



CHINA'S ONE BELT ONE ROAD: HAS THE EUROPEAN UNION MISSED THE TRAIN?

Policy Report

March 2016

Alessandro Arduino

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EXECUTIVE SUMMARY

This Policy Report focuses on the overland routes that connect China to Europe via Central Asia and it aims to answer the question whether the European Union (EU) should engage China in the One Belt One Road (OBOR) initiative. The expansion of the OBOR initiative is forcing China's economic diplomacy to embrace a broader political and security engagement. While Russia and the United States are revising their roles in South and Central Asia, the EU has lost momentum.

This Policy Report addresses the need for the EU to:

- adopt a common voice to engage China's OBOR initiative;
- promote stakeholder participation;
- coordinate crisis prevention; and
- avoid focusing only on short-term economic gains to attract China's outbound direct investments.

The EU involvement with the OBOR initiative is a defining moment for Sino-European relations. In this respect, China has to:

- communicate a detailed road map on the OBOR initiative;
- allow local economic actors to access the bids for infrastructural projects;
- increase the role of private Chinese SMEs; and
- avoid relying on the OBOR initiative to export industrial overcapacity.

In this regard, the utilisation of the EU social and environmental best practices by Beijing and a renewed EU stance towards a "flexible engagement" with China could be mutually beneficial for fostering regional stabilisation and structural reforms in South and Central Asia.

Image 1
OBOR Map



Source: Xinhua News Agency
(<http://www.xinhuanet.com/english/special/silkroad/>)

INTRODUCTION

The existing multilateral governance and cooperation mechanisms set up in the mid-20th century are not designed to keep pace with rapid economic and social developments. In this regard, the last two decades have witnessed significant shifts in the balance of geopolitical power following economic progress in different parts of the world. The evolution of the OBOR¹ initiative is forcing China's traditional diplomacy based on economic and commercial calculations to embrace a broader political and security engagement with the countries involved by the initiative. Since the last Eurasian Economic Union (EEU) summit,² Beijing has been recognised by Moscow as the leading economic actor in the Central Asian arena, while Russia still maintains the monopoly over security. During the past 10 years, Central Asia's geostrategic position and natural resource availability have attracted massive Chinese investments, causing the region to be progressively drawn into the Chinese economic sphere of influence. To differing degrees, Russia, United States, Turkey, Iran and India are competing in the Central Asian arena while the EU has lost its momentum.³

The Chinese OBOR initiative presents the EU with a unique opportunity to re-enter the "great game" bringing together its own best practices with Chinese-led economic growth, infrastructural development and capacity building. Furthermore, the Chinese Outbound Direct Investment (ODI)—if not steered in the proper direction—does not necessarily entail sustainable development and regional stabilisation and could eventually result in long-term adverse consequences for EU policy in its own territory and neighbourhood.

Several factors, if not addressed in time, could compromise the OBOR long-term strategy. The exogenous factors encompass the regional socio-economic integration among the Central Asian states, the stabilisation of the Afghanistan conundrum and the increasing economic competition for natural resources. At the same time, endogenous factors range from the stabilisation of the Chinese Xinjiang Autonomous Region, which is a key pillar in the overall New Silk Road Economic Belt, to the Chinese

economy soft landing, the capital-market opening and state-owned enterprise (SOE) reform. In this regard, the Chinese "new normal"⁴ economic model has the arduous task of promoting the country's economic reform in a period of uncertainty and global economic stagnation while ensuring a steady flow of outward investments to sustain the OBOR initiative.

While China's OBOR land route initiative is gaining traction with new railway lines linking China to Europe via Central Asia, the number of crises that the Chinese SOEs operating in the region are going to face is proportionally increasing. Threats range from regional political and social instability, such as the border clashes between Tajikistan and Kyrgyzstan or the Kyrgyz ethnic violence in Osh in 2010 to the increasing protest and act of violence erupted between Chinese SOE workers and the local populations such as the accident at Aktogay copper mine in Kazakhstan in 2015. Concurrently, there is a more explicit threat represented by militant organisations like the Turkistan Islamic Party (TIP) and the Islamic Movement of Uzbekistan (IMU).

In 2007, the EU devised a fourth road map to engage South and Central Asia in a wide spectrum of fields ranging from energy and trade to security, actively promoting the democratisation process and human rights. These initiatives diminished after one year due to limited resources and the perceived decline of interest by EU member states. In 2011, the engagement with Afghanistan diverted the remaining resources and attention to contain the Taliban and counter-terrorism. In May 2014, the planned High Level Security Dialogue (HLSD) meeting in Dushanbe, Tajikistan was cancelled due to the lack of high-level participation by the Central Asian states. In March 2014, the position of the EU Special Representative for Central Asia was terminated for budgetary reasons (reinstated in April 2015 with the appointment of Slovak diplomat Peter Burian as the new EU Special Representative for Central Asia). Eventually, the EU held the second round of the HLSD in March 2015 in Dushanbe to address security issues of shared concern including terrorism, drug trafficking, border control and extremism.⁵

1 The Silk Road Economic Belt, together with the 21st century Maritime Silk Road, commonly known as the "One Belt and One Road" (OBOR, 一带一路 [*yidai yilu*]) initiative. The One Belt refers to the overland historical Silk Road that connected China with Europe via Central Asia while the One Road covers the maritime connections between China and Europe via the seas through Southeast Asia, South Asia, Middle East and East Africa.

