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**Demystifying the  
Belt and Road Initiative:  
Scope, Actors and  
Repercussion for Europe**

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MARIO ESTEBAN / YUAN LI

## **Demystifying the Belt and Road Initiative: Scope, Actors and Repercussion for Europe**

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### **Abstract**

Despite the high international consensus on the enormous potential of the Belt and Road Initiative for reconfiguring international relations in Eurasia and beyond, and the consequent attention raised by this strategy throughout the world, there are still many unanswered questions. The present paper analyzes the case studies of the Yuxinou (渝新欧) and the Yixinou (义新欧) railway lines to tackle three debates surrounding this initiative: its scope, whether this is a merely economic scheme or also has a geostrategic dimension; its actors, underlining the coordinated action of Chinese central and local authorities; and its implications on EU-China relations, with emphasis on trade imbalances and the consolidation of global value chains. Both secondary and primary sources have been used in this paper, including interviews with relevant officials, business people, and scholars from China, Germany, and Spain.

### **Keywords**

Yuxinou, Yixinou, Belt and Road Initiative, New Silk Road, China-EU relations

# 1 INTRODUCTION

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Launched in 2013, the Belt and Road Initiative (BRI) encompasses two main programs: The Silk Road Economic Belt and the 21st Century Maritime Silk Road. In both cases, improving connectivity between China and its partners along the route is one of their main goals. Whereas the former aims to improve overland connections, the latter focuses on maritime routes. The BRI is a very ambitious scheme involving more than 100 countries and international organizations, which make up 60 per cent of the world's population and its joint GDP.

By its potentially immense impact, especially on the Eurasian continent, the New Silk Road has provoked considerable interest, both politically as well as academically. However, given its comprehensive character and the relatively short period that has passed since its inception in 2013, the BRI still poses many pending questions. The present paper will approach questions concerning the BRI's scope, actors, and implications:

First, what is the rationale of the BRI? We question the reductionist analyses of the BRI, which only focus either in the geostrategic or in the economic dimension. Looking at the governance structure of the initiative which embodies the logic of China's bureaucratic institutions, we argue that the BRI is mainly an economic initiative. However, we sustain that its geostrategic repercussions should not be ignored, because the economic effects of the BRI might not only transform the economic landscape of China,

but also increase the influence of China in world affairs.

Second, what is the role played by local authorities in the implementation of the BRI? We argue that local governments play a vital role in the implementation as well as the conception of some of the most iconic BRI related projects. Governments of different administrative levels cooperate in the development of those projects, since the interests of central and local governments are vertically coherent. The collaboration between central, provincial, and municipal governments does not preclude competition among different cities to position themselves as key actors in the connectivity platforms created or enhanced by the BRI.

Third, what is the potential impact of the BRI on Europe? It is not surprising that the impact of the BRI differs significantly among EU members since China has identified the Mediterranean, Central, and Eastern parts of Europe as particularly relevant for the BRI.

The evidence for supporting our argument are from different case studies, particularly from the Yuxinou and the Yixinou cargo rail lines. These projects are chosen because they are directly related to connectivity, which is the cornerstone of the Belt and Road Initiative. Both secondary and primary sources have been used in this paper, including interviews with relevant officials, business people, and scholars from China and different EU member states.

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1 Xinhua Net 2016.

## 2 THE RATIONALE OF THE BRI

The rationale of the BRI is a heavily debated topic by academia, think tanks, and public media since the birth of the initiative.<sup>2</sup> There are three types of existing explanations: 1) The initiative is a new diplomatic strategy of China to enhance its foreign relations with countries along the Belt and Road; 2) the initiative is a new economic policy of China with the aim to further connect its domestic market with the global market and deepen economic reforms; 3) the initiative combines both economic and geostrategic motivations, which have strong synergies between them.

Some tend to compare the BRI with the Marshall Plan and have underlined the geostrategic, security, and military considerations, portraying it as a threat to the Western hegemony.<sup>3</sup> For example Fallon (2015) depicted the BRI mainly as a reaction to Obama's Pivot to Asia, and label it as China's 'Pivot to Europe'.<sup>4</sup> This view of the BRI tends to come together with a zero-sum, conflictual assessment of this policy. Some other analyses share this focus on the security dimension of the BRI, but hold a more cooperative interpretation of this strategy. From this perspective, the BRI can help China to assume the global responsibilities expected from a major power and to break the security dilemma faced by some countries due to the fast rise of China, opening even the possibility of establishing a more cooperative relationship with the United States<sup>5</sup>.

