



EDITED BY ALESSIA AMIGHINI

CHINA'S BELT AND ROAD: A GAME CHANGER?

INTRODUCTION BY PAOLO MAGRI

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Edited by Alessia Amighini

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6. Towards a New Geography of Trade?

Alessia Amighini

Geostrategic motivations behind the BRI

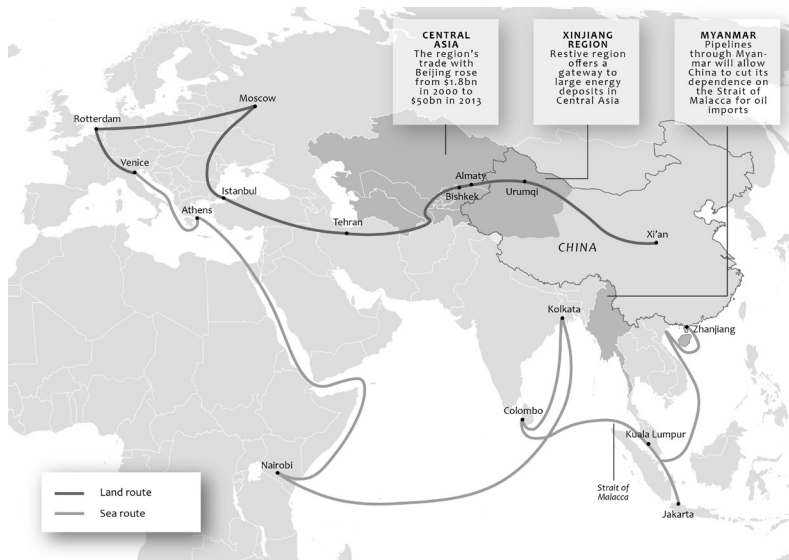
After Xi Jinping's announcements of the Silk Road Economic Belt and the Maritime Silk Road, which together go under the English name of "One Belt, One Road" (OBOR), also called the "Belt and Road Initiative" (BRI), there has been much speculation about the rationale behind that initiative¹. The BRI aims at improving connectivity between Asia, Europe, and parts of Africa in five main areas: policy coordination, infrastructure construction, trade facilitation, financial integration and people-to-people exchanges. As thoroughly described in the previous chapters, important geo-political and strategic rationales are at work behind the BRI. In launching the BRI, China is determined to strengthen its relationships with neighbouring countries in Central and Southeast Asia, while at the same time securing the support of regional powers, i.e. Russia, India, Japan, and South Korea, to the exclusion of the United States. However, most of the numerous goals pursued by the initiative, according to official Chinese statements, refer to improving economic relations between Asia, Europe and Africa while at the same time forging a new growth driver for the domestic economy. In fact, the BRI aims at giving

¹ This chapter is an updated and revisited version of A. Amighini, *Belt and Road: A Game Changer in International Trade?*, in Nomos & Khaos, 2017.

a comprehensive framework to many of the policy goals that the Chinese authorities have been pursuing over the last few years with the aim to address the various challenges the country faces both domestically and internationally. First of all, the BRI aims at searching for new export markets for Chinese production, most notably in Central Asian economies whose trade with China rose from US\$1.8 billion in 2000 to US\$50 billion in 2013 and are increasingly important sources of imports from China. Moreover, the BRI allows exporting not only goods, but also excess productive capacity in transport and infrastructure sectors, by building new railways and facilities abroad. A further goal of the whole initiative is to improve digital connectivity in Eurasia, so that China shall be connected to Central Asia and ideally Europe through digital besides traditional trade. Giving the renminbi an international stature is also a goal of the BRI, to expand trading and bond issuance abroad. An important strategic goal is securing China's energy supplies, currently imported mainly by sea through the South China Sea, notably an area with geopolitical tensions. On the domestic side, contributing to internal economic rebalancing is also an objective of the BRI, whose overland routes start from inner provinces where economic and industrial development should have historically lagged behind compared to the rapid growth in coastal provinces. Last but not least, the BRI aims at reducing transport costs, which are particularly high for China's trade compared to the world's average. All of those goals now look strongly intertwined in the BRI, which has since become the core of China's economic diplomacy (Figure 1).

Looking for new export markets. Infrastructure development in countries along the Belt and Road routes will increase growth in their economies and thus contribute to a growing demand for China's goods and services. Many of the Asian countries along the New Silk Roads are likely to become the next generation of emerging economies, with a strong potential for demand growth. According to the *Industrialization of the Belt and Road Countries Report* published by the Chinese Academy of Social Sciences, the BRI will extend across up to 65 countries, accounting for more than near-

FIGURE 1 - THE BELT AND ROAD INITIATIVE COMPARED TO THE OLD SILK ROAD MAIN ROUTES



Source: elaborated from Financial Times (2015)

ly two-thirds of the world’s population, one-third of global GDP, 75% of known global energy reserves and around one quarter of world merchandise trade. They already share good economic and trade relations with China, mainly in the form of exports of raw materials and natural resources in exchange for the import of manufactured goods. Therefore, reducing trade barriers and opening up to new trade routes will likely increase bilateral trade with China. This explains why China’s president Xi Jinping, in March 2015, stated that annual trade with the countries along the

the BRI aims at giving a comprehensive framework to many of the policy goals that the Chinese authorities have been pursuing over the last few years with the aim to address the various challenges the country faces both domestically and internationally

Belt and Road Initiative would double over the next 10 years, and surpass US\$2.5 trillion by 2025.

