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THE EU AND CHINESE BELT AND ROAD INITIATIVE:
THE OPPORTUNITIES AND CHALLENGES

MASTER THESIS

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ANNOTATION

The Belt and Road Initiative (BRI), proposed by China in 2013, aims to connect major Eurasian economies through infrastructure, trade, and investment.

As the biggest and most important Chinese economic strategy of the 21st century, the BRI is important for the EU and especially for Central and Eastern European countries (CEECs). Currently, the EU is having a lot of issues to tangle with: the imbalance development among its member countries, the financial crisis, the refugee problems, it's worsening relationship with Russia, Brexit, and the uncertainty on the TTIP program with the new US government. The extra liquidity that Chinese companies possess is very attractive, and a partnership between EU and China will benefit both parties.

In this thesis, author will discuss the Belt and Road Initiative from perspectives of international trade and EU-China bilateral relations; as well as will analyze how it can affect the EU-China relations and what benefits/limitations EU can get from this initiative.

KEYWORDS: One Belt One Road, Belt and Road Initiative, 16+1, China, EU, Trade, Investment

ANOTĀCIJA

Jaunā Zīda Ceļa Iniciatīva, kuru 2013. gadā ierosināja Ķīna ar galveno mērķi savienot lielākās Eirāzijas ekonomikas, izmantojot infrastruktūru, tirdzniecību un investīcijas.

Šī ir lielākā un nozīmīgākā Ķīnas ekonomiskā stratēģija 21. gadsimtā, kura tieši ietekmēs ES un it īpaši Centrāleiropas un Austrumeiropas valstis. Šobrīd Eiropas Savienībā ir daudz neatrisinātu, attīstību kavējošu faktoru kā nelīdzsvarots attīstības līmenis starp tās dalībvalstīm, finanšu krīzes atskaņas, grūti prognozējama bēgļu un nelegālās migrācijas situācija, pasliktinātas attiecības ar Krieviju, Breksits, un nenoteiktība ar TTIP tālāko attīstību, ņemot vērā jauno ASV valdību. Pēc autora domām, Ķīnas kompānijām piemīt pievilcīga likviditāte un elastīgums un ar pareizo pieeju ciešāka partnerība starp ES un Ķīnu var nest labumu abām pusēm.

Šajā maģistra darbā autors apspriedīs Jaunā Zīda Ceļa Iniciatīvu no starptautiskās tirdzniecības, kā arī ES un Ķīnas divpusējo attiecību perspektīvas un analizēs tās ietekmi uz ES un Ķīnas attiecību tālāko attīstību un to, kādu labumu/riskus ES var gūt no šīs iniciatīvas.

ATSLĒGVĀRDI: Viena josta, viens ceļš, Jaunā Zīda Ceļa Iniciatīva, 16+1, Ķīna, ES, Tirdzniecība, Investīcijas

LIST OF ABBREVIATIONS

BIA	Bilateral Investment Agreement
BIT	Bilateral Investment Treaty
BRI	The Belt and Road Initiative
CSTO	Collective Security Organization of the Commonwealth
EBRD	The European Bank for Reconstruction and Development
EEU	Eurasian Economic Union
ETWG	The Economic Trade Working Group
EU	The European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	The Gross Domestic Production
HED	The High-level Economic and Trade Dialogue
ICSID	The International Centre for Settlement of Investment Disputes
ICT	Information and Communications Technology
IFI	International Financial Institute
JC	The Joint Committee
MIGA	The Multilateral Investment Guarantee Agency
NAFTA	North American Free Trade Agreement
OBOR	The “One Belt, One Road” Initiative
ODA	Overseas Development Assistance
PTA	Preferential Trade Agreement
R&D	Research and Development
RMB	Renminbi, the Chinese currency
SCM	Subsidies and Countervailing Measures
SCO	Shanghai Cooperation Organization
SITC	Standard International Trade Classification
TIPD	The Trade and Investment Policy Dialogue
TPP	The Trans-Pacific Partnership
TTIP	The Transatlantic Trade and Investment Partnership
UN	The United Nations
UNCTAD	The United Nations Conference on Trade and Development

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INTRODUCTION

TOPIC OF THIS THESIS

The Belt and Road Initiative(BRI), previously named “One Belt, One Road initiative” (OBOR), is an initiative proposed by the Chinese government in 2013 to improve regional and international commercial links by upgrading transport infrastructure. It aims to connect China and Europe in a web of roads, railways, ports, and other infrastructure with the goal of stimulating the growth of developing countries in between. Probably the most ambitious economic development project in history, it covers 65 countries, potentially 30% share of the world’s GDP, about 60% of the world’s population.

As an important counterpart of this initiative, Europe needs to have a clear understanding of what the Belt and Road Initiative will bring, and react accordingly. Currently, the EU is having a lot of issues to tangle with: the imbalance development among its member countries, the financial crisis, the refugee problems, its worsening relationship with Russia, Brexit, and the uncertainty of the TTIP program with the new US government. The Belt and Road initiative offers a solution to ease these problems to some level, and in author’s opinion, it is wise for EU to be an active part of this initiative.

AIM AND TASKS OF THIS THESIS

The general purpose of this thesis is to identify the potential opportunities and challenges for the European Union to get in deeper involvement in the Belt and Road Initiative.

To achieve this, a thorough analysis of what the BRI is about and what it can bring to the EU should be done. And based on the analysis, a recommendation of whether, and in which domains, the EU could engage in cooperation with China and regional actors within the context of the BRI will be provided.

To accomplish this aim, the following *tasks* need to be addressed:

- To analyze the factors and benefits of international trade, based on which author can analyze why is BRI proposed and whether it can benefit EU in trade/economic matters;

- To analysis the EU's external relations with China, the current cooperation framework, and trade arrangement;
- To present the general design of the Belt and Road Initiative and its relevant statistic data on which further analysis can be based;
- To analyze the stated and unstated motives of why China introduced the Belt and Road initiative(BRI) and BRI current progress;
- To analyze the proposed projects in Central and Eastern part of the EU;
- To analyze what the Belt and Road might bring to the EU while it involves deeper in the Belt and Road Initiative;
- Based on results of the analysis in the Thesis to make conclusions and propose recommendations to the European institutions in further involvement in BRI matters.

RESEARCH PROBLEM

The biggest problem with this thesis is that the Belt and Road Initiative is a relatively young program, with only 3 years of implementation after it was officially announced. The number of projects it has already reached out is limited, and the projects themselves are still in progress. Since the long-term effects are not there yet to be analyzed, the opinions and analysis given in this thesis allow substantive room for speculations, both “pro” and “anti” directions.

Also, as the Belt and Road Initiative is called a “moving concept,” the concept and program itself are constantly changing, which makes the analysis based on the existing progress (BRI current progress) hardly represents how it might happen to the potential projects in the future. The positive point in this situation is that there are more opportunities for the EU to take the initiative and shape the projects to EU's favor.

THE MAIN HYPOTHESIS

EU member countries have different conditions and are in different stages of economic developments. Thus, the approaches they have taken towards the Belt and Road Initiative are different. It's hard to measure the overall effects of BRI program in the whole European Union. *The assumption will be that if the cooperation brings more positive effects to the member countries than adverse results, it benefits EU.*

LITERATURE REVIEW

After identifying the main aim and tasks of this thesis, relevant literature has been collected and reviewed. It contains books, journal articles, online resources, as well as the research reports and briefings by the European institutes. The language of the literature materials is English or Chinese.

The statistical data will be secondary data collected from several sources, mainly the Eurostat and the Chinese government, other online sources are also considered after double cross with the official source.

The [WTO's annual trade report \(2013\)](#) serves as the base of the theoretical analysis of international trade; The European Parliament's briefings presented a thorough picture of how BRI is progressing so far and the EU's current attitude towards it; Information provided by European Commission is a great help in analyzing the China-EU bilateral relations framework and the effects and significances that BRI can bring to the EU and China; Other related sources also served as a basis for constructing this master thesis and offered a view from every possible angle. (Detailed list is available in the [LITERATURE AND REFERENCES](#) of this thesis).

RESEARCH METHOD

The research method in this master thesis will be a mixed approach with qualitative and quantitative analysis.

Due to the nature of this topic and the limited direct data emerged from the existing projects, this thesis will be mostly constructed on qualitative analysis. Based on the work of the existing studies and researches on this topic, trends can be uncovered, and problems can be analyzed deeper. Sources are published books, journal articles, relevant think tanks, online resources, as well as the research reports and briefings by the European institutions.

To support the statements and conclusions of the qualitative analysis, the quantitative method will be used. The statistical data is secondary data collected from 3 sources, mainly the Eurostat, the Chinese government, and other online sources after double cross with the official source.

STRUCTURE OF THIS THESIS

In this thesis, author will discuss the Belt and Road Initiative, how it can affect the EU-China relations, and how the EU can benefit from this initiative.

The first chapter will be establishing the theoretical base for the further discussion: the factors that can affect international trade, EU's external relationship with China, and the challenges the EU is facing now.

The second chapter will focus on the Belt and Road Initiative. First part of this chapter, author will discuss what the BRI essentially is, the background (drivers) and interests(goals) that led China to initiate it, the political and financial mechanisms of it, and how it has been going on so far; the second part of this chapter, author will be analyzing the innovative elements of the Belt and Road Initiative, its interests in CEE countries and its focus on infrastructure developments.

The third chapter will be the analysis of the interactions between Belt and Road Initiative with the European Union. Both benefits and challenges the BRI will bring to the EU will be presented.

And at last, but not least, author will finalize this thesis with overall conclusion derived from all points mentioned above and offer valid suggestions for the European Union institutions to consider while getting involved deeper in the Belt and Road Initiative.

The more detailed structure of this master thesis, please see [Annex 1- The detailed structure of this Master thesis](#).

CHAPTER 1. THEORETICAL BASIS FOR INTERNATIONAL TRADE AND EU-CHINA RELATIONS

In Chapter 1, author will analyze the theoretical basis for this master thesis. Three topics will be discussed: the theoretical framework for international trade, the EU external relations with China, and the challenges EU are facing now.

In Section [1.1. Theoretical framework for international trade](#), author will highlight the benefits that international trade can bring to countries, based on which analysis of potential benefits that Belt and Road Initiative can bring to the EU will be done in Section [3.1 Benefits](#) and the reasons why China proposed the Belt and Road Initiative in Section 2.3 [The Stated and Less-stated Goals of BRI](#). Factors that affect international trade will be presented as well, based on which author will analyze how the Belt and Road Initiative can improve international trade by focusing on the infrastructure in Section 2.5 [Infrastructure as an innovative factor for effectiveness of EU-China trade](#).

In Section [1.2. EU external relations with China](#), author will analyze the EU's external relations with China, the Legal and Political framework for EU-China bilateral relations, as well as the EU's trading arrangements with China will be presented. The aim of this part is to introduce the reader to the general picture of EU-China's relations. It is the base for further analysis of the benefits and challenges that new Chinese initiative can bring to the EU and EU-China relationship in [CHAPTER 3. EU AND BRI: BENEFITS AND CHALLENGES](#). Also it will serve as the theoretical base for author's suggestions to the EU, which will be presented in [CONCLUSION AND RECOMMENDATION](#) of this thesis.

In Section [1.3. EU current challenges](#) of this master thesis, the challenges that EU are facing now will be reviewed. It is cross-related to the sub-sections in the Benefit that BRI can bring to the EU in Section [3.1 Benefits](#) and will lead to the analysis on why EU should welcome the BRI in the [CONCLUSION AND RECOMMENDATION](#).

This chapter serves as a theoretical foundation for the following chapters.

1.1. Theoretical framework for international trade

International trade flows have increased dramatically over the last three decades. According to the WTO's trade statistics, the value of world merchandise exports rose from US\$ 2.03 trillion in 1980 to US\$ 18.26 trillion in 2011, which is equivalent to 7.3% growth per year on average in current dollar terms. Commercial services trade recorded even faster

growth over the same period, advancing from US\$ 367 billion in 1980 to US\$ 4.17 trillion in 2011, or 8.2 % growth per year.¹ So, what drives countries to make international trade and what factors can affect the international trade? In this part of the thesis, author will analyze these two topics, based on what author will explain what drives China to start the Belt and Road Initiative and how it can benefit the European Union in the next chapter.

Benefits of International Trade

International trade is an important driver of economic growth and development. It accounts for a good part of a country's gross domestic product, and one of the important sources of revenue for a developing country.

Efficient Allocation and Better Utilization of Resources

Based on the trade theory of comparative advantage, countries should only produce goods they have a comparative advantage to produce, due to which the wasteful duplication of resources is prevented, and efficient allocation of resources can be achieved.

Utilization of Surplus Production

International trade enables every country to dispose of their surplus production. Some countries produce more than their requirement. They sell this surplus production to other nations and avoid the occurrence of deflationary pressures in the domestic economy.

Promotes Efficiency in Production

International trade promotes efficiency in production. As countries that can produce a product at the lowest possible cost will be able to gain a larger share of the global market, it drives them to adopt better methods of production to keep costs down to remain competitive. This will also help to increase the standards of the product and consumers will have a good quality product to consume.

¹ “world trade report 2013-Trends in international trade”, by WTO
https://www.wto.org/english/res_e/booksp_e/wtr13-2b_e.pdf
Available from 2013

Reduces Trade Fluctuations

By making the size of the market large with abundant supplies and great demand international trade reduces trade fluctuations. If at any time, the price of a commodity goes up abnormally, it can be imported from abroad and its price will be brought down.

More Employment

International trade helps to generate more jobs through the larger demand market and the establishment of newer industries to cater to the needs of various countries.

Greater Variety of Goods Available for Consumption and Consumption at a Cheaper Cost

International trade enables a country to consume things which either cannot be produced within its borders or production may cost very high. This gives consumers a wider range of choices which will not only improve their quality of life but also as a whole help the country to grow.

Fostering Peace and Goodwill

International trade promotes peace, goodwill, and mutual understanding among nations. Economic interdependence of countries often leads to close social relationship. Since war is bound to interrupt international trade and put the people to loss, every effort is made to avoid it.²

Factors Affecting International Trade

The future of trade and economic growth depends on a range of factors. Predictions may change depending on how each of these factors develops. This section discusses how the economic factors are shaping the future of international trade. The fundamental factors, namely demography, investment, technology, natural resources, transportation costs, and other factors.

There are a lot of existing works about this topic, among which the WTO's "world trade report 2013- Factors shaping the future of world trade"³ gives the most comprehensive

² "Benefits of International Trade | Export Management" by Smriti Chand
<http://www.yourarticlelibrary.com/trade-2/8-benefits-of-international-trade-export-management/5914/>
Viewed in Mar. 2017

³ "world trade report 2013-Trends in international trade", by WTO

information, due to the fact it contains plenty of literature and involves concrete databases analysis. Thus, this part of the analysis is based on this report.

Demographic change

Demographic change affects trade through its impact on countries' comparative advantage and on import demand. An aging population, migration, educational improvements and women's participation in the labor force will all play a vital role in years to come, as will the continuing emergence of a global middle class.

Investment

Capital investment can affect the nature of international trade in a variety of ways. Greater public infrastructure investment can facilitate a country's participation in world markets by reducing trade costs and hence increasing supply capacity. Investment in roads, ports and other transport infrastructure can also strengthen regional trade, while investment in information and communications technology (ICT) infrastructure can enable a larger number of countries to participate in the ever-expanding international trade in services.