On the other hand, the official position of the BRI presented by Chinese authorities is that the BRI is mainly a cooperative economic initiative, focusing on the socioeconomic benefits

that it could bring to China and the other participant countries<sup>6</sup>. Chinese media and official think tanks have been quite adamant not only in their rejection of the analogy between the Marshall Plan and the BRI, due to the inclusive and non-conditional nature of the latter, but also of the pertinence of conducting a geostrategic analysis of the initiative. In their eyes, using a geostrategic lens to analyse an economic initiative is a pretext to be trapped again in a cold war, zero-sum-game mindset, which has hindered cooperation among nations and world development for decades.<sup>7</sup>

In our view, sound theories of world politics should try to consider the interplay of both international and domestic dynamics<sup>8</sup>. Policies like the BRI can be seen as an outcome (equilibrium) of games played between policy-makers at the domestic arena facing constraints from domestic institutions and society. After almost 35 years of high growth, the Chinese government indicates that China has been entering a "new normal", expecting the average annual growth rate to be around seven to six point five per cent in the foreseeable future. Looking for new growth drivers is a very urgent task for the Chinese leaders because maintaining a growth rate of at least six per cent is critical for social and political stability. To achieve this aim, in the reform decisions published in November 2013, the central government outlined a set of reforms that promise a major progress towards a better functioning and more open market economy. This document explicitly mentions the potential contributions of the Silk Road Economic Belt and the Maritime Silk Road "to form a new pattern

2 Godement and Kratz 2015; Swaine 2015.

3 Curran 2016; Mokry 2016; Overholt 2015; Tiezzi 2014.

4 Fallon 2015.

5 Wang, Jisi 2012; Wang, Yong 2016; Zheng and Zhang 2016.

6 Xi Jinping 2015; Ministry of Foreign Affairs of the People's Republic of China 2017a.

7 Li 2016.

8 Rosenau 1969.

of all-around opening”.<sup>9</sup> The BRI can also contribute to spur global demand, promote the internationalization of Chinese companies and the Renminbi, and diversify trade routes (reducing China’s dependence on maritime routes).<sup>10</sup>

This centrality of the economic agenda on the BRI is also reflected at the institutional level. The Leading Group for Promoting the BRI was established in February 2015 under the leadership of Zhang Gaoli, first ranked vice-premier and a member of the Standing Committee of the Politburo, whose portfolio focuses on economic issues, and its office has been placed under the National Development and Reform Commission, China’s top macroeconomic management agency.<sup>11</sup> Additionally, according to the decisions during the fourth session of the 12th National People’s Congress, it is the National Development and Reform Commission rather than the Ministry of Foreign Affairs who takes the lead in implementing the BRI, which is another sign illustrating the focus on practical economic cooperation<sup>12</sup>. At the end of the same month, on 28 March 2015, the official blueprint for the BRI, *The Vision and Actions on Jointly Building Silk Road Economic Belt and 21st century Maritime Silk Road*, was issued by the National Development and Reform Commission, the Ministry of Commerce, and the Ministry of Foreign Policy.<sup>13</sup> Therefore, the domestic policy-making structure shows the BRI is mainly an economic as well as diplomatic policy of the Chinese government, since neither the military or the security apparatus have a prominent role in its implementation. This point is reinforced looking at the five

specific areas of cooperation identified in the official BRI action plan: policy coordination, infrastructures, trade, finance, and people-to-people exchanges.

However, even if geostrategic political considerations are not the main drivers behind the BRI, the implementation of the BRI would have significant geostrategic repercussions in Eurasia and beyond, due to the size and dynamism of the Chinese economy. The two most substantial geostrategic effects of the BRI would be: 1) diluting the dependence of traditional economic partners; 2) to reassure about the benefits of the rise of China.

First, growing trade and financial links between China and other participants in the BRI might boost asymmetric economic interdependence among them, making the Chinese economy more important for the development of those countries than the other way around. While those states become increasingly dependent on China in economic terms, the dependency on their traditional economic partners may reduce. Accordingly, China might have a stronger leverage in promoting its strategic interests when negotiating treaties with those states. At the same time, the diversification of China’s economic relations could reduce the leverage of a single foreign country on the Chinese economy, which may particularly relevant for strategic imports, such as energy commodities.<sup>14</sup>

Figure 1 shows how China has overtaken the US’s position as the world’s largest trading nation since 2012 and how the share of China’s trade with all the 65 BRI countries has increased much more dramatically than in the case of US’s trade flows. Between 2005 and 2014, China’s share of total foreign trade of the Belt and Road countries jumped from 19 % in 2005 to 26 % in 2014, whereas the US’s share only experience a

