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The Strategic Rationale for European Engagement in China's Belt and Road Initiative

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Key points

- The Belt and Road Initiative (BRI) provides an opportunity for China to remedy some of its most significant geostrategic vulnerabilities and steer capital-poor countries on to a development path that could transform them into a support structure for the Chinese economy. In the absence of an active response from other parts of the world, this could encourage a more assertive Chinese foreign policy and facilitate China's attempts to unilaterally shape the future of global economic flows.

- If the European Union (EU) adopts a proactive approach and insists that China respect EU unity and live up to criteria of transparency, sustainability and economic reciprocity, the BRI will provide opportunities for both economic gain and the promotion of democracy and free market models.

- A precondition for such efforts is the development of interdisciplinary European expertise on the BRI. To this end, individual member states, including Sweden, should mobilise and streamline national capacity. As an initial step, we suggest the setting up of a Swedish BRI working group.

One project, many purposes

The main focus of the BRI is to connect Asia and Europe through an extensive web of infrastructure, both "hard" and "soft". Launched in 2013, the development scheme has come to involve hundreds of billions of US dollars and is now the centrepiece of Chinese foreign policy. Beijing's principal message thus far has been that the BRI will be beneficial to all – a gift from China to the world. In some ways this is true, especially for developing countries in Asia which are in dire need of infrastructure. Nonetheless, most countries are rightly questioning China's claim that "win-win" outcomes are the only goal of the project. In reality, the BRI is a way for China to forward its own economic and the political interests, even if this sometimes comes at the expense of its partners.

Out of the economic rationales which underpin the BRI, four stand out as particularly important.[i] The first one concerns overcapacity in the steel and heavy equipment sectors. Since the financial crisis of 2008, after which China introduced an impressive economic stimulus package, investments in infrastructure has saturated the domestic market. This explains the push to create international alternatives under the BRI.

Second, China seeks to access new markets. New BRI infrastructure and the resulting reductions in transaction costs are expected to increase international trade. Many markets along the BRI are already growing quickly and in the long term could significantly benefit Chinese export industries. While underdeveloped countries are unlikely to provide markets for high-end goods any time soon, the EU market, which is the final destination of the BRI, holds great promise for China.

Third, China is attempting to restructure its economy and move away from its traditional investment- and export-led approach to a model in which domestic consumption plays the leading role. This is a painful process, however, and drastic changes in policy can generate unwanted consequences such as temporary spikes in unemployment. In this regard, the BRI serves as a way to continue to rely on the existing investment-export model while slowly restructuring the domestic economy – with the crucial difference that China is now investing abroad instead of in its saturated domestic market.

Fourth, China is struggling with a problem of geographic disparities between western inland provinces and eastern coastal areas. Coastal cities have long benefited from their geographic position and special government treatment, while landlocked regions such as Tibet and Xinjiang have been left out. By stimulating growth on the Eurasian landmass and redirecting economic flows to the west, the BRI could help to compensate western regions for decades of comparatively slow economic development.

Beyond economics, the BRI serves several geostrategic purposes. One crucial long-term impact of the project is that it is likely to reduce China's vulnerability to coercive economic pressures from the West while increasing Chinese economic leverage over smaller states.[ii] The BRI has the potential to achieve this primarily by constructing a more industrially self-sufficient Eurasia and by building land-based trade routes across the continent which can serve as "lifelines" in case of supply disruptions or economic isolation, possibly linked to a trade war, economic sanctions or a conflict in the South China Sea. China's economic resilience will also be strengthened by efforts to increase international use of the Renminbi (RMB) and to establish financial institutions that operate outside of the Western-led economic system.

These efforts could make China less vulnerable to economic sanctions by creating a type of regional self-sufficiency within a future Chinese sphere of influence.[iii] Ultimately, as Western economic deterrent capabilities lose their potency, China will have fewer incentives to abide by those international norms which it perceives as running counter to its interests – the reason being that China could withstand any possible repercussions from the West. In the South and East China Seas, the Chinese military has already shown an increased willingness to push the limits of what is considered acceptable by Western powers and Japan.

The case for engagement

For states that are interested in preventing scenarios in which China becomes more assertive in regional territorial disputes, the objective should be to make sure that China is well integrated into the global economic system and maintains a close, interdependent relationship with the West. This would ensure that Chinese leaders think twice before embarking on controversial geopolitical ventures similar to that of Russia's incursions into Ukraine. Economic interdependence would ensure that the costs to China of such action, as a result of Western repercussions such as economic sanctions, remain high.

