially after Brazil (presently a less developed country than China by almost any measure) joined the Paris Club as a full member in late 2016. It is natural that China may insist on changes in the organization and governance of the club as a condition for its joining, and if such proposed changes are reasonable, the incumbent members should not oppose them. That may include replacing the role currently played by the French government with a more explicitly multilateral framework, and eventually (but perhaps not in the immediate near term) to envisage moving the location of the secretariat from Paris to somewhere closer to Beijing.

Finally, this paper does not make specific recommendations for the US, given the current conditions of US policymaking. It is fervently hoped, however, that the US will
avoid a catastrophic escalation of its confrontation with China, in its own interest and in that of the world more broadly.

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infrastructure-gaps.


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