

Europe's Protectionist Position on the Belt and Road Initiative and Its Influence

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As a representative developed market and China's largest trading partner for years, Europe¹ is an important region in China's Belt and Road blueprint. Nations alongside the Belt and Road are largely developing countries. Europe, as a developed market, enjoys great importance in the building of the Belt and Road.

Over the past five years, Europe has witnessed profound changes. The rise of protectionism,² especially the emergence of ultra-right forces, has had certain impacts on the implementation of the Belt and Road Initiative. The article focuses on analyzing the EU's views on the Belt and Road, its protectionist behavior against the Belt and Road, as well as the prospects of China-Europe Belt and Road cooperation under the influence of protectionism.

The EU's Position on the Belt and Road Initiative

The EU's attitudes toward the Belt and Road Initiative have experienced three

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1 This paper mainly discusses the European Union, but it also touches upon some individual European countries. In different contexts, it may refer to the EU or its member states.

2 As a comprehensive concept, "protectionism" is mostly used in international trade to refer to trade protectionism. In international studies, this term is also widely used in the fields of politics, economy and culture. In this paper, protectionism is mainly divided into three dimensions: politically, it refers to policy conservatism, nationalism and nativism; economically, it refers to market and investment protection; and culturally, it emphasizes ideological differences and threats.

stages, namely wait-and-see, prudent cooperation, and active self-protection. The EU institutions took a wait-and-see attitude in the early stage of the initiative.

The wait-and-see stage lasted from 2013 to 2014. During this period, the EU did not directly express its position when China launched the Silk Road Economic Belt and the 21st Century Maritime Silk Road initiatives. At the same time, the EU institutions and think tanks were intensively studying the objectives, plans and vision of the Belt and Road Initiative. The EU was mainly concerned about whether China's connectivity programs would be compliant with the EU's standards and operated under EU regulations. For example, Ellis Mathew, an official of the European External Action Service (EEAS) in charge of China affairs, emphasized in 2014 that the related construction standards of existing Belt and Road projects, especially the China-Europe Land-Sea Express Line, must meet the EU's requirements, and should be subject to the EU's review and supervision.³ David Cunningham, also from the EEAS, insisted that China's Silk Road Economic Belt should effectively synergize with the plans and rules of the Trans-European Transport Networks (TEN-T). It is on this basis that the EU would consider the possibilities of further cooperation.⁴ What cannot be ignored is that some negative rhetoric concerning the initiative had emerged in Europe.

The EU's official responses mainly appeared in 2015. In May 2015, Jean-Claude Juncker, President of the European Commission, said that there were no major obstacles against the integration of the Investment Plan for Europe (also known as the Juncker Investment Plan) and China's Belt and Road Initiative. "Transparency and cooperation are in demand. I

3 The author's discussion with officials of the European External Action Service on January 21, 2014.

4 Remarks by George Cunningham at the second High Level Symposium of Think Tanks of the People's Republic of China and Central and Eastern European Countries, in Bled, Slovenia on September 2-3, 2014.

believe that we are able to assure that synergy of the two sides' cooperation can be achieved on at both the macro and the operational level.”⁵ With the deepening of bilateral exchanges, proposals for cooperation between China's connectivity initiative and the TEN-T emerged. In June 2015, when Chinese Premier Li Keqiang visited Brussels to attend the China-EU Summit, the two sides put forward a series of measures including the integration of the Belt and Road Initiative and the Juncker Investment Plan, and the establishment of a platform for connectivity between China and the EU. Instead of continuing observing, the EU began to try taking part. In 2015, China led the establishment of the Asian Infrastructure Investment Bank (AIIB). Major Western European countries, including the United Kingdom, France, Germany and Italy, joined the AIIB one after another, which expanded the cooperation foundation of the institution.

Since 2016, the attitudes of the EU and some member states have begun to change significantly. With the EU's understanding of the initiative getting deep, it started to take a preventative position and strengthened protection of its market and interests.⁶

Europe's Protectionist Measures on the Belt and Road Initiative

In fact, China's investment in Europe has soared since the outbreak of the global financial crisis: it went from about 2 billion euros in 2009 to roughly 20 billion in 2015, and even reached 35 billion euros in 2016 with a staggering growth rate of 77% and 1,500% compared to that in 2015

5 “Interview: Europe to Benefit from China's One Belt, One Road Initiative: EC Chief,” *Xinhua*, May 7, 2015, http://news.xinhuanet.com/english/2015-05/07/c_134218780.htm.

6 As far as the EU members are concerned, their attitudes toward the initiative are also clearly differentiated: the member states in Eastern and Southern Europe are active, while members in Northern and Western Europe are not; the old member states are also less active than the new ones (especially those in Central and Eastern Europe).

and 2010 respectively.⁷ As most of Chinese investment in infrastructure construction, energy and production capacity programs in Europe were branded “Belt and Road” projects, the strategic implication of the initiative was strengthened, which attracted close attention of the EU and some member states.