Source of the investment capital

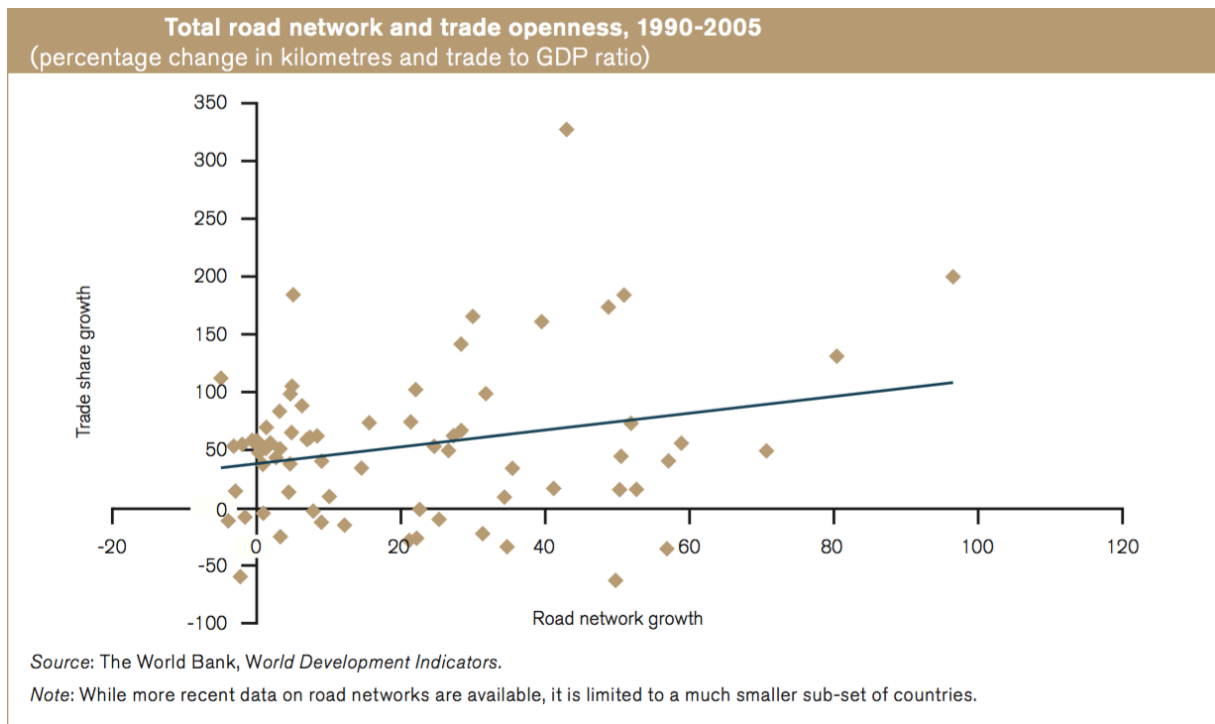
Though Domestic savings are crucial for enhancing investment in capital, Foreign capital flows (FDI& ODI) can complement domestic savings in promoting domestic investment by lowering the cost of capital.

Impact of investment on the nature of international trade

1. Investment in infrastructure raise the volume of trade

Better transport infrastructure reduces transportation costs and hence is associated with higher volumes of trade. As can be seen from *Chart 1.1. "Total road network vs. Trade to GDP ratio,"* that the transport infrastructure (demonstrated as road network) and the volume of trade (described as trade share) present positive correlation.

Chart 1.1. Total road network vs. Trade to GDP ratio, 1990-2005



Source: The world trade report 2013 by WTO

2. Capital investments from abroad stimulate international trade

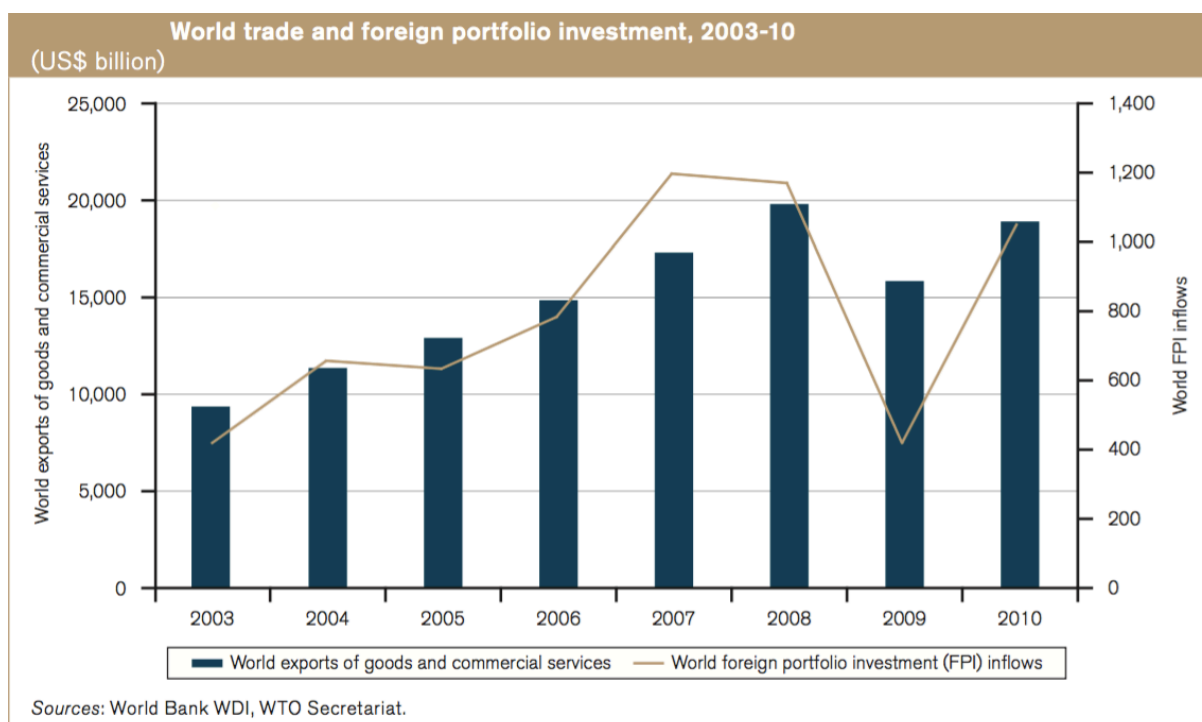
Capital investment relationships between countries can generate information improve the exchange of information between exporters and importers, thus leads to an increase in bilateral trade (*Lane and Milesi-Ferretti, 2008⁴; Jeanneau and Micu, 2002⁵; Portes and Rey, 2005⁶*). At the same time, existing trade relationships may allow foreign investors and banks to gather information on the destination country and hence serve to increase portfolio investment and bank lending to that country. As can be seen from *Chart 1.2. "World trade and foreign portfolio investment"* and *Chart 1.3. "World trade and foreign claims,"* the money flow (portfolio investment/ FDI by blanks) has almost identical trends with the world trade.

⁴ "The Drivers of Financial Globalization," by Lane, Philip R., and Gian Maria Milesi-Ferretti.
<https://www.aeaweb.org/atypon.php?doi=10.1257/aer.98.2.327>
available from 2008

⁵ "Determinants of international bank lending to emerging market countries" by Serge Jeanneau and Marian Micu
<http://www.bis.org/publ/work112.pdf>
available from 2002

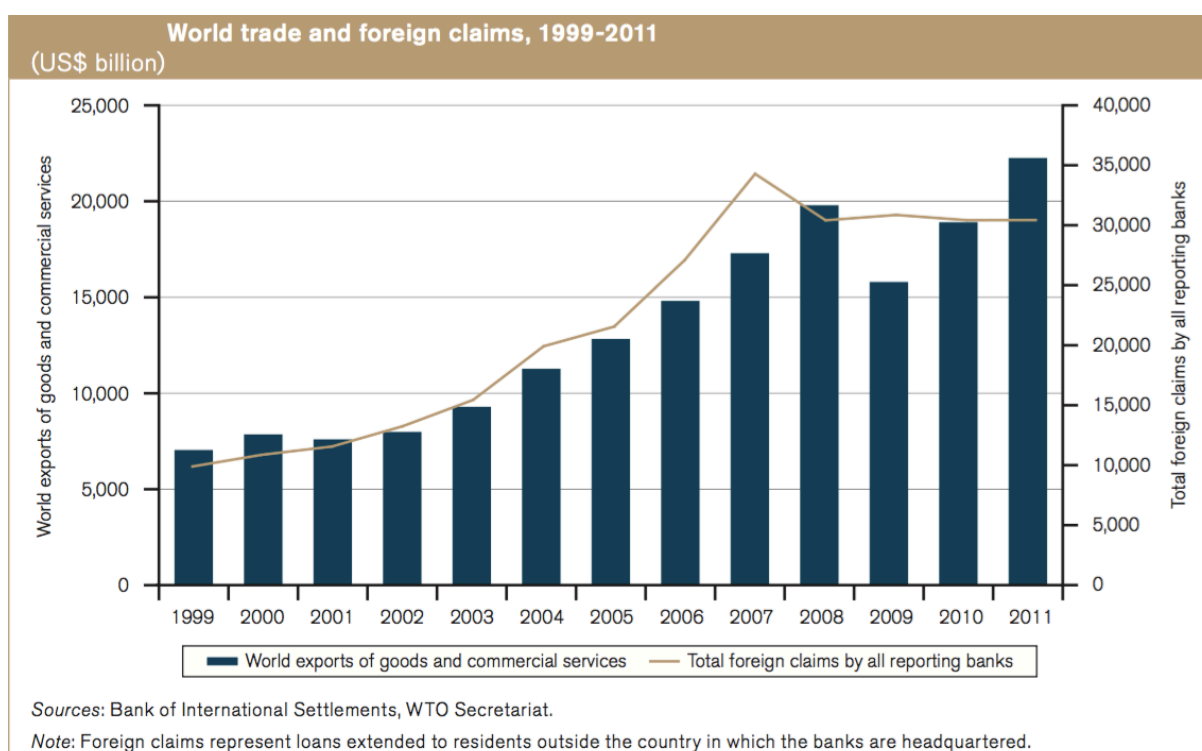
⁶ "The determinants of cross-border equity flows," by Richard Portes and Helene Rey
<http://www.sciencedirect.com/science/article/pii/S0022199604000716>
available since 2005

Chart 1.2. World trade and foreign portfolio investment, 2003-2010(US\$ billion)



Source: The world trade report 2013 by WTO

Chart 1.3. World Trade and foreign claims, 1999-2011(US\$ billion)



Source: The world trade report 2013 by WTO

Technology

Technological progress is a major factor in explaining trade. Technology affects trade by shaping comparative advantage and reducing trade costs. Countries trade basing on relative efficiencies, and knowledge spillovers create cohesion forces that shape trade.

Energy and other natural resources

The disposition of energy, land and water resources has a significant effect on the volume, pattern, and growth of international trade.

- Increases in prices and the price volatility of natural resources, such as oil, can have substantial adverse effects on economic activity and international trade.
- Substitution possibilities and technological change will largely determine to which degree the availability of some natural resource influences economic growth and trade.

Transportation costs

The cost of transporting goods affects the volume, direction, and pattern of trade. It is effected by a wide range of fundamental determinants: the geographical features of countries, the quantity and quality of the physical infrastructure that support transportation services, the procedures and formalities used to control the movement of goods from one country to another, the extent of competition in the transportation sector, the pace of technological innovation in the industry and the cost of fuel (*Behar and Venables, 2010*⁷). The characteristics of the products being shipped also affect transportation costs.

How transportation costs affect trade

(1) Reduce of transportation cost can increase the trade volume and the range of goods traded

After decades of significant tariff cuts around the globe, average tariff barriers are now lower than many components of trade costs, including transportation costs. (*Anderson and van Wincoop, 2004*⁸).

⁷ “Transport Costs and International Trade”, by Alberto Behar and Anthony J. Venables
<https://ora.ox.ac.uk/objects/uuid:a97d8197-60b9-40df-bf29-4923778cf3a8/relationships?format=xml>
Available since 2010

⁸ “Trade Costs,” by James E. Anderson and Eric van Wincoop
<https://www.aeaweb.org/atypon.php?doi=10.1257/0022051042177649>
Available since 2004

A paper by *McGowan and Milner (2011)*⁹ provides empirical evidence of how the composition of trade is affected by increased trade costs (of which transport cost is an important element). Using a sample of 37 industrialized and transition countries, they find that industries located in countries with low trade costs capture significantly higher shares of world exports, with this effect being stronger in trade of cost- intensive industries.

(2) *The cost of transport time also affects the traded goods price*

Another factor that transport affects trade is the cost of time– i.e. the time it takes to deliver a good to its destination. The time needed to export varies considerably by country and level of development. As can be seen from *Figure 1.1. “Time needed to export goods,”* that time required to export goods are very different in the various countries, that leads to different transport cost in international trade, thus influents that country’s trade share and development.

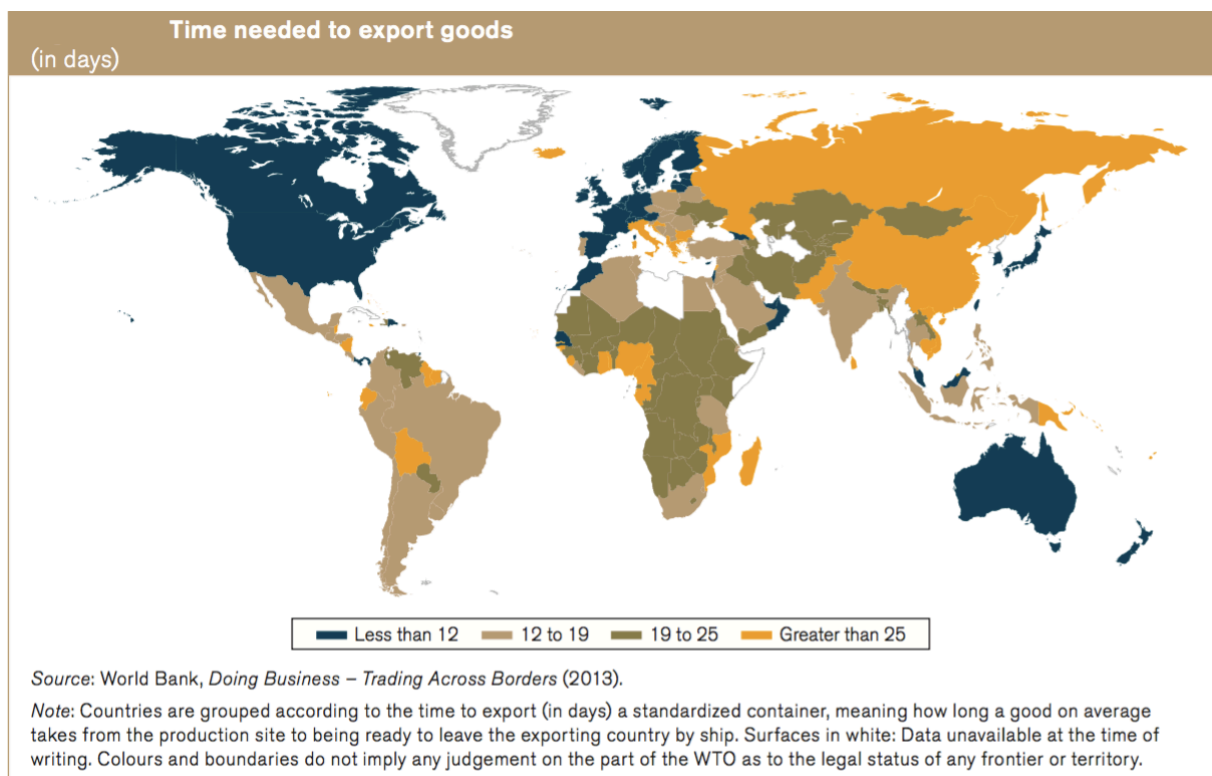


Figure 1.1. Time needed to export goods (2013)

Source: The world trade report 2013 by WTO

⁹ “Trade Costs and Trade Composition”, by *Danny McGowan and Chris Milner*
<http://www.nottingham.ac.uk/gep/documents/papers/2011/11-11.pdf>
 Available since 2011

The cost of time in international trade is high. The estimates in these studies suggest that one more week in shipments can reduce the volume of exports by as much as 7% or raise the delivered price of goods by 16%. For very time-sensitive products, such as parts and components, the volume can be reduced by as much as 26%. (*Harrigan and Venables, 2006*)¹⁰.

Determinants of transportation costs

- Product characteristics
- Geography: landlocked countries and distance to markets
- Infrastructure: *infrastructure plays a critical role in reducing transportation costs and enabling trade.*
- Market competition
- Technological change
- Trade facilitation
- Fuel costs

Other factors

Impact of Inflation

If a country's inflation rate increases relative to the countries with which it trades, consumers and corporations in that country will purchase more goods from overseas (import), while the country's exports to other countries will decline.