9 Central Committee of the Communist Party of China 2014.

10 Djankov and Miner 2016.

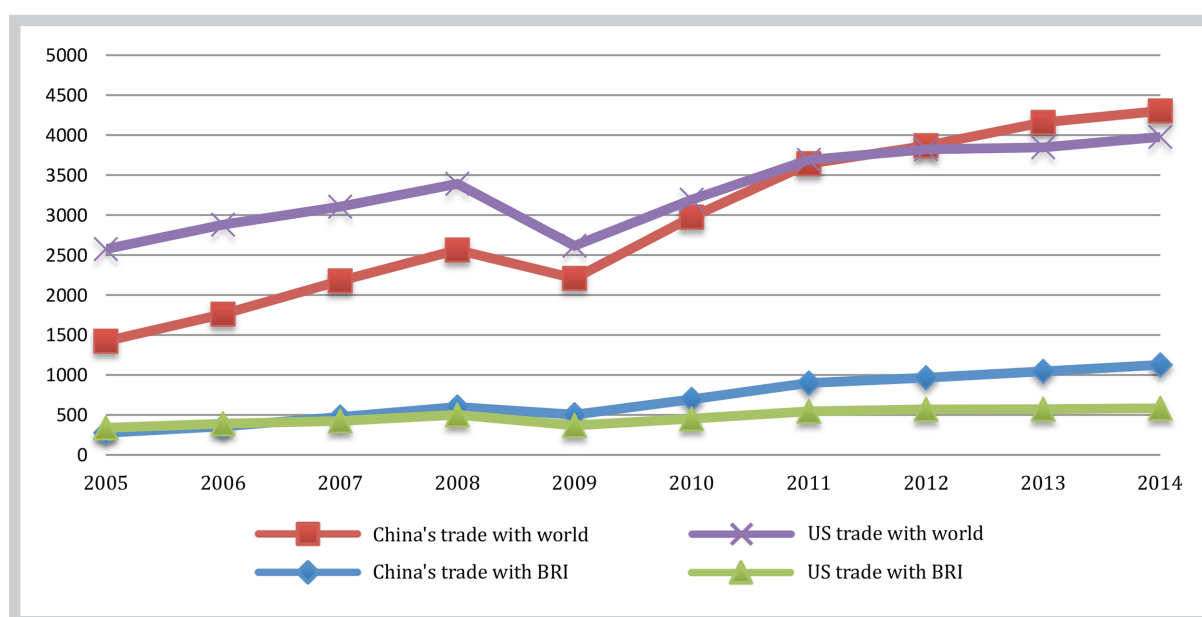
11 Xinhua Net 2015.

12 Nie 2016.

13 National Development and Reform Commission, the Ministry of Commerce, and the Ministry of Foreign Policy Ministry of Foreign Affairs of the People’s Republic of China 2015.

14 Qian 2016.

**Figure 1: China and US trade with BRI countries and the world, 2005–2014 (in billion USD)**



Sources: National Bureau of Statistics of China, <http://data.stats.gov.cn>; The International Trade Administration, U.S. Department of Commerce, <http://www.trade.gov>.

small increase from 13 % to 15 %.<sup>15</sup> In fact, China has become the largest trading partner of most of the BRI countries. This is the case even for the largest economy in Europe, Germany. In 2016 China became for the first time the largest trading partner of Germany concerning total volume, while the United States dropped to the third place.<sup>16</sup>

The picture is quite similar when looking at investment. According to the World Investment Report 2016 by UNCTAD, China became the world's second largest investor in 2015.<sup>17</sup> Figure 2 shows that China's outward FDI into the BRI countries has constantly risen from only 8.08 billion US\$ in 2006 to 109.77 billion US\$ in 2015, constituting 75 % of its total outward FDI for that year. After the launch of the BRI, China's outward FDI into the BRI countries has increased from

75.94 billion US\$ in 2013 to 109.77 billion US\$ in 2015, while its outward FDI into the rest of world almost remained unchanged during the same period.