The economic side of the BRI, meanwhile, also has a strategic dimension. As the project unfolds in the coming decades, China's increased presence in Eurasia will have a significant impact on regional commercial and financial regimes. As China is offering to connect capital-poor countries to the world economy, it can – in the absence of economic alternatives – largely dictate the terms of this process. Countries such as Pakistan and Laos risk becoming heavily indebted and dependent on China, and their markets remodelled to support the Chinese economy. This is likely to increase Beijing's leverage over these states, not least in allowing it to shape the norms and rules for future economic flows. Although China could in theory use this influence to develop a fair multilateral system, there is evidence from along the BRI to suggest that China will attempt to shape the initiative in a way that maximises its own economic and political advantage, even if to the detriment of others. If liberal democratic countries remain passive, there will be little to counteract and bring to light exploitation and misconduct.

At the same time, it is crucial that the involvement of liberal democratic states does not become a tool for China to legitimise its more dubious activity. China is known to have used economic pressure against smaller states to secure political favours, extract resources and acquire beneficial ownership rights over strategically important infrastructure. Adding to that, corruption is still rampant in China and there are few reasons to believe that such practices will not travel along the BRI. To counteract and avoid becoming complicit in misconduct, the West and its partners need to be clear that they will not support the BRI unless it lives up recognized criteria on transparency, equal say of stakeholders, and environmental and labour standards.

Beijing may be reluctant to accept such demands, but in the coming decades the BRI is likely to hit more than a few bumps in the road. Beyond the sheer unprofitability of many projects, the initiative involves significant risks associated with corruption, environmental degradation and political backlash in host countries. China's state-backed financial institutions will not be able to sustain unprofitable projects indefinitely – especially when their lending to sustain the domestic economy is approaching its limits.

These troubles are already beginning to impede projects, and there are few reasons to believe that the situation will improve without a change in strategy. As problems grow dire, Chinese leaders are increasingly likely to come to the realisation that the initiative is in need of help from wealthy and respected outsiders to garner financial funds, build institutions and shore up legitimacy among a broad range of stakeholders. In this regard, struggling Chinese projects could provide Europe with an opportunity to influence the course of things. If EU member states manage to establish a joint presence in these areas, they could step in and offer their help to China, with clear demands for increased transparency, sustainability and joint ownership. Even if China refuses, a European presence would help host countries guard against Chinese domination. With credible economic competition, China will have to offer fair deals to developing countries.

Actively participating in the BRI with hopes of influencing China might seem naive, but other options are limited. One alternative approach is to remain passive. This is detrimental because it would facilitate Chinese attempts to unilaterally reshape the economic and political landscape in Eurasia to its benefit. The project is likely to struggle, but given President Xi Jinping's personal commitment to the project, China's efforts to shape its neighbourhood would probably continue – albeit at a slower pace.

A second option would be for the West and states such as Japan to become active in BRI areas but on a competitive, rather than cooperative, footing with China. This would have the benefit of making BRI states less vulnerable to Chinese coercion but might lead to heightened geopolitical competition. Economic competition is good, but the creation of two opposing political camps would not be conducive to international cooperation and global interdependence.

A European response

When approaching the BRI, the first concern of the EU should be to safeguard its own unity. In the absence of a common European China policy, additional BRI investment schemes could deepen cracks in EU cohesion by enticing member states to run political errands for Beijing. Greece and Hungary, which have both been promised Chinese economic support, have on several occasions showed their willingness to adapt their policies to China's liking. Greece most recently refused to sign an EU statement on human rights in China.

Chinese influence in Europe has not gone unnoticed by European leaders. At the 2018 Munich Security Conference, Sigmar Gabriel, Germany's foreign minister at the time, noted that China, alongside Russia, was "constantly trying to test and undermine the unity of the European Union".[iv] Similarly, Angela Merkel has warned that Chinese economic ties should not come with political strings. While such messages might temporarily strain EU–China relations, they capture the essence of what the EU should be communicating to China: the political positions of EU member states are not for sale.

Additionally, demands should be made that Beijing respect the sovereignty of other states along the BRI which risk falling into a vicious circle of economic dependence on China. Speaking of the BRI, French President Emmanuel Macron has already made clear that "[t]hese roads cannot be those of a new hegemony, which would transform those that they cross into vassals".[v]

Another point of importance in the EU–China relationship is economic reciprocity. China aims to spur economic flows along the BRI but is actively limiting foreign access to its own market. Such policies shield Chinese industries from competition and often deprive other states of trade and investment opportunities in China. The EU Ambassador to China has made clear on several occasions that China is not fulfilling expectations of reciprocity. To continue to insist on this, and possibly make it a condition for EU endorsement of the BRI, would increase the prospects of gaining access to Chinese markets and could serve the EU's strategic interests by nourishing economic interdependence.