Impact of National Income

If a country's income level increases by a higher percentage than those of other countries, the consumption of goods will rise, and part of that increase in consumption will most likely lead to an increased demand for foreign goods (import).

Subsidies for Exporters

Some governments offer subsidies to their domestic firms so that the demand for the exports produced by those companies is higher due to the lower cost of production than their

¹⁰ "Timeliness, Trade and Agglomeration," by James Harrigan and Anthony J. Venables
<http://www.nber.org/papers/w10404.pdf>
Available since 2006

global competitors. Many exporting firms in China, primarily state-owned enterprises (SOEs), commonly receive free loans or free land from the government, which lowers down the cost of operation and enables them to capture a larger share of the global market.

Restrictions on Imports

In addition to tariffs, a government can reduce its country's imports by enforcing a quota, a maximum limit, or a strict standard requirement of goods that can be imported.

1.2. EU external relations with China

Legal and political framework for bilateral relations with China

Since 1975, The European Union and China have established economic relations. In the past four decades, bilateral relations have undergone a significant change and have developed into a real success story. In 2014, the EU was China's largest trading partner (13.4% of total share), and China was the EU's second largest – and might soon replace the US to be in the first place.¹¹

This part of the thesis will be presenting the basic frameworks for China-EU relations. Based on what analysis can be done on how the Belt and Road Initiative is going to affect the EU-China relations and how should EU cope with the new projects. Relevant information of this section can be accessed from European Union's website¹².

Basic framework for relations

The EU's China-policy is defined by the '*Elements for a new EU Strategy on China*'¹³, which, together with the '*Council Conclusions EU Strategy on China*'¹⁴, form the EU's Strategy on China. The Strategy reflects the fundamental premises of the EU's engagement: the promotion of democracy, the rule of law, human rights, and respect for the UN Charter's principles and international law.

The '*EU-China 2020 Strategic Agenda for Cooperation*'¹⁵, jointly signed by the EU and China in 2013, covers the areas of: peace and security, prosperity, sustainable development, and people-to-people exchanges.

Bilateral relations are conducted at the highest level through the annual EU-China Summit.

¹¹ "Future EU-China Trade Relations: Towards a modern Silk Road," by the Foreign trade association <http://www.fta-intl.org/sites/default/files/Position%20Paper%20-%20EU-China.pdf>

Published in Apr. 2016, viewed in Apr. 2017

¹² Information about the EU-China relations and cooperation framework:

External Action Service's website:

https://eeas.europa.eu/headquarters/headquarters-homepage/15394/china-and-eu_en

information about the trade arrangement:

European Commission's website:

<https://www.google.lv/#q=Legal+and+political+framework+for+bilateral+relations+with+China>

¹³ Pdf version of '*Elements for a new EU Strategy on China*' is available here:

http://eeas.europa.eu/archives/delegations/china/documents/more_info/eu_china_strategy_en.pdf

¹⁴ Pdf version of '*Council Conclusions EU Strategy on China*' is available here:

http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf

¹⁵ Pdf version of '*EU-China 2020 Strategic Agenda for Cooperation*' is available here:

http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf

Political relations

The EU and China hold an *annual Strategic Dialogue* to discuss bilateral relations with a focus on foreign and security policy, at the level of the High Representative/Vice President on the EU side, and the State Councilor for Foreign Affairs on the Chinese side. The EU aims to reinforce its engagement with China on foreign policy and security issues.

Economic relations

The EU and China work together on many economic and financial matters, ranging from how to prevent regulatory arbitrages between financial jurisdictions, the promotion of financial innovation and supervision, and discussing synergies to address structural issues.

EU-China cooperation requires close and regular contact, and is formalized through the following annual dialogues:

- *the High-level Economic and Trade Dialogue*, chaired by a Vice President on the EU side and a Vice-Premier on the Chinese side;
- *the Economic and Financial Dialogue* between the European Commission& the European Central Bank, and the Chinese Ministry of Finance& the People's Bank of China& the Chinese financial market regulators;
- *the Macroeconomic Dialogue* between the European Commission, and the National Development and Reform Commission of China.

Trade

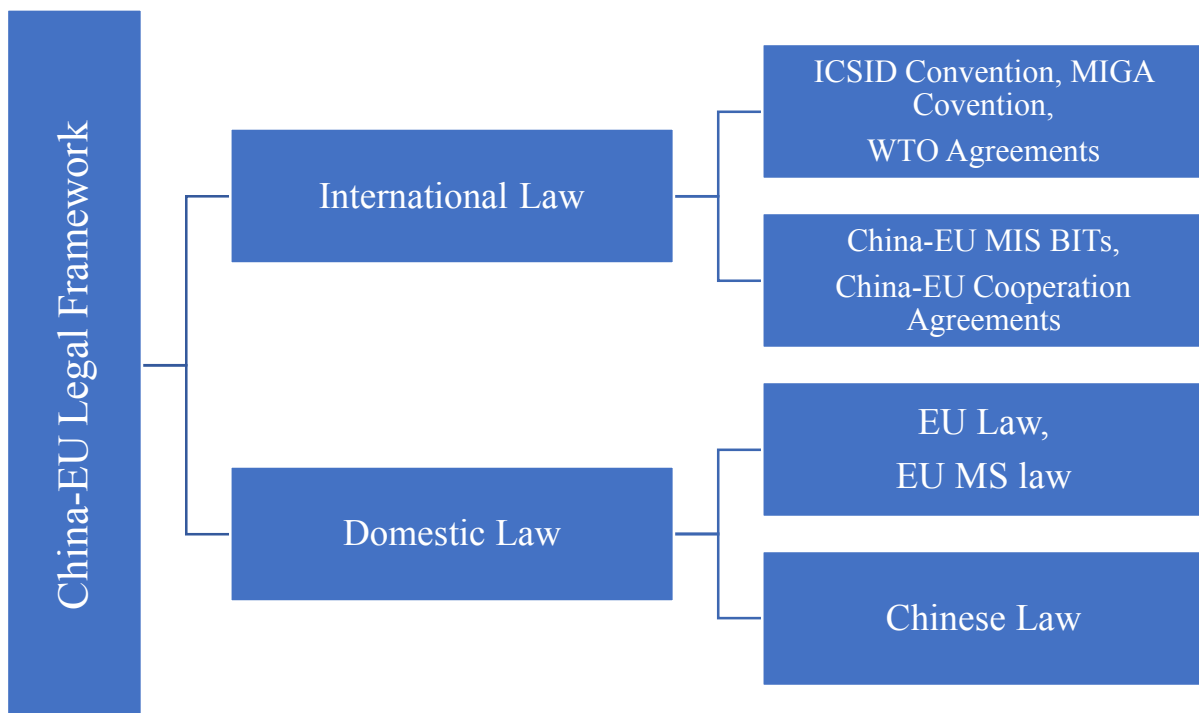
The EU is committed to open trading relations with China. Issues arising in the bilateral trade and investment relationship are discussed across a range of dialogues:

- *the annual EU-China Summit*, the highest level of bilateral relations between EU and China;
- *the High-Level Economic and Trade Dialogue (HED)*, chaired by a Vice President on the EU side and a Vice-Premier on the Chinese side;
- *the Joint Committee (JC)* at Commissioner/Minister level;
- *the Trade and Investment Policy Dialogue (TIPD)* and *the Economic Trade Working Group (ETWG)* at Technical level

Legal framework for EU-China investment relations

The current legal framework is composed of Chinese law, EU law and applicable international law, as can be seen from the *Figure 1.2. “Legal Framework for investment relations between EU and China.”*

Figure 1.2. Legal Framework for investment relations between EU and China



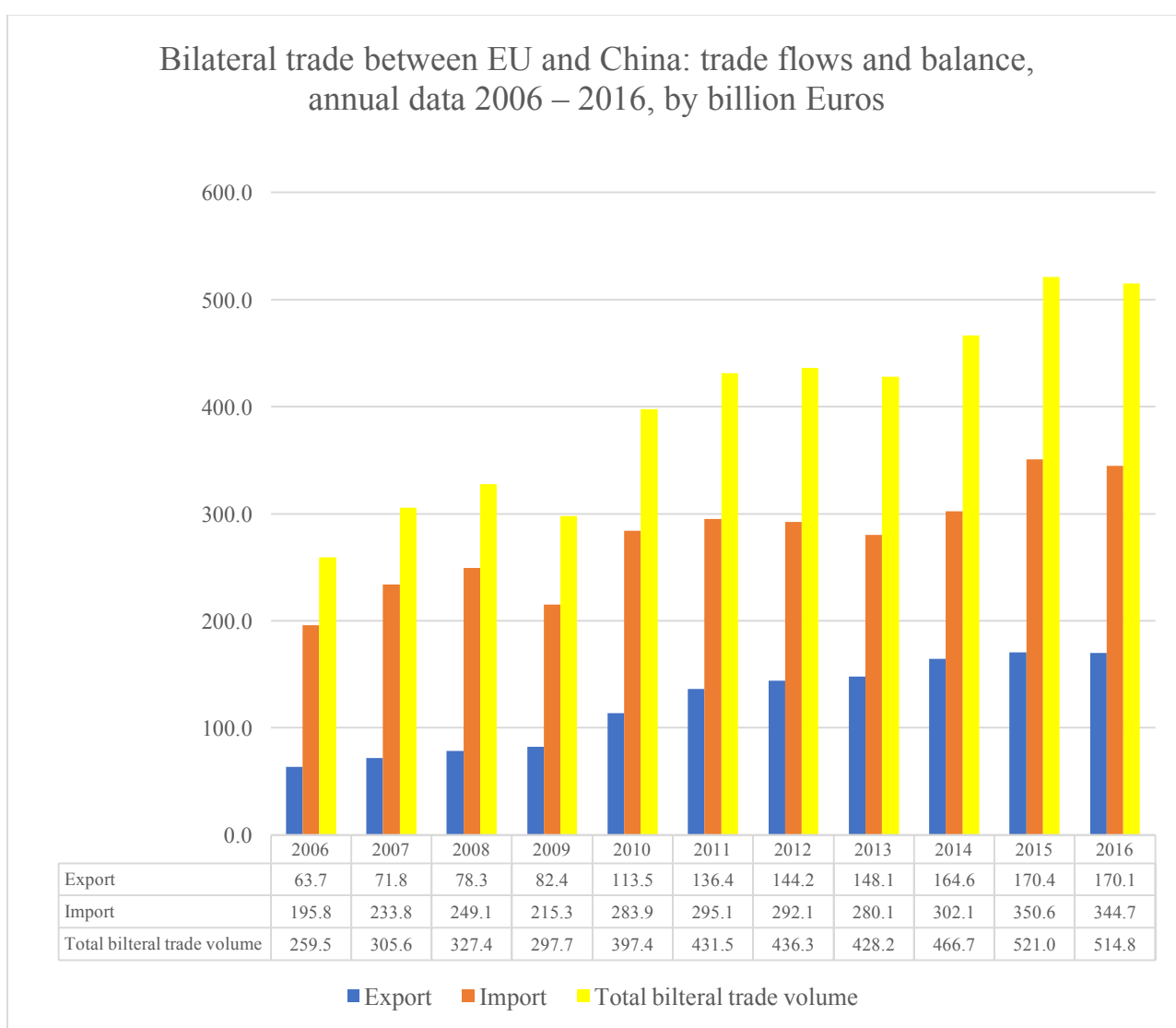
Source: Author’s elaboration based on Huashan, W. (2005), *The Legal Framework of EU-China Investment Relations: A Critical Appraisal*, Hart Publishing.

EU's trading arrangements with China

Bilateral trade between EU and China: Statistic data

(1) EU-China trade has increased dramatically in recent years. EU is China's biggest source of imports, and China is EU's biggest source of imports and one of the EU's fastest growing export markets. (As can be seen from *Chart 1.4. "Bilateral trade between EU and China: trade flows and balance, annual data."*)

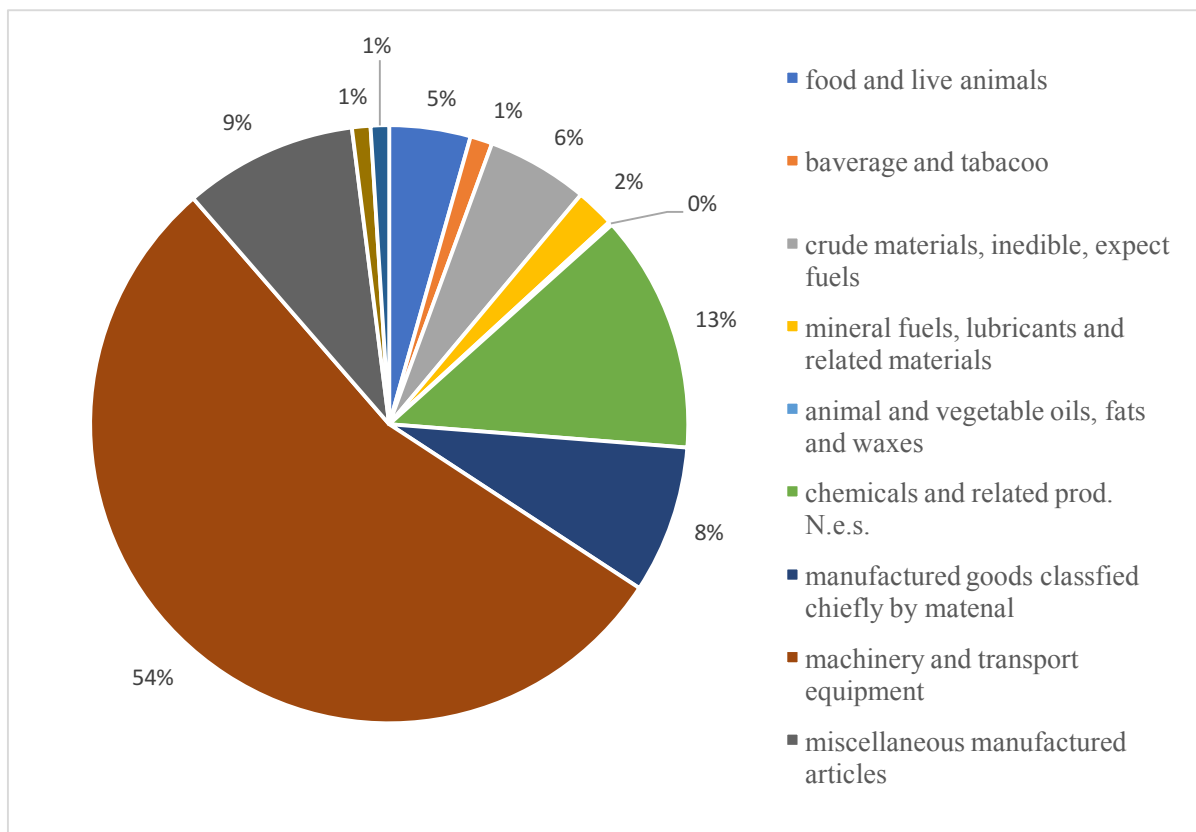
Chart 1.4. Bilateral trade between EU and China: trade flows and balance, annual data 2006 – 2016, by billion Euros



