

Europe's Response to the Belt and Road Initiative

By Garima Mohan

Europe's initial enthusiasm about the Belt and Road Initiative (BRI) is tempering. BRI is undermining the EU's internal cohesion, has the potential to impact European security, and is creating stiff competition for European companies on trade, investments, and market access in Europe and Asia. European policymakers are also beginning to realize the impact of BRI beyond the European continent — notably on the power balance and stability in Asia. Asian markets are important export destinations for Europe, and a majority of its sea-borne trade transits through the Indo-Pacific.

Europe, therefore, has a clear interest in maintaining a rules-based order and unhindered trade flows in the Indian and Pacific Oceans. Even though Europe is still grappling with the new "Indo-Pacific" framing, its interests converge with the Quad countries. Member states like France and Britain have already begun to reassess their security role in the Indo-Pacific. And the EU wants to partner with key players in Asia on shaping the rules around connectivity, and provide a comprehensive response to the BRI challenge.

Europe's initial enthusiasm about the Belt and Road Initiative (BRI) is tempering as it realizes its political, economic, and security implications — both on the Eurasian continent and on Europe's trade and energy routes in the Indo-Pacific. Most of BRI's belts and roads lead to Europe: 35 Chinese cities are now connected to around 34 European cities via trade and transport links.¹ Europe is a major recipient of Chinese investments in key sectors like energy, telecommunications, and real estate. Chinese political influence which has accompanied these investments is increasingly visible,² with potential side effects on EU internal cohesion. European policymakers are also beginning to realize the impact of the Belt and Road projects beyond the European continent — on the power balance and stability in Asia and the Indo-Pacific.

A majority of Europe's trade is in the transit of goods through the Indian and Pacific oceans. More than 35 percent of all European exports go to Asia, and four of its top 10 trading partners are in the region. For export-focused European economies, such as Germany, the Asia-Pacific is the second largest market after Europe. As a result, Europe has a clear interest in maintaining a rules-based order and unhindered trade flows in the Indian and Pacific Oceans. European interests converge considerably with countries like India, Japan, Australia, and the United States, who have responded to Chinese assertiveness along the Belt and Road by revitalizing the Quadrilateral Security Dialogue (Quad).

¹ "China's Pursuit of Europe Trade Links Powers Freight Rail Surge," Bloomberg News, March 7, 2018.

² Thorsten Benner, Jan Gaspers, et al, "Authoritarian Advance: Responding to China's Growing Political Influence in Europe," Global Public Policy Institute and MERICS, Berlin, 2018.



While European policymakers are thus far ambivalent about the Quad and are still grappling with the new "Indo-Pacific" framing, the EU and select member states are reassessing their security role in the Indo-Pacific. France and Britain, the two main European security players in the region, are exploring their engagement with the Quad and other partners. The EU is also in the process of creating its own strategy on connectivity, providing a more comprehensive response to the BRI challenge.

Security and Economic Impact of BRI on Europe

The security and economic impact of BRI on Europe can be assessed along three broad categories: the effect on EU unity, the impact on European security, and the competition for trade, investments, and market access in Europe and Asia.

BRI is slowly eroding EU internal cohesion and political unity, which can have far reaching implications for the European project. Southern, Central, and Eastern member states suffering from high unemployment and slow economic growth have welcomed Chinese investments with greater enthusiasm, while their Western counterparts have been more cautious. According to official estimates, in 2016 China invested more than \$8 billion in Central and Eastern Europe (CEE) countries alone.³ At the Belt and Road Forum in May 2017, CEE countries constituted the largest group of European states. These investments have come with political strings attached, leading to increased Chinese influence both at the EU and member state level.⁴ The extent to which BRI has already undermined EU cohesion can be seen in platforms like 16+1, the watering down of EU statements on the South China Sea, or on China's human rights records by Hungary and Greece. On other crucial questions of screening Chinese investments, the fault lines run across the EU.

