The Silk Road was for millennia a trade bridge between East and West. Now China, as it pushes to be a global power again, is investing in a network of road and sea routes between the Pacific Ocean and the heart of Europe as a Silk Road fit for the 21st century. The obstacles, the costs and the potential benefits are all immense — while the politics are complex and fraught.

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Europe is no stranger to grand initiatives with vast commercial and geopolitical implications, including having first raised the idea of a 21st-Century Silk Road 23 years ago. But with Europe’s purse lightened by lackluster economic growth, China, with its vast capacity to fund infrastructure development, has stepped forward to begin implementing the Silk Road Initiative. François Godement explores the complex jockeying by European countries as they confront China’s bold initiative.

WHO TODAY remembers that in 1993, the European Union launched a “Transport Corridor Initiative Europe-Caucasus-Asia” (TRACECA) with Turkey, Ukraine, Georgia, a number of other Caucasian states and five Central Asian states? The EU management of this initiative soon dubbed it “The Silk Road of the 21st Century.” Twenty-two years later, aid and investment projects from this program are still alive financially, but only barely: the EU has, for example, extended 1.5 million euros for technical advice on reconstructing a road in Kazakhstan, and an investment forum will take place in 2015. But on TRACECA’s website, many sections are left blank — including, incredibly, the agenda for 2015. Among facilities listed, one oddly finds the Khorgos International Center for Boundary Co-operation between Kazakhstan and China, which is today the giant nodal exchange on the Sino-Kazakh border, with expanding infrastructure from China’s own Silk Road, or “One Belt, One Road” (OBOR) initiative, starting with a 3,500km superhighway to the border.

All of this is to say, China does not necessarily have all the good ideas first, even those that have to do with the Silk Road. But it sure knows how to fund them, and therefore to implement projects on a scale that dwarfs all previous initiatives — whether it is this diminutive but well-conceived European precedent, or the US Silk Road initiative of 2011, launched at a time when the retreat from Afghanistan was looming and the administration of US President Barack Obama wanted to re-confirm links with Central Asia. Money talks, and the giant amounts of funding trumpeted by Chinese promoters of OBOR — up to a trillion dollars, according to the China Development Bank — have made potential partners, 65 countries and counting, sit up and listen.

EUROPE WANTS IN
So it is with Europe. In May 2015, the scramble to join the new China-led Asian Infrastructure Investment Bank (AIIB) attracted 14 EU member states, preceded (rather than led) by the UK, in a move that washed away all pretense of EU-wide policy co-ordination. While China hasn’t initiated the trend towards renationalization of European foreign policies, sparked by the 2008 financial crisis and insufficient federal power, its initiatives appeal to primeval instincts rather than to grand notions of multilateral action. Foremost in the motivations of Europeans toward the AIIB was the desire to have a seat at the table for their own companies when AIIB money is doled out for contracts. There may also have been an element of courting China in what appeared as a costless move (no floor was set for financial participation in the AIIB, and the US had not, at least openly, declared its opposition to the participation of its allies). But protecting future interests of national firms was paramount for European member states.

Europeans jumped at the OBOR concept when it was launched. In fact, those who were not initially cited as potential participants, such as Germany or Spain, made efforts to be included. Yet Europeans, even more than others, are not sure what to make of China’s initiative, and what’s in it for them. Some reasons for this lie with China, others with Europe. Such a broadly conceived international initiative is unusual for China, which typically frames its external economic policies in terms of bilateral relations, concrete programs or, at most, regional initiatives. By comparison, OBOR is nearly a global concept, which can be compared with the 2001 Zauchau (Going Out) policy for firms or even the Reform and Opening of 1979. Chinese observers themselves are unclear about what is a fuzzy list of partners and projects with huge price tags and as yet unweighted risks. At least Europeans have far less cause than China’s neighbors to worry about the geopolitical implications of OBOR, with one important exception: how much it will converge or compete with Russian initiatives and policies such as the Eurasian Economic Union (EEU) is an important European concern.

While there are different levels of response from European countries, it is a cacophony rather than a divergence of voices: no European nation has the discomfort or fear of China’s agenda that assails, for example, India or Vietnam. The level of interest of EU member states largely coincides with their geographical position and level of development. Evidently, Eastern and Southern Europe are directly concerned. Greece probably tops the list, both because of the sorry state of its public and private economy, and because it has been placed on the map as the endpoint for the Maritime Silk Road. This has probably been reinforced by the chaos in the Near East, China’s anxieties about the stability of Egypt and the risk of war on the Russian-Ukraine border. Yet beyond the bid by China for the purchase of the entire Piraeus port, one does not see a very clear Chinese rush into Greece. Eastern European countries have been competing for Chinese investment and infrastructure projects in the frame-work of the 16+1 summit, grouping 16 European countries inside and outside the EU with China. OBOR is not explicitly mentioned in the summit’s co-operation guidelines, yet China has allotted US$10 billion to related projects, many of them having to do with transportation including a new Belgrade-Budapest rail line.

Other features of OBOR have received more
publicity. Chief among them are new railway container lines originating in Yiwu (Zhejiang Province), Chongqing (Sichuan) and Zhengzhou (Henan) and more recently Harbin, and connecting respectively to Madrid, Duisburg and Hamburg. Although these do not challenge the bulk of maritime trade — transporting a railway container costs US$7,000 compared to US$2,000 for a sea container — they may take away some of the traffic for higher-end goods, cutting travel time by about 50 percent.