2 "The China-proposed Silk Road Economic Belt initiative is not a competitor, but a partnership project for Russia: Russian PM," *Xinhua News Agency*, August 22, 2015, http://news.xinhuanet.com/english/2015-08/22/c_134544640.htm.

3 Jos Boonstra, "Reviewing the EU's Approach to Central Asia," *EUCAM* 34, February 2015, http://www.eucentralasia.eu/uploads/tx_icticontent/EUCAM-PB-34-Reviewing-EU-policies-in-Central-Asia-EN_01.pdf.

4 Chinese "new normal" economic model commonly refers to the economic rebalancing and shift from an export orientation energy-intensive production to a more sustainable and widespread growth.

5 [http://www.europarl.europa.eu/RegData/etudes/ATAG/2015/565875/EPRS_ATA\(2015\)565875_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2015/565875/EPRS_ATA(2015)565875_EN.pdf).

The Chinese commitment to promote regional stability and sustainable development with the OBOR initiative could benefit from EU's best practices, especially with regard to the following areas:

- Joint Plan of Action for Central Asia under the UN Global Counter-terrorism Strategy;
- Advancement of EU border and counter-drug addiction programme;
- Border Management in Central Asia (BOMCA);
- Border Management in Northern Afghanistan (BOMNAF);
- Central Asia Drug Action Program (CADAP); and
- Prevention of CBRN materials proliferation.

Furthermore, there is the new EU pledge, which would reach €1 billion in financial assistance by 2020,⁶ to promote better education and human resources training, better living conditions in rural areas and better health-care services in Central Asia. The Chinese could be encouraged to work with the EU in this broader engagement that seeks to improve socio-economic conditions in a region of increasing economic and strategic importance to China and the EU. Such cooperation will enable the EU to have a useful platform to contribute to the development of Central Asia without being held hostage to Russia's attitude towards the EU arising out of the Ukraine crisis and the increasing diffidence between Russia and the West.

While the other part of the OBOR initiative (the "21st century Maritime Silk Road") is still under strategic planning, the "One Belt" land connectivity is ready to run on several dedicated commercial railway routes between Germany and Poland and the Chinese western provinces. In this respect, the EU is already linked via the Eurasian Land Bridge to China. Although sea transport is considered to be the main form of freight in the near future, the revival of land connectivity promoted by China and the EU via the 13,000 km rail network (between Yiwu, the largest wholesale distribution centre in China near to Shanghai, and Madrid in Spain which was opened in November 2014) is going to increase in scope and size for several political, economic and security reasons.⁷

With regard to the Eurasian Land Bridge, Central and South Asia are going to play a predominant role not only in balancing among great powers but also forcing a steadier Chinese stance in the regional security policy. The overall Chinese strategy in the region encompasses different roles ranging from energy security maintenance, regional economic integration, and hydro-resources management to counter-terrorism measures. More than a decade ago, China engaged the young Central Asian republics in a long-term strategic embrace that is currently reaping dividends. This does not mean that either Russia or the United States has been fully displaced. But Beijing's strategy of developing investment projects that both sides find genuinely beneficial, and avoiding all discussions of domestic political affairs, has made China an increasingly attractive foreign partner for Central Asian states.⁸

From the U.S. standpoint, following Secretary of State John Kerry's tour of Central Asia in October 2015, the United States is witnessing a revival of interest in the region. The Afghan "zero option"⁹ that is related to the complete withdrawal of U.S. forces in the region has been deferred. Apparently, the United States sees the broader strategic implications of China's OBOR initiative and Kerry seems determined to revive his predecessor Hillary Clinton's pro-active approach to Central Asia.

Remarkably, the year 2015 marks the 60th anniversary of bilateral diplomatic relations between China and Afghanistan. In this respect, the development of the OBOR initiative encompasses Afghanistan, not only as China's neighbouring country but also as a key actor in several economic projects. Not only China but also Russia and neighbouring countries are concerned that a rapid deterioration of Kabul's grip over the country's security is going to destabilise South and Central Asia, increasing the chances of Islamic extremism.¹⁰ Afghan uncertainty is casting a wider shadow over Chinese direct investments, forcing Beijing to slow down future initiatives. In the case of a sudden collapse of Kabul's government, the damaging ripple effects will not only affect China's larger economic footprint in Central Asia and its own western borders, but will also reach the EU.

6 European Union – Central Asian Ministerial Meeting Astana Joint Press Release, 21 December 2015.

7 Alessandro Arduino, "The New Silk Road," *ECRAM*, Short term policy brief no. 91, May 2014, http://eeas.europa.eu/china/docs/division_ecran/ecran_is114_paper_91_the_new_silk_road_alessandro_arduino_en.pdf.

8 Martha Brill Olcott, "China Unmatched Influence in Central Asia," *Carnegie Endowment for International Peace*, September 18, 2013, <http://carnegieendowment.org/2013/09/18/china-s-unmatched-influence-in-central-asia>.

9 Carol E. Lee, "In Major Afghanistan Shift, Obama Drops Plan to Withdraw Most U.S. Forces," *The Wall Street Journal*, October 16, 2015, <http://www.wsj.com/articles/in-major-afghanistan-shift-obama-drops-plan-to-withdraw-most-u-s-forces-1444903203>.