Source: Author's elaboration based on data provided by Eurostat

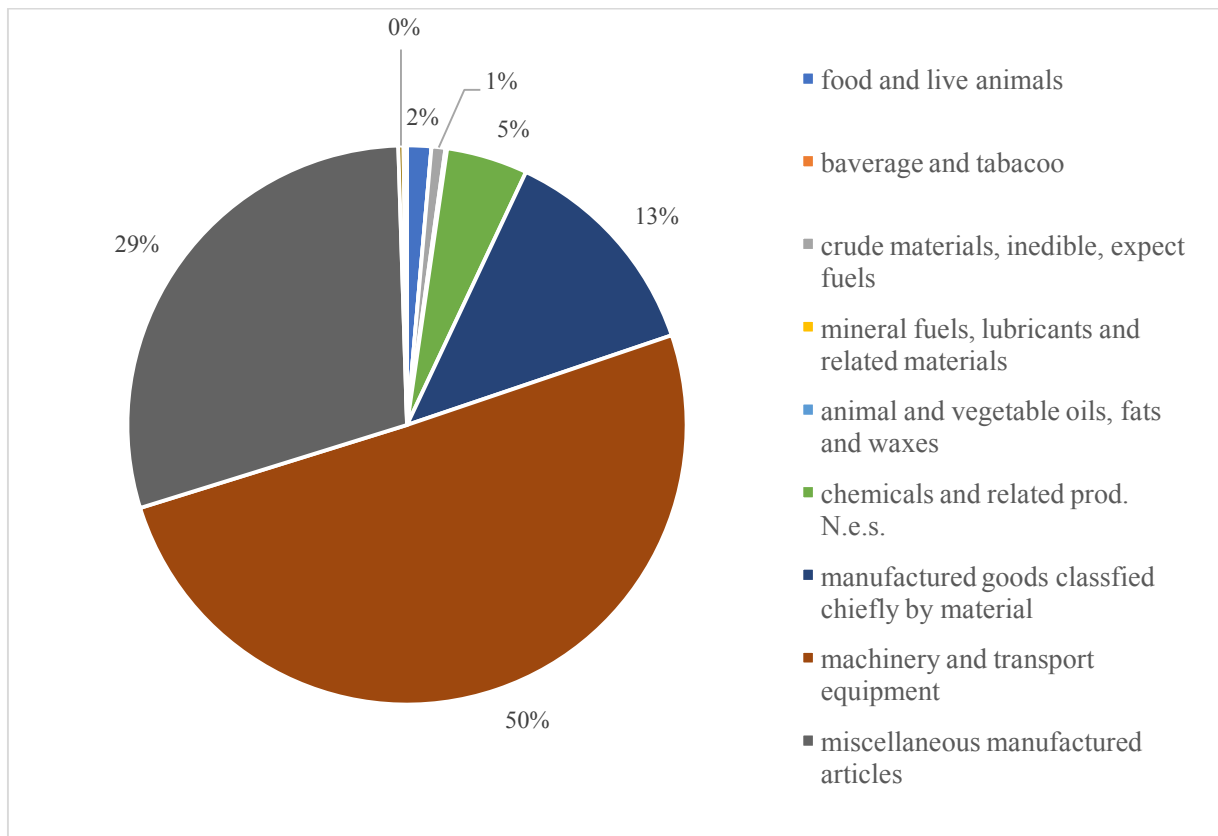
(2) EU imports from China are dominated by industrial and consumer goods: machinery and equipment, footwear and clothing, furniture and lamps, and toys. EU exports to China are concentrated on machinery and equipment, motor vehicles, aircraft, and chemicals. (As can be seen from *Chart 1.5. “EU trade with China: Export by SITC section 2016”* which shows the weight of different goods in the total export from EU to China and *Chart 1.6. “EU trade with China: Import by SITC section 2016”*, which shows the weight of different goods in total import from EU to China).

Chart 1.5. EU trade with China: Export by SITC section 2016



Source: Author’s elaboration based on data provided by Eurostat

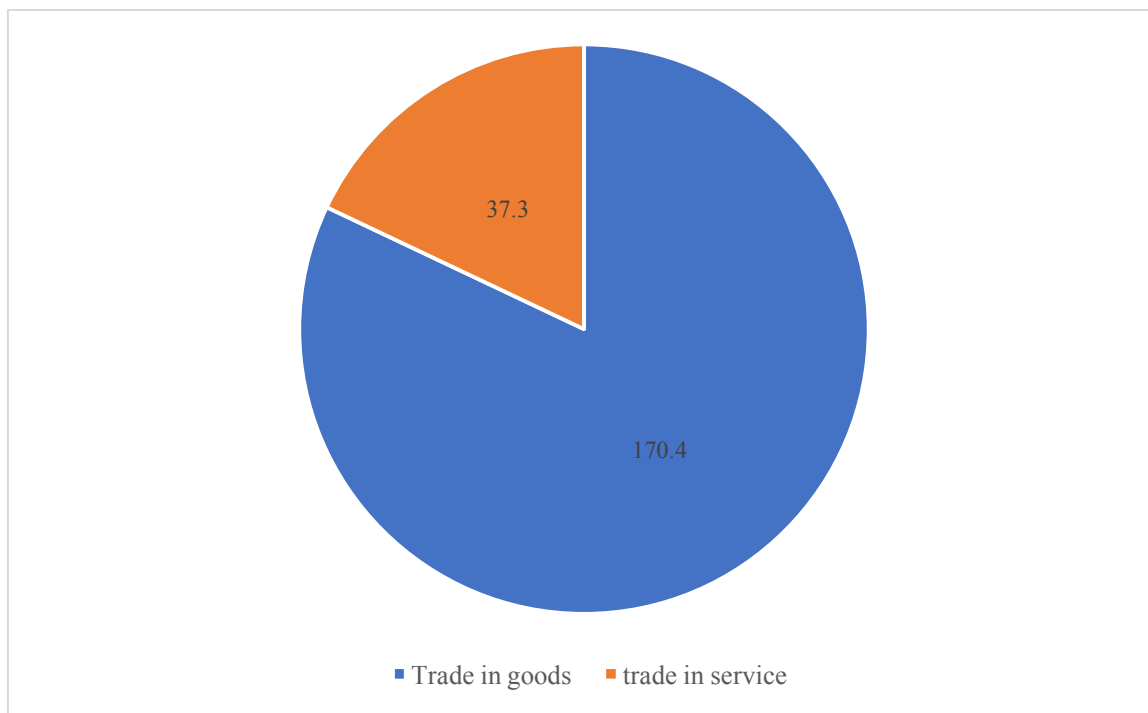
Chart 1.6 EU trade with China: Import by SITC section 2016



Source: Author's elaboration based on data provided by Eurostat

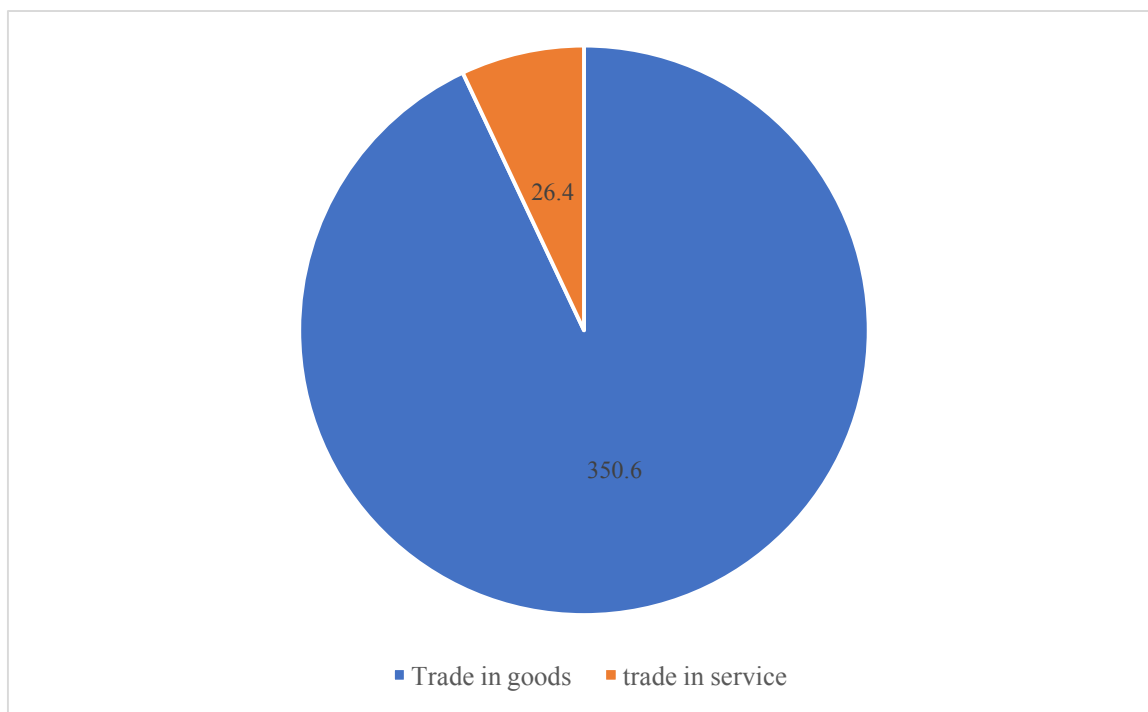
(3) Bilateral trade in services, however, only amounts to 10% of total trade in goods, and the EU's exports of services only amount to 20% of EU's exports of goods. As can be seen from *Chart 1.7. "EU trade with China, export,"* which demonstrates the trade value of service and goods in total export from EU to China and *Chart 1.8. "EU trade with China, import,"* which shows the trade value of service and goods in total import from EU to China.

Chart 1.7. EU trade with China, export, 2015, in billion Euro



Source: Author's elaboration based on data provided by Eurostat

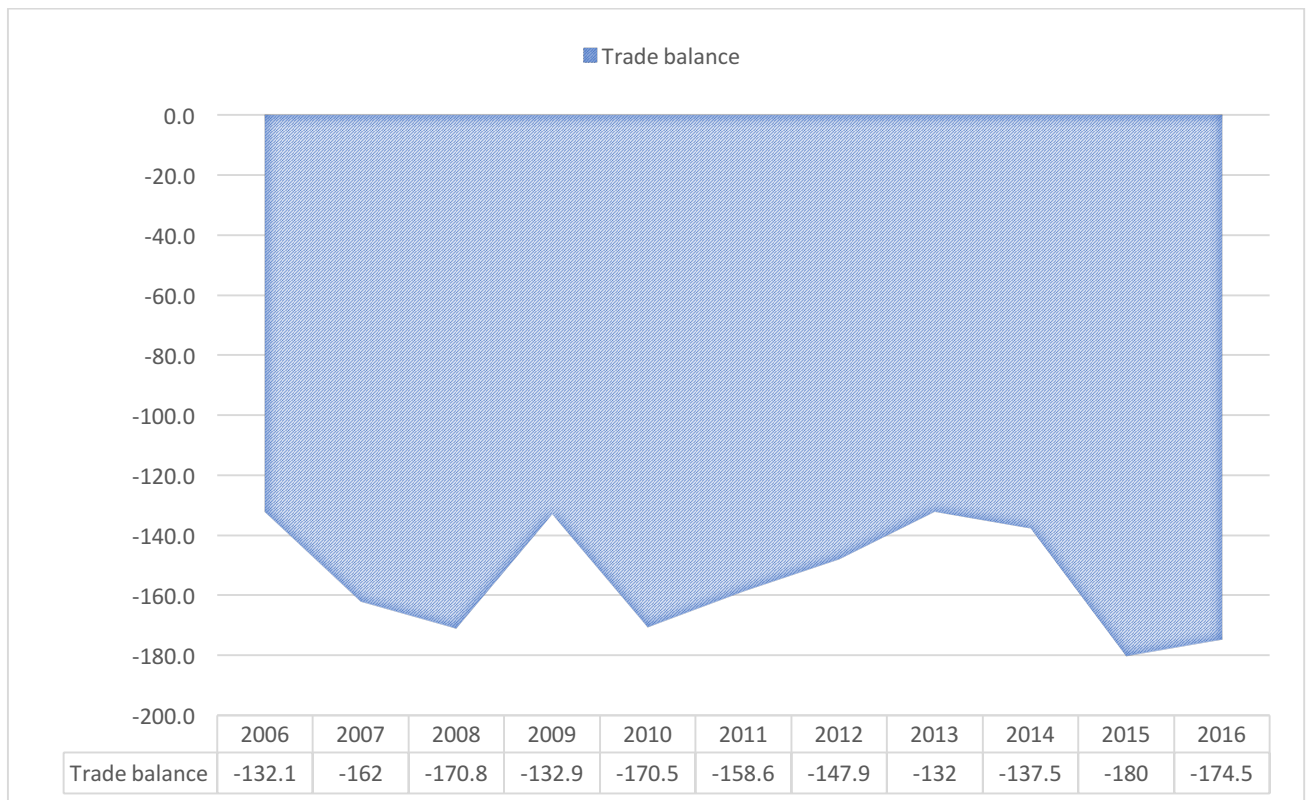
Chart 1.8. EU trade with China, import, 2015, in billion Euro



Source: Author's elaboration based on data provided by Eurostat

(4) As a result, the EU records a significant trade deficit with China. This is in part a reflection of global and Asian value chains, but in part also *due to remaining market access barriers in China*. (As can be seen from Chart 1.9. “Bilateral trade balance from EU to China,” for the past 10 years, the annual trade balances from EU to China has been huge and always negative.)

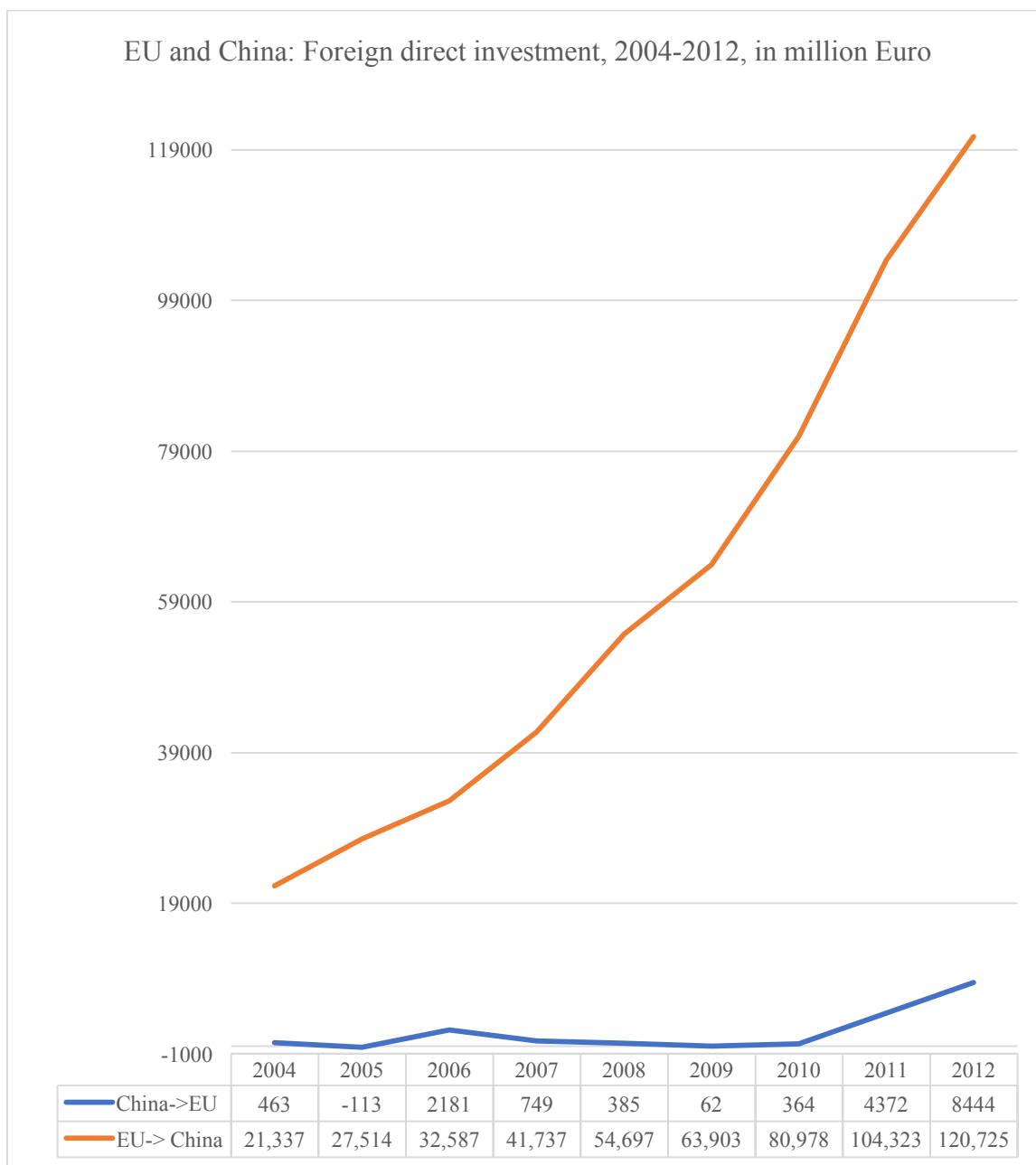
Chart 1.9. Bilateral trade balance from EU to China, 2006 – 2016, by billion Euros



Source: Author’s elaboration based on data provided by Eurostat

(5) Investment flows show big potential, especially when considering the size of both economies. China accounts for only 2-3% of overall European investments abroad, whereas Chinese investments in Europe are rising, but from an even lower base. (As can be seen from *Chart 1.10, “EU and China: Foreign direct investment,”* the general trend of inward (China->EU) and outward (EU-> China) FDI between EU and China is going up.)