Vent for surplus to export overcapacity. The Chinese economy has grown increasingly dependent on domestic infrastructure investment, especially since 2009, when the global recession led to a reduction in foreign demand for Chinese exports, and Chinese authorities intervened by increasing investment in the transport, infrastructure and real estate sectors, to compensate for the drop in manufacturing output. In 2014, that policy eventually became unsustainable due to the saturation of domestic demand, and those sectors found themselves in dramatic overcapacity. In order to alleviate the problems created by excess capacity in the construction and associated sectors, Chinese construction companies are encouraged to look elsewhere for opportunities. This is a key motivation for the Belt and Road Initiative, and in fact Beijing expects that its own companies will plan, build, and supply the projects it funds. While OECD countries have committed to untying their development aid, Chinese financing institutions are still practising the so-called ‘tied lending’. For example, according to King and Wood Mallesons²: “For China-sponsored infrastructure projects in developing regions such as Africa, the China Development Bank (CDB), C-EXIM and Sinosure often structure the financing package, obtain export credit insurance and bring in Chinese companies to build the infrastructure. Many of their concessional loans are conditional upon Chinese enterprises being awarded construction or export contracts. For example, the CDB previously lent Nigeria US\$200 million on condition that it was used to purchase products from Chinese telecoms giant Huawei. Loan conditions often require that 50% of loan proceeds be applied towards acquiring Chinese goods and services, although in Angola’s case the figure has reportedly exceeded 70%”.

Improving digital connectivity. Part of the BRI is improving connectivity among the countries involved by means of soft in-

²L. Handel, L. Zhigang and T. Coles, *Out of China: The activities of China's export credit agencies and development banks in Africa*, King & Wood Mallesons, <http://www.kwm.com/en/es/knowledge/insights/out-of-china-the-activities-of-chinas-export-credit-agencies-and-development-banks-in-africa-20140723>

infrastructure to create the so-called “digital Silk Road”, i.e. an Internet community that would facilitate cross-border e-commerce and Internet banking. This is in fact one of the less discussed aspects of the New Silk Roads, perhaps because hard infrastructure investment has so far dominated projects and communication. According to Ren Xianliang, vice minister of the Cyberspace Administration of China, the digital Silk Road should be undertaken in addition to implementing the country’s Internet Plus plan, whereby everything will be connected to a superfast broadband network³. One of the main obstacles to a digital Silk Road is the still high level of China’s services trade barriers, including licensing requirements, complex regulations and product quotas⁴. As regards digital infrastructure, different standards, platforms and service providers are competing with one another to set the dominant rules in the future.

International stature for the renminbi. China has set the goal of making the renminbi a global reserve currency. In 2015, it joined the European Bank for Reconstruction and Development and founded the Asian Infrastructure Investment Bank and the New Development Bank. Moreover, the International Monetary Fund added the renminbi to the basket of Special Drawing Rights currencies. The Chinese currency is increasingly used in loans and the infrastructure focus of BRI will further help increase the number of loans granted in renminbi. Moreover, some Middle Eastern countries along the New Silk Road have recently become offshore trading centres for the renminbi, such as Qatar, with clearing centres that also allow Panda bonds issuance. Significant growth in trade between China and the Arabian Gulf is helping to pave the way for *Dubai* to become another *offshore* trading centre for the Chinese currency. In this effort, China has the backing of Russia and other

³ Liu Jia and Gao Shuan, “China, EU to promote digital Silk Road”, *China Daily*, http://www.chinadaily.com.cn/world/2015-07/07/content_21202745.htm

⁴ C. Bergsten, G.C. Hufbauer and S. Miner, *Bridging the Pacific: Towards Free Trade and Investment Between China and the United States*, Washington, Peterson Institute for International Economics, 2014, and https://www.oecd.org/trade/services-trade/STRI_CHN.pdf

emerging economies that share the goal of diminishing US dollar dominance, but whose currencies are too volatile to serve the same function.