10 Aleksandr Bortnikov, Director of Russia's Federal Security Service (FSB) on the increase of IS threat to Central Asia and Commonwealth of Independent States (CIS): "... serious concerns over the escalation of tension in Afghanistan ... under the banner of Islamic State..." "FSB: Moving Part of the Taliban to DZ Resulted in Increased Threats to their Invasion of Central Asia," *TASS*, Oct 28, 2015, <http://tass.ru/politika/2384331>.

LACK OF COMMUNICATION AND CLARITY

To engage the EU, China has to actively promote and communicate a unified narrative of the OBOR vision with a detailed program at both political and entrepreneurial levels. Beijing's lack of a clearly defined set of guidelines in the OBOR development suits the Chinese pragmatic approach of shifting plans during the implementation process as soon as new opportunities arise. However, this approach generates ambiguities for other countries targeted as potential partners in the OBOR initiative. With the creation of the Asian Infrastructure Investment Bank (AIIB), supported by 57 member states, China is reinforcing its economic diplomacy and increasing its confidence in managing multilateral organisations. At the same time, the lack of communication with the policymaking circles in the countries which China considers as "key partners" in the OBOR strategic planning has led some actors to be reluctant over the initiative. An example is India's perception of the Pakistani involvement in the OBOR initiative. Indian strategists believe that the whole exercise is a Chinese political move to constrain India's geopolitical reach. Meanwhile, the guidelines concerning the Middle East are ascribed in vague terms inside the OBOR vision.

This opaque situation contributes to the perception gap in Europe on what is the final objective of China in the OBOR. The EU engagement in the OBOR covers: (i) China's rail connection as a bilateral agreement with Germany; (ii) a regional multilateral platform in the "16+1" framework that involves Central and Eastern Europe countries (CEE) and China; and (iii) China's rail connection as a comprehensive initiative for the EU. In this regard, a unified EU voice and a more flexible approach to the Chinese pragmatic economic initiative are required to enhance mutual understanding and cooperation. While the Chinese OBOR road map needs more clarifications, the tensions and complex relations between the EU institutions and its member states add further hesitancy. For example, Germany, Poland and the Netherlands are ready to do more to dovetail their infrastructure and transportation development with China's plans but they perceive that other EU member states may not have decided on what the EU ought to do collectively. The European Commission in Brussels is also too preoccupied with budgetary issues and the EU's own economic and financial troubles.

REVIVED CONTINENTAL ROLE

In September 2013, Chinese President Xi Jinping visited the Central Asian republics. He reiterated China's intention of pursuing a policy of large-scale investment, emphasised the revival of the economic and cultural ties that characterised Central Asia-China relations during the past glory of the Silk Road and promoted the rebirth of the Silk Road Economic Belt. While this date officially marked the beginning of the new Silk Road policy and rediscovery of the Chinese continental role, China's pivot to the west has its roots in the development policies for the Xinjiang Autonomous Region. These policies, enacted during the mandate of former Chinese Presidents Jiang Zemin and Hu Jintao, are the cornerstone of the OBOR initiative that provided a steady launch pad for Xi's vision. Moreover, the Chinese pivot to the west could be perceived as the internationalisation process of the previous "Great Development Program of Western China"¹¹ launched in order to develop the country's western border areas in the same successful pattern that characterised the eastern provinces.

The Chinese "renaissance" of the Silk Road is based on the following key points:

- Free transit of goods;
- Removal of trade barriers; and
- Logistics and energy infrastructural modernisation.

Not long after his Central Asian tour, Xi inaugurated his European tour by visiting the inland logistic port of Duisburg in Germany in March 2014 with undivided attention to the train service that connects (three times a week) the Chongqing logistic hub with the German one. The railway connection of the One Belt initiative provides Chinese goods faster access to the EU market. At the same time, rail freight delivers EU high-tech components to the Chinese factories in less than three weeks, compared to an average of five weeks by container shipping.

In 2015, the National Development and Reform Commission (NDRC), together with the Chinese Ministry of Foreign Affairs (MOFA) and the Ministry

of Commerce (MOFCOM), released an updated blueprint¹² for the "vision and actions on jointly building Silk Road economic belt and 21st century maritime Silk Road". The blueprint presented the official line that Chinese SOEs and public officials have to follow until the release of the next five-year economic development plan (2016–2020). China's gradual rediscovery of its continental role is well documented in the blueprint that summarises the key points of OBOR initiative as:

The Belt and Road Initiative is a way for win-win cooperation that promotes common development and prosperity and a road towards peace and friendship by enhancing mutual understanding and trust, and strengthening all-round exchanges. The Chinese government advocates peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit. It promotes practical cooperation in all fields, and works to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness.

From the EU side, several individual Heads of State officially pledged their support for the OBOR initiative but there is no common EU guiding policy for engaging China and assessing long-term social and political effects of the new Silk Road initiative. In fact, in contrast to the Russian and non-EU voices articulating the pros and cons of the OBOR initiative in multiple forums elsewhere, the EU as a collective group has yet to put out a convincing position on how to engage China on the OBOR. From the EU perspective, the transformative appeal of the OBOR can also relate to good governance and institution-building across Eurasia. Successful implementation of these programs, along with Russia's ability to reform its system of governance and political control, would make China and the EU significant agenda-setters in a new global order.¹³

The EU need for Chinese financial support to develop infrastructural projects to improve local

11 Zhongguo Xibu kaifa, <http://www.chinawest.gov.cn/web/index.asp>.

12 Tian Shaohui (ed), "Vision and Actions on Jointly Building Silk Road Economic belt and 21st century Maritime Silk Road," *Xinhua News Agency*, March 28, 2015, http://news.xinhuanet.com/english/china/2015-03/28/c_134105858.htm.