Imposing security review upon Chinese investment

The EU is increasingly worried that the Belt and Road would strengthen China’s existence in critical European sectors through investment, which would establish the basis for further influence. For a long time, Europe considered terrorism and Russia’s invasion as its major threats. However, Europe no longer feels confident in the face of China’s rapid growth. From a long-term perspective, China is seen as an economic giant that would pose the greatest threat to Europe in the future.⁸ European powers, especially Germany, have stepped up vigilance against the loss of critical technologies, erosion of data protection and acquisition of high-tech companies by Chinese state-owned enterprises. In addition, they have also enhanced the protection of their domestic markets in the name of national strategic and public security.

In 2017, Germany, the UK and France called for a regime to strengthen scrutiny on foreign acquisitions across Europe (or at the EU level). In July 2017, the German government approved the ninth amendment to its Foreign Investment Regulation in order to control mergers and acquisitions by non-

7 Mathieu Duchâtel, “Trump Trade Reset Gives China and Europe Opportunity to Rebalance Relations,” ECFR, March 16, 2017, www.ecfr.eu/article/commentary_trump_trade_reset_gives_china_and_europe_opportunity_7246; Thilo Hanemann and Mikko Huotari, “Record Flows and Growing Imbalances - Chinese Investment in Europe in 2016,” Rhodium Group and Mercator Institute for China Studies, January 2017, http://rhg.com/wp-content/uploads/2017/01/RHG_Merics_COFDI_EU_2016.pdf; Gisela Grieger, “Foreign Direct Investment Screening: A Debate in Light of China-EU FDI Flows,” European Parliamentary Research Service, May 2017, [http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/603941/EPRS_BRI\(2017\)603941_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/603941/EPRS_BRI(2017)603941_EN.pdf).
8 “Foreign Investment Screening and the China Factor: New Protectionism or New European Standards?” Rasmussen Global, November 16, 2017, https://rasmussenglobal.com/wp-content/uploads/2017/11/INVESTMENT_REPORT_RG_Memo_Nov_16.pdf.

EU countries. According to this new regulation, under the circumstances when a non-EU country acquires more than 25% shares of German companies equipped with critical and security-related technologies, the German government could strengthen scrutiny and even terminate the purchase under the pretext of preventing “potential threat to public order.” The assessment period is also extended from two to four months.⁹ The UK has also expanded the coverage of FDI screening to include small-scale overseas mergers and acquisitions, especially in sectors such as dual-use system, advanced technology and military. Other countries like France have also announced tighter investment review to strengthen protection of domestic high-tech markets.

There is no coordinated mechanism for foreign investment review between the EU and its member states. In addition, the applicable scope of foreign investment review is diversified in different member states. Therefore, in September 2017, Juncker proposed that member states should actively strengthen coordination and establish a mechanism similar to the Committee on Foreign Investment in the United States (CFIUS) in Europe, which is able to prevent the acquisition of strategic resources, such as critical technologies, sensitive information and infrastructure, by non-EU state-owned companies that will lead to the detriment of the EU’s leading position in technology as well as the security and public order of the EU and its member states.¹⁰ European think tanks have already proposed to redefine the type of investors that would pose a strategic threat to Europe (suggesting China), and the meaning of “strategic assets.” Some European countries plan to protect critical infrastructure (such as international airports and power plants) by including them as strategic assets. Think tanks from several European countries support the establishment of investment review mechanisms for key infrastructure in Europe. They even suggest listing media

9 “New German Regulation on Foreign Investment Control,” July 14, 2017, <https://www.chinalawinsight.com/2017/07/articles/global-network/new-german-regulation-on-foreign-investment-control>.

10 “State of the Union 2017 - Trade Package: European Commission Proposes Framework for Screening of Foreign Direct Investments,” European Commission, http://europa.eu/rapiid/press-release_IP-17-3183_en.htm.

outlets as a strategic asset to prevent them from being purchased by Chinese companies and speaking for Chinese.¹¹ At present, the EU is accelerating coordination for the establishment of an investment review mechanism.