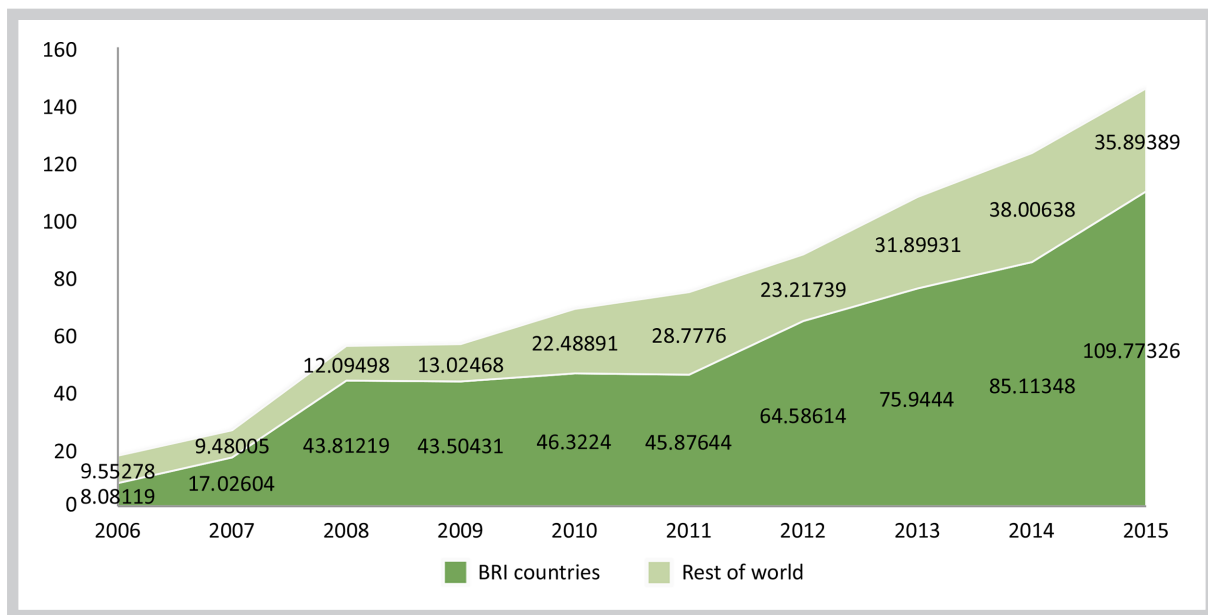
Second, China uses the BRI to reassure other states of the peaceful and benign nature of the above mentioned growing economic engagement. China's increasing economic influence has caused anxiety in many countries. The spread of the anxiety is detrimental for Chinese interests, since it makes those countries less prone to cooperate with China. To avoid that scenario, China tries to emphasize the win-win nature of its engagement with other countries and has adopted terms such as the community of shared destiny.<sup>18</sup> Doing so, China presents the BRI as an opportunity, instead of as a threat. For example, in November 2014, at the Central Conference on Work on Foreign Affairs, Chinese President Xi Jinping stressed the importance of building the BRI and promoting win-win cooperation as China's diplomatic strategy:

15 The BRI as an open and inclusive initiative is not limited to the 65 countries, please see the list of BRI countries at Hong Kong Trade Development Council, <http://belt-androad.hktdc.com/en/country-profiles/country-profiles.aspx>.

16 DIHK 2017.

17 UNCTAD 2016.

18 Arase 2015; Swaine 2015; Zeng Lingliang 2016.

**Figure 2: China's outward FDI into BRI countries and the world during 2006–2015 (in billion USD)**

Source: 2015 Statistical Bulletin of China's Outward Foreign Direct Investment

"We should step up results-oriented cooperation, actively advance the building of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, work hard to expand the converging interests of various parties, and promote win-win cooperation through results-oriented cooperation."<sup>19</sup>

In short, the BRI is an economic initiative with substantial geopolitical implications. China hopes the consolidation and development of the New Silk Road(s) could contribute to increasing trade and financial relations with the countries along the routes and to present relations with China as grounded on a win-win logic.

### 3 THE ROLE OF LOCAL AUTHORITIES

Even if most of the literature on the BRI follows a rational actor model in their analyses, it is evident that different sectors of the Chinese administration are involved in its development and implementation. This point is illustrated in the official action plan, which was written by three different organizations, although all are under

the authority of the State Council. Section VI of the official action plan elaborates on the key role of local administrative units in its implementation<sup>20</sup>. This plan shows a top-down dynamic in the interaction between central and local authorities. Note that over twenty provinces had included the BRI on their working agenda for 2014, after Premier Li Keqiang listed the intensification of the planning for the BRI as one of the major national tasks for that year.<sup>21</sup>

19 Xinhua Net 2014; Xi Jinping and Premier Li Keqiang have also stressed the mutual benefit orientation of the BRI in their speeches during official visits to foreign countries, for example, to EU member states. See van der Putten et al 2016. The official action plan of the BRI has underlined the same idea too, National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China 2013.

20 National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China 2013.

21 Nie 2016.

However, this hierarchical approach does not apply to all the projects included in the BRI and does not avoid different administrative units to put more emphasis on the various aspects of this multidimensional initiative. The following analysis of the China-Europe cargo freight trains not only provides evidence of hierarchical collaboration between the national, provincial, and local governments in developing BRI projects, but also presents two facts which are not considered in most of the academic literature on the BRI<sup>22</sup>. Firstly, some of the key elements of the BRI, particularly the idea of improving connectivity between China and other parts of Eurasia, were originally conceived at the local level and then elevated to the national level. Secondly, different governmental organizations sometimes attempt to take advantage of the BRI to promote their interest at the expense of the interests of other organizations. These two issues are quite consequential for understanding the BRI since they point to the advantage of resorting to a bureaucratic or to an organizational process model instead of to a monolithic rational actor model.