13 Vitaly Kozyrev, "China and Russia Multiply Efforts in Global Agenda-Setting," *Jamestown Foundation*, October 2, 2015, http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=44450&tx_ttnews%5BbackPid%5D=789&no_cache=1#_VI_VIp0Z6Hs.

economies has not been obscured by the ongoing economic and financial woes in Europe. EU officials take the position that the EU has to define proper standards, rules and responsible actors for engaging China on a long-term basis. A starting point is related to a broader opening of the Chinese procurements to EU companies. Moreover, partnership between EU companies and China's SOEs could assure high social and environmental standards, catalysing the long-awaited reform needed in the Chinese SOE sector. A deeper EU involvement and participation in the OBOR initiative will also defuse possible suspicions among Asian countries and the United States over covert Chinese economic and political ambitions. Russia has already started to move in this direction with Vladimir Putin's competing policies of the "Iron Silk Road" as well as the EEU. Nonetheless, Russia considers the OBOR initiative as an opportunity and not a threat, even though its underlying aims would be to contain the "Chinese economic invasion".¹⁴

From the U.S. point of view, Secretary of State John Kerry's Central Asian tour in October 2015 represented the first high-level visit since the announced U.S. disengagement from the Afghan conflict. Although President Barack Obama has confirmed that the projected U.S. military personnel that will remain in Afghanistan will not decrease,¹⁵ the U.S. need for military bases in Central Asia has

already ended. In 2014, with the termination of the Northern Distribution Network (NDN) road and rail transit route for military supplies, the closure of the U.S. and NATO bases in Manas, Kyrgyzstan and near Dushanbe, Tajikistan followed shortly. With the closure of these military bases, the U.S. foreign policy in Central Asia is no more linked to a quid pro quo stance in which the role of human rights has to be balanced with the necessity of military logistics. In this regard, the U.S. Secretary of State underscored how the Central Asian republics' multi-vector foreign policies need to take into consideration the role of the United States as a counter-balance to the pressure from Chinese and Russian neighbours. Other than through media communiqués, the U.S. proposition could not dent the Chinese economic dominance in the region nor the Russian projection of military force. Only substantial economic investment in Central Asia by the United States (something which is unlikely given the state of the U.S. economy and Washington's preoccupations elsewhere in the world) could stimulate former Secretary of State Hillary Clinton's policy for the revitalisation of the ancient Silk Road. Cynicism over the efforts to promote regional economic integration stems from perceptions among Central Asian elites that the role of the United States has been mostly "talk" rather than action. Moreover, the enthusiasm of the United States for greater regional cooperation is not shared by the Central Asian governments.¹⁶

14 "Joint Statement of the Russian Federation and the People's Republic of China on the New Stage of the Comprehensive Strategic Partnership of Cooperation," Kremlin Web Site, May 20, 2014, <http://kremlin.ru/supplement/1642>.

15 "Obama said he will also dramatically slow the pace of the reduction of American forces and plans to maintain the current US force of 9,800 through 'most of 2016'". See Sudarsan Raghavan, Sayed Salahuddin and Mohammad Sharif Obama, "Obama Outlines Plan to Keep 5,500 Troops in Afghanistan," *Washington Post*, October 15, 2015, https://www.washingtonpost.com/world/national-security/obama-expected-to-announce-new-plan-to-keep-5500-troops-in-afghanistan/2015/10/14/d98f06fa-71d3-11e5-8d93-0af317ed58c9_story.html.

16 Evan A. Feigenbaum, "Secretary Kerry's Visit to Central Asia," *Carnegie Endowment for International Peace*, November 1, 2015, <http://carnegieendowment.org/2015/11/01/us-central-asia-secretary-kerry-s-visit/ikvj>.

ROAD TO EUROPE

The overland routes that connect China with Europe via Central Asia are the part of the OBOR initiative also known as the New Silk Road Economic Belt. The “belt” is deeply interwoven within the cultural and economic symbiosis between the Xinjiang Autonomous Region and the Central Asian states.¹⁷ The growing economic links are also supported by the Chinese ethnic minorities that share cross-border common traditions and kin relations. The main objectives range from ensuring access to natural resources and trade, enforcing border security¹⁸ and encouraging stable neighbouring states to build a more complex logistics network linking China to Europe via the Eurasian Land Bridge.¹⁹ In this respect, the EU has not yet projected a common voice over the strategic planning of the OBOR and it seems to have passively accepted the Chinese export of their industrial overcapacity.²⁰

One of the key points in the overall OBOR strategic implementation is to compensate the Chinese economic model's core weaknesses, namely, SOEs' lack of competitiveness and overproduction capacity. While the planned SOE reform is expected to address the problem in the long run, the OBOR initiative will stimulate demand in foreign countries with Chinese capital. The former Chinese investment pattern is evolving. The new ODI pattern will be substantially reinforced in terms of funds and participation with the creation of the AIIB and the New Silk Road Fund (NSRF) as well as the Chinese financial support of the Shanghai

Cooperation Organisation (SCO). Nevertheless, the outcome is the same: Chinese SOEs are granted a new short-term to middle-term market demand for infrastructural development that requires Chinese steel, Chinese cement, Chinese industrial capacity and Chinese workers. Meanwhile, the new financial platforms will enable China to diversify its foreign currency reserves away from the U.S. treasury bills option.