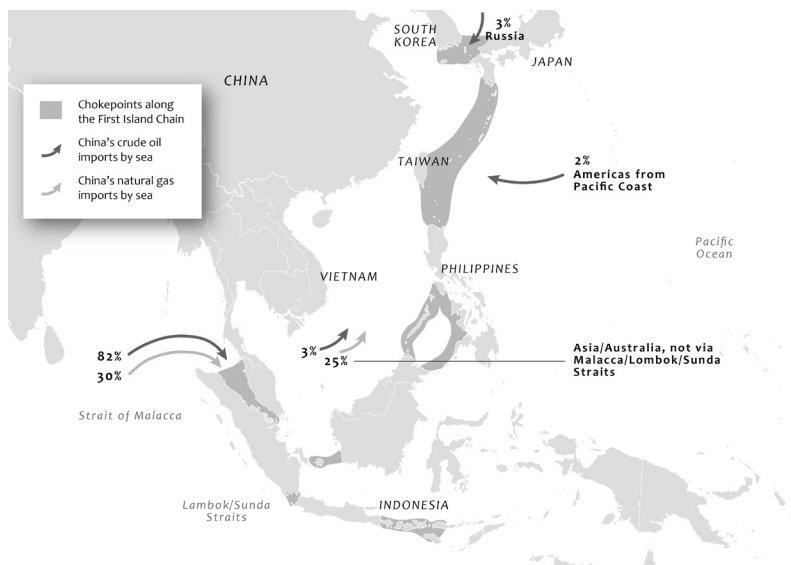
Securing energy supply. China's geo-political strategy also has an important energy dimension. While the economic corridor serving China's commercial expansion in foreign markets runs westward, an energy corridor unfolds east to west, from the Central Asian oil- and gas-producing republics to China. Turkmenistan, in particular, is currently the leading natural gas supplier, covering in 2014 almost 50% of Chinese imports through the China-Central Asia gas pipeline opened in 2009. Energy demand has increased more than 500% since 1980, and China has become the world's largest energy consumer and the second-largest oil consumer behind the US. According to the International Energy Agency, China will need additional 6.6 million barrels per day (mbpd) of oil by 2040, i.e. accounting for more than 20% of new demand (from 90 mbpd in 2012 to 121 mbpd). Not only is China dependent on energy imports, but 90% of these imports travel through the near seas – the Yellow Sea, the East China Sea and the South China Sea (Figure 2). These are enclosed by the so-called "First Island Chain", a series of islands that stretches from Japan to the Philippines to Indonesia, some of which are controlled by US allies. A strategic rationale of the BRI is to secure China's energy supply through new pipelines in Central Asia and Russia as well as via Southeast Asia's deep-water ports, thus reducing China's dependence on US-secured choke-points. Moreover, importing oil and commodities from the Middle East through the Gwadar Port in Pakistan, instead of through the South China Sea, reduces the distance travelled by 90%, which could yield very valuable economic benefits.

Support China's economic rebalancing. Domestically, the BRI will serve a major goal, i.e. giving greater impetus to the long-standing go west policies aimed at rebalancing economic development between the industrialised coastal provinces and the inner provinces. Most of the growth potential for domestic demand is in the relatively underdeveloped inland provinces, where the central government aims to foster industrialisation by shifting manufactur-

ing away from the coast. The BRI would link inland cities to global markets through a modern network of overland routes and energy pipelines, serving as alternatives to existing sea-lanes that cross the South China Sea and the Straits of Malacca. Geographic rebalancing will help resolve related macroeconomic imbalances between consumption and saving, because most of the consumption growth potential lies in the inner provinces.

Reducing trade costs. As the world’s biggest trading nation, China’s main interest is to reduce the transport costs of shipping its goods abroad, an important part of which is accounted for by time-to-destination. Therefore, not less importantly than other motivations presented above, the BRI aims at reducing transportation time and costs, considering that the EU is China’s main trade partner. More specifically, the EU was China’s main import partner

FIGURE 2 - CHINA’S IMPORT TRANSIT ROUTES AND MARITIME CHOKEPOINTS



Source: elaborated from Stratfor

in 2015, accounting for 12.5% of total Chinese imports, and the second largest export partner after the United States, as the destination for 15.6% of Chinese exports. The vast majority of these exports (92.3% of the total value) currently travel by sea, leaving very little to air, rail and road transport (Figure 2). Similarly, China is the EU's main import partner, providing 17.6% of total EU imports, and the second largest export partner after the United States, accounting for 9.3% of total EU exports. Almost all EU exports to China (96.4% of total value) travel by sea. Currently, the average shipping time from China to European partners is 730 hours, 20% more than China's average shipping time (about 610 hours, much longer than the world average of 406 hours). Switching to railway transport has great potential for saving transport time: according to data provided by GEFECO, infrastructure construction would reduce railroad travel time from China to Europe to 16-21 days (depending on departure and arrival location), compared to 37-45 days for sea freight, port-to-port (Figure 3)⁵.