Land transportation is the backbone of the Silk Road Economic Belt, which has spurred a significant increase in railway connectivity between China and the rest of Eurasia. Taking only into consideration the fast-growing railway line network linking China with Europe, after the Yiwu-London rail line was launched in January 2017, there are 39 lines directly connecting 16 Chinese cities with 15 cities in Europe. Since the Silk Road Economic Belt relies on pivot cities to serve as platforms to foster economic integration in Eurasia, their local governments play a main role in proposing, designing, and implementing those transportation projects.<sup>23</sup>

In this context, where local authorities rush to develop Silk Road projects to attract economic activities and earn political favor, insufficient inter-organizational and central-local coordination has been identified as one of the main risks in the implementation of the BRI,<sup>24</sup> since the proliferation of overlapping projects is leading to an inefficient allocation of resources. For example, the central government has softened the limitations on municipal bonds for BRI-related projects. Local governments are not authorized to raise bonds beyond 40 per cent of their assets, but they can go over that line up to 35 per cent more for financing infrastructure and green projects. And all the railway projects connecting China and Europe have been included under that category by the National Development and Reform Commission and the Ministry of Finance. In this context, some scholars have called attention to the “hidden perils” of “vicious competition between various localities in the process of goods train transport between China and Europe”,<sup>25</sup> which is making more difficult that those railway lines become profitable.

To reverse this situation, some have advocated for strengthening joint efforts between central and local governments to make the BRI successful.<sup>26</sup> The National Development and Reform Commission is taking steps in that direction, aiming to strike the right balance between competition and coordination among different administrations. For example, in October 2016, a common brand name was employed for all those freight railway lines, the CHINA RAILWAY Express (Zhongou banlie, 中欧班列).<sup>27</sup>

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22 Summers 2016.

23 Chongyang Institute for Financial Studies of Renmin University 2016.

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24 Hong 2016.

25 Huangfu and Wang 2015.

26 Chongyang Institute for Financial Studies of Renmin University, 2016.

27 NDRC 2016.

### 3.1 THE YUXINOU RAILWAY: CONNECTING CHONGQING AND DUISBURG

The Yuxinou Railway is the first direct railway connection between China and Europe, which connects Chongqing with Duisburg (the biggest inland harbor in Europe). This railway line began to operate in 2011, and for a long time, it has been treated as a symbol of the “New Silk Road”. In March 2014, Xi Jinping visited Duisburg to promote the construction of the “New Silk Road Economic Belt”, and witnessed the arrival of a cargo train at the railway station in Duisburg from Chongqing. The Yuxinou Railway became operative over two years before the official introduction of the BRI in 2013 and, like many marketization reforms in China, it was a bottom-up process pushed by enterprises and local officials.

Since 2009, giant notebook computer makers, such as HP, Acer, and ASUS, have settled their manufacturing bases in Chongqing, followed by other major OEM companies, such as Foxconn (China Daily 2014). This made Chongqing a new industrial headquarter for notebook computer production. It is estimated that nowadays one out of three notebook computers sold in the world are from Chongqing, and around half of the computers produced in Chongqing are sold to the European market (Financial Times 2011). Such a large-scale production needs a smooth, cost-efficient logistic channel to ship the products out for sale. However, unlike eastern coastal provinces in China, Chongqing locates in the western inland region which is far away from deep-ocean transportation harbors that have connections to Europe. The transportation in Chongqing was its bottleneck. Around 70 per cent of the notebook computers were first shipped from Chongqing to Shenzhen and Shanghai by railway and then shipped to Europe by sea, which makes the total transportation time reaches nearly two months<sup>28</sup>. The transportation time consists a significant part of the total cost of IT products

according to the famous Moore’s Law. Sometimes the market price of these notebook computers dropped a lot when they arrived Europe after such a long delivery time. The rest of the products were transported to Europe by air, but the delivery cost was very high.

Companies like HP noticed the bottleneck of transportation and were eager to push for innovative solutions in logistics. For example, special teams were set up in the company to research the possibility to use the Eurasian continental bridge to ship their products to Europe. However, there were so many problems involved in regional and national law and regulation so that HP could not implement this plan successfully by itself.

On the other hand, the local government of Chongqing, headed by the economic technocrat Huang Qifan, wanted to solve the transportation bottleneck to attract more investors like HP. So, the local government also became a key player in pushing for new ways of transportation. In August 2010, Huang Qifan and Tony Prophet, Vice President of HP, went to Beijing to talk with the national authorities from the General Administration of Customs and the Ministry of Railways to get their support for the transcontinental railway project connecting Chongqing to Europe. The national authorities in China were very supportive of this project.<sup>29</sup>

Besides China, the railway project involved many other countries; and in every country, support from the government is necessary to overcome regulatory barriers to advance the project. In Europe, HP coordinated with the German rail company, DB Schenker, to promote the transcontinental transportation project. However, sometimes, too many complex issues in multilateral negotiations along the route hinder the whole process. For example, different countries had different customs rules and the trains needed

28 Interview conducted at Chongqing, March 2016.

29 Interview with local officials in Chongqing, March 2016.

to stop in each country to do customs clearance. Only the interference of national governments can solve this kind of problems.