This latest narrative sees a range of actors, from the Chinese leadership to SOEs, state-owned banks and national think tanks, aligned with the need to unite the Silk Road to Europe in order to form a stronger Silk Road Economic Belt. At the same time, the economic balance between China and Central Asia is based on increasing flows of oil, gas and commodities into China, and offsetting flows of direct investments and low-priced consumer goods back into Central Asia. In this respect, the importance of the EU market to China should not be under-estimated and overlooked. Despite its own economic crisis, the EU is China's biggest trade partner²¹ and the terminus of OBOR's sea and land connectivity.

Chinese ODI mainly ranges from the exploitation of energy and natural resources to the construction of logistic infrastructure for railways, highways, tunnels, dams and power plants. While investments have increased rapidly worldwide,²² Central Asia has emerged as one of the strategic areas for Chinese ODI.²³ The usual investment model starts

17 “China-Central Asia Trade Seeing Fast Growth,” *Xinhua News Agency*, February 13, 2014.

18 According to Tajikistan Defence Minister Sherali Mirzo at the Sixth Xiangshan Forum, “The terrorism in Afghanistan requires us to more effectively coordinate bilateral and multilateral efforts and take urgent steps to keep terrorist threats from spreading across the Central Asia. It is our priority to combat terrorism, and Tajikistan is willing to carry out multilateral and bilateral cooperation with all concerned stakeholders.” China Military Online, Sixth Xiangshan Forum, October 2015, http://eng.mod.gov.cn/SpecialReports/node_47402.htm.

19 Li Yuanchao, “The Third China-Eurasia Economic Development and Cooperation Forum,” *Urumqi*, September 2, 2013.

20 He Yafei, “China's Overcapacity Crisis Can Spur Growth through Overseas Expansion,” *South China Morning Post*, January 7, 2014, <http://www.scmp.com/comment/insight-opinion/article/1399681/chinas-overcapacity-crisis-can-spur-growth-through-overseas>.

21 “EU-China trade has increased dramatically in recent years. China is the EU's biggest source of imports by far, and has also become one of the EU's fastest growing export markets. The EU has also become China's biggest source of imports. China and Europe now trade well over €1 billion a day.” in “Countries and Regions: China,” *European Commission*, November 6, 2015, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>.

22 “China has recalculated its outbound direct investment (ODI) to 123.12 billion U.S. dollars in 2014, up 14.2 percent year on year in a leap even more impressive than previously estimated.” Zhang Jianfeng, “Updated China ODI Data Shows More Impressive Growth,” *Xinhua News Agency/CCTV*, September 17, 2015, <http://english.cntv.cn/2015/09/17/ART11442468737333545.shtml>.

23 Alessandro Arduino, “The Influence of China's Sovereign Wealth Fund in Central Asia: China's New Role in a Multi-polar World and What It Will Mean for the EU,” *CASCC*, 2011, p. 5.

with SOEs that benefit from inexpensive lines of credit²⁴ supplied by the Chinese state banks, followed by Chinese private companies that act as subcontractors, especially in the energy and mining sectors. While Chinese investments in Central Asia are progressively increasing, the boundaries between economic and political influences are gradually blurring. Central Asia is also a growing recipient of Chinese foreign aid.²⁵ This aid is mainly delivered through direct loans managed by MOFCOM and two state investment banks, namely, the China Development Bank and the Export-Import Bank of China.²⁶ The Chinese media promotes a vision of unified ambitions and commonly shared values along the OBOR routes. Nevertheless, the narrative of Chinese investment flows are best not considered as single and homogeneous, but rather as a multi-faceted amalgam of interests led by different state corporate actors. In this regard, the widely accepted international perception of the Chinese SOEs as

monolithic projection of power by Beijing has to be confuted in favour of the image of competing actors that also have different “power groups” inside their own respective organisations. Therefore, the role played by the SOEs in the OBOR is linked with the scope and the size of their internal reform that is currently under development in China.

In detailing the OBOR, China has in fact clearly stated that it is buying time for domestic consumption to increase at a natural pace.²⁷ Consumer-led growth will be a long time coming; progress on that front remains “too little and too slow” for China’s economy to depend on it anytime soon. More than kicking the can down the road, though, the OBOR could make problems worse. That is, while it may buy time, this would be at the cost of further subsidising SOEs and companies that should have either shrunk or gone long ago under normal market conditions.

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- 24 Henry Sanderson and Michael Forsythe, *China's Superbank: Debt, Oil and Influence - How China Development Bank is Rewriting the Rules of Finance* (Singapore: John Wiley & Sons, 2012).
- 25 Nargis Kassenova, “China as an Emerging Donor in Tajikistan and Kyrgyzstan” *IFRI* Paris, January 2009, <https://www.ifri.org/sites/default/files/atoms/files/ifrichinacentralasiakassenovaengjanuary2008.pdf>.
- 26 “Between 2001 and 2011, China’s pledge in foreign aid was \$671 billion, divided among 93 emerging-market countries. ... \$189 billion – equivalent to about 3% of the reported GDP in 2011.” Charles Wolf, Xiao Wang, and Eric Warner, “The Strategy Behind China’s Aid Expansion,” *RAND Corp*, 2012.
- 27 Jiayi Zhou, Karl Hallding, and Guoyi Han, “The Trouble With China’s ‘One Belt One Road’ Strategy,” *The Diplomat*, June 26, 2015, <http://thediplomat.com/2015/06/the-trouble-with-the-chinese-marshall-plan-strategy/>.