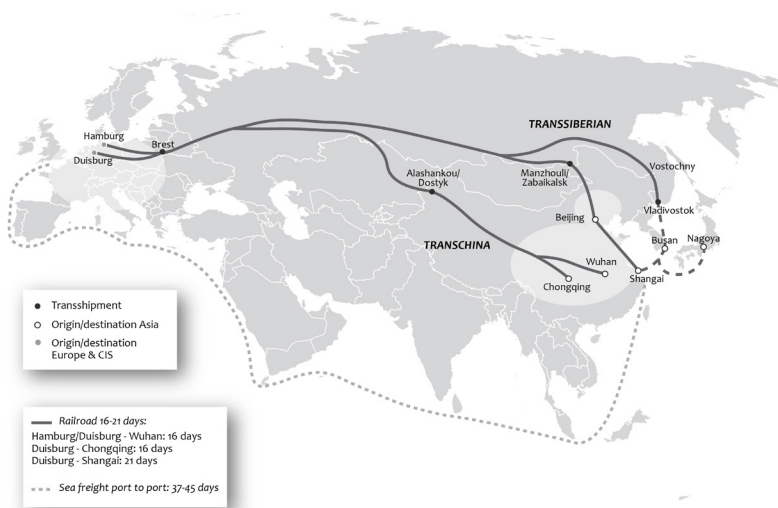
As China currently faces higher-than-average shipping times and trimming them is an important goal of the projects funded within the BRI, documentation for projects aiming to be approved under the umbrella of the BRI must include statistics on the reduction in travel time and cost expected from project completion. Because such upgrading will affect all cargo plying these transport routes, the BRI is also of interest to countries beyond the designated Silk Road routes.

Impact of the BRI on international trade and economic relations

As one of the main goals of the BRI is to build new transport infrastructures, such as railways, highways, seaports, airports, etc., to connect China with Europe, the transport costs between China and

⁵ The Yuxinou Railway, in particular, runs from Chongqing to Duisburg in Germany in only 288 hours. 'East Wind' travelled from Yiwu, south of Shanghai, on January 1st 2017 with 68 containers and reached London 16 days later.

FIGURE 3 - RAILROAD VS SEA FREIGHT MERCHANDISE TRAVEL TIME FROM CHINA TO EUROPE



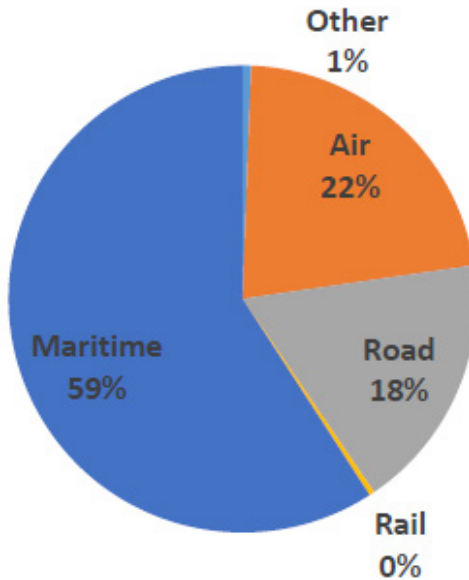
Source: elaborated from GEFCO

Europe will be significantly reduced. Insofar as missing transport infrastructure acts as a major barrier to trade flows, especially for those countries where infrastructure facilities are more underdeveloped, the BRI's most evident and direct impact will be on the *size* of trade among the countries covered by the initiative. The implementation of the BRI should increase the flow of goods between China and Europe through the reduction of transport costs. This will apply to all bilateral trade in principle, that is, to both Chinese exports to Europe and European exports to China. Assuming the structure of trade follows the historical pattern, both imports and exports will increase. The consequences in terms of net effects on the size of the trade balance between Europe and China, currently showing a trade deficit for Europe, is uncertain. On the one hand, the increase in China's exports of goods to Europe might have a negative impact

on Europe's net exports. However, this depends on whether there is still unexploited potential for Chinese goods on European markets. Considering that Chinese goods mostly compete on price and not on quality, the net effect could be an increase in demand for Chinese goods in Europe. On the other hand, recent research shows that Chinese demand is more and more oriented towards foreign goods than domestic goods, and this will likely increase Chinese imports from Europe. Therefore, it is very important that European countries pursue reciprocity in market access with China together with the development of the BRI, so that bilateral trade relations do not grow biased to the detriment of European trade balance.

A further impact of the BRI will be on the routes of international trade. Currently, 60% of China's trade (in value, and a much

FIGURE 4 - SHARE OF CHINESE TRADE BY TRANSPORT MODE



Source: Garcia-Herrero and Xu (2016) from China Customs data

higher share in volume) travels by sea, due to the lower transport costs associated with international shipments compared to railway transport and to the lack of infrastructure for land transport across Central Asia (Figure 4). To the extent that infrastructure improvement will change the relative cost of seaborne trade compared to shipment by railroad (i.e. it will make it cheaper to ply overland routes than use the current sea-lanes through the Malacca Straits), an additional impact of the BRI will be on the *routes* and *transport modes* of China's foreign trade.

The countries relying mainly on the export of raw commodities to China (which in turn is their most important trade partner) will not be satisfied with just increasing such business ties, especially given the recent drop in commodity prices. China has tried to allay these concerns by linking construction of Silk Road projects to investments in industries that potentially could export more to China, thus diversifying the host economies.