The central government of China responded to the demands from companies like HP and local governments like Chongqing. In November 2010, during Premier Wen Jiabao's state visit to Russia, he pushed the initiative and reached an agreement with Russia and Kazakhstan to facilitate the customs clearance procedures which allow the express trains from China to avoid repeated customs inspection before the goods were shipped to Germany. Even so, the whole negotiation process was still long and complex.<sup>30</sup>

After another two trial runs in 2010, on 19th March 2011, the first train of the Yuxinou railway started to operate. A train packed with electronic goods produced in Chongqing successfully arrived in Duisburg after 16 days of travel across six countries. Nowadays, the Yuxinou railway operates regularly between Chongqing and Duisburg. There are five eastbound trains and four westbound trains per week. The transportation time has been shortened to 12 days. Also, Chongqing government has developed similar plans to connect with mainland Southeast Asia, following routes southwards through Kunming.

The case of the Yuxinou railway shows several features of the BRI. First, some projects of the initiative are usually bottom-up and not top-down. Second, they largely rely on the market, rather than political considerations.

### **3.2 THE YIXINOU RAILWAY: CONNECTING YIWU AND MADRID**

In January 2013, also before Xi Jinping presented the Silk Road Economic Belt concept at Nazarbayev University in September 2013, Yiwu began to send freight trains to Central Asia looking for increasing its sales to that region. Since then, the

government of Yiwu has sponsored other cargo train routes linking Yiwu with countries such as Afghanistan, Iran, Latvia, Russia, Spain, and the United Kingdom. All those railway lines have been presented as BRI projects, even those inaugurated before the BRI was announced<sup>31</sup>. The local government of Yiwu has strongly supported this new freight railway lines as illustrated by the example of the line connecting Yiwu with Madrid, Yixinou, which has received special media attention for becoming the longest rail route in the world with 13,052 kilometers. The government of Yiwu has subsidized this line since its creation in November 2014 and has proved its commitment to this project in Spain, sending high-level delegations to participate in meetings and events with Spanish authorities and business representatives. For example, Yiwu deputy mayor, Xiong Tao, participated in the Eighth Spain-China Forum, where he highlighted the business opportunities that come with the Silk Road Economic Belt and in particular with the Yixinou line. Moreover, in March 2016 the Government of Yiwu established in Madrid the headquarters of the "Foundation for the Exchange between Yiwu and Spain", which has been quite active in organizing activities to foster closer ties between Yiwu and Spain.

In addition, the government of Yiwu also took other innovative measures to integrate into the national strategy of the BRI, such as implementing foreign exchange administration pilot reforms on individual trade and further perform the individual cross-border trade RMB settlement pilot, as well as planning the construction of a Silk Road new district and a land port new district.<sup>32</sup> These actions of the local government of Yiwu were not taken in isolation, but in close cooperation with regional and national authorities. For example, the Zhejiang Provincial government has granted

30 Interview with local officials in Chongqing, March 2016.

31 Interview at the Yiwu Logistics and Port Authority, 15 November 2016.

32 Chongyang Institute for Financial Studies of Renmin University 2016.

Yiwu administrative powers (such as processing visas for foreigners, interior-port status, or a national reform test-area) not enjoyed by another county-level city in China and co-subsidizes the Yixinou line in equal proportion with the authorities of Yiwu.<sup>33</sup> Also, then governor of Zhejiang, Li Qiang, visited Madrid in December 2014 to receive the first freight train coming from Yiwu. To avoid competition among cities in Zhejiang, the only cargo railway line supported by the provincial government of Zhejiang through the New Eurasian Land Bridge is the one departing from Yiwu. Doing so, Zhejiang and Yiwu officials hope to strengthen the position of Yiwu as a commercial platform between Southeast China and Europe, in competition with other cities such as Nantong (Jiangsu) and Zhengzhou (Henan), which have developed their cargo railway lines through the New Eurasian Land Bridge.

The government of Zhejiang also heads the Office of the Leadership Group on Yixinou, where local, provincial, and central authorities discuss the management of this railway line. The firm support of the national leaders to the BRI is key to understand the availability of funds for the

network of railway lines connecting Yiwu with Central Asia, Russia, Europe, and Iran and has been directly expressed to the concerned foreign dignitaries. For instance, the two times that President Xi Jinping has met with the President of the Government of Spain, Mariano Rajoy, after announcing the BRI, during Rajoy's official visit to China in September 2014 and their bilateral meeting on the sidelines of the G-20 meeting in Hangzhou, Xi mentioned the BRI strategy, with particular emphasis on the Yixinou railway line.