EURASIAN RAIL NETWORK

The Europe-China transport links promoted by China encompass several projects along different corridors, including high-speed rail connections, trans-national highways and pipelines. In Xi's vision, the geostrategic land-locked position and economic development potential of the Central Asian states offer an opportunity for bridging trade flows between Asia and the EU.

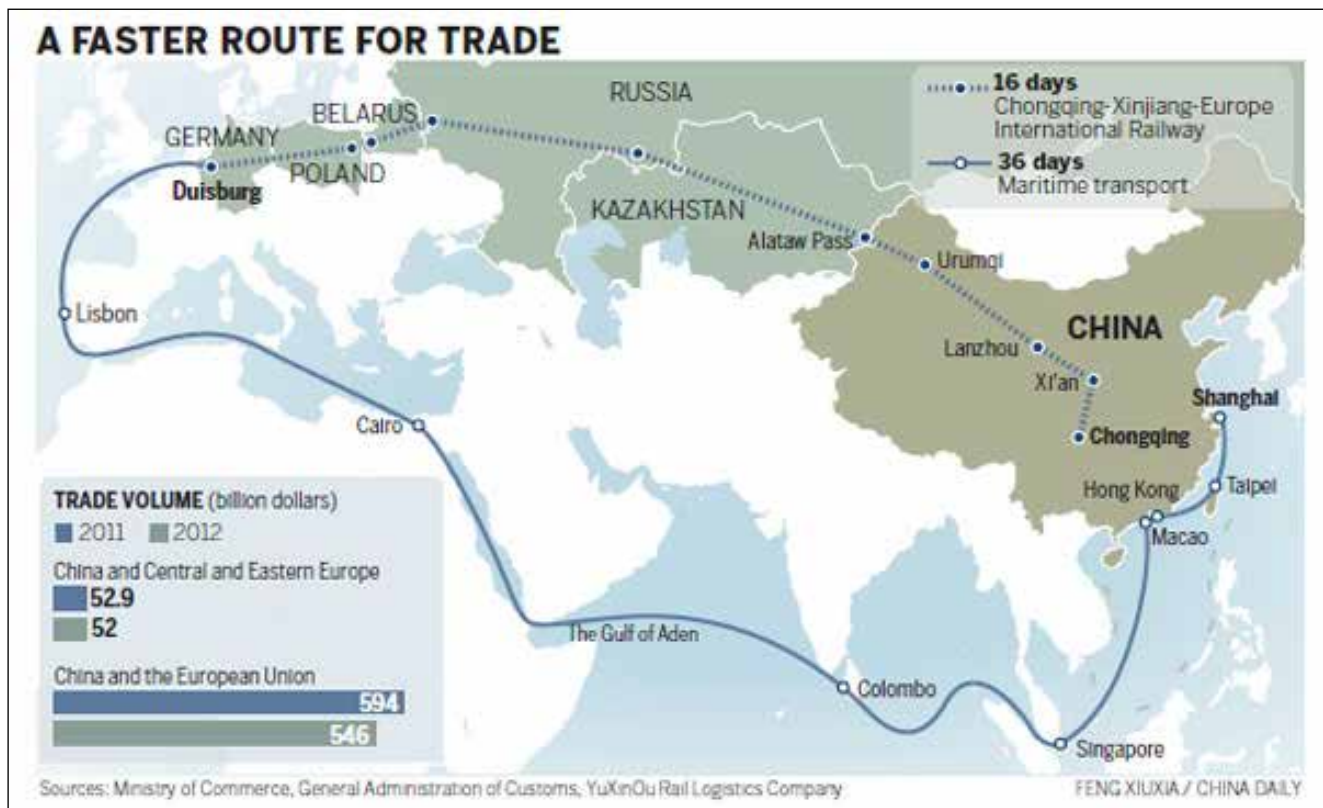
The envisaged Eurasian Land Bridge will benefit China with faster access to the EU market (less than three weeks compared to an average of five weeks by container shipping), while EU companies will not only have a cost-effective route for exports, but also an efficient way to import their own China-based production. Following the demise of the Soviet Union, the Eurasian rail network has become an efficient trade route. Besides, from the Chinese geopolitical point of view, this route is safer than the maritime one because it avoids the choke point of the Straits of Malacca. The main trade routes include the following:

- *Chongqing–Duisburg line* (2011), operated

by the Sino-German Joint Venture Yuxinou–TEL (DB Schenker) via the Dostyk and Brest borders that offers several transit routes with three trains per week (see Image 2 on the map illustrating the Yuxinou line).

- *Chengdu–Lodz line* (2012), operated by YHF–HaTrans via the Dostyk and Brest borders, utilises a weekly express train service mainly dedicated to DHL transports that connects Poland and China in 12–14 days.
- *Zhengzhou–Hamburg line* (2013), operates via the Dostyk and Brest borders and utilises only one private train that is subsidised in order to promote the shipping of electronics components by cargo transport.²⁸
- *Suzhou–Warsaw line* (2014) connects the Suzhou-Singapore Industrial Park (SIP) with the EU with services running twice weekly to support electronic and automotive SIP-based multinationals such as Nokia and Bosh (see Image 3 on the map illustrating the Suzhou-Warsaw line).