The dynamics of this relationship, however, are far from a win-win situation. Many countries along the Silk Road (most notably in Central Asia) run a trade deficit with China, and should be concerned that denser and better transportation links with China will result in an even more unbalanced trade balance. Trade between China and the five Central Asian states – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – has already grown dramatically since 2000. In particular, imports from China have grown much more rapidly than exports (mainly natural resources) from these countries, so that now the region has a growing trade deficit with China. Through the BRI, China now wants to build the roads and pipelines needed to ensure smooth access to the resources it imports from the region.

Although there is still no precise information about the cross-border infrastructure projects to be financed under the initiative, from the announcements made so far it is quite evident that most of them aim to increase the prospects for land connectivity between China and Europe. Transportation costs for bilateral China-Europe trade are significantly higher than the world's average. This explains why in some high-tech sectors such as electronics international freight

forwarding agencies are already switching to railroad, e.g. HP is planning to rely solely on railway transport by 2017 for shipping its made-in-China PCs to Europe. This runs counter to recent trends and near-future expectations, and has prompted shipping agencies and major port authorities to redesign sea-lanes to reduce shipping times and improve the interconnectedness between the ports and the inland railway network.

On the other hand, China's average cost of shipping by sea to European countries is only US\$922 for a 40-foot container, about half as much as China's average shipping cost, while railway transport is three times as expensive as maritime transport⁶. Therefore, switching to railway transportation entails a trade-off between time and cost. Given that it can lead to a large decrease in transit times and the fact that technology now allows for a reduction in railroad costs, the BRI has the potential to become a game changer in international trade by moving large volumes of commerce from sea to land lanes.

Formulating scenarios is not easy, however. While economics acknowledges the importance of efficient and peaceful trade relations in global growth, the understanding of geographic patterns of international trade remains sketchy. The literature has extensively analysed the determinants of individual countries' access to international markets and bilateral trade flows, and has found support for the hypothesis that trade and infrastructure costs are important, but not the choice of transport modes, let alone the efficiency of the global network of trade routes. Furthermore, it is widely acknowledged that in choosing among alternative modes, firms consider predictability in transport costs a valuable feature. Therefore, a further element that can affect the trade-off between cost and time in different transport modes is the high volatility of sea freight rates compared to rail tariffs. This is because sea freight rates depend on the overall trade volumes much more than rail tariffs, which is why sea freight rate volatility has increased dramatically since the

⁶ DB Schenker, *Rail based transports between China and Europe*, International Chamber of Commerce, 2012, available at <http://www.iccwbo.org/Data/Documents/Transport-and-logistics/6-Rail-based-transports-between-China-and-Europe/>

beginning of the world trade slowdown associated with the recent economic crisis since 2009.

Investment in infrastructure under the Belt and Road Initiative will increase maritime connectivity and lead to major trade-creating effects. Moreover, international cooperation and partnerships with the financing institutions related to the BRI will make it possible for countries to afford the financial outlays required by infrastructure investment, something that they are unable to do individually. International cooperation is also required to create incentives for shipping companies to serve destinations that are currently not profitable⁷. Besides building infrastructure to improve land routes, the BRI also aims at intensifying trade along existing sea-lanes as well as improving access to the sea for land-locked countries.

Maritime connectivity is particularly important because maritime transport is at the core of international trade in merchandise⁸. According to UNCTAD, around 80% of the volume of goods traded in the world travels by sea⁹.

Maritime transport has become the dominant mode of transport in international trade following what has been called “the effects of the container revolution on world trade”¹⁰, i.e. an exponential intensification of containerised transport services. Containerisation allows exporters and importers from far away countries to trade with each other, even when individual trade transactions are not large enough to justify bearing the cost of individual shipments. Today, global container shipping services allow all countries to be connected to each other, either directly or indirectly, through transshipment services, facilities and hubs. Containerisation has been the single most important revolution in world trade over the last 20 years, with cumulative effects on trade creation that are much larger

⁷ M. Fugazza, *Maritime connectivity and trade*, Policy issues in international trade and commodities, Research Study Series no. 70, United Nations, New York and Geneva, 2015.

⁸ M. Fugazza (2015).

⁹ UNCTAD, Transport Newsletter #38, March 2008

¹⁰ D.M. Bernhofen, Z. El-Sahli and R. Kneller, *Estimating the effects of the container revolution on world trade*, CESifo Working Papers no. 4136. CESifo, Center for Economic Studies and Ifo Institute, 2013.

than GATT membership; with regard to North-North trade, containerisation increased trade by 790%, more than twice the effect of GATT membership (285%)¹¹.