Throughout this coordination process among different administrative and governmental levels the local authorities are also redefining their economic role. For example, in order to adjust to the win-win dynamic emphasized by China's central authorities<sup>34</sup>, the Yiwu local market has been gradually transformed from a single-dimensional export center to a triple-dimensional node integrating export, import and transit trade. In this process, Yiwu is looking for a balance between "bringing in" and "going global" strategies by implementing a proactive import strategy and applying for the establishment of a "provincial level import platform".<sup>35</sup>

## 4 THE POTENTIAL EFFECTS OF THE BRI FOR EUROPE

The BRI was announced in 2013, but Central and Eastern Europe were not included until early 2014 and the rest of Europe until early 2015<sup>36</sup>. Even if it is therefore too early to make any definite assessment on the effects of the BRI in Eu-

rope, there is already some evidence on how this strategy is influencing EU-China relations.

Unlike other countries with bigger strategic rivalry with China, the European governments are much more interested in the economic than in

33 Jacobs 2016.

34 Although China seems confident that its economic size and dynamism will make it a major beneficiary of any removal of barriers to trade and investment or improvement in the communications efficiency along the Belt and Road Initiative, it is also aware that collaboration of the other countries is essential for this initiative to be successful. Xi Jinping himself has reiterated this point a few times, for example, in the opening of the Belt and Road Forum celebrated in Beijing in May 2017, Xinhua Net 2017b.

35 Chongyang Institute for Financial Studies of Renmin University 2016: 152.

36 Two official documents marked this gradual inclusion of Europe in the BRI: The Joint Document of China-CEEC Ministerial Meeting on Promoting Trade and Economic Cooperation and The Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. For more details see Zeng Jinghan 2016: 8–11.

the geostrategic implications of the BRI, since China's growing economic and political influence is not regarded as a threat in itself. In the words of the president of the European Commission, Jean-Claude Juncker:

"The European Union is a strong and reliable partner for China and our economies are ever more intertwined, to our mutual benefit. (...) Let me say we take note with interest of China's 'One Belt One Road' initiative. It is the kind of strategic thinking from which both Asia, China and Europe could benefit. We see the project as an open hand, an invitation to connect China and Europe better than ever before. (...) A first step is the connectivity platform we will launch today. It will allow us to combine forces – uniting the expertise and strength of our companies to develop high quality infrastructure, create new jobs in Europe, China and Asia, and build bridges between our two continents along the old silk road."<sup>37</sup>

This was also reflected at the member state level, when 9 out of the 10 biggest EU economies joined the Asian Infrastructure Investment Bank (AIIB) as founding members, and in the very significant high-level political representation EU states sent to the Belt and Road Forum in May 2017, where they comprised over 20 % of the total participating heads of state and government.<sup>38</sup>

<sup>37</sup> Juncker 2015.

Keeping the emphasis on the economic dimension, especially increasing trade and finance flows is the main economic goal for China to cooperate with Europe under the BRI framework. Trade creation effects of the BRI will likely to be significant for both EU and China, since it aims to eliminate bottlenecks in transport routes between Europe and China.<sup>39</sup> The planned reduction of the transaction costs would also be realized through institutional liberalization and harmonization. So far, EU imports from China have jumped from 16.6 % of its total extra-EU imports in 2013, the year the BRI was announced, to 20.2 % in 2016. Similarly, EU exports to China have mounted from 8.5 % to 9.7 % in the same period (Table 1).

The China-Europe express trains are an iconic example of the BRI projects for boosting China-Europe trade. So far, the impact of these new railway lines on the volume of commercial exchanges between China and Europe is quite limited, only 17 billion US\$ since 2011 and the first half of 2016, and has not helped to balance the bilateral trade, although this is starting to change, since in the first half of 2016 the number of inbound trains to China increased 318 %

<sup>38</sup> Belgium was the only top 10 EU economy that did not join the AIIB, and 6 out of the 29 heads of government and state who participated in the Belt and Road Forum were from EU member states.

<sup>39</sup> NDRC 2015.

**Table 1: EU-China trade flows and balance**

| Year | Imports (Mill. €) |            | Exports (Mill. €) |            | Balance (Mill. €) |
|------|-------------------|------------|-------------------|------------|-------------------|
|      | Value             | % Extra-EU | Value             | % Extra-EU |                   |
| 2010 | 283,931           | 18.5       | 113,454           | 8.4        | -170,477          |
| 2011 | 295,055           | 17.1       | 136,415           | 8.8        | -158,610          |
| 2012 | 292,122           | 16.2       | 144,227           | 8.6        | -147,895          |
| 2013 | 280,150           | 16.6       | 148,115           | 8.5        | -132,035          |
| 2014 | 302,149           | 17.9       | 164,623           | 9.7        | -137,526          |
| 2015 | 350,640           | 20.3       | 170,257           | 9.5        | -180,283          |
| 2016 | 344,468           | 20.2       | 170,083           | 9.7        | -174,385          |

Source: European Commission 2017: 3.

year-on-year.<sup>40</sup> A detailed empirical analysis of the impacts of the China-Europe express on China-Europe trade can be found in the IN-EAST Working Papers No. 109, “The Effect of the New Silk Road Railways on Aggregate Trade Volumes between China and Europe” by Li et al.