Image 2
Map Yuxinou line



Source: *China Daily* (http://www.chinadaily.com.cn/regional/chongqing/liangjiang/2014-03/29/content_17392941.htm)

²⁸ Three different routes are available for further development: (1) RU-CN (Umladen: Zabaykalsk - Manzhouli); (2) RU-MN-CN (Umladen: Zamyun-Uude - Erlian); and (3) RU-KAZ-CN (Umladen: Dostyk - Alashankou).

- *Yiwu–Madrid line* (2014) connects Spain with the Chinese production hub of Zhejiang province, the Chinese financial city of Shanghai and the largest Chinese wholesale distribution centre in Yiwu, near Shanghai in a distance of 13,000 km and a journey of 21 days (see Image 4 on the map illustrating the Yiwu-Madrid line).

Overall, these rail lines share similar constraints and advantages starting with the fact that the rail freight lines are fully booked from the Chinese route to the EU whereas the reverse route is not as heavily booked. This problem reveals the OBOR's dependence on Chinese capital. The route from China to the EU is heavily subsidised to support Chinese corporations involved in energy-intensive manufacturing such as automotive components and electronics.²⁹ While the EU is still letting the free market play a role in the transport price allocation, the Chinese municipalities concerned are sustaining the rail services that serve their industrial parks. Chinese subsidies are aimed not only to give a competitive advantage to Chinese products by lowering logistic costs but also to maintain the employment of Chinese personnel.

Presently, the main structural constraint is related to the limited capacity, the seasonality and the different

rail systems adopted by the Commonwealth of Independent States,³⁰ China³¹ and the EU. While the rail transport price cannot compete with the shipping freight, it has a positive green footprint providing an important reduction in the CO2 emissions. In this respect, the rail transports offer a more environmentally sustainable model.

So far, there is no EU approach in shaping the land connection. While Germany has been a focal hub for the beginning of the overall project, Poland, Czech Republic and soon Netherlands and Belgium are likely to increase their presence in the rail network. From the financial side, the Chinese authorities are willing to invest in promoting the rail network with the EU but apart from the rhetoric in their public announcements, there has not been any improvement in the establishment of structured government communication channels. Much rests on a case-by-case approach as seen in the MOFCOM's willingness to pursue bilateral discussions with Germany and Poland. Also with the enhanced cooperation between China and the CEE countries under the "16+1" framework, there are plans for new routes, including linking the rail network with the Greek logistic hub/port at Piraeus and the new Chinese investment areas in Bulgaria. Speculation is that China is already promoting

Image 3
Map Suzhou-Warsaw line



Source: *Baltic Transport Journal*

(<http://baltictransportjournal.com/overland-rail-road/new-china-poland-train-connection,1134.html>)

29 Authors interview with Chinese and Kazakh logistic companies, August 2014.

30 1,520 mm wider gauge.

31 1,435 mm standard gauge.

its own “macro-region” inside the EU area of influence as Beijing extends its economic ties with the CEE countries. There are also opportunities for EU companies to participate in bidding of infrastructural development alongside Chinese SOEs as China appears ready to go beyond providing loans by its state banks to build the rail platforms. It is now possible to infer an extended participation granted by the newly-formed AIIB. As such, the EU ought to take a flexible approach in substantiating its strategic partnership with China and seek investment projects for EU firms in developing the Eurasian Land Bridge.

On the Central Asian side, the rail network proceeds at a faster pace. In November 2013, a new cargo train route was inaugurated, linking Xi’an, the capital of China’s northwest Shaanxi province, with the Kazakh city of Almaty through the Xinjiang Autonomous Region by means of a 3,866 km route. This is in view of a future expansion to link China and Europe via Kazakhstan and Russia along 8,000

km of highway from Khorgos, China, to Almaty, Kazakhstan to St. Petersburg, Russia and then Lithuania and other parts of Europe. Another railway expansion project will connect China to Kyrgyzstan and Uzbekistan. This task, with an estimated cost of US\$2 billion, is fully financed by the Chinese side. The China Road and Bridge Corporation (CRBC) will be in charge of the construction while China Railway High-speed (CRH) will operate the railway. In addition, since 2012, China and Turkey have been discussing the construction of the US\$35 billion rail network that would connect the Turkish eastern border city of Kars to Istanbul and via the planned Bosphorus rail tunnel, to the EU, crossing Greece and Bulgaria. The project, almost entirely financed by China, would also link the Baku-Tbilisi-Kars rail route enabling connections to Azerbaijan and Georgia. Transport and logistics integration are also expected to benefit from the planned rail link project that will connect Urumqi, Chinese Xinjiang Autonomous Region with Ashgabat, Turkmenistan and then run from the Turkmen capital to the Iranian border.

