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## **Europe–China economic cooperation after official Belt and Road initiative announcement**

### **Abstract**

The official announcement of the One Belt One Road (OBOR) initiative in September 2013 opened a new chapter, not only in the economic and political history of the People's Republic of China (PRC), but also at least 60 other countries, including European ones. Therefore, the OBOR initiative can be considered as an instrument enabling greater Sino-European economic connectivity. There are a few different forms of high-level meetings, organized to create space for European-China discussions. The most significant are EU–China Summits, Asia–Europe Meeting (ASEM), and 16+1 Summits (China–Central Eastern Europe Initiative). The guiding documents, agreed during those events shape in a significant way, future political and economic relations. After September 2013, important conclusions, which are consistent with OBOR presumptions, were made. For example, the the EU–China discussion on a Comprehensive Agreement on Investment (CAI) has started, EU–China Connectivity Platform, has been created. In October 2013, the Peoples Bank of China and the European Central Bank signed a bilateral local currency swap arrangement. Finally, at the beginning of 2016, China became the 67<sup>th</sup> member of the European Bank for Reconstruction and Development. Despite those achievements, most of European Union's (EU's) countries represent different interests, what can hinder further developments. China's B&R Initiative is undoubtedly a priority in Beijing's foreign policy. European countries should make their best to capitalize on the opportunities it provides. It seems to be possible only if European countries would have a common position *vis-à-vis* Beijing.

**Key words:** economic cooperation, Belt and Road, European economic policy, Europe–China cooperation.

## Introduction

According to the opinion of Fu Ying, chairperson of Foreign Affairs Committee of National People's Congress, connectivity is the shortcut to prosperity. That statement also explains why the Silk Road Economic Belt and the 21<sup>st</sup>-Century Maritime Silk Road, named as the Belt and Road (B&R) or One Belt One Road (OBOR), have a profound economic meaning and should be considered as the most important of China's foreign economic policy instruments. The successful realization of that initiative will influence not only Chinese but also many other economies, including European Union (EU) countries.

Although B&R is a relatively new concept, it has already been widely discussed during dedicated events, conferences, in scientific papers, and articles. However, most of the publications concentrate on describing the main presumptions and general, potential effects of that initiative (Swaine 2015; Weidong 2015; Li 2015), or analyze China's involvement in selected countries, including European ones (Sanfilippo 2014; van der Putten 2014). Those approaches do not contain an analysis of B&R's effects on economic relations with Europe, while from the European perspective it is important to assess future implications for China's activity in that region and especially in EU countries. These kinds of complex analyses are very rare in the literature (Casarini 2015; Bendini & Barone 2015). Authors of these paper see the need for further scientific research in that field, as the OBOR initiative is dynamically evolving. This paper analyzes forms of official Europe–China negotiations and institutional instruments created to shape and influence China's relations with European economies. The main goal of this paper is to summarize so far the effects of the OBOR initiative on China's investment and financial cooperation with European countries, as well as to show how the institutional framework for economic relations between China and European countries is shaped.

The paper is organized as follows. In the next section the genesis and main assumptions of B&R are reviewed. The second part of the paper analyzes the institutional framework for economic relations between European countries and China. It includes characteristics of the Asia Europe Meeting (ASEM), the 16+1 initiative and UE–China Summits, as well as description of interrelationships between the abovementioned dimensions of Europe–China cooperation. The main effects of the Europe–China investment cooperation are presented in the third part of the paper.

Section four is dedicated to the analyses of financial cooperation between China and European countries. The paper ends with recommendations and conclusions.