The implementation of investment security review by the EU and its member states is not simply for preventing the loss of key technological know-how. There are multi-dimensional reasons behind it. Among them, the growing protectionist mentality is the primary one. European powers including Germany, Spain and Italy are deeply influenced by populism and the far right. Protectionism has been growing gradually and gained critical influence in the public opinion, which has imposed significant pressure on ruling parties (see Table 1). In addition, the United States has great influence on Europe's protectionist policies. Trump's coming to power has greatly encouraged the European populist forces. The US has also been actively promoting practices of strengthened market protection, and working in concert with Europe to build a security review mechanism for foreign investors. Affected by major European countries, some new EU member states have changed their attitudes. Poland, Slovakia and the Czech Republic have cautiously or passively responded China's investment in areas such as highways, electric power and hydropower construction projects. It was not only because of the pressure imposed by the EU's big powers, but also due to the rising influence of right-wing populist parties in Central and Eastern European countries and the subsequent emerging doubts from domestic public opinion and media about Chinese investment. The screening of Chinese investment involves a number of elements, including protecting the EU/Europe's national interests, maintaining European core technologies, and catering to the extreme political atmosphere in Europe.

11 Ivana Karaskova, Tamas Matura, Richard Turcsanyi and Matej Simalcik, "Central Europe for Sale: the Politics of China's Influence," Association for International Affairs Policy Paper, Czech, April 2018, http://www.chinfluence.eu/wp-content/uploads/2018/04/AMO_central-europe-for-sale-the-politics-of-chinese-influence-1.pdf.

Table 1 Representative Populist Parties in European Countries

Category	Political Parties	Political Influence
Radical left-wing populist parties	Five Star Movement in Italy ¹²	Ruling party Votes obtained 31% (2018)
	Podemos (We Can) in Spain	Opposition party Votes obtained 21.2% (2016)
	Syriza (Coalition of the Radical Left) in Greece	Ruling party Votes obtained 35.5% (2015)
Conservative right-wing populist parties	Fidesz – Hungarian Civic Alliance in Hungary	Ruling party Votes obtained 49.27% (2018)
	ANO 2011 in Czech ¹³	Ruling party Votes obtained 29.64% (2018)
	Alternative for Germany in Germany	Opposition party Votes obtained 12.6% (2017)
	Freedom Party in Austria	Ruling party Votes obtained 27.4% (2017)
	Liberal Party in the Netherlands	Opposition party Votes obtained 13.1% (2017)
	National Front in France	Opposition party (2017)
	Independence Party in the United Kingdom	Opposition party (2017)
	Finns Party in Finland	Ruling party Votes obtained 17.65% (2015)
	Law and Justice Party in Poland	Ruling party Votes obtained 37.6% (2015)
	People’s Party in Portugal	Ruling party (coalition with CDS) Votes obtained 36.86% (2015)
	Swiss People’s Party in Switzerland	Ruling party Votes obtained 29.4% (2015)
	Danish People’s Party in Denmark	Opposition party Votes obtained 21.1% (2015)
Sweden Democrats in Sweden	Opposition party Votes obtained 12.9% (2014)	

12 The identity of the Italian Five Star Movement is complicated. Its claims have both far-right and far-left contents, but within the European Parliament, the party belongs to a far-right political group.

13 The Czech ANO 2011 group experienced twists and turns in cabinet formation. It tried to form a cabinet after winning the 2017 election but failed. In 2018 it tried again, and an ANO-led coalition cabinet was approved in July.

Refusing to recognize China's full market economy status

Since the establishment of diplomatic relations between China and the European Community, the EU's predecessor, in 1975, the China-EU bilateral economic and trade relations have developed smoothly. As the market expanded after the EU's eastward enlargement in 2004, the EU has been China's largest trading partner and China has been the second largest trading partner to the EU. The two sides have always insisted on multilateral and free trade.

The financial crisis that swept across the world in 2009 has profoundly affected the China-EU relations. The 2012-2013 photovoltaic (PV) trade dispute became a turning point of this transition. On one hand, the ongoing crisis has led to the decline of the EU's global influence and the profound adjustment of its internal structure. The EU is turning inward-looking, transforming from an actor that led the world through standards to one that use standards to consolidate internal unity. Its external influence has significantly weakened. On the other hand, the crisis has stimulated the EU's trade protectionism. The EU has frequently used anti-dumping and countervailing policies against Chinese industries such as the PV to protect their fragile domestic industries.

China's superiority in global trade is consolidating due to its rising strength and Chinese companies' growing competitiveness. The EU institutions believe that the development model of state intervention and support of Chinese enterprises has made it impossible for European companies to compete fairly with their Chinese counterparts. In 2017, China and the EU disputed from time to time on whether to recognize China's full market economy status. On December 20, 2017, the European Commission released a staff working document on alleged "significant distortions" in China's economy.¹⁴ The EU maintained its restriction on trade with China and denied

14 European Commission, "Commission Staff Working Document on Significant Distortions in the Economy of the People's Republic of China for the Purposes of Trade Defence Investigations," December 20, 2017, http://101.96.10.63/trade.ec.europa.eu/doclib/docs/2017/december/tradoc_156474.pdf.