Image 4
Map Yiwu-Madrid line



Source: Washington Post

(<https://www.washingtonpost.com/news/worldviews/wp/2014/11/21/map-the-worlds-longest-train-journey-now-begins-in-china/>)

STAKEHOLDER PARTICIPATION AND SUSTAINABILITY

The geopolitical implications of the Eurasian railway corridors confirm the trend towards a new foreign policy whereby Beijing uses economic investments to strengthen bilateral relations with countries ranging from South and Central Asia to Central and Eastern Europe. At the same time, the EU involvement in the land bridge engages China by promoting the spread of positive outcomes among all the stakeholders. The OBOR initiative also overlaps with the Investment Plan for Europe (which will see €315 billion to be invested)³² in which China has become the first non-EU country to announce its contribution.

However, beyond the trade statistics and new rail connections, the role of the OBOR initiative is still not entirely understood in Europe.³³ During the launch of the OBOR initiative, China witnessed a timid reaction among EU officials. A limited number of EU member states pledged support for the initiative. Several EU member states subsequently boasted in the media their respective exclusive roles in the OBOR initiative ranging from German and Polish railway links and Italian historical connections in the ancient Silk Road through Venice and Marco Polo to the Chinese plan under the OBOR to have Greece as the receiving line of the 21st century Maritime Silk Road in Europe at the Piraeus port. EU think tanks and universities have increased the frequency of workshops and seminars on subjects such as “Opportunities and Challenges of the One Belt, One Road: The New Silk Road of the 21st century” and “China in the eyes of the EU, the EU in the eyes of China”. In this regard, the OBOR is considered “good for business”, along with a common critique on its lack of specific projects for European participation. The orientation of the EU think tanks towards the OBOR initiative is still evolving as researchers and scholars study its impact on the EU’s external relations, particularly the EU Neighbourhood Policy and the EU’s role in Central Asia.

The Eurasian corridor has to be seen not only as a mechanism for enabling the flow of high-value and low-volume products from Europe to China,

but also as a means of promoting a broader Eurasian socio-economic integration. Besides the programs delineated by the EU in the High Level Security Dialogue (HLSD) with Central Asian states, Brussels could promote important regional programs to foster human resource education, the rule of law and environmental protection via a more flexible stance towards cooperation with Beijing. At the same time, as China has gradually subtracted Central Asia from the Russian economic sphere of influence, it is slowly but inexorably reaching countries and markets closer to the EU. The “16+1” cooperation framework between China and the CEE countries has clearly shown the potential of Chinese influence creating a significant lobby of pro-China sentiments in the EU and its immediate neighbourhood. In fact, China and the EU also need to address how to operate a relationship which touches on regional security concerns arising from terrorism, drugs and human trafficking as well as other transnational crime.

The EU population is still not well aware of the OBOR initiative. They still perceive the Chinese ODI with mixed feelings as there are lingering suspicions that China has broader strategic intent and not just commercial calculations in putting such financial resources across the Eurasian region.³⁴ Furthermore, the EU media narrative is still centred on Chinese mergers and acquisitions (M&A) in the EU rather than a broader socio-political analysis of the OBOR initiative and possible cooperation patterns to shape a long-term relationship between the EU and China based on a better understanding of reciprocal values and interests. To a large degree, EU’s approach has remained rooted in a democratisation and human rights paradigm. The focus on purely economic motives and the lack of clarity by China exacerbates the situation. In actual fact, the OBOR initiative can be a platform for both sides to develop a new basis of promoting mutual trust and mutual benefit, even though the EU decision-making process among its institutions and member states can be complicated for the Chinese side.

32 “Investment Plan for Europe goes global: China announces its contribution to #investEU,” *European Commission*, September 28, 2015, http://europa.eu/rapid/press-release_IP-15-5723_en.htm.

33 Interviews with China watchers at EU think tank and universities. First half of 2015.

34 Ibid.

CONCLUSION

The EU should focus on long-term priorities to engage China, taking into consideration not only Brussels' present lack of available resources but also the high costs to be borne by the EU in the event of a new crisis in South and Central Asia. Although the priority of relations for Russia and the EU are related to the unfolding of the Ukrainian crisis, the Russian influence on its neighbours is going to endure. While the Central Asian republics are enacting a multi-vector foreign policy, balancing China's economic might with Russia's military power, the EU "flexible engagement" with the One Belt initiative could promote cooperation, combining the EU know-how, regional domestic needs with the affluence of Chinese investors. Chinese interests in Afghanistan could benefit from EU mechanisms that counter the spread of drug trade and illegal economies all over Eurasia.

The first thing to do is for the EU to project a single voice to China and avoid representing different policies and priorities between Brussels and the EU member states. The key point to deliver to China is that strengthening of cross-regional Chinese-made infrastructure has to be balanced by an equitable access to construction projects by non-

Chinese corporations. Moreover, transparency and access to the bidding process will also enhance Chinese SOEs' competitiveness and facilitate the SOE reform in the long run. The OBOR initiative has already interconnected with other multilateral platforms such as the EEU and the EU active engagement could guarantee European companies the same level of access to the Chinese market that the Chinese companies are already enjoying in the European market.

While China is in dire need of an update in its public diplomacy communication attempts to keep pace with increasing confidence in its own ODI process, it is critical to stress the long-term geopolitical consequences of its economic assertiveness. The EU involvement with the OBOR initiative will be a defining moment for Sino-European relations. As the EU needs to offer China a unified and confident approach on the OBOR initiative, China needs to provide a coordinated strategic plan that streamlines the plethora of institutional actors into an easily recognisable interlocutor. There is still time for the EU to catch the train if its policy and timeline are clear, sustainable and understood by all the parties concerned.

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