## **1. The genesis and main assumptions of the B&R initiative**

The B&R initiative was announced by Chinese president Xi Jinping in 2013. During one of his first foreign visits as a president, on September 7, 2013, in Kazakhstan, he delivered a speech using official Silk Road Economic Belt terminology. President Xi was calling the whole Eurasian region to “take an innovative approach and jointly build an economic belt along the Silk Road.” At the same time, he proposed five necessary steps that need to be undertaken to turn this vision into reality. These steps cover policy consultation, improvement of road connections (infrastructure), promotion of unimpeded trade, enhancement of monetary circulation, and cultural understanding along the road (Xi Jinping 2014, pp. 315–319). On October 3, 2013, Xi Jinping proposed the 21<sup>st</sup>-Century Maritime Silk Road. This time he addressed this concept to all the ASEAN countries. During his speech at the People’s Representative Council of Indonesia, he strongly emphasized the following steps: common trust and good-neighborly ties through respect; common work for mutual cooperation benefits with strengthening maritime cooperation in ASEAN; common assistance within regional security issues; as well as mutual understanding and friendship, openness and inclusiveness to all the countries along the way (Xi Jinping 2014, pp. 320–323).

During the Boao Forum for Asia (BFA), in March 2015, the B&R official action plan proposed by China was issued by the China National Development and Reform Commission, Ministry of Foreign Affairs, Ministry of Commerce of the People’s Republic of China, and authorized by China State Council. The action plan points out the necessity of global adjustments in international trade and investment scope. Furthermore, the plan creates a new direction in the multipolar world with an open economy, free trade regime, deepened regional cooperation, and major changes in international economic policies that influence global peace and development. OBOR directives clearly state that the abovementioned goals can be achieved through infrastructure improvements, trade enhancements, and investment facilitation. Cooperation priorities are

defined in five crucial areas: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds. Countries involved in the initiative should improve their geopolitical policies and adjust them to the regional cooperation, which can boost trade and communication mechanism.

Infrastructure construction plays a big role in B&R. All the infrastructure projects should be based on particular technical standard systems, promotion of green and low-carbon solutions, increase the effectiveness of customs clearance, and standardization of transport rules. Connectivity should be undertaken on land (roads, railways, trains), on the sea (ports and vessels), and in the air (airports, airplanes). This complex connectivity should also include cooperation within energy (power grids, power transmissions) and communications (optical cables and satellites). International trade on the Silk Road should be improved in the areas of the international trade policy, bilateral and multilateral agreements, information exchange, removing investment and trade barriers, and customs cooperation. Wide liberalization of trade should bring also improvements in trade structure, integrate investment and trade, and promote trade through investment.

Financial integration has an indisputable role in the implementation of B&R. The plan assumes a huge responsibility in building a currency stability system, financing and investment system, as well as a credit information system. A major role will be played by the newly established financial entities: Asia Infrastructure Investment Bank (AIIB), BRICS New Development Bank, Shanghai Cooperation Organization (SCO), Silk Road Fund, and China–Eurasia Economic Cooperation Fund. The action plan of B&R also recognizes the need of providing public support in a wide spectrum of culture exchanges, media cooperation and information exchange, which are strongly connected to each other (The State Council the People's Republic of China 2016).

From the European perspective, important is the fact that the geographical scope of OBOR includes Asia, Europe, and Africa. The Silk Road Economic Belt aims to connect China, Central Asia, Russia, and Europe (the Baltic area) through the Persian Gulf, Mediterranean Sea, and Southeast Asia. The 21<sup>st</sup>-Century Maritime Silk Road starts from China's coast to Europe through two different ways: from the South China Sea and Indian Ocean and from China's coast to the South China Sea and South Pacific. It means, that the EU is just one piece of the Chinese global puzzle. To make that initiative beneficial it must undertake an adequate and consistent strategy.

## **2. The institutional framework for economic relations between EU countries and China**

The legal documents concerning international economic relations between EU countries and China are mainly shaped by discussions and negotiations during high-level meetings. The most objective effects of such meetings are documents of strategic importance for shaping the long-term relationship. The most significant forums which enable discussions among state officials from European countries are EU–China Summits, but there are also other types of important meetings. ASEM and 16+1 Summits (China–Central Eastern Europe Initiative) also lead to important political decisions, but do not impact the EU as a whole, but only selected groups of EU states. There is also a number of bilateral negotiations between China and European countries being conducted. This instrument used to shape the future collaboration is considered as the most effective. It is conducted parallel to other forms of official negotiations.