Chart 1.10. EU and China: Foreign direct investment, 2004-2012, in million Euro



Source: Author's elaboration based on data provided by Eurostat

Bilateral trade between EU and China: The EU-China Bilateral Investment Agreement

In January 2014, EU and China started the negotiations for a Bilateral Investment Agreement (BIA). This will be the EU's first ever stand-alone investment agreement and aims to streamline the current bilateral investment protection agreements between China and EU Member States into a single text.

Objectives of the EU-China Bilateral Investment Agreement

Investment agreements are designed to establish the terms for investment between the participating countries, determine the level of protection of investments, as well as the number of guarantees, procedures, and opportunities available to investors in the event of a conflict with the state.

The objectives of the EU include improving the legal certainty regarding treatment of EU investors in China, enhancing the protection of EU investments, reducing investment barriers and increasing the bilateral investment flows. *Market access – the largest obstacle to EU's investment in China – remains to be the most important issue.* Existing restrictions on foreign investors in China include pre-establishment treatment of investors such as market entry and government approval, equity and technology transfer (joint venture obligations), as well as the limited access to financial support and government procurement, and unfair competition practices of Chinese State-Owned Enterprises(SOEs) post- establishment.

For China, the negotiation of BIA is for the negotiating a Free Trade Agreement (FTA) with the EU in the future. The EU has indicated consent to FTA negotiations under the condition that the BIA be successfully concluded and that China demonstrates progress in its internal reforms, especially regarding the role of the market and creating a fair-play field for the foreign investors.¹⁶

Evaluation of the current negotiation process

- Negotiations of a comprehensive EU-China investment agreement were formally launched at the EU-China Summit of 21 November 2013 in Beijing. The aim of this agreement is to remove market access barriers to investment and provide a high level of protection to investors and investments in EU's and China's markets. It will replace

¹⁶ “The EU–China Bilateral Investment Agreement: Between High Hopes and Real Challenges,” by Insa Ewert <http://www.egmontinstitute.be/wp-content/uploads/2016/02/SPB68-Ewert.pdf>
Published in Feb. 2016

the 26 existing Bilateral Investment Treaties between 27 individual EU Member States and China by one single comprehensive Investment Agreement.

- The 12th round of negotiations took place in Brussels in the week of 26 September 2016.
- In 2016, the EU and China negotiators have reached clear conclusions on an ambitious and comprehensive scope for the EU-China investment agreement and established a joint negotiating text.¹⁷

Challenges for the EU in the BIA negotiation

The challenge for the EU will be to strike a balance between the short-term economic interests of its Member States, possible pressures from China, and ideally positioning the EU in global trade regimes.

Leverage for the EU in the BIA negotiation

China needs to increase its investments abroad and secure its place in global and regional trade and investment regimes:

- China has been excluded from the Trans-Pacific Partnership (TPP);
- China could increase its role in these global dynamics by negotiating an FTA with the EU. But this will only happen after the successful conclusion of the BIA.¹⁸

¹⁷ Information of the negotiation process is from the European Commission process report: “OVERVIEW OF FTA AND OTHER TRADE NEGOTIATIONS.”

http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf

Updated in Apr. 2017

¹⁸ “The EU–China Bilateral Investment Agreement: Between High Hopes and Real Challenges,” by Insa Ewert

<http://www.egmontinstitute.be/wp-content/uploads/2016/02/SPB68-Ewert.pdf>

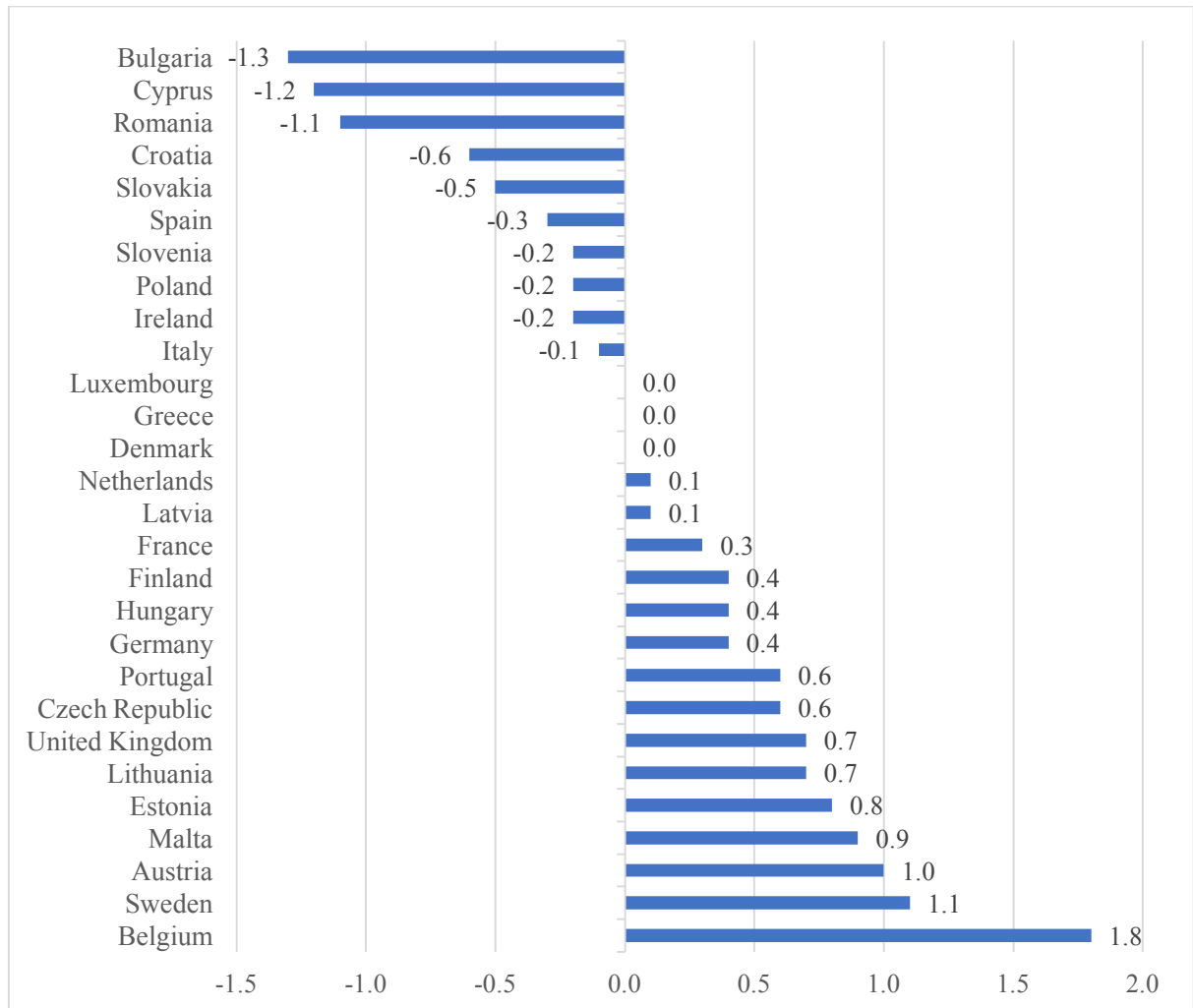
Published in Feb. 2016

1.3. EU current challenges

Imbalance development within EU

Due to the historical reasons and the nature of European Union, development among different member countries is imbalanced. The structural differences among of the European Union countries leads to *disparities in structural inflation rates, various specializations of the production system, different sensitivities of exports to price competitiveness, and differences in financial and real structures.*¹⁹ (Chart 1.11. “Different inflation rate of EU countries, 2016 (%)”, shows how significantly different the inflation rates of different European member states are.)

Chart 1.11. Different inflation rate of EU countries, 2016 (%)



Source: Author's elaboration based on data provided by Eurostat

¹⁹ “Macroeconomic Asymmetry and Imbalance in the Eurozone,” by Catherine Sifakis

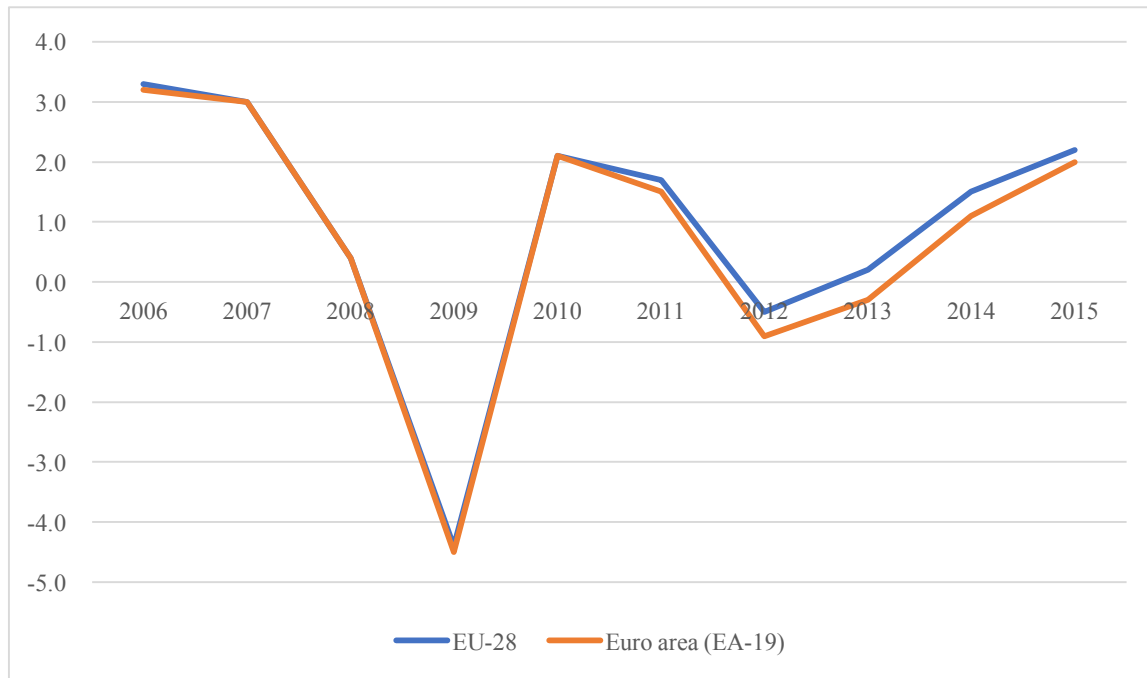
<https://hal.ird.fr/AO-ECONOMIE/halshs-00905369>

Published in Nov. 2013

Financial Crisis

The financial crisis has had an enormous impact on the real economy of the EU, which led to adverse effects on loan books, asset valuations, and credit supply. Not only actual economic activity has been disturbed, but also potential output, longer-term growth outlook and the fiscal situation have been affected.²⁰ (As demonstrated in *Chart 1.12. “Real GDP growth rate of the EU area, 2006-2015”*, one can see that the EU region’s real GDP growth started to fall since the crisis began in 2007 and turned to negative growth from 2008 to 2010; and from *Chart 1.13. “HICP inflation rate of the EU area, 2006-2008”*, one can see that EU as a whole has a rise in inflation since 2007 when the crisis started; and from *Chart 1.14. “Unemployment rate in the EU”*, one can see that before 2008, the average unemployment rate in active population (working force) in the EU area was lower than 8%; Starting from 2008, it raised to be not lower than 9% for the past 7 years; and from *chart 1.15. “Bank lending to private economy in the euro area”*, one can see that the bank lending to private sector’s year to year growth is negative since the crisis time. That give a negative effect for the economy to grow.)

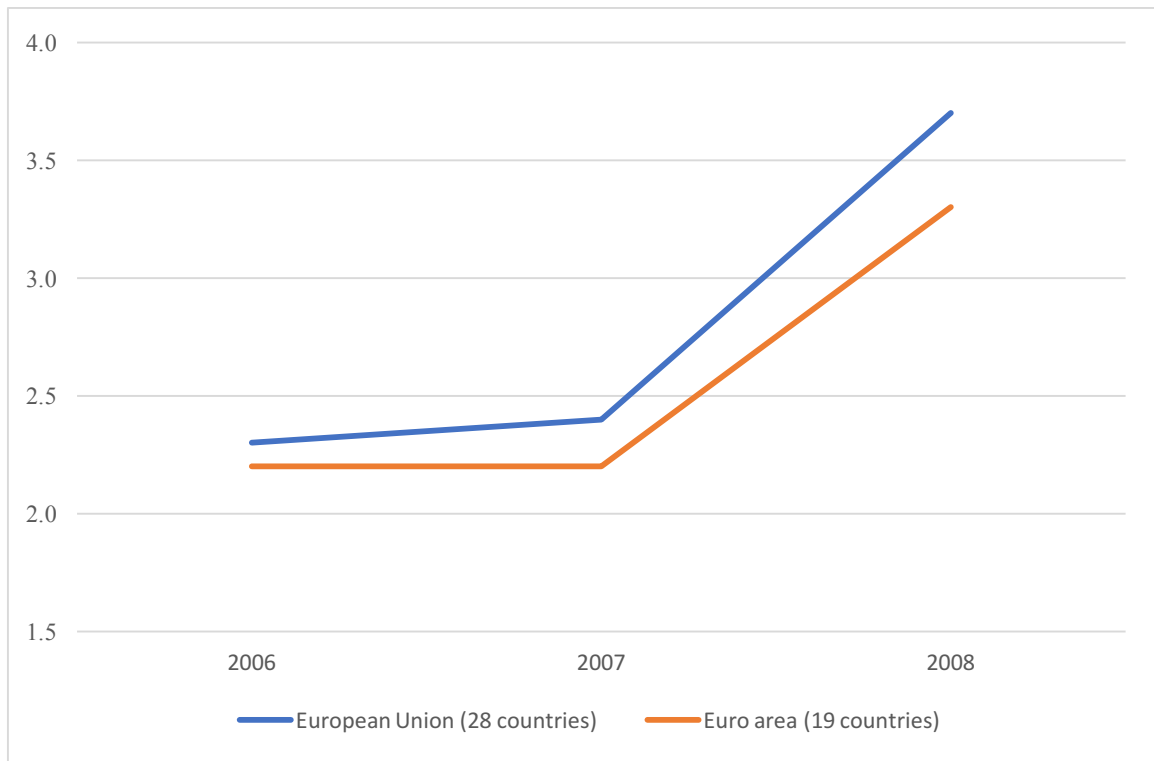
Chart 1.12. Real GDP growth rate of the EU area, 2006-2015(%)