China's full market economy status on the pretext of the Chinese government's market intervention. The EU has continued its protectionist actions against China by means of anti-dumping and countervailing, as well as high standards with regard to environment protection, human rights and labor.

The abovementioned working document claimed that as the ruling party, the Communist Party of China (CPC) not only has an unparalleled influence in the state's political life, but also possesses strong control over the country's macro and micro economy. Thus, instead of market disciplines, China's national economy is run under state control represented by the CPC. It is based on this assumption that the report drew three conclusions: (a) China's socialist market economy is not a full market economy, especially not the market economy as the West defines; (b) The distortions of the Chinese economy lie in the involvement of the state represented by the CPC. Therefore, China's economic behavior is inundated with strong ideology and national will; (c) In China, both the production factor market and specific productive sectors are controlled by the state, rather than normally operating under market forces.

Based on the above conclusions, the EU has insisted that: (a) China should not be granted full market economy status; (b) As China's economic behavior features strong state will, China's direct investment in each EU member state, especially Chinese state-owned enterprises' investment and mergers and acquisitions, should be screened with stricter standards; (c) The trading barriers for specific Chinese products (steel, aluminum, photovoltaics, etc.) to enter the EU should be raised, and the right to conduct anti-dumping investigations against Chinese products should be retained.

As a result, the EU has set up its own rules and mechanisms under the WTO framework, in order to protect its own market and set limits for future China-EU economic and trade cooperation. According to the EU's own interpretation, the new legislation is to equip the EU with trade defense tools that can cope with the reality while complying with the EU's international obligations under the WTO legal framework.

Protectionism has become an important background for the EU's denial of China's market economy status. The China-EU trade is highly complementary, but the EU has always criticized that the huge deficit between the two sides and the strong competitiveness of certain Chinese goods have threatened the development of the EU's related industries and employment. In the fields of steel, photovoltaic, plexiglass and electrolytic aluminum, the EU has frequently launched anti-dumping and countervailing investigations against China to protect the European market and jobs. Given this, the EU has also put more emphasis on China's international responsibility and the propositions of reciprocal opening, equality, mutual benefits and fair trade while opposing the alleged Chinese dumping practices.¹⁵

Enhancing scrutiny of China-funded infrastructure projects

Infrastructure construction is one area where the Belt and Road Initiative has witnessed rapid growth in Europe. With the support from various financial instruments in China, Chinese infrastructure projects in Central Europe and the Balkans have developed rapidly, which has triggered the EU's alert and anxiety and led to its closer scrutiny of the infrastructure projects and more stringent regulation through its rules. The most prominent cases are the China-EU connectivity cooperation in the Western Balkans, and the EU's review of the construction of the Hungary-Serbia railway.

In the early days, the EU was vigilant about China's infrastructure programs in the Western Balkans. However, as bilateral cooperation went on, the EU came to negotiate with China and began to actively pursue infrastructure construction cooperation in the region. The EU hoped that the two sides' efforts could be mutually reinforcing and the Chinese projects could be implemented under the EU's infrastructure construction framework. However, as multiple infrastructure projects with Chinese loans

15 Thilo Hanemann and Mikko Huotari, "EU-China FDI: Working towards More Reciprocity in Investment Relations," Rhodium Group and Mercator Institute for China Studies, May 2018, https://www.merics.org/sites/default/files/2018-08/180723_MERICS-COFDI-Update_final.pdf.

landed in the Western Balkans, the EU's suspicion rose again. It actively launched initiatives such as the "Berlin Process"¹⁶ and the "Enlargement Perspective for and Enhanced Engagement with the Western Balkans,"¹⁷ to curb China's influence in infrastructure construction and gradually exclude cooperation with China. At present, the EU has launched a series of plans to promote connectivity in the Western Balkans in an effort to strengthen the EU's voice and influence in the region's infrastructure market. The process of this change shows that the EU, regarding connectivity as another important strategic interest, has increased self-protection and strengthened review of Chinese lending practices and approaches. To offset the influence of China's Belt and Road Initiative, the EU has also been actively developing its own Eurasian connectivity program, which is currently under internal discussion and will be presented to Asian partners at the Asia-Europe Meeting in late 2018.¹⁸ The action also indicates that the EU is intended to unite India, Japan and ASEAN to jointly develop rules for connectivity, and balance China's Belt and Road in a multilateral manner.

The review of the Hungary-Serbia railway can be regarded as another important case demonstrating the EU's attempt to strengthen protection of the infrastructure market through regulations. The construction of the railway, which was jointly initiated by China and Central and Eastern European countries in 2014, had been progressing smoothly. However, since 2016, the EU has strengthened scrutiny of the project. The broad coverage by Chinese and foreign media of the EU's review of the representative Belt and Road project¹⁹ in fact reflects the EU's vigilance and precautionary mentality for the Belt and Road. Most importantly, China's increasing

16 "The Western Balkan's Berlin Process: A New Impulse for Regional Cooperation," European Parliamentary Research Service Briefing, July 4, 2016, [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2016\)586602](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)586602).