### **2.1. Characteristics of ASEM, 16+1 initiative and EU–China Summits**

ASEM is internationally considered as a key forum for dialogue and cooperation between Europe and Asia. Only 15 EU member states participate in ASEM. The EU is represented there by the Commission. ASEM summits each year concentrate on different issues. The summit in 2014 arranged sessions about promoting financial and economic cooperation through enhanced Europe-Asia connectivity and Europe–Asia partnership in addressing global matters in an inter-connected world (10<sup>th</sup> ASEM Summit, 4.04.2016). The choice of such themes confirms that the participation in B&R is an important issue for EU countries.

Another international forum which aims to strengthen cooperation between China and Europe is the 16+1 initiative. In 2012 China approached the countries of Central Eastern Europe countries (CEEC) with a proposal concerning regional cooperation. The effect of that cooperation is the implementation of the Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries. The 16+1 initiative is intended to be a new platform for mutually beneficial cooperation. It is officially claimed that China–CEEC cooperation is in line with China–EU relations and should help in the implementation of the EU–China 2020 Strategic Agenda for Cooperation (The Belgrade Guidelines for

Cooperation between China and Central and Eastern European Countries 2014). Chinese Premier Li Keqiang in January 2015 pointed out that China and CEEC enjoy a broad prospect in their cooperation on infrastructure construction. What is more, during the fifth China and Central-Eastern European Countries Economic and Trade Forum on November 24, 2015, Chinese Premier Li Keqiang said that China will create an investment fund of 3 billion USD to facilitate financing in CEEC.

The most important documents shaping the future of UE–China economic cooperation are the outcomes of the UE–China Summits. These documents present effects of the EU and China negotiations. EU–China Summits, which normally take place every year, define long-term goals for economic cooperation. Projects complementing the OBOR initiative are the most important issues discussed during last two summits (the 16<sup>th</sup> and 17<sup>th</sup>, taking place on November 21, 2013, and June 29, 2015, respectively). During each summit, High Level Dialogues are conducted.<sup>11</sup> Among others, from the economic perspective, the High Level Economic and Trade Dialogue is the most important one. At the 17<sup>th</sup> EU–China Summit officials from both sides agreed, that of key importance is to identify the synergies between the Juncker Plan and the OBOR initiative (*Tomorrow’s Silk Road: Assessing an EU–China Free Trade Agreement. Executive Summary 2016*). As the tangible results of the last two EU–China Summits, two important documents were published. The first is: *EU–China 2020 Strategic Agenda for Cooperation*; and the second: *The joint statement of the 2015 China–EU Summit: The way forward after forty years of China–EU cooperation*. The analysis of the abovementioned documents highlights issues which are the priorities for EU economic policy toward China in the upcoming years. The most important events and agreements which strengthen economic cooperation between the EU and China refer to and implement these documents.

## **2.2. Interrelationships between different dimensions of Europe–China cooperation**

It has to be mentioned that there is no coherent EU guiding policy toward China’s OBOR initiative. Most EU countries represent different interests. The EU’s answer to the OBOR initiative was assessed by the Chinese government as very moderate. As a result, China can search

<sup>11</sup> Discussions dedicated to a specific topic conducted between high-level government officials.

for more active partners or strengthen the cooperation with particular European economies, which makes the EU's position weaker. In the present situation, China negotiates with Europe on a few different organizational levels: bilateral, the EU forum, and 16+1 initiative. That situation is favorable for China, but not for the UE as a whole. The People's Republic of China's Ministry of Commerce pursues bilateral discussions with Germany and Poland, as well as enhanced cooperation between China and the CEEC under the 16+1 framework at the same time. The regional multilateral platform in the 16+1 framework enabled the CEEC, which are particularly interested in economic cooperation with China, to strengthen their economic ties with China. Officially, both Chinese experts and the government in Beijing emphasize that cooperation in the 16+1 format complements and strengthens the China–EU 2020 Strategic Agenda for Cooperation (Kaczmarek 2015).

It does not change the fact that some countries, such as Germany, Poland, and the Netherlands, are ready to do more than other EU countries to connect their infrastructure and transportation development with China's plans. For example, China's new rail connection linking Northwest China and Germany, which will open in the first half of 2016, is built as an effect of bilateral Chinese and German negotiations.