Source: Author’s elaboration based on data provided by Eurostat

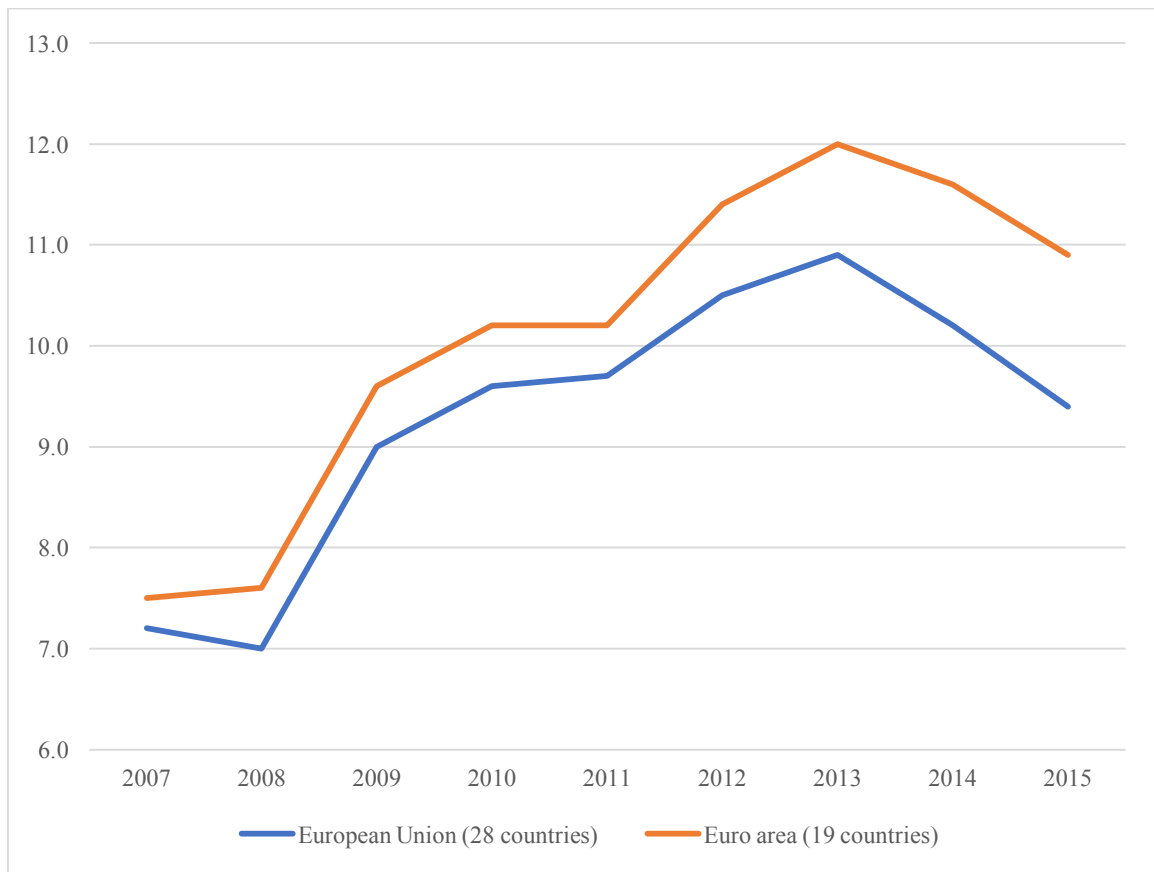
²⁰ “Economic Crisis in Europe: Causes, Consequences and Responses,” by European Union http://ec.europa.eu/economy_finance/publications/pages/publication15887_en.pdf
Published on “European Economy 7, 2009”, viewed on Mar. 26, 2017

Chart 1.13. HICP inflation rate of the EU area, 2006-2008(%)



Source: Author's elaboration based on data provided by Eurostat

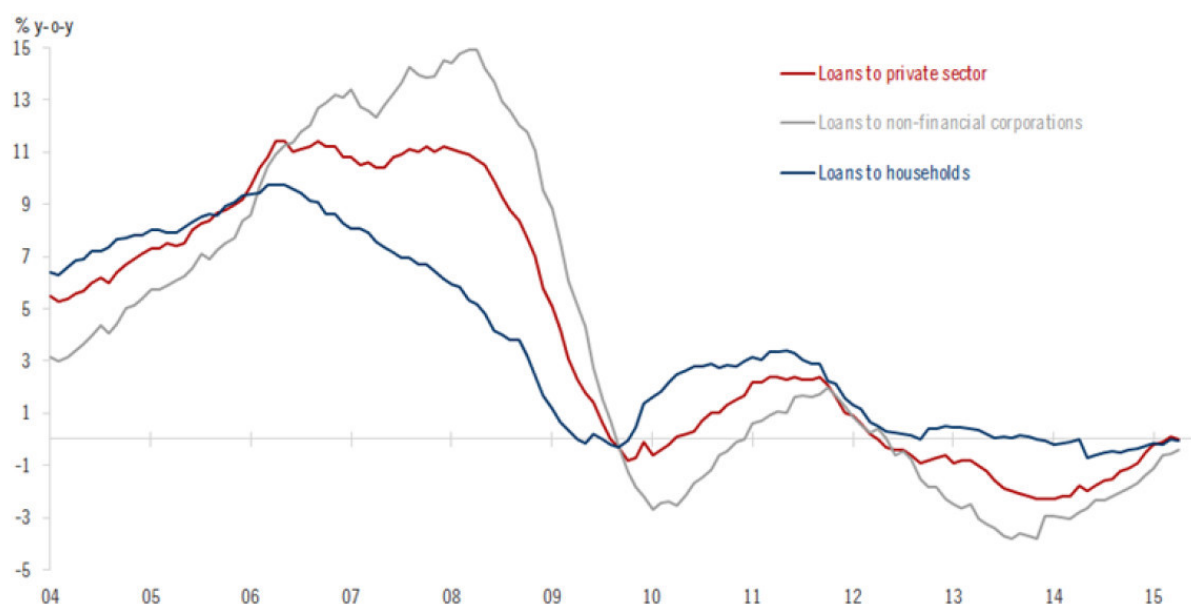
Chart 1.14. Unemployment rate in the EU area, 2008-2015(%)



Source: Author's elaboration based on data provided by Eurostat

Chart 1.15. Bank lending to private economy in the euro area

Euro area: Loans to the private sector (% y-o-y)



Source: Pictet Perspectives (perspectives.pictet.com)

Russia Sanctions

After Russia's action in Crimea in early 2014, the European Union imposed a broad range of sanction measures towards Russia, including the imposition of individual restrictions, such as asset freezes and travel bans, and the suspension of development loans from the European Bank for Reconstruction and Development (EBRD). (The details of this Sanction measures are shown in *Table 1.1. "Sanctions to Russia for Crimea and Sevastopol by the EU."*)

In response, Russia raised a counter-sanction against goods and some raw materials (meat, fish, and vegetables) from the countries that had imposed sanctions.

Table 1.1. Sanctions to Russia for Crimea and Sevastopol by the EU

Sanctions to Russia for Crimea and Sevastopol by the EU

- A ban on imports of goods originating in Crimea or Sevastopol unless they have Ukrainian certificates;
- A prohibition to invest in Crimea. Europeans and EU-based companies can no longer buy real estate or entities in Crimea, finance Crimean companies or supply related services. In addition, they may not invest in infrastructure projects in six sectors;
- A ban on providing tourism services in Crimea or Sevastopol. European cruise ships may not call at ports in the Crimean Peninsula, except in case of emergency. This applies to all ships owned or controlled by a European or flying the flag of an EU Member State.
- Goods and technology for the transport, telecommunications and energy sectors or the exploration of oil, gas and mineral resources may not be exported to Crimean companies or for use in Crimea;
- Technical assistance, brokering, construction or engineering services related to infrastructure in the same sectors must not be provided.

Source: Author's elaboration based on information provided by European Commission

https://europa.eu/newsroom/highlights/special-coverage/eu-sanctions-against-russia-over-ukraine-crisis_en

Sanctions have affected the Russian economy in various ways, and the main short-term impact comes from restrictions on Western lending and investment in Russia.²¹ But at the same time, the European Union itself also suffers big losses from the Sanction and counter-sanctions, especially in the field of Agriculture. (As can be seen from *Chart 1.16. "EU-28 Export to Russia, SITC06"*, that the export from EU to Russia in food area suffered a significant downfall from the time when Sanction starts. *Note from author: we cannot rule out other factors that might lead to this downfall, for example, the slowdown of Russia's economic growth*). The European Commission has issued several multi-million euro rescue

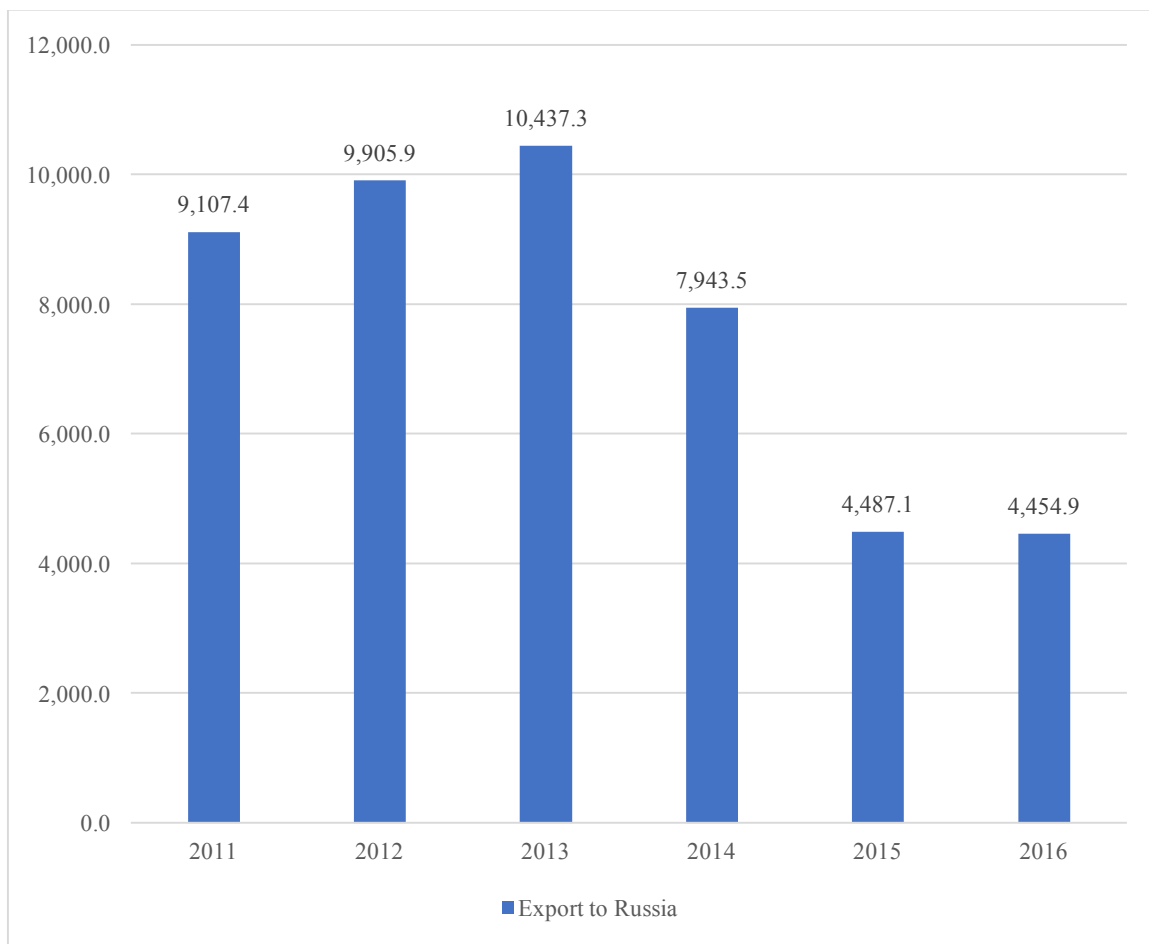
²¹ "Sanctions over Ukraine," by European Commission

<http://www.europarl.europa.eu/EPRS/EPRS-Briefing-579084-Sanctions-over-Ukraine-impact-Russia-FINAL.pdf>

Viewed on Mar. 27, 2017

packages to keep the farmers in business, but this is not a sustainable solution. Till now, it seems like the one who suffered more from the decision of Sanction is EU itself.²²

Chart 1.16. EU-28 Export to Russia, SITC06 (food, drinks, and tobacco), by million Euros, 2011-2016



Source: Author's elaboration based on data provided by Eurostat

Brexit

On June 23, 2016, British voted to leave the EU following a referendum on the issue, which is now commonly referred to as “Brexit”.

How will Brexit affect European Union? Much will depend on the kind of relationship that Britain establishes with the EU after Brexit. But already-known fact is that Britain's

²² “EU Shoots Itself in the Foot by Prolonging Sanctions on Russia. Will Trump Normalize Relations with Moscow?”, by Alex Gorka
<http://www.globalresearch.ca/eu-shoots-itself-in-the-foot-by-prolonging-sanctions-on-russia-will-trump-normalize-relations-with-moscow/5564658>

Published on Dec. 22, 2016, on Strategic Culture Foundation, viewed on Mar. 27, 2017

departure will leave a significant hole in the EU which is set to lose the world's fifth largest economy, a nuclear power and a member of the UN Security Council.²³ It will also weaken those forces in the EU that favor greater integration and make Germany even more predominant.

Refugee Crisis

In 2015, over 1 million people – refugees, displaced persons and other migrants – have made their way to the EU, either escaping conflict in their country or in search of better economic prospects.²⁴

This situation has sparked growing fears among citizens across Europe and tensions reached a boiling point after several terrorist attacks happened with a clear connection with refugee status. The continuous conflicts and incidents suggest that the EU's current institutional and legislative arrangements were not up to dealing with the massive inflow of migrants, and the crisis leads to deep divisions among the member states. (See *Table 1.2, "Challenges the refugee crisis brought to the EU"*). Depending on the extent to which the EU can overcome these divisions and improve its policies, the refugee crisis could lead to either more Europe, less Europe, or the emergence of a new core of committed member states.²⁵

²³ "Has Britain left the EU? (Almost) Every single Brexit question answered", by Christopher Hope
<http://www.telegraph.co.uk/news/0/has-britain-left-eu-almost-every-single-brexit-question-answered/>
Published on Mar. 29, 2017

²⁴ "Refugee crisis in Europe," by European Commission
http://ec.europa.eu/echo/refugee-crisis_en
Viewed in May. 2017

²⁵ "How the Refugee Crisis Will Reshape the EU," by Stefan Lehne
<http://carnegieeurope.eu/2016/02/04/how-refugee-crisis-will-reshape-eu-pub-62650>
Published on Feb. 4, 2016

Table 1.2. Challenges the refugee crisis brought to the EU

Challenges the refugee crisis brought to the EU	
Economic issues	In total, the EU has dedicated over €10 billion from the EU budget to dealing with the refugee crisis in 2015 and 2016. It also provides humanitarian aid to refugees and migrants in countries outside of the EU, such as Turkey, Lebanon, Jordan, and Iraq. To support refugees in Turkey, the EU and its Member States are providing €6 billion through a dedicated facility between 2016 and 2018.
Security issues	It brought a wide range of security matters (IS terrorist attacks and Islamist radicalization), due to which concerns, several EU states chose to reinstate border controls, and it brought a negative effect on the Schengen free movement policy.
Challenging of European value	The refugee crisis is creating a rift in the European society. The conservatives opportunistically exploit the refugee's crisis to propagandize for their slogans of separatism, isolationism, xenophobia and hatred of others. The Brexit is widely considered to be a negative consequence of this.

Source: Author's elaboration based on

"The EU and the refugee problems," by European Commission

[http://publications.europa.eu/webpub/com/factsheets/refugee-crisis/en/;](http://publications.europa.eu/webpub/com/factsheets/refugee-crisis/en/)

and "The impact of Syrian refugees on European politics," by Abdulkader Al-Azrak

http://www.orient-news.net/en/news_show/105299/The-impact-of-Syrian-refugees-on-European-politics.

CHAPTER 2. OVERVIEW OF THE BELT AND ROAD INITIATIVE

The Belt and Road Initiative (BRI) is a development strategy and framework, proposed by the highest level of Chinese Government in 2013, that focuses on connectivity and cooperation among countries along two main routes, the land-based "Silk Road Economic Belt" and ocean-going "Maritime Silk Road." It runs through the continents of Asia, Europe, and Africa, encompasses 65 countries along the route, and covers about 30% of world's total GDP and more than 60% of global population.

In this chapter, detailed introduction of Belt and Road Initiative (the framework, the statistical data, the stated and unstated goals of this initiative, and the current progress) and its innovative factors (focus on infrastructure and CEE countries) will be presented.

2.1. Framework of BRI

One BELT and One ROAD

BRI comprises of *'the Silk Road Economic Belt'* (*'the belt'*), which includes integrated infrastructure projects across Asia and Europe, intending to foster trade links and stimulate demand for Chinese manufactured products, and *the Maritime Silk Road* (*'the road'*), aiming at promoting cooperation across neighboring bodies of water, including the Pacific Ocean, the South China Sea and the Indian Ocean.