In addition, these new railway lines are favouring a new round of institutional change which facilitates trade between China and the EU. For example, Spanish authorities have taken advantage from the momentum created by BRI to intensify negotiations with their Chinese counterparts on reaching trade agreements related to products that could be transported by train. Thanks to successful diplomatic efforts to change phytosanitary regulations, in April 2016 Spain became the first European country allowed to export plums and peaches to China, and there are conversations for concluding similar deals for other products. Currently, the Spanish authorities are negotiating specific protocols with their Chinese counterparts to eliminate phytosanitary, non-tariff regulatory barriers for several products such as Spanish serrano ham (including on the bone) and seedless grapes. Some important advances in customs procedures have been agreed on too. For example, Yiwu Customs have opened a special cross-border “green channel”, which provides inspection, release, verification, customs clearance and other one-stop clearance services for the goods coming from Madrid by train. In addition, China and Spain are negotiating a trade facilitation agreement, which is expected to reduce the time needed for clearing customs procedures.<sup>41</sup>

Besides trade creation effects, the BRI may generate positive economic spillover effects due to

higher growth rates and income levels in Asia, especially in the vast hinterland region between East Asia and Europe, which will be translated into higher demand for EU products. Moreover, the positive implications of trade for economic growth are not limited to countries that run surpluses since countries can benefit from technology transfers and other efficiency gains associated with international trade as the availability of relatively low-cost products from China raises consumption and production possibilities in EU countries.<sup>42</sup>

The BRI could also generate spillover effects on GDP growth of the EU through financial linkages. The BRI could enhance regional integration across Eurasia, which would offer European suppliers more scope for participating in the “Asian Factory”, that is cross-border value added chains. Many countries covered by BRI are mostly low-income economies. They have greater potential to grow rapidly but lack the required capital, technology, and know-how. Chinese and European companies can work together on jointly investing in the inland areas between Europe and East Asia. Such investments will help these countries in creating more (and better) jobs, as well as in increasing exports, and upgrade their industrial capabilities<sup>43</sup> (Li 2016). Therefore, the successful economic integration and development of the hinterland region along the BRI could create new markets for EU exports and FDI.

On the other hand, BRI may increase Chinese investment in Europe, especially in industries such as ICT, utilities, transport and infrastructure, and energy.<sup>44</sup>

40 Xinhua Net 2017c.

41 Interviews with Spanish trade officials in Madrid and Beijing, and with Chinese diplomats in Madrid.

42 Coe 1995.

43 Li 2016.

44 Hanemann and Huotari 2017: 7.

## 5 CONCLUSION

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Like many other reforms in China, the creation of BRI-related projects, such as the new silk road railway lines across the New Eurasian Land Bridge was a mix of the bottom-up and top-down process. The official narrative on the BRI and its institutional structure suggest that this is mainly an economic initiative and it is quite apparent that its implementation will deepen economic integration between Asia and Europe, which will affect the overall economic market (goods, service, capital, labor, etc.), the production process, as well as all the economic sectors and players (consumers, producers, government, etc.). However, the significant economic leverage that China earns in the framework of this strategy can be translated into substantive geostrategic repercussions.

It remains a tremendous challenge to forge a platform for multi-sectorial cooperation among such diversified players and to generate synergies between their actions. This only could be achieved through multilateral cooperation among the participant countries. The joint communique of the leader's roundtable of the Belt and Road Forum could be an encouraging sign for it:

We reiterate the importance of expanding economic growth, trade and investment based on level-playing field, on market rules and on universally recognized international norms (...) Recognizing the role of the market and that of business as key players, while ensuring that the government performs its proper role and highlighting the importance of open, transparent, and non-discriminatory procurement procedures.

We endeavor to expand people-to-people exchanges, promote peace, justice, social cohesion, inclusiveness, democracy, good governance, the rule of law, human rights, gender equality and women empowerment; work together to fight against corruption and bribery in all their forms; to be more responsive to all the needs of those in vulnerable situations such as, children, persons with disabilities and older persons; and help improve global economic governance, and ensure equal access by all to development opportunities and benefits.<sup>45</sup>

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<sup>45</sup> Ministry of Foreign Affairs of the People's Republic of China 2017b.

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