### **3. The main effects of the Europe–China investment cooperation**

#### **3.1. China's outward FDI in Europe**

China's accession to the World Trade Organization in 2001 also started Chinese foreign direct investment (FDI) in Europe. Since then, Chinese companies invested about 65 billion euro of accumulated capital in EU countries (Hanemann & Huotari 2016, p. 7). Chinese motivation for investments in Europe is undeniably related to acquiring new technologies, brands, new capabilities, and intricate competitiveness on European market (Clegg & Voss 2012, p. 21). Chinese investors so far are mostly attracted to Germany, France, and the United Kingdom. Till 2009 these three countries were receiving 36.8% of annual Chinese investments (Clegg & Voss 2012, p. 22). In the last few years, Chinese investors became interested in other parts of Europe, especially Southern Europe, the Benelux countries, and CEEC. It is important to notice that Chinese outward FDI

(OFDI) is not only opportunistic, beginning after the economic crisis in Europe, but an integral part of a new economic strategy that China started to realize with the 12<sup>th</sup> – Five Year Plan in 2010 and is going to extensively continue with the 13<sup>th</sup> – Five Year Plan till 2020. The plan clearly aims to invest in new and advanced technologies. Therefore, the European market became a very important part of acquiring new technologies and safe investments for their capital.

Since the B&R initiative became an official part of China's expanding strategy, many countries along the Road observed dynamic growth in the inflow of Chinese FDI. In 2015 there was a 44% increase in investments made by Chinese companies in the EU, rising in value from around 14 billion euro in 2014 to 20 billion euro in 2015. The biggest contribution in this record value was the acquisition of the Italian company Pirelli, specialized in tire production. It is also the biggest Chinese acquisition made in EU up to date (Hanemann & Huotari 2016, p. 3). Other big takeovers made by Chinese companies in Europe are mainly concentrated in agriculture and food, automotive, energy, real estate and hospitality, finance & business services, machinery, and ICT. The biggest and strategic contracts between the EU and China were signed by state-owned enterprises, even though the role of Chinese private sector companies on the European market is increasing.

There is a huge possibility that many European economies will further benefit in the increasing volume of these kinds of investments. Presumably, Chinese FDI will cover mainly acquisitions, but also global law firms, accounting agencies, and public relations companies (The State Council the People's Republic of China 2016). China's Premier, Li Keqiang announced, that China expects to deploy 1 trillion USD of OFDI over the next five years. It makes China the second largest global exporter of FDI and may further result in significant FDI imbalances with European countries, as FDI from EU countries is declining (Hanemann & Huotari 2016, pp. 3–10). The B&R initiative may also further boost the impact of Chinese state owned subsidiaries. Their role is well rooted in the policy of banks, sovereign wealth funds and commercial entities in order to finance large-scale projects (Hanemann & Huotari 2016, p. 5).

### **3.2. Effects of the OBOR announcement on investment cooperation between China and the EU**

The joint statement of the 2015 China–EU Summit, confirmed both sides' interest in the Investment Plan for Europe and B&R. Beijing's plan to invest in the EU investment fund came after the decision of several European countries to join the China-led AIIB. This implies strengthening cooperation in improving infrastructure links through developing smart, upgraded and fully interconnected infrastructure systems. It includes project bonds, project shareholding, joint contracting and co-financing, and further coordination of the cooperation among China, the EU, and its member states. Joint implementation of infrastructural projects needs further improvements in institutional conditions. The CAI between the EU and China is planned to be one of the key instruments to realize that goal. The agreement is intended to provide a simpler and more secure legal framework to investors of both sides by securing predictable long-term access to the EU and Chinese markets, providing strong protection to investors and their investments. The EU–China discussion on a CAI started in September 2012. The official launch of the negotiations on that agreement is the major outcome of the EU–China Summit in 2013. The joint statement released during Xi Jinping's visit to Europe in 2014 confirmed the importance of negotiations on the Comprehensive EU–China CAI. In January 2016, the UE and China announced that there would be a wide scope of the CAI negotiations. It means that both parties want to improve market access opportunities for their investors as well as a balanced level of protection for investors and their investments. The EU is determined to see a good outcome from the CAI negotiations, which can enable negotiations on Free Trade Agreement (FTA). China has in fact already asked the EU to begin negotiations on an FTA. However, the Commission and most member states were reluctant about it. An FTA is considered to be a long-term perspective. Both the EU and China perceive the ongoing investment agreement negotiations as one of the most important issues in EU–China bilateral economic and trade relations. The CAI will replace the existing bilateral investment treaties between China and EU member states with one single comprehensive agreement covering all EU member states (The EU–China Comprehensive Strategic Partnership: Working for You, 2013).