Figure 2.1. "Silk Road Trade Route" shows approximately which areas the designed trade route passes by, and *Figure 2.2. "Silk Road Economic Belt and Maritime Silk Road"* presents a brief introduction of "the Belt" and "the Road."

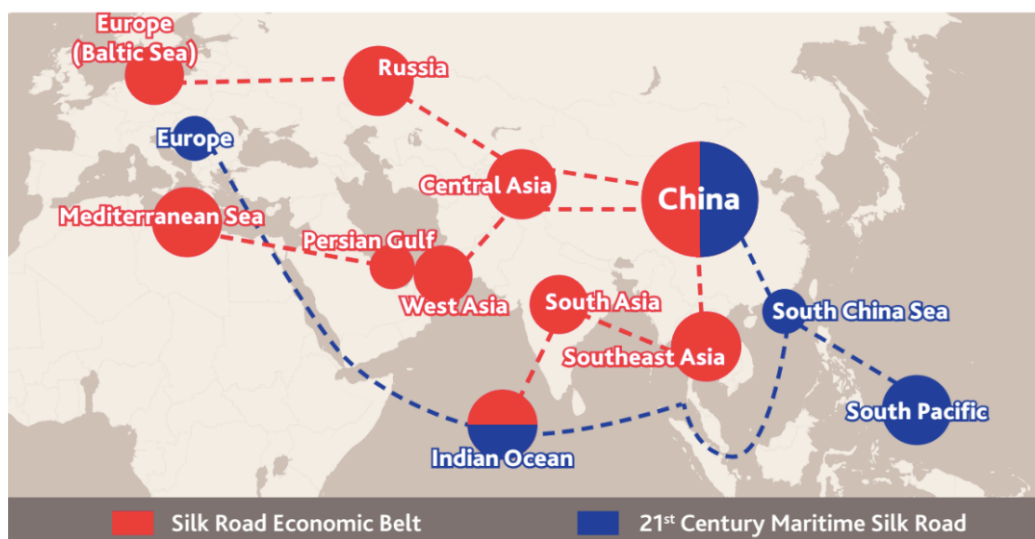


Figure 2.1. Silk Road Trade Route

Source: Global Times

Figure 2.2. Silk Road Economic Belt and Maritime Silk Road

Silk Road Economic Belt

- When Chinese leader Xi Jinping visited Central Asia and Southeast Asia in September and October 2013, he raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road.
- Essentially, the 'belt' includes countries situated on the original Silk Road through Central Asia, West Asia, the Middle East, and Europe. The initiative calls for the integration of the region into a cohesive economic area through building infrastructure, increasing cultural exchanges, and broadening trade.
- Apart from this zone, which is largely a mimic to the historical Silk Road, another area that is said to be included in the extension of this 'belt' is South Asia and Southeast Asia. Many of the countries that are part of this belt are also members of the China-led Asian Infrastructure Investment Bank (AIIB).
- North, central and south belts are proposed. The North belt goes through Central Asia and Russia, to Europe. The Central belt goes through Central Asia and West Asia, to the Persian Gulf and the Mediterranean. The South belt starts from China, to Southeast Asia, South Asia, and the Indian Ocean. The Central belt has been neglected recently due to complicated religion problems and separation movements along the belt.

Maritime Silk Road (MSR)

- The Maritime Silk Road, also known as the "21st Century Maritime Silk Road" is an additional initiative, aiming at investing and fostering collaboration in Southeast Asia, Oceania, and North Africa through several neighboring bodies of water – the South China Sea, the South Pacific Ocean, and the wider Indian Ocean area.
- The Maritime Silk Road initiative was first proposed by Xi Jinping during a speech to the Indonesian Parliament in October 2013. Like its sister initiative "the Silk Road Economic Belt", most countries in this area have joined the China-led Asian Infrastructure Investment Bank (AIIB).

Source: Author's elaboration based on

World Economic Forum <https://www.weforum.org/agenda/2016/06/why-china-is-building-a-new-silk-road/>

Six Economic Corridors

The core of OBOR is made up of six ‘economic corridors’ of infrastructure development that are designed to help economic growth in some of China’s surrounding nations (as illuminated in *Figure 2.2. “Six economic BRI corridors”*):

- China-Mongolia-Russia Economic Corridor (CMREC)
- New Eurasian Land Bridge (NELB)
- China-Central and West Asia Economic Corridor (CCWAEC)
- China-Indochina Peninsula Economic Corridor (CICPEC)
- China Pakistan-Economic Corridor (CPEC)
- Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC)

More detailed information about the six economic corridors is shown in *Figure 2.3. “Six economic BRI corridors”*.

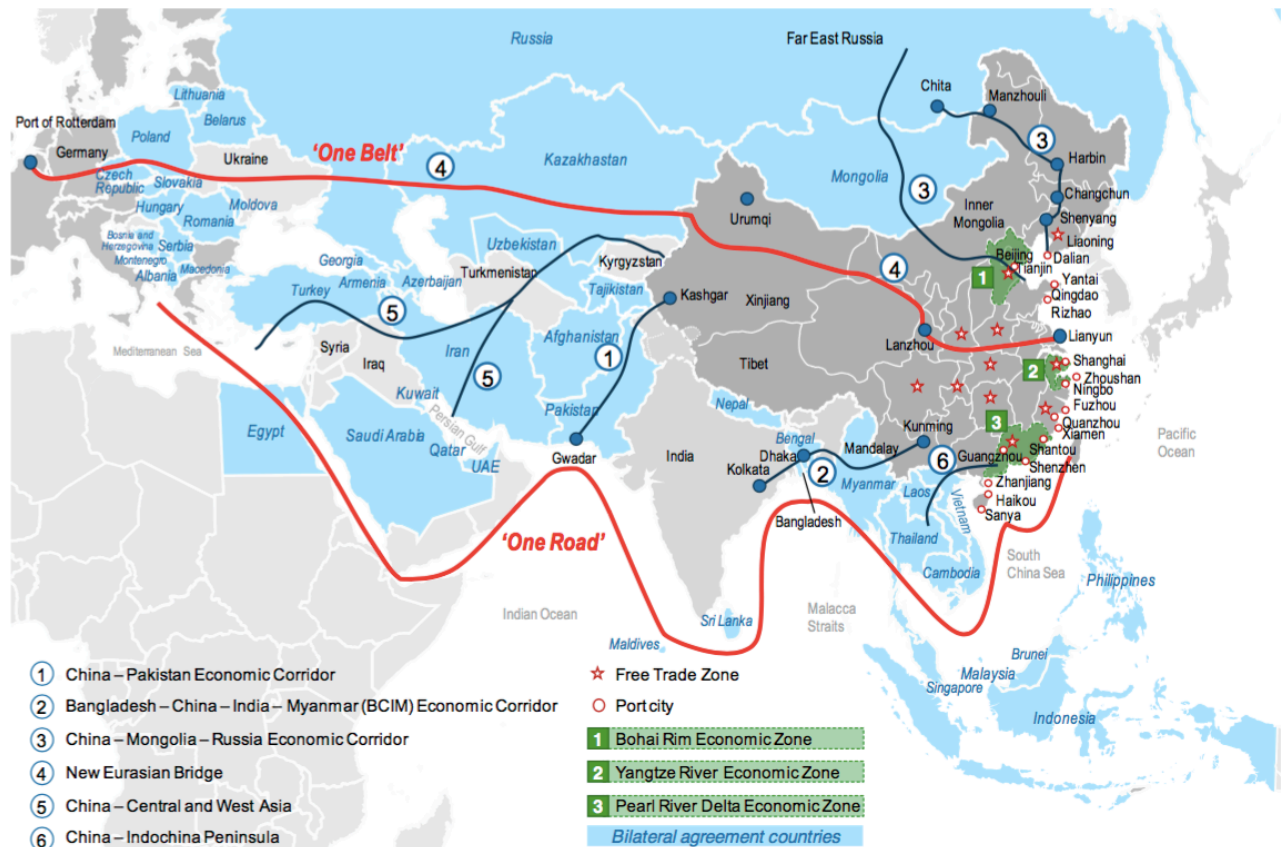
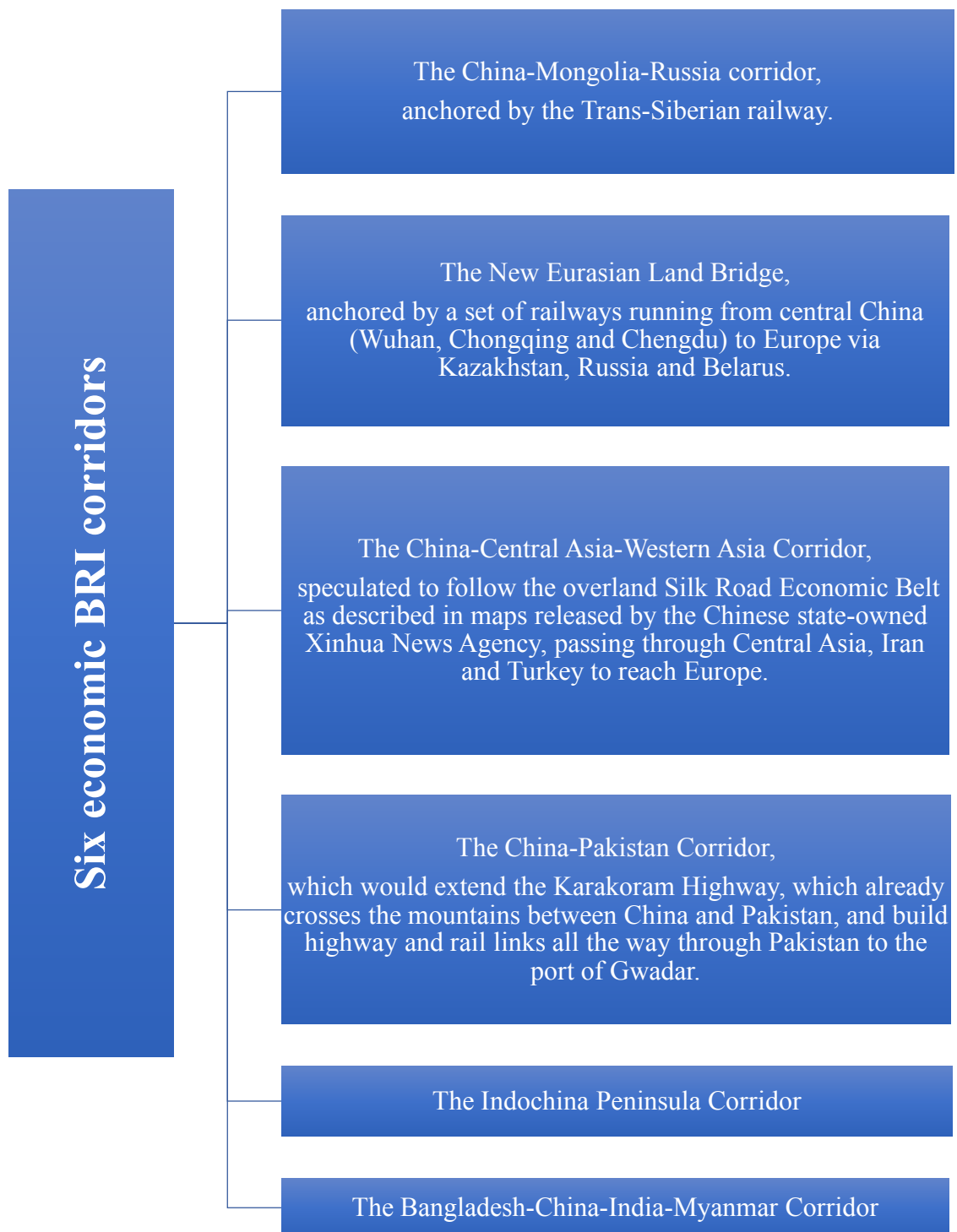


Figure 2.2. Six economic BRI corridors

Source: Standard Chartered Research

Figure 2.3. Six economic BRI corridors



Source: Author's elaboration based on information provided by stratfor.com.

<https://www.stratfor.com/article/grand-design-chinas-new-trade-routes>

The political and financial cooperation mechanisms of BRI

Political cooperation on BRI:

Using existing regional organizations: such as “16+1” forum and EU-China summit for Europe; the Shanghai Cooperation Organization (SCO) for Central Asia; ASEAN for Southeast Asia; the China-Arab States Cooperation Forum (CASCF) for the Middle East; the Forum on China-African Cooperation (FOCAC) for Africa; and, to a much lesser extent, the BRICS (Brazil, Russia, India, China, and South Africa) format.

Financial arrangements on BRI:

(1) Multinational Banks:

BRI provides a framework for new multilateral institutions, such as the China- led Asian Infrastructure Investment Bank (AIIB) (More Information about AIIB, please see *Table 2.1. “Introduction of AIIB”*).

BRI-related financial cooperation between China and Europe may further expand because of China's membership in the European Bank for Reconstruction and Development (EBRD) since January 2016 and the opening of an office by the European Investment Bank (EIB) in Beijing.²⁶

Table 2.1. Introduction of AIIB

The creation of AIIB
After the voting rights reform in the US-led International Monetary Fund (IMF) and World Bank, aiming at taking China's increased economic weight into account, was finally implemented, the country initiated the creation of the Asian Infrastructure Investment Bank (AIIB) in 2014.
In January 2016, after all 57 founding members had signed the AIIB's Articles of Association, the Beijing-based bank started its operations.
China holds a 30.34% stake in the AIIB, which translates into 26.06% of the bank's voting

²⁶ “One Belt, One Road (OBOR): China's regional integration initiative,” by European Parliament’s Briefing [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2016\)586608](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)586608)
Available on Jul. 2016, viewed on Apr. 1, 2017

<p>rights. This is more than the next five biggest investors' shares combined: India (7.51%), Russia (5.93%), Germany (4.15%), South Korea (3.5%), and Australia (3.46%). With 75% of voting rights required for major operational and financial decisions, China is the only AIIB member enjoying a de facto veto right.</p>
<p>Difference between the AIIB and the existing multilateral finance institutions</p>
<p>The AIIB is part of China's broader regional development strategy embodied in the Belt and Road Initiative (BRI), it will be one of the several sources of financing for BRI.</p>
<p>China is the main shareholder and has the most votes. The American-dominated World Bank, European-dominated IMF, and Japanese-dominated ADB have not given China the space to play an influential role in the global economy, nor have these institutions responded to China's push for more infrastructural investments.</p> <p>While China commands 10% of the global economy, its voting power in the Bretton Woods institutions remains at 5%.</p>
<p>AIIB is more representative of the South, and gives developing nations a bigger voice. This provides smaller Asian countries with the voice they do not have in other multilateral banks.</p>
<p>AIIB promises efficiency. The AIIB is committed to a simpler internal review and assessment process to move loans through the procedures more quickly. The AIIB's non-resident governance structure (more private sector in nature) is intended to reduce the transaction costs that are now associated with the resident boards of the existing International Financial Institutes (IFIs).</p>

Source: Author's elaboration based on

1: "One Belt, One Road (OBOR): China's regional integration initiative," by European Parliament's Briefing

[http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2016\)586608](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)586608)

2: "China's rise as a regional and global power: The AIIB and the 'one belt, one road,'" by David Dollar

<https://www.brookings.edu/research/chinas-rise-as-a-regional-and-global-power-the-aiib-and-the-one-belt-one-road/>

(2) *Funds:*

China has injected substantial capital into BRI from various sources: the US\$ 40 billion New Silk Road Fund, the US\$ 20 billion China-ASEAN Investment Cooperation Fund, the US\$ 3 billion Investment Cooperation Fund between China and the CEE countries, China's sovereign wealth fund (US\$ 746 billion), and its foreign exchange reserves (US\$ 3.19 trillion as of May 2016), which the country seeks to invest in higher- yielding assets than US Treasury Bonds.