3 Valbona Zeneli, "What has China Accomplished in Central and Eastern Europe?" *The Diplomat*, November 25, 2017.

4 See Benner et al.

Western European states and Brussels are viewing this "divide and rule" tactic with great alarm. German Chancellor Merkel sees Chinese influence as one of the "greatest challenges" facing Europe,⁵ and has cautioned that Chinese economic investments should not be linked with political questions.⁶ French President Macron warned that Chinese investments should not come at the expense of European interest.⁷ Senior German politicians are pushing for a "One Europe" approach toward China, cautioning that if Europe did not develop a single strategy toward China, it will end up divided.⁸

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Second, BRI has potential implications for the security of European maritime trade and energy routes. The Indo-Pacific maritime routes are the primary gateway for European exports to reach the Asia-Pacific markets, and for energy resources from the Middle East to reach Europe. 90 percent of European exports to Asia transit through sea lanes in the Indian and Pacific Oceans. Stability in the region and unhindered Sea Lines of Communication (SLOCs) are of primary importance to Europe.

BRI projects in this region, with little greenfield investment and plenty of Chinese loans for economically unsustainable projects, have already led to financial instability in Djibouti, Pakistan, Maldives, and Laos.⁹ This will impact state stability

5 Nick Miller, "Angela Merkel Eyes Chinese Influence as her Legacy Challenge," *The Sydney Morning Herald*, March 6, 2018.

6 "Merkel warns against China's influence in the Balkans," *South China Morning Post*, February 22, 2018.

7 Michael Rose, "China's New Silk Road Cannot Be One Way, France's Macron Says," *Reuters*, January 8, 2018.

8 See former German Foreign Minister Siegmund Gabriel's statement that China should follow a "One Europe" policy: Lucrezia Poggetti, "One China — One Europe? German Foreign Minister's Remarks Irk Beijing," *The Diplomat*, September 9, 2017; and the call by the incoming German Minister of State for Europe to promote a "One Europe" approach toward China: Von Michael Roth, "Wir Brauchen Eine 'Ein-Europa Politik,'" *Politik*, March 5, 2018.

9 Josh Zumbrun and Jon Emont, "China's Financial Reach Leaves Eight Countries Vulnerable, Study Finds," *The Wall Street Journal*, March 4, 2018.

and can have repercussions for stability in the region. In addition, the Indian Ocean is witnessing an increase in China's military footprint in tandem with its economic investments. Increasing competition, militarization, and a "base-race" is already evident, as resident countries like India, Indonesia, and others are alarmed by Chinese expansion.¹⁰ Without an overarching regional security framework, EU policymakers are concerned that these developments can upset regional stability, affecting European prosperity and security.

Additionally, China's dual use of commercial ports in South Asia (Colombo, Gwadar, etc.) for submarine docking, PLA-N logistics, and refueling is another worrying trend. China now controls one-tenth of European port capacity not only in the South — Spain, Italy, and Greece — but with the acquisition of the entire container terminal in the seaport of Zeebrugge, Belgium, also in the heart of Europe.¹¹ In 2017, Chinese warships visited the Greek port of Piraeus, managed, similar to Zeebrugge, by the state-owned China Ocean Shipping Company (COSCO).¹² China's sophisticated and sizeable overseas naval base in Djibouti enhances its projection capabilities in Europe's near seas. This, combined with the first-ever Sino-Russian joint naval exercise in the Baltic Sea,¹³ has led to a growing unease in Brussels. European Commission President Juncker has warned specifically about foreign acquisition of strategic assets like ports. Led by calls from Germany, France, and Italy, the Commission is also in the process of developing a screening mechanism for foreign investments in sensitive sectors — critical infrastructure, energy, and telecommunications, high-end tech-companies, and defense technologies.¹⁴

10 Garima Mohan, "Engaging with the Indian Ocean," Global Public Policy Institute, Berlin, 2018.

11 Keith Johnson, "Why is China Buying up Europe's Ports?" Foreign Policy, February 2, 2018.

12 "Three Chinese Warships Dock at Piraeus for Courtesy Call," *The Greek Observer*, October 24, 2017.

13 Andrew Higgins, "China and Russia Hold First Joint Naval Drill in the Baltic Sea," *The New York Times*, July 25, 2017.

14 European Commission, "State of the Union 2017 — Trade Package: European Commission Proposes Framework for Screening of Foreign Direct Investments," Brussels, September 14, 2017.