With the exception of China, developing countries are still far below their potential in terms of connectivity, particularly maritime connectivity, with only half of the average number of direct maritime connections (i.e. without transshipments) of developed countries. This situation persists, despite their growing share in seaborne trade, which rose from 18% to 56% of the world total between 1970 and 2010, according to UNCTAD¹². Recent literature has emphasised the importance of maritime transport connectivity and logistics performance (most notably, ports efficiency) as very important determinants of bilateral trade costs¹³. Together they are a more important source of variation in trade costs than geographical distance, particularly for trade relations involving developing countries. Fugazza has recently found that the existence of a direct maritime connection (and not simply of maritime connectivity *per se*) plays an important role in determining trade costs¹⁴. The absence of a direct connection is associated with a drop in exports value of 55% and any additional transshipment is associated with a drop in exports value of 25%.

Trade creation along the Belt and Road will occur through two major channels: on the one hand, through the expansion of trade ties between pairs of countries that are already important trade partners, facilitated by the decrease of transport costs and trade barriers; on the other hand, through new trade routes that will unlock potential trade ties among hitherto mutually isolated trading partners.

¹¹ *Ibid.*

¹² UNCTAD, *Review of Maritime Transport*, Geneva, United Nations, 2013.

¹³ J.F. Arvis, Y. Duval and C. Utoktham, *Trade costs in the developing world: 1995-2010*, Policy Research Working Paper Series no. 6309, The World Bank, 2013.

¹⁴ M. Fugazza (2015).

Densifying the main routes of China's trade

The main trade creation effect of the BRI will work through the reduction in transportation costs (especially railway and maritime), which should boost trade both between China and Europe and among Belt and Road transit countries, especially the landlocked ones. As there is no comprehensive information available on the improvements to infrastructure or the construction of new infrastructure, it is difficult to estimate how much transportation costs will be reduced. One recent study by Garcia-Herrero and Xu used information on the few finalised projects¹⁵, such as the Yuxinou Railway (from Chongqing to Duisberg), which allows a 50% reduction in transportation time¹⁶. In the case of maritime transport, the cost savings stem from increased port efficiency, of which only a few examples already exist, such as the Qingdao port, where transportation costs are expected to decrease by about 5%. Accordingly, the authors apply a 50% reduction in railway transport costs and 5% reduction in sea transportation costs over the whole area covered by the project and estimate that a 10% reduction in transportation costs throughout the BRI countries will foster an increase in trade by 1.3%. While the exercise is interesting, these estimates are severely biased in at least two important aspects. First, it is very arbitrary to generalise that there will be a similar reduction in transport costs for all bilateral trade relations throughout the countries involved, even more so when such a wide gap exists between the improvements across land and sea-lanes. Sec-

Trade creation along the Belt and Road will occur through two major channels: through the expansion of trade ties between pairs of countries that are already important trade partners, through new trade routes that will unlock potential trade ties among hitherto mutually isolated trading partners

¹⁵ A. Garcia-Herrero and J. Xu, *China's belt ND Road initiative: can Europe expect trade gains?*, Bruegel Working Paper No. 5, 2016.

¹⁶ According to a declaration by Chongqing's mayor in 2015 which is in line with the reduction in transportation time from 17-18 days to 12-13 days reported by the Yuxinou official website and official Chinese media outlets.

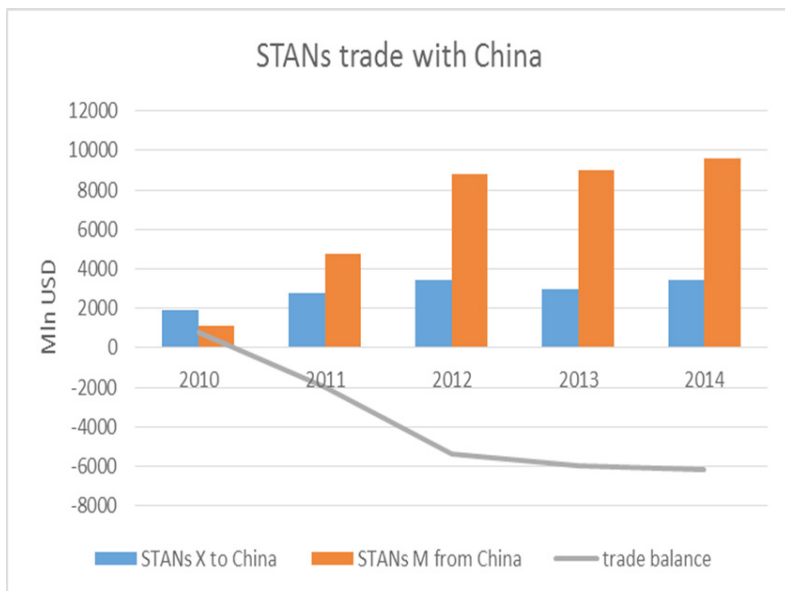
ond, building new road and railway infrastructure could divert some trade from sea-lanes to land routes.