(3) *China's policy banks:*

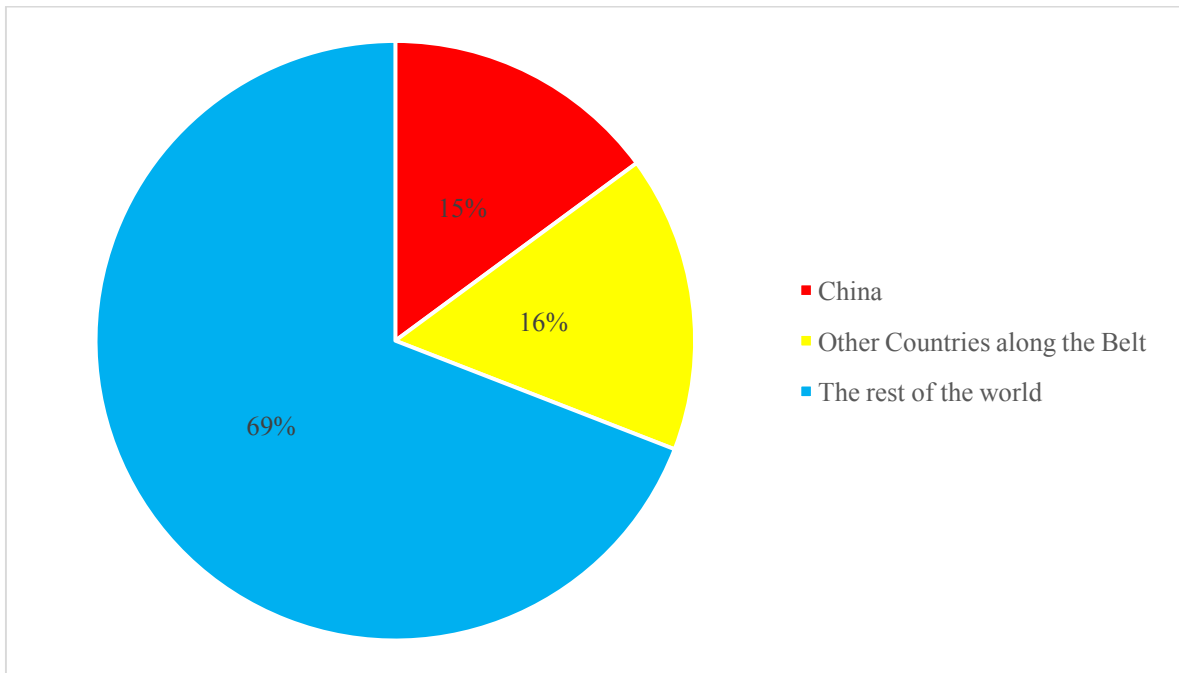
In BRI's first implementation stage, large state-owned enterprises (SOEs), which dominate the Chinese infrastructure- related sectors, are expected to have a major stake. As they are known to enjoy strong financial backing from China's policy banks: Export-Import Bank of China (EXIM), China Development Bank (CDB) and Agricultural Development Bank of China (ADBC).²⁷

2.2. Statistics Data of BRI

The Belt and Road Initiative encompasses 65 countries – about 30% of world's total GDP, more than 60% of global population, and around 34% of the international trade. (As demonstrated in *Chart 2.1. "Share of BRI economies in global GDP"*, where one can see the combined GDP value of China and the other countries along the belt is 31% of the world GDP in 2015; *Chart 2.2. "Share of BRI countries in global population"*, where one can see the combination of population of China and the other countries along the Belt is 62% of the whole world in 2015; *Chart 2.3. "Share of BRI countries in global international trade, 2015"*, where one can see that in 2015, the total volume of China and the other BRI countries along the belt amounts to 34% of the world's total international trade; and *Chart 2.4. Share of BRI countries in international trade, 2011-2016(%)*, where one can see that during the past 6 years, the countries along the belt, expect China, contribute for around 20% of world's total trade.)

²⁷ "One Belt, One Road (OBOR): China's regional integration initiative," by European Parliament's Briefing [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2016\)586608](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)586608)
Available on Jul. 2016, viewed on Apr. 1, 2017

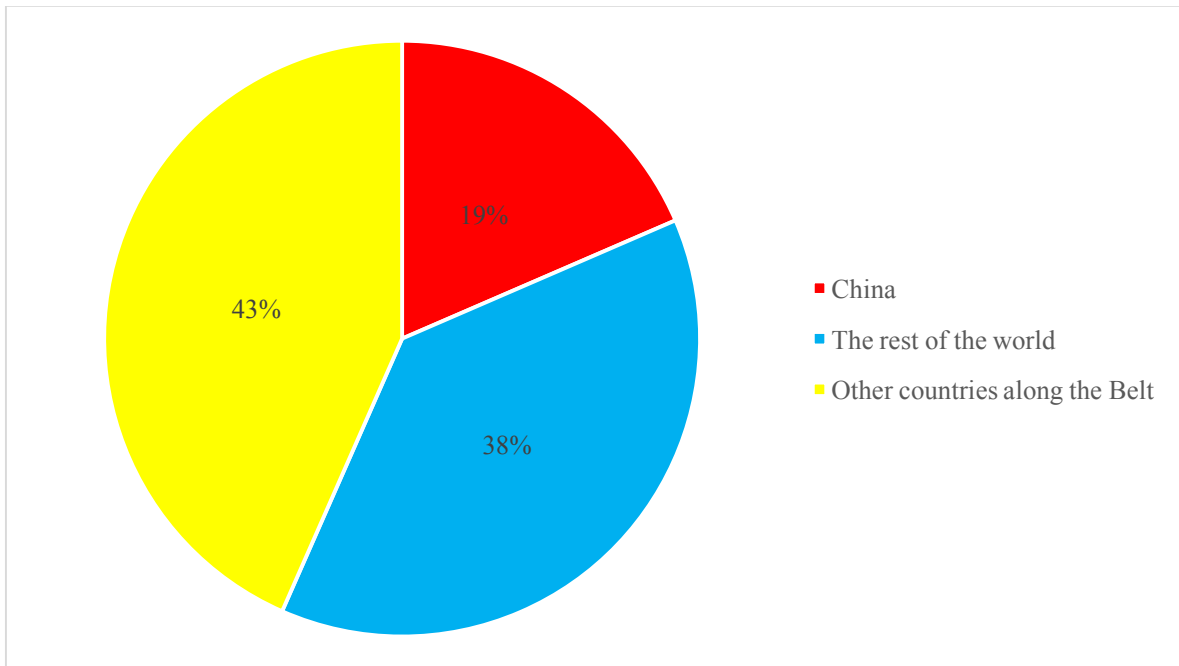
Chart 2.1. Share of BRI economies in global GDP, 2015



Source: Author's elaboration based on data provided by SINOIMEX.

Relevant data: The total GDP of the countries along the belt amounts to US\$ 12 trillion, about 16% of the global GDP.

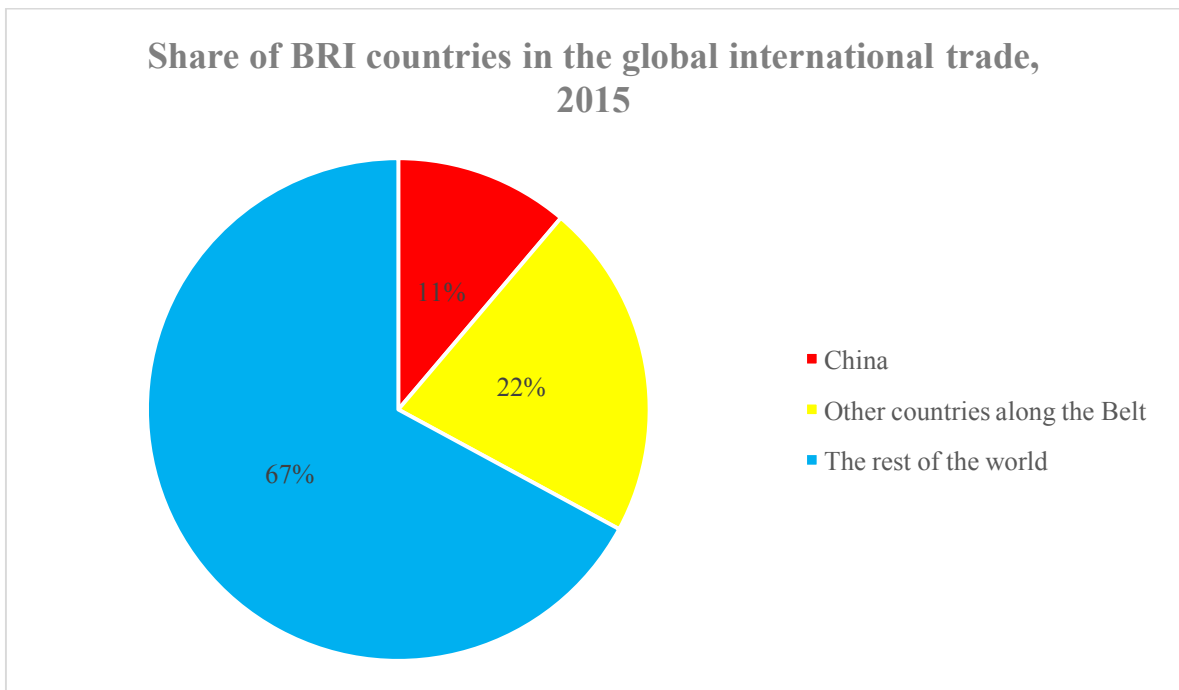
Chart 2.2. Share of BRI countries in global population, 2015



Source: Author's elaboration based on data provided by SINOIMEX

Relevant data: The total population along the Belt is about 3.21 billion, about 43.4% of the global population.

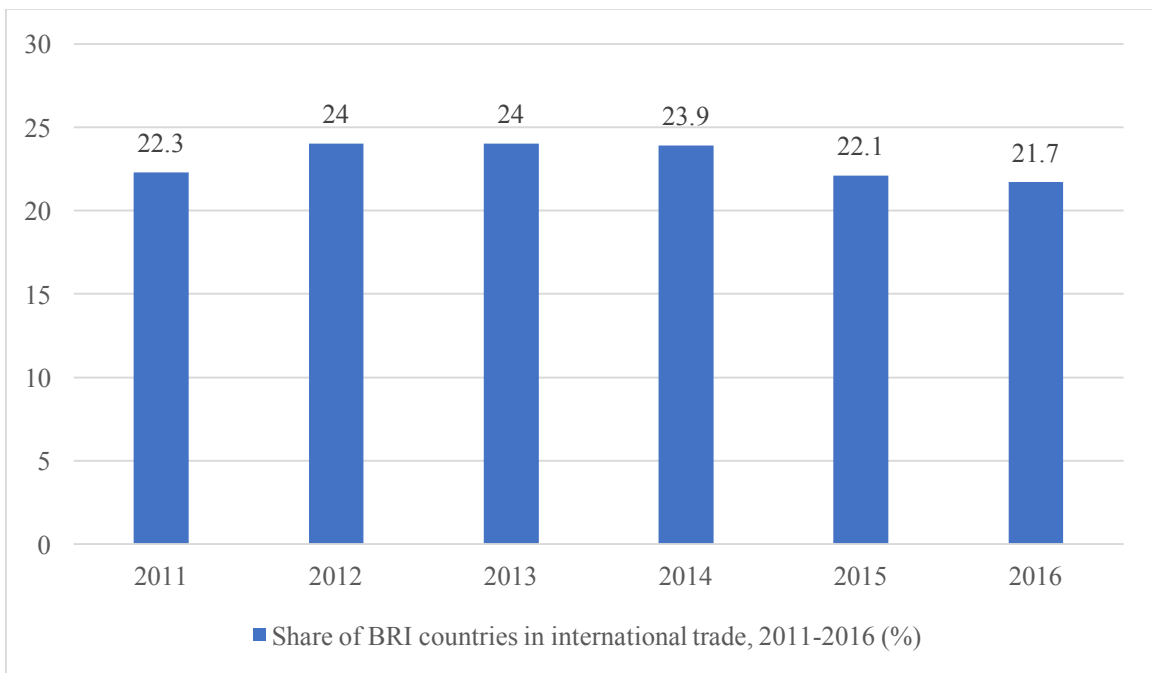
Chart 2.3. Share of BRI countries in global international trade, 2015



Source: Author's elaboration based on data provided by SINOIMEX.

Relevant data: The international trade volume of the countries along the Belt is US\$ 7,188.55 billion, about 21.7% of the global international trade.

Chart 2.4. Share of BRI countries (except China) in international trade, 2011-2016(%)

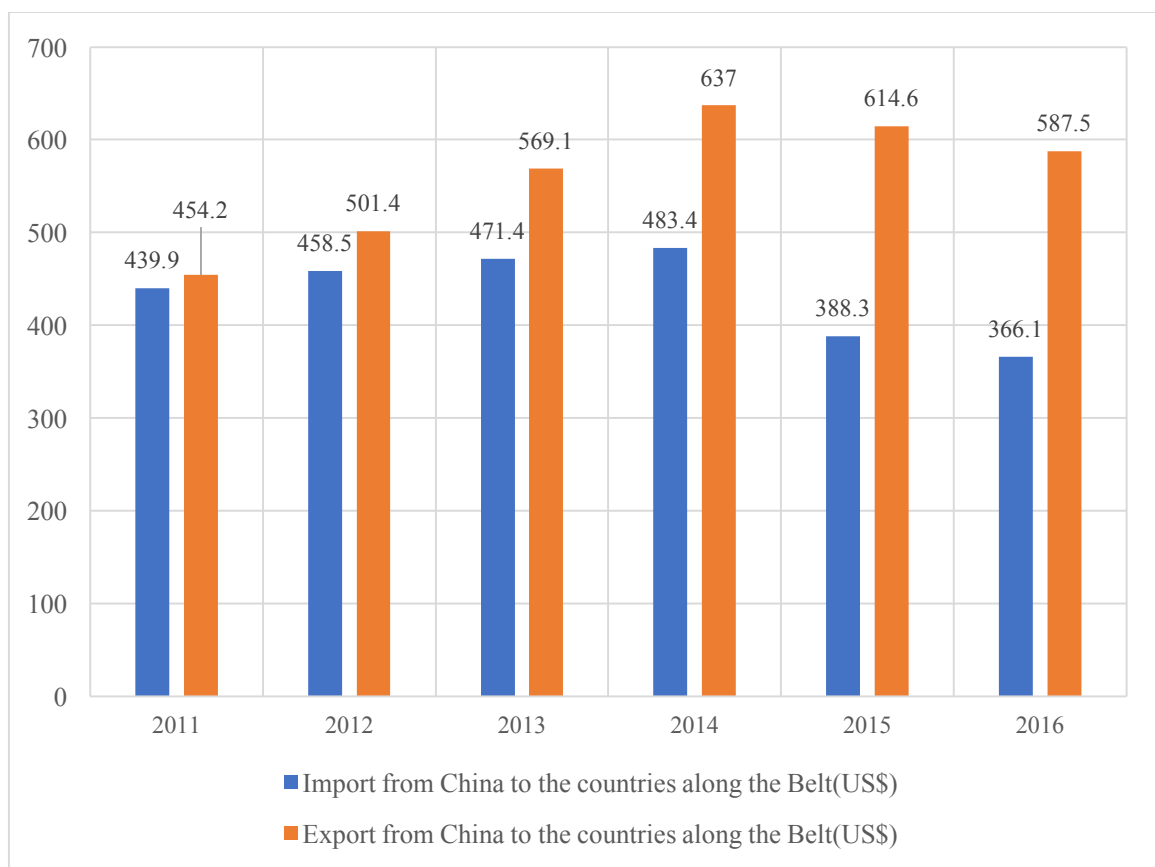


Author's elaboration based on data provided by SINOIMEX

The bilateral trade between China and the countries along the Belt is not balanced: China maintaining surpluses and other countries with huge trading deficit. (As can be seen from *Chart 2.5. “Bilateral trade between China and the other countries along the Belt,”* that for the past 6 years, China always has a surplus when trading with the countries along the belt and from *Chart 2.6. “Trade deficit with China, 2015 (Countries along the Belt)”*, one can see that most of the individual countries along the Belt are having big deficits for trading with China.)