GERMANY’S TAKE
Again, the attitude of European nations varies. The overland bridge to China may not be good news for the Netherlands, since Rotterdam has positioned itself as the first intermediary in China-Europe trade, and France seems indifferent to the prospect of these rail lines. Germany, on the other hand, is showing a keen interest for a range of reasons. It is the most influential economy in Central and Eastern Europe, with many subcontractors feeding the “made in Germany” label: a massive entry of Chinese firms and distributors, after similar moves by Japanese and South Korean firms, represents competition.

Germany is also by far China’s leading trade partner in Europe, and it is there that visiting Chinese leaders have started emphasizing OBOR’s relevance to Europe. Germany also has a geopolitical stake influencing and anticipating future China-Russia relations.

Far from being complete, the above laundry list highlights at least one aspect of OBOR: it seeks to expand a Chinese presence that started well before the concept was launched, and it has no unified framework to deal with Europe. This is not provided by China, whose many actors compete more than they co-ordinate for participation in OBOR projects with the finance that they bring. And the EU’s weak capacity to participate, let alone to initiate, projects means that there can be no unified planning or bargaining on the European side either. The market won’t lead either, since in almost all cases public finance or public decisions are paramount. Chinese analysts, in fact, wonder about the degree of participation by Chinese firms in the Silk Road initiative.

FUNDING DILEMMAS
In a spectacular way, China and the EU presidency have tried to change that by using the newly created European Fund for Strategic Investment (EFSI) as a bridge. This is the brain-child of EU President Jean-Claude Juncker who — in the face of opposition from the Deutsche Bundesbank — is trying to revive the notion of EU public bonds to overcome the issue of member-state public debt and to rekindle growth by financing European energy, transport and digital schemes. In short, this would create a “second budget” for Europe, very much like the Japanese or the French model, although largely funded by lending and governed therefore by requirements on capital returns. Aiming at a capitalization of 315 billion euros, the fund has immediately attracted the interest of Chinese sovereign funds and public investors. And there is no doubt that a fundraising strategy should involve other Asian partners, as well.

As with many joint European initiatives, the EFSI involves a lengthy process. It is likely that guidelines for lending and for tenders will be a sticking point, and this applies particularly to any partnership with China: a safe return on capital means that there can be no unified planning or bargaining on the European side either. The market won’t lead either, since in almost all cases public finance or public decisions are paramount. Chinese analysts, in fact, wonder about the degree of participation by Chinese firms in the silk road initiative.
Bank, which will run the EFSI, accept a linkage between Chinese financing and the participation of Chinese firms? This is doubtful, because it runs counter to EU rules, and it is also politically sensitive, because the Fund’s projects will be in traditional areas of economic sovereignty. At the very least, European transportation and construction firms are likely to lobby against this, as will capital investors — insurance companies and banks — that specialize in toll projects.

In short, taking full advantage of China’s capital financing for infrastructure projects requires a new phase in economic liberalization for European public markets, or that China accepts to be only a funder, and not a participant. Neither has happened yet. Still, a strong contribution by Chinese and Asian investors in infrastructure is clearly in Europe’s interest, and investment in Europe is geopolitically safe.

UKRAINIAN CONFLICT

The other issue that should definitely be raised at the European level is the impact of the Ukrainian conflict and the sanctions on Russia on cooperation with China. Strikingly, the 16 Central and East European countries that hold their yearly summit with China (the last in Belgrade in December 2014) have skipped the issue in their public pronouncements: this is not surprising, since they are also divided on the issue, with Serbia, Hungary and Slovakia taking positions at variance with European policy. But it also shows that others are not ready to risk their relationship with China on a geopolitical requirement. Germany — which is not part of the 16 + 1 meeting — is the only government that seems to address the issue. European sanctions have popularly “thrown Russia into China’s arms,” yet this has also created a lopsided relationship, where China clearly has the upper hand over Russia — something which is not in long-term Russian interests.

The recent revelation by Russia’s Gazprom that the huge May 2014 gas deal with China would follow oil market trends demonstrates excellent Chinese negotiating skills — and is proving a catastrophe for the Russian energy firm, and therefore, the Russian economy.

It is clear that China is using its financial leverage and attractiveness to pre-empt any unified negotiating stand. Nothing illustrates this better than the extraordinarily long visit — three days — lavished by President Xi Jinping on Belarus in May 2015. Xi has actually chosen both a member of the Russian-led Eurasian Economic Union and an authoritarian regime at odds with the European Union as its focus for Eastern Europe — when several members of the EU would have served that purpose far better. Indeed, Belarus is likely to be the least demanding partner on the entire European continent.

WELL-POSITIONED

The OBOR initiative has the potential to be a game-changer in human and economic geography on the Eurasian continent. If it keeps a steady hand, China will have proven it has the sort of long-term horizon for structural investment that Western countries last exhibited at the end of the 19th century. The European Union needs to rise to the opportunity by becoming an active and coherent partner, rather than a gaggle of followers. China’s fragmented decision-making, its preference for bilateral relations and mixture of pragmatism and opportunism is nothing new: this does not diminish the opportunity that OBOR represents, because it is clearly flexible and not completely set in stone at this point.

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