Whatever the precise figure might be, Italy holds a strategic position in the overall BRI as a terminal point in southern Europe. Several major port authorities in China have been actively looking for partnerships with Italian counterparts. For example, the Shanghai-Basel shipping time would be reduced by an estimated time of seven days (out of an average shipping time of 40 days), by travelling through either the Adriatic or the Tyrrhenian sea to the north of Italy, instead of travelling to Rotterdam through Gibraltar, and this could significantly alter the relative convenience between rail and sea trade. In this regard, an improvement in Italian port efficiency and interconnectedness between the ports and the inland railway network would significantly increase the chances that seaborne trade maintains some attractiveness compared to railway transport in the trade-off between time and cost.

Expanding trade ties across Eurasia

A further trade-creation effect is likely to take place through new trade routes that will unlock potential trade ties with new trading partners. The most unexploited potential trade seems to be between Central Asian countries and their largest neighbouring economies, i.e. China and Europe. Central Asia is a fast-growing emerging region, with promising demographic (with a projected 4.45% of world population by 2030) and economic prospects (4% average GDP growth projected through 2017) (World Bank Global Economic Prospects). Poor connectivity and expensive logistics rank high in the list of factors that act as obstacles to growth, because all of the countries (except Pakistan) are land-locked. Pakistan has in fact the highest potential, and its economy is projected to become 16% larger than Italy's by 2050 according to PWC. At the other extreme, Uzbekistan is one of the only two countries in the world that are "double landlocked", i.e. surrounded entirely by one or more landlocked countries and requiring the crossing of at least two national borders to reach a coastline.

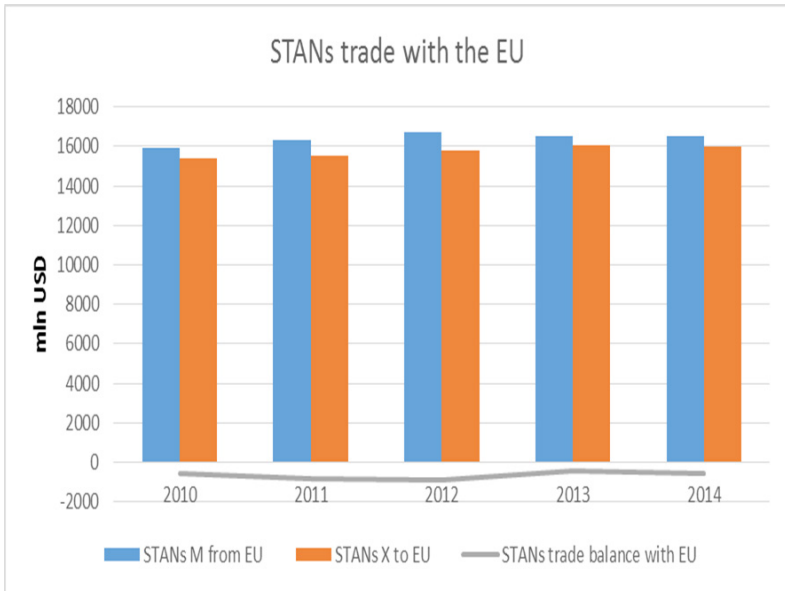
FIGURE 5



Source: author's elaboration on UNComtrade data

As already indicated, improving infrastructure across Central Asia would increase connectivity and will allow the region to exploit further trade potential with both China and the EU, its main trading partners. Currently, the EU shows much higher import and export values than China's trade with the region (Figures 5 and 6), but the STANs' imports from China have been growing very rapidly since 2010, so the region's trade balance with China has progressively deteriorated. Better infrastructure will intensify trade with China, with the STANs selling fairly similar goods and therefore expected to face even stronger competition with one another in the region in the future. This is partly a source of concern for the STANs as a group, as it could lead to an excessive dependence on China for consumption and capital goods.

FIGURE 6



Source: author's elaboration on UNComtrade data

Some Central Asian countries – most notably Kazakhstan – are part of other regional initiatives, such as the Eurasian Economic Union, an economic union of five states in northern Eurasia (Belarus, Kazakhstan, Russia, Armenia and Kyrgyzstan), which might become a competitor in the global economic space. However, the trade complementarity of these countries vis-à-vis one another is rather low (according to UNCTAD) (i.e. their export profiles do not match the import profiles of any others within the group), which means that a preferential trade agreement would not lead to any significant trade expansion or creation, and at the same time would not divert any of the trade of these Central Asian countries with other major trade partners.

Conclusion

OBOR is a major programme launched by the Chinese government in 2013 with many goals: to overcome domestic overcapacity in many industrial sectors through expansion on foreign markets, to support China's economic development and growth in its transition from an investment-led model to a consumption-based economy, and to improve the security of trade routes, especially for energy products. It is particularly focused on infrastructure development, currently the major bottleneck to further economic integration across Eurasia, most notably between China and Central Asia, and between Central Asia and Europe. As such, it symbolises a historical juncture of stronger convergence of interests between China and Central Asia and greater competition between China and Europe in the region. At the same time, the strategic importance of energy supplies and political stability in the region are creating the political conditions for China and Russia to cooperate and coordinate in Eurasia (as is already seen through the Shanghai Cooperation Organisation).