Finally, BRI is creating stiff competition and restricting market access for European trade and businesses operating in the Indo-Pacific markets. While European companies are interested in participating in BRI projects, lack of transparency in bidding and procurement procedures means they are often not even allowed to bid for contracts. Projects like the China-Pakistan Economic Corridor (CPEC), for example, generated great enthusiasm among European businesses,

however mostly Chinese companies were allowed to bid, and won contracts guaranteed by Islamabad. Some larger European firms have been involved in BRI projects, but often quite late and at subcontractor level. As a result, President Macron on his recent visit to China highlighted that the new Silk Road cannot be a "one way" endeavor and should not create "a new hegemony" in global trade. It also remains difficult for European companies to compete against BRI projects, when state-owned companies can provide large loans and state backing, effectively distorting the markets. This is particularly evident in large infrastructure projects like high-speed railway, port construction, and logistics where European companies used to have the lead. Introduction of Chinese technical and manufacturing standards in new markets is further closing out space for European companies.¹⁵

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Limits of Europe's Security Engagement in the Indo-Pacific

European concerns regarding the BRI are often similar to those of the Quad nations, especially on maintaining a rules-based order and freedom of navigation in the Indo-Pacific. But while the

15 See Section 2, Mohan "Engaging with the Indian Ocean."

Quad countries focus heavily on maritime security cooperation, Europe can only play a limited security role in the region.

European navies are mainly engaged in their near seas, like the Mediterranean, and are mostly incapable of playing a more active role in the Indo-Pacific. Many European navies are structurally underfunded and in an overall poor condition. The German navy for instance has problems with all its major components including submarines and ships,¹⁶ which will affect its participation in EU missions. The EU's most well-established naval mission EU NAVFOR (Operation "Atalanta") in the Western Indian Ocean has been considerably reduced in size, with only one ship currently deployed.¹⁷ While the EU has programs promoting maritime security in the Western Indian Ocean¹⁸ and some of its member states participate in multilateral exercises,¹⁹ it has always lacked a consistent presence in the Eastern Indian Ocean and the Pacific. France and Britain are the only exceptions to this trend.

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France first used the term "Indo-Pacific" in the 2016 Ministry of Defense document which states that "France has started to rebalance its strategic center of gravity toward the Indo-Pacific, where it is a neighboring power."²⁰ Indeed through its overseas territories and departments²¹ and a large exclusive economic zone (EEZ), France is an Indo-Pacific nation. With permanent military basing in the Indian

and Pacific Oceans, a military facility in Djibouti, and around 7,000 stationed military personnel, France has a substantial presence in the region.²² It is expected that given the strategic importance of the area and increasing Chinese presence, France will become more active in deploying maritime assets and developing maritime partnerships in the region.²³ Similarly, Britain has increased security engagement in the Indo-Pacific: reopening its naval support facility in Bahrain, creating a permanent presence in Oman, setting up new defense staff centers in Dubai and Singapore, and planning freedom of navigation operations (FONOPs). Britain wants to re-establish itself as a security actor in the region.

Both Britain and France are currently ambivalent about the Quad. The mechanism is seen to be in its early stages, with legitimate questions about its longevity. Britain must also contend with significantly reduced capacity of its navy, which will impact its ability to keep a sustained presence in the Indo-Pacific.²⁴ Furthermore, both France and Britain will be careful not to antagonize China. France embraced the potential of Belt and Road projects during Macron's visit to China, while highlighting some of its concerns. Britain refused to sign a formal agreement with China but overall sees the BRI as an opportunity, whose rules it can shape through engagement.

While waiting for the Quad format to stabilize, France's strategy will be to strengthen bilateral and trilateral security partnerships with all major regional powers. It has an enhanced strategic partnership with Australia focusing on maritime security and defense cooperation. France and India are cooperating on the security architecture of the Indian Ocean region²⁵ and, during Macron's visit to Delhi, signed a defense logistics agreement.²⁶ France has also agreed to deepen maritime security cooperation with Japan,

16 John Beckner and Helcoed Heitman, "Can the German Navy be Saved?" Real Clear Defense, February 19, 2018.

17 European Union External Action Service, EUNAVFOR, "Deployed Units," <http://eunavfor.eu/deployed-units/surface-vessels/#news-tabs>.

18 Examples include EU programs like CRIMARIO, CMR, MASE, and its high level dialogue on maritime security with ASEAN.

19 These include multilateral anti-piracy agreements like ReCaap and exercises like RIMPAC.

20 David Scott, "French Maritime Strategic Thought on the Indo-Pacific," Center for International Maritime Security, March 31, 2017.