17 "A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans," European Commission, June 2, 2018, https://ec.europa.eu/commission/sites/beta-political/files/communication-credible-enlargement-perspective-western-balkans_en.pdf.

18 "Eurasian Connectivity: the EU and India Enter the Fray," *Asia Times*, May 18, 2018, <http://www.atimes.com/eurasian-connectivity-the-eu-and-india-enter-the-fray>.

19 "China-Built Hungary-Serbia Railway under EU Investigation, Bidding Process Questioned," *Caixin*, February 22, 2017, <http://international.caixin.com/2017-02-22/101058017.html>.

involvement in the EU's infrastructure market, which is also considered as a big cake to the EU, will affect the interests of local infrastructure companies. With this kind of precautionary mentality, the European media began to criticize in late 2017 that the Chinese investment is damaging the emerging market and developing countries by creating "creditor imperialism" through the Belt and Road.²⁰ In the infrastructure sector, the condition of recipient countries' sovereign guarantee in China's provision of loans to some European states would raise the debt level of the countries, which might even surpass the EU's warning line of 60%. Moreover, as China chooses projects based on their long-term strategic values, sometimes the short-term return of certain projects might not be enough to repay the debts, which would strengthen China's upper hand in negotiations and make it able to force the borrowing governments to convert their debts into equity shares. This would expand China's influence in these countries, and drag more countries into this so-called trap of "creditor imperialism."

The EU is also concerned about whether the infrastructure projects supported by China are able to meet the EU's desired governance standards and requirements in terms of technology and environmental protection, and whether China's investment in EU member states bypasses the EU's regulations and create division within the EU or damage its internal unity. Therefore, another approach to strengthening self-protection for the EU is to tighten restrictions and screening of infrastructure projects.

Launching a new round of "China threat" rhetoric

In the field of cultural and people-to-people exchanges, European countries have also introduced new measures to consolidate the community of Western ideology while launching criticism against Chinese models, values and soft power. The most typical example is the "soft power" concept, which Europe and the United States jointly created in 2017 to accuse China of

20 John Hurley, Scott Morris and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," CGD Policy Paper 121, March 2018, <https://www.cgdev.org/publication/examining-debt-implications-belt-and-road-initiative-policy-perspective>.

its authoritarian practices in Asia, Africa, Latin America as well as Europe. Different from “soft power,” which wins over local people by means of public diplomacy, media communication and cultural exchanges, “sharp power” means the use of “abnormal measures” by “authoritarian forces,” including bribe, censorship, manipulation and coercion, to pressure the targeted countries or groups.²¹ The US National Endowment for Democracy has supported scholars, including those from Central and Eastern Europe, to coin and spread the concept of Chinese “sharp power”²² in the international media and criticize China’s promotion of its own development model in Europe through the economic power of its centralized system, which is further played up by Western media, periodicals and websites. Think tanks have also become a major driver of the concept’s widespread use. The report “Authoritarian Advance: Responding to China’s Growing Political Influence in Europe,” produced collaboratively by European think tanks, made a comprehensive analysis of the characteristics of China’s “authoritarian system” and its practices in Europe. According to the study, Europe should be strictly on guard against the penetration of the Chinese model in the humanities.²³ The trend of strengthening ideological protection in the field of cultural and people-to-people exchanges has become more apparent.

Generally speaking, the Belt and Road construction in Europe is facing increasing protection and obstruction in terms of economy, politics and culture. The protectionist measures adopted by Europe against China has become one of the greatest risks for the advance of the Belt and Road Initiative in Europe.

21 Christopher Walker and Jessica Ludwig, “The Meaning of Sharp Power: How Authoritarian States Project Influence,” *Foreign Affairs*, November 16, 2017, <https://www.foreignaffairs.com/articles/china/2017-11-16/meaning-sharp-power>; David Parkins, “What to Do about China’s ‘Sharp Power’,” *The Economist*, December 2017, <https://www.economist.com/news/leaders/21732524-china-manipulating-decision-makers-western-democracies-best-defence>.

22 National Endowment for Democracy, “Sharp Power: Rising Authoritarian Influence,” December 2017, <https://www.ned.org/sharp-power-rising-authoritarian-influence-forum-report>.

23 Thorsten Benner, Jan Gaspers, Mareike Ohlberg, Lucrezia Poggett and Kristin Shi-Kupfer, “Authoritarian Advance: Responding to China’s Growing Political Influence in Europe,” Global Public Policy Institute and Mercator Institute for China Studies, February 2018, https://www.merics.org/sites/default/files/2018-02/GPPi_MERICS_Authoritarian_Advance_2018_1.pdf.