Policy Recommendations for the EU

Alessia Amighini

Since its announcement in 2013, the BRI has become the core of China's economic diplomacy and has since then exerted a deep influence on most of the rest of the world's diplomatic activities as well. Although the Chinese government officially prefers to call it an Initiative, inspired by a spirit of broad inclusiveness of many other countries all over the world, it should also in fact be regarded as the country's new opening-up strategy, developed in response to changing domestic and international circumstances.

The Initiative aims at integrating China into the global economy along much deeper avenues – far beyond trade and investment flows - than ever before. Along with the flourishing of bilateral agreements signed by the Chinese government with individual partner countries since the 1990s (now up to 202 international investment agreements and 14 free trade agreements), aimed at reducing institutional barriers to trade and investment flows, the BRI intends to build a great Eurasian continent along lines that are very different from any other traditional paradigm of regional integration. While the world has so far experienced rule-based regional integration arrangements, the Chinese way to regional integration tends to be less rule-based and more coalition-based along country-specific interests. As such, the BRI will have profound implications on international economic and political relations for the rest of the world and more specifically for the EU, as the latter is the ultimate destination of the vast network of land routes and sea-lanes starting from various Chinese provinces.

The BRI will likely contribute to economic development and regional stability in Eurasia from which both China and the EU could benefit in terms of new markets and energy security. Therefore, Europe should consider the Initiative as a much broader vision than the simple improvement of physical and digital connectivity. To this aim, the following policy recommendations could be drawn for the EU:

- **The broad scope of the BRI deserves a much higher political-level dialogue between the EU and China, which is now absent in Europe.** The EU-China Connectivity Platform is the main institutional arrangement where dialogues currently occur between the EU and China about how to coordinate large and long-term infrastructure projects, so that the Trans-European Transport Network (TEN-T) develops in a way consistent with the aims of the BRI to reach Europe from Asia. Since the early 1990s, TEN-T has been the infrastructure policy at the Community level meant to support the functioning of the internal market through continuous and efficient networks in the fields of transport, energy and telecommunications. While China is very active in organizing summits and fora among the countries along the Belt and Road, the risk for Europe is to lose part of the decision-making power about its own internal goals and about its relations with neighbouring countries. Moreover, paving the way to improved connectivity between the EU and China without progress on institutional barriers to trade that still exist between the two parties could exacerbate the currently large differences in bilateral market access.
- **The EU has an historical responsibility to open a high-level dialogue on current competing initiatives for regional integration in Easter Europe and Central Asia.** In fact, the BRI is a regional integration effort alternative to the Eurasian Economic Union (EEU) and an important absence in the BRI is the lack of relationships between the EEU and the EU. The BRI could open new opportunities for the EU to pursue its geostrategic ambitions in Central Asia by deepening the EU-China stra-

tegic partnership through cooperation in security fields, possibly paving the way to EU-Russia reconciliation. At the same time China, Russia, Ukraine and the EU have some common economic and security interests in Eurasia that they could follow together in spite of different approaches. Under these conditions, it is better for European countries to try to find a common language with former Soviet republics and China than to passively observe how the existing order is being replaced by something unfamiliar to European values and interests.

- **Similarly, the EU should address the issue of the 16+1 mechanism as a source of possible inconsistencies for the European integration process.** The “16+1” mechanism is a platform created in April 2012 by the Chinese leadership that seeks a stronger connection between China and the 16 CEE (Central and Eastern European) countries, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovak Republic and Slovenia. Nowadays, many previously agreed-upon joint 16+1 projects were given the OBOR label, which may pave the way for diverging perceptions towards EU internal integration policies. CEE countries have shown that they are able to adopt an active policy of cooperation with China and an issue has been raised about the status of Central Europe within the region and in the EU. There are evident discrepancies between EU and non-EU members, especially in terms of rules and procedures related to investments and infrastructural projects. This poses serious challenges to the extent that EU and non-EU member countries develop common interests under the China-led 16+1 mechanism but perceive the divergent rules and regulations in EU vs. non-EU members as a source of bottlenecks in their development process.
- **The EU should seriously consider the consequences of the lack of a common framework for bilateral investment with China.** In fact, the BRI will further accelerate Chinese investment activity in various infrastructure projects in European countries. Before the BRI was announced, China’s infrastructure

investment in Europe targeted individual EU countries and many non-EU members in Central and Eastern Europe, mainly in the manufacturing and services sectors. Recently, Chinese firms have started to invest in large infrastructure projects backed by their inclusion in the BRI project list. Coalition building around individual projects now tends to prevail over the legal rules and procedures that are at the heart of the EU competition policy, as the core principles around which the internal market has been developed.

Although the BRI should be appreciated and not disregarded, Europe's historical responsibility is to make multilateralism prevail against closed and competing initiatives towards regionalism. Only along those common avenues will Europe and China be able to build long-lasting cooperation, bridging thousands-of-kilometers-long gaps for mutual benefits.