In sum, like-minded EU members states should communicate clear demands on economic reciprocity and respect for EU unity in their relationships with China. These two requirements, in combination with an insistence on the transparency and sustainability of BRI projects, should guide the EU's approach. To whatever extent possible, efforts should be made to shore up support for this stance among EU member states and other countries along the BRI. Smaller states have an interest in supporting a common stance on China not only because it would guard against Chinese primacy, but also because it is likely to increase chances of making the projects in their countries more successful and distribute the gains more evenly. It is not inconceivable that consensus could be found within the EU for a common approach toward the BRI, especially given that an internal EU report which strongly criticises the BRI recently gained the approval of 27 out of 28 of the EU ambassadors in Beijing.[vi]

An opportunity to influence

Observers often emphasise that the BRI will seek to spread Chinese influence by propagating an alternative authoritarian model and by disseminating Chinese values. This is true in many respects, but it is equally true that if the EU can come up with a coordinated response, the BRI provides an opportunity for Europe to spread democratic ideals and market economy models. On the one hand, the EU should not support the BRI unless it is transparent and fair, which in a best-case scenario would lead China to adapt its projects. On the other hand, participating in the BRI will have the benefit of demonstrating that projects designed according to liberal market economic models are more efficient and sustainable. Indeed, projects which lack transparency and joint ownership structures are more likely to be corrupt, face a popular backlash and cause environmental degradation.

In addition, deeper economic integration and people-to-people contacts with China will naturally intensify the Chinese people's exposure to ideas from the outside world (even Beijing's sophisticated censorship apparatus has limitations). Many observers have seen the recent authoritarian turn in China as conclusive evidence that economic integration with the West has failed to influence China. Such claims, however, fail to recognise the changes in Chinese society which have taken place since Deng Xiaoping's reforms were first introduced in 1978. Xi Jinping has ushered in an era of political repression, but this does not necessarily mean that the population is becoming less critical in their thinking. They might very be influenced in a "liberal" direction through their interactions with the West.

A Swedish response

Sweden has clear gains to make from developing a forward-looking strategy for the BRI. The long-term prospects for opening new markets should not be neglected. Nor should opportunities to influence the direction of economic development in Eurasia and other places. The Swedish government is deeply committed to the United Nations Sustainable Development Goals and has a clear interest in making sure that the BRI meets sustainability criteria. To this end, Sweden could at the EU level push for efforts to mobilise and streamline European development and aid programmes in BRI countries. The combined mass of European projects could then be nudged toward Chinese projects in order to create synergies and cooperation wherever possible. Again, a precondition for such active participation in the BRI should be a common understanding with China regarding environmental standards, transparency, joint ownership and monitoring mechanisms. In such settings, Sweden should leverage its comparative advantage in environmental science and technology to influence projects in a sustainable direction. As of now, however, Sweden, like most other EU member states, lacks the detailed interdisciplinary knowledge that is needed to engage with China in an appropriate fashion. Expertise from disciplines such as environmental science, security studies, political science and development economics needs to be consolidated to create a comprehensive understanding of the BRI. One way to achieve this would be to fund policy relevant research projects and organise interdisciplinary expert groups which would advise the Swedish government on how to approach BRI projects.

To better organise Sweden's approach, a permanent working group should be established to serve as a knowledge-sharing and coordination platform for ministries, government agencies, civil society organisations and the Swedish business sector. The Ministry of Foreign Affairs would be a natural place to host such a mechanism. This group could also act as a focal point for international exchanges and might serve to organise cooperation within the Nordic region. As a next step, the government should consider institutionalising Sweden's capacity to deal with the BRI through the establishment of an office for Belt and Road issues.

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[i] See Rolland, Nadège. 2017. *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*. Seattle, WA: National Bureau of Asian Research, 95–109; Ghiasy, Richard, and Jiayi Zhou. 2017. *The Silk Road Economic Belt: Considering Security Implications and EU–China Cooperation Prospects*, SIPRI, pp. 4–8.

[ii] Friedberg, Aaron L. 2018. "Globalisation and Chinese Grand Strategy." *Survival* 60(1): 7–40.

[iii] Ljungwall, Christer and Viking Bohman. 2017. "Mending Vulnerabilities to Isolation: How Chinese Power Grows out of the Development of the Belt and Road Initiative." *RUSI Journal* 162(5): 26–33.

[iv] https://www.auswaertiges-amt.de/en/Newsroom/rede-muenchner-sicherheitskonferenz/1602662

[v] https://www.reuters.com/article/us-china-france/chinas-new-silk-road-cannot-be-one-way-frances-macron-says-idUSKBN1EX0FU

[vi] https://global.handelsblatt.com/politics/eu-ambassadors-beijing-china-silk-road-912258

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