European Concern for Belt and Road Risks on the Rise

By nature, the Belt and Road is an open and inclusive initiative. China and its partners cooperate under the principles of voluntariness and mutual benefits. However, Europe has been misinterpreting the original intention of such cooperation and paying closer attention to various potential risks of the Belt and Road Initiative. This type of concern has become an important driving force for Europe to further strengthen self-protection. In general, the EU and some of its member states believe that the initiative would bring the following four major risks to Europe.²⁴

Risk of the EU's regulatory failure

Initially, China officially announced that all 16 Central and Eastern European countries would be included in the Belt and Road Initiative so as to motivate Europe to participate in Eurasian connectivity through the “16+1” cooperation platform. However, the EU was concerned that the open-ended cooperation proposed by the Belt and Road Initiative might cause the failure of EU regulations. Therefore, EU officials have repeatedly stressed on various occasions that the China's proposals must be operated in line with EU rules, standards or plans. The EU has insisted on its leading role in developing infrastructure in Central and Eastern Europe via the TEN-T, and is closely monitoring the possible adverse effects of China's initiatives and actions on the EU's existing regulatory arrangements.

The EU has also paid continuous attention to the possible challenges brought to its regulation by projects such as the Hungary-Serbia railway and the China-Europe Land-Sea Express Line. In January 2018, the report “The New Silk Route - Opportunities and Challenges for EU Transport,” written under the request of the European Parliament, touched upon the possible

24 Steer Davies Gleave, “Research for TRAN Committee: The New Silk Route - Opportunities and Challenges for EU Transport”, European Parliament, January 2018, [http://www.europarl.europa.eu/RegData/etudes/STUD/2018/585907/IPOL_STU\(2018\)585907_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2018/585907/IPOL_STU(2018)585907_EN.pdf).

risks in the cooperation projects between China and the EU. First, the infrastructure projects funded by China may have little focus on the demand for, or sustainability of, the services that they are intended to support. Second, the lack of a clear Belt and Road investment plan may generate investment projects which compete with or duplicate others, either inside or outside the EU. Third, Chinese dominance in rail transport, or control of the entire logistics chain, may significantly increase its market power in respect of EU trade. Last, construction or operational EU standards in non-EU countries could be undermined by the promotion of different and sometimes lower Chinese standards.

Risk of Western disorder

Moreover, many European countries are worried that the Belt and Road Initiative is likely to make the Western-led international order out of control. Some British scholars believe that the rise of China has provided the world with an alternative outside the option of Western capitalism. China has gradually been able to establish order and rules that are different from Western preferences. This is also an important background for the Belt and Road Initiative.²⁵ There are also British scholars who claimed that the initiative is China's geopolitical strategy which would definitely rewrite the landscape and rules of the old international order.²⁶ Former German Foreign Minister Sigmar Gabriel put it straightforwardly, "China is developing a comprehensive system alternative to the Western one, which, unlike our model, is not based on freedom, democracy and individual human rights."²⁷

Risk of financial unsustainability

The EU has always been worried about the financial sustainability of

25 Shaun Breslin, "Global Reordering and China's Rise: Adoption, Adaptation and Reform," *The International Spectator*, Vol.53, No.1, March 2018, pp.57-75.

26 Christian Ploberger, "One Belt, One Road – China's New Grand Strategy," *Journal of Chinese Economics and Business Studies*, Vol.15, No.3, 2017, pp.289-305.

27 "China Undermining Us 'with Sticks and Carrots': Outgoing German Minister," *The Age*, February 19, 2018, <https://www.theage.com.au/world/europe/china-undermining-us-with-sticks-and-carrots-outgoing-german-minister-20180219-p4z0s6.html>.

the Belt and Road Initiative. China's continuous input in Europe by means of various financial investment tools, such as the Silk Road Fund, the AIIB, the China-Central and Eastern Europe Investment Fund and the US\$10-billion special loans, has caused the EU's concern of whether China's investment is financially sustainable. Such concern is originated from the painful memory of the European sovereign debt crisis caused by excessive borrowing. In addition, the EU is afraid that member states' participation in the Belt and Road projects would increase their debt burden and potentially lead to debt crisis if the borrowers must provide sovereign guarantees as requested by the policy of China's preferential loans.²⁸

Risk of losses of specific interests

Besides the abovementioned concerns, lots of European countries also feel anxious that China might control European ports, electricity and some energy sectors by its investment. Besides, mergers and acquisitions of advanced processing industries by Chinese investors have jeopardized some of Europe's core industries, including automobiles, machinery and high-tech products.²⁹ An analysis by a German think tank claimed that China has possessed the ability to manufacture more and more high-tech products under the support of the "Made in China 2025" plan. Through the infrastructure partnerships achieved in the Belt and Road Initiative, the products could be easily transported into traditional markets like Germany and even the big European market, thus challenging the industrial development of Germany.³⁰

According to Italian scholar Jonathan Holslag, there is a strong motivation to open up external markets behind the Belt and Road Initiative. China is moving from defensive mercantilism (mainly aimed at protecting

28 Liu Zuokui, *Europe and the Belt and Road Initiative: Response and Risks*, Beijing: China Social Sciences Press, 2017, pp. 11-12.