21 These include Reunion islands and Mayotte in the Indian Ocean, and New Caledonia, Wallis and Futuna, and French Polynesia in the Pacific.

22 C. Raja Mohan and Darshana Baruah, "Deepening the Indo-France Maritime Partnership," Carnegie India, February 23, 2018.

23 See Scott, "French Maritime Strategic Thought on the Indo-Pacific."

24 Emanuele Scimia, "A Struggling Royal Navy to set Sail for East Asia in 2018," *Asia Times*, December 4, 2017.

25 "India, France agree to Cooperate on Indian Ocean Regional Security," *Business Standard*, November 17, 2017.

26 See Mohan and Baruah, "Deepening the Indo-France Maritime Partnership."

focusing on a “free and open Indo-Pacific.”²⁷ Britain leads the Five Power Defense Arrangement, and overlaps with the Quad agenda could eventually lead to “Quad plus” parallel dialogues. The EU should also consider building a naval task force around French efforts to increase its presence in the region.

Europe’s Connectivity Strategy

While Europe can only play a limited role as a security actor in the Indo-Pacific, it can be an important partner in shaping the rules around connectivity, and maybe even offering an alternative to BRI.

It is important to note, that Europe’s response to BRI is two-fold. It is very much interested in engaging with and participating in BRI, hoping to shape the initiative from within. However, along with opportunities, there is increasing realization among European policymakers of the threats posed by BRI. European member states see the need for a coordinated response to BRI at the EU level. The new German government’s coalition agreement states, for example, “In order to safeguard our interests, we want to develop a European response, strengthening and pooling German and European financial instruments.”²⁸ EU policymakers underline that connectivity is “not just a Chinese idea” and are in the process of preparing their own strategy on “Euro-Asian Connectivity,” which will be released later this year. The strategy will describe Europe’s approach to connectivity, financial instruments for funding projects, and strategies for cooperating with partners — including China, but also Japan, India, ASEAN, and others.

The EU has already conducted a mapping exercise in consultation with member states which describes existing policies, instruments, and projects.²⁹ In the new strategy, it will focus on crucial sectors — transport (land, air, sea), digital, energy, and people-to-people

connectivity.³⁰ Normatively, the EU’s approach to connectivity will promote labor rights, social and environmental standards, sustainability, transparency, market principles, open procurement rules, a level playing field, equal treatment, and equal access. A number of these principles are missing in most BRI projects. The pre-strategy documents are critical of “bilateral” initiatives like BRI, without mentioning it by name, which have raised environmental, social, and fiscal sustainability issues. They also highlight bad lending practices that have left several countries with a debt crisis, “contributing to state fragility in the Euro-Asian region”. The EU’s alternative would be to “strengthen regional order” and focus on multilateral approaches to connectivity. The strategy will also include “better availability and sustainability of finance,” which is absolutely essential to make any alternatives to BRI work in practice. This would most likely be through European Investment Bank (EIB), European Fund for Strategic Investments (EFSI), and pooling member states resources.

How exactly financing would be operationalized is not yet clear, and will be a challenging task for the EU and its member states to negotiate. The strategy also must specify how the EU wants to work with partners, particularly Japan, which has the funds and capacity to deliver on connectivity. During Prime Minister Abe’s recent trip to Europe, Japan signed on to boosting economic ties with the Baltic states. The EU should use this strategy to signal to its partners in Asia that it is a credible partner on connectivity, that while it is participating selectively in Belt and Road projects it will support other initiatives.

27 Daisuke Kikuchi, “Japan and France agree to Deepen Maritime Security Ties in ‘Two Plus Two’ Meeting,” *The Japan Times*, January 26, 2018.

28 “Ein neuer Aufbruch für Europa. Eine neue Dynamik für Deutschland. Ein neuer Zusammenhalt für unser Land. Koalitionsvertrag zwischen CDU, CSU und SPD,” February 7, 2018, https://www.cdu.de/system/tdf/media/dokumente/koalitionsvertrag_2018.pdf?file=1.

29 European Commission, “Joint Staff Working Document Euro-Asian Connectivity Mapping Exercise,” Brussels, November 24, 2017, 14882/17.

30 European Commission, “Roadmap: Elements for an EU Strategy on Connecting Europe and Asia,” EEAS- ASIAPAC, Joint Communication.

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