It should also be noted that EU foreign economic policy is not concentrating inclusively on the investment relations with China. The EU

has also put a strong emphasis on concluding FTAs with other dynamic East Asian economies. The EU is also negotiating the Transatlantic Trade and Investment Partnership (TTIP) with the United States. What is more, on February 4, 2016, the United States signed trade agreement with 12 Asian countries (the Trans-Pacific Partnership, TPP). If the TTIP will be successful, China could change the scope and dimension of its cooperation with EU, which now seems to be mutually beneficial.

China and the UE also agreed to set up a joint working group to increase cooperation between the EU and China on all aspects of investment. The working group will include experts from China's Silk Road Fund, the Commission, and the European Investment Bank (EIB). Another example of effective cooperation is a new Strategic Framework for EU–China Customs Cooperation for 2014–2017, signed in May 2014. It focuses on border enforcement of IPR, supply chain security, anti-fraud and trade facilitation, and external trade statistics. The European Commission and the Chinese government in June 2015 additionally signed a Memorandum of Understanding on the establishment of EU–China Connectivity Platform. The EU–China Connectivity Platform is created to enhance synergies between China's OBOR initiative and the EU's connectivity initiatives such as the Trans-European Transport Network policy. The Platform will promote cooperation in areas such as infrastructure, equipment, technologies, and standards (Investment Plan for Europe goes global: China announces its contribution to #investEU 2015). Another milestone on the way to strengthening economic cooperation is a joint statement on EU–China Strategic Cooperation in the 5G Area (Joint declaration on strategic cooperation in the area of the fifth generation of mobile communication networks between the European Commission and the ministry of industry and information technology of the People's Republic of China 2015). An example of trade relations improvement is an event that occurred in November 2015, when China was given EU Authorized Economic Operator (AEO) status. The AEO was launched in 2008. It offers simplified customs procedures to companies that prove to be safe, reliable, and compliant with security standards. In effect, EU and Chinese trusted traders enjoy lower costs, simplified procedures and greater predictability in their activities. The implementation of the AEO in Europe is an example of an instrument that aims to foster bilateral trade, which is a fundamental mechanism of OBOR development. Trade incentives given to European entities increase European interest in the B&R initiative's realization and active participation in its financing.

#### **4. Financial cooperation between China and the EU in light of OBOR**

Through the progressive implementation of the B&R initiative China aims also to support RMB internationalization. European financial entities may play a very important role in that process. European financial institutions are the oldest and the most experienced. This advantage will be surely used in order to support all the advanced transactions and all other financial processes (The State Council the People's Republic of China 2016).

In October 2013, the People's Bank of China and the European Central Bank signed a bilateral local currency swap arrangement for the purpose of supporting bilateral economic and trade activities. That should ensure the stability of financial markets and facilitate trade and investment activities between China and Europe. It can also be recognized as an announcement of further monetary and financial cooperation between the People's Bank of China and the European Central Bank. According to the Joint Statement of the 2015 China–EU Summit, cooperation between China and the European Investment Bank should deepen. To realize that goal, the EU–China Economic and Financial Dialogue and the Working Group between People's Bank of China and the European Central Bank were established. The EIB in 2015 invested a record sum in 10 big projects in China. The projects mainly focused on transportation, communication, forest development, energy conservation and, environmental protection. The EIB is a member of the official working group set up by the EU and China to boost investment cooperation between the world's second largest economy and the EU. The EIB has an office in Beijing. The EU also supported China in cooperation with the European Bank for Reconstruction and Development (EBRD). In result, on January 15, 2016, China became the 67<sup>th</sup> member of the EBRD. The EBRD will support Chinese companies as they invest in the EBRD regions. EBRD membership will impact implementation of the B&R initiative in countries which are members of the EBRD.

Chinas economic involvement in Europe, as well as European countries' activity in Asia, are also connected with the AIIB's founding. The Articles of Agreement of the Asian Infrastructure Investment Bank were opened for signature on June 29, 2015. Fourteen EU countries joined AIIB as founding members. Those countries are: Austria, Denmark, Finland, France, Germany, Italy, Luxembourg, Malta, the Netherlands, Poland, Portugal, Spain, Sweden, and the United Kingdom.

The International Monetary Fund, World Bank, and Asian Development Bank also indicated cooperation with the AIIB. When it comes to the EU, there was no coordinated EU response for that initiative. The AIIB case highlights the lack of a common strategy among EU member states, as well as between the EU and its closest allies. (The Asian Infrastructure Investment Bank. A New Multilateral Financial Institution or a Vehicle for China's Geostrategic Goals 2015).

Along with realization of the B&R initiative, China's authorities also admit the need of financial policy adjustments. The State Administration of Taxation (SAT) unveiled ten measures supporting and improving services for investors under the B&R initiative. Those measures should protect investor's rights, promote development and support equal benefit interests for all the parties. SAT predict further improvements on bilateral tax agreements, including double taxation and other risks (The State Council the People's Republic of China 2016).

## **Recommendations and conclusions**

All the abovementioned and analyzed agreements, legal acts, and initiatives can be considered as effects of China's strategy of the OBOR initiative's implementation, as they should support and ease bilateral investments and trade, which constitutes the B&R initiative. Taking under consideration, that it has been only about three years since OBOR initiative was officially announced, progress in investment and financial cooperation between Europe and China has been made. OBOR's announcement has worked as a factor that caused deepening economic cooperation, reflected by the number of agreements. Before 2013 such forms of cooperation were less frequent and more ad hoc than long-term. OBOR's announcement also influenced the strategic planning for economic development but only in selected European countries.

The B&R initiative showed that the EU is divided and unable to effectively negotiate on behalf of all EU countries. The participation of only selected European countries in the AIIB as well as ASEM and 16+1 summits show that quite vividly. There is, till now, no coherent EU guiding policy toward China's OBOR initiative.

To maximize the economic benefits of China's involvement in Europe, the EU, as well as each European country that would like to participate in that initiative, has to make B&R its own and strategic priority. The EU, to

be an important partner for China, should offer concrete proposals and make OBOR implementation a common initiative. If the EU wants to use China's OBOR initiative as an economic growth engine, a strong and strategic relationship with China must be a priority. The most important issue, which needs to be addressed, is the further creation of favorable institutional conditions, such as financial, political, and legal, for effective infrastructure project realization. The EU should also deepen negotiations on the EU–China Investment Agreement. The EU institutions need to recognize more actively the benefits of the current trade exchange and pursue a policy of openness in bilateral commerce. Additionally, an FTA should be reached as soon as possible. Another action to be taken by the European Commission is organizing a meeting with the current EU member states that are also AIIB founding members in order to rethink the EU's participation in the AIIB.

The EU should rethink the creation of an EU–China investment fund to support infrastructure projects that in turn support OBOR's implementation. China has already created such financing institutions as the New Silk Road Fund and New Development Bank. It is very important for European collaboration with China to take deep and constructive negotiations, which will enable the OBOR initiative's implementation into European development strategy. Negotiations between European countries and China should lead to mutual benefits, which is only possible if all EU states have a common voice and strategy.

The analysis conducted in the paper shows, that European relations with China, after official announcement of the B&R initiative, has been strengthened, though the importance of that initiative is different for different European countries. There is still a need for creating professional and well-founded institutions, not just discussion groups and guiding documents, which should be considered as an important, but first step for sustainable economic cooperation.

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