29 Ronald H. Linden, "The Open Door Swings Back: The Challenge of Chinese Investment," Italian Institute of International Affairs, March 2018, <http://www.iai.it/en/pubblicazioni/open-door-swings-back-challenge-chinese-investment>.

30 Jost Wübbecke, Mirjam Meissner and Max J. Zenglein, "Made in China 2025: The Making of a High-Tech Superpower and Consequences for Industrial Countries," Mercator Institute of China Studies, December 2, 2016.

the domestic market) to offensive mercantilism (mainly to seek gains in the international market). China's market share has gradually increased in countries along the Belt and Road, posing a big challenge to Europe. EU members have not only lost market share, but would also witness the shrink of their exports.³¹ When analyzing China's construction of the 21st Century Maritime Silk Road, a French scholar believes that China is competing with Europe in maritime trade, shipbuilding, marine economy, maritime military and rules-making. The development of the Maritime Silk Road has created more competition than cooperation in China-EU relations. Europe must therefore be aware of China's motives for seeking specific powers.³²

As Europe's concern about the risks of Belt and Road increases, it has invisibly affected the EU policy-makers' understanding. As a result, they have gradually begun to strengthen self-protection, which puts pressure on the advance of the initiative in Europe.

Influence of Europe's Protectionism on the Belt and Road Initiative

Nowadays, protectionist sentiments are strong in Europe. The refugee crisis, terrorism and other problems will not be mitigated in the short run. The political landscape will remain conservative for some time, and protectionist forces may even witness further growth. A large number of voters in Europe still complain about the threats that globalization and the rise of emerging powers have posed to Europe. Therefore, in the short term, European governments will adopt protectionist measures to ease the pressure on their governance, thus leaving large room for protectionism. This kind of atmosphere would also have impacts on the Belt and Road.

It would be more difficult for China and the EU to reach important cooperation agreements under the Belt and Road Initiative. With growing

31 Jonathan Holslag, "How China's New Silk Road Threatens European Trade," *The International Spectator*, Vol.52, No.1, March 2017, pp.46-60.

32 Mathieu Duchâtel and Alexandre Sheldon Duplaix, "Blue China: Navigating the Maritime Silk Road to Europe," *Policy Brief*, European Council on Foreign Relations, April 2018, http://www.ecfr.eu/publications/summary/blue_china_navigating_the_maritime_silk_road_to_europe

protectionist atmosphere, barriers to policy communication between China and the EU under the Belt and Road framework have increased.³³ Previously, on many occasions, including the Belt and Road Forum for International Cooperation, the China-EU Summit, and bilateral meetings between China and major European countries, China and Europe failed to reach agreement on documents related to the Belt and Road Initiative. The European side insisted on incorporating “transparency,” “reciprocal cooperation” and specific EU standards in the documents. The United Kingdom, while sticking to “high standards,” has also proposed the inclusion of “best practices” and “best standards” as defined by Europe, which adds to difficulties in reaching cooperation agreements.³⁴ It is expected that the EU and its member states would still put pressure on China to recognize relevant conditions. The competition between the Belt and Road Initiative and the EU’s rules and practices will become more apparent. European powers or the EU institutions will continue to use their own rules and practices as a protective shield and enhance protection of the EU’s common market and interests.

It would be more difficult for China to invest in Europe as the EU and its member states advance the mechanism of investment security review. The EU will continue to promote investment screening and set up an effective mechanism targeting Chinese investment at the EU level. In order to avoid more controversy, the concept of “strategic industries” will be more clearly defined. The EU will set clear standards for Chinese investment, and integrate Chinese financial instruments into the framework of existing EU mechanisms such as the TEN-T as far as possible.³⁵ Therefore, China’s investment in Europe will face a harder time, and cases of investment failure may increase significantly.

To date, the most typical case is the German government’s rejection on August 1, 2018 to the acquisition of a well-known German machinery

33 “EU Backs Away from Trade Statement in Blow to China’s Modern Silk Road Plan,” *The Guardian*, May 15, 2017, <https://www.theguardian.com/world/2017/may/15/eu-china-summit-beijing-xi-jinping-belt-and-road>.

34 “May Resists Pressure to Endorse China’s ‘New Silk Road’ Project,” *Financial Times*, January 31, 2018.

35 “Foreign Investment Screening and the China Factor: New Protectionism or New European Standards?”

manufacturer by a Chinese enterprise due to “strategic security” reasons. This is the first time the German government has invoked the new regulation on foreign investment adopted in July 2017 to block Chinese acquisition. At the EU level, the investment security review mechanism, under in-depth discussion in the European Parliament and the European Council, is likely to be implemented within 2018.

Trade disputes between China and the EU would further increase. The EU’s refusal to recognize China’s market economy status indicates that trade disputes and frictions between the two sides will continue. By abandoning the classification of market or non-market economy status and adopting the concept of “economic distortion,” the EU intends maintain the legal basis for anti-dumping investigations against China. Once the EU deems that there is “serious market distortion” in China, it can use the price of a third country to determine whether dumping exists. The new approach of the EU’s anti-dumping investigation has not changed in real terms compared with the past. It only changes the applicable conditions from the previous “non-market economy countries” to “seriously distorted market.” Under the guidance of this principle, the existing anti-dumping instruments are still valid, and the number of anti-dumping investigations against China will not decrease. Instead, such investigations may even increase in specific areas according to public opinion needs. Behind the China-EU conflict of interests, the competition over systems and development models may intensify.

To discuss the long-term prospects of China-EU cooperation under the Belt and Road Initiative, it is important to consider the duration of protectionist trends in Europe. If there was no effective solution to the internal difficulties and challenges within Europe, populism and far-right forces would still exist and play an important role for a long time, adversely affecting the overall environment for China-EU cooperation. On the contrary, under the assumption that the EU institutions or Europe gradually solved the internal problems, and populist or far-right forces gradually weakened, the prospects for China-Europe Belt and Road cooperation are

still optimistic.

There is still bright potential for China-Europe cooperation under the Belt and Road Initiative. In medium and long terms, the mutual needs between China and Europe will become an important driving force for cooperation. First, European countries still have strong motivation to attract external investment, and share development opportunities brought by emerging economies. Second, with the increase of Belt and Road investment in Europe, Chinese companies will gain a better understanding of the local business environment, shoulder more social responsibilities, and actively help create more jobs. With these efforts, the Europeans' understanding and opinion of the Belt and Road Initiative would witness positive changes.

It is only five years from the proposal to the implementation of the Belt and Road Initiative. It has even only been three years since Europe started to understand the initiative and work with China under the framework. Europe needs some time to achieve a full image of and truly recognize the initiative, in which China needs to have patience and faith. In cooperation with Europe, China should enhance mutual trust and dispel misgivings by continuous communication. It should also constantly accumulate experience in trade and investment cooperation, and work for mutual benefits and win-win progress with the European side.

The EU would adopt a more balanced approach in response to Belt and Road investment. In the future, while refining rules and regulations for the investment screening mechanism, the EU will also strike a balance between market protection and openness. As analyzed by a European think tank, market protectionism under the pretext of national security is not sustainable. As a pioneer of free market, the EU must truly adhere to the principle of openness and act smartly to prevent the protectionist measures from increasing the vulnerability of the EU market. An environment of fair competition is highly important for maintaining the long-term competitiveness of EU products as well as the multilateral system of international trade. Therefore, the EU has to well balance the principle of free trade with the protection of key industries, to avoid the

misinterpretation of market protection against Chinese products and investment as anti-China by the outside world.³⁶ Therefore, although the investment environment facing the Belt and Road will be tightened, there is still large space and opportunities.

Europe would strengthen “rules access” to China, and breakthroughs are likely in rules connectivity of the Belt and Road.

In addition to the five major goals of connectivity in Belt and Road cooperation (policy coordination, connectivity of infrastructure and facilities, unimpeded trade, financial integration, and closer people-to-people ties), the connectivity of rules has become increasingly important. Particularly, the synergy of investment and trade rules is an urgent issue facing the two sides.

Europe’s investment security screening of Chinese investment and refusal to recognize China’s full market economy status are both regulatory acts to strengthen protection. The principle of rules first is also apparent when Europe calls on China to expand market access, increase imports and protect intellectual property rights. Even in maintaining the multilateral system of international trade, Europe has been a more explicit voice for WTO reforms. Therefore, in the future, the access and integration of rules will be all the more important for China-EU cooperation under the Belt and Road Initiative. In particular, the integration in terms of transparency, intellectual property protection and environmental and labor standards will be inevitable.

With the further development of Europe’s market protection mechanism, China and the EU may be forced to accelerate their negotiations on the bilateral investment agreement, in order to consolidate and standardize the bilateral investment cooperation via agreed-upon rules, which facilitates Belt and Road-related investment to be operated under a legal framework recognized by both sides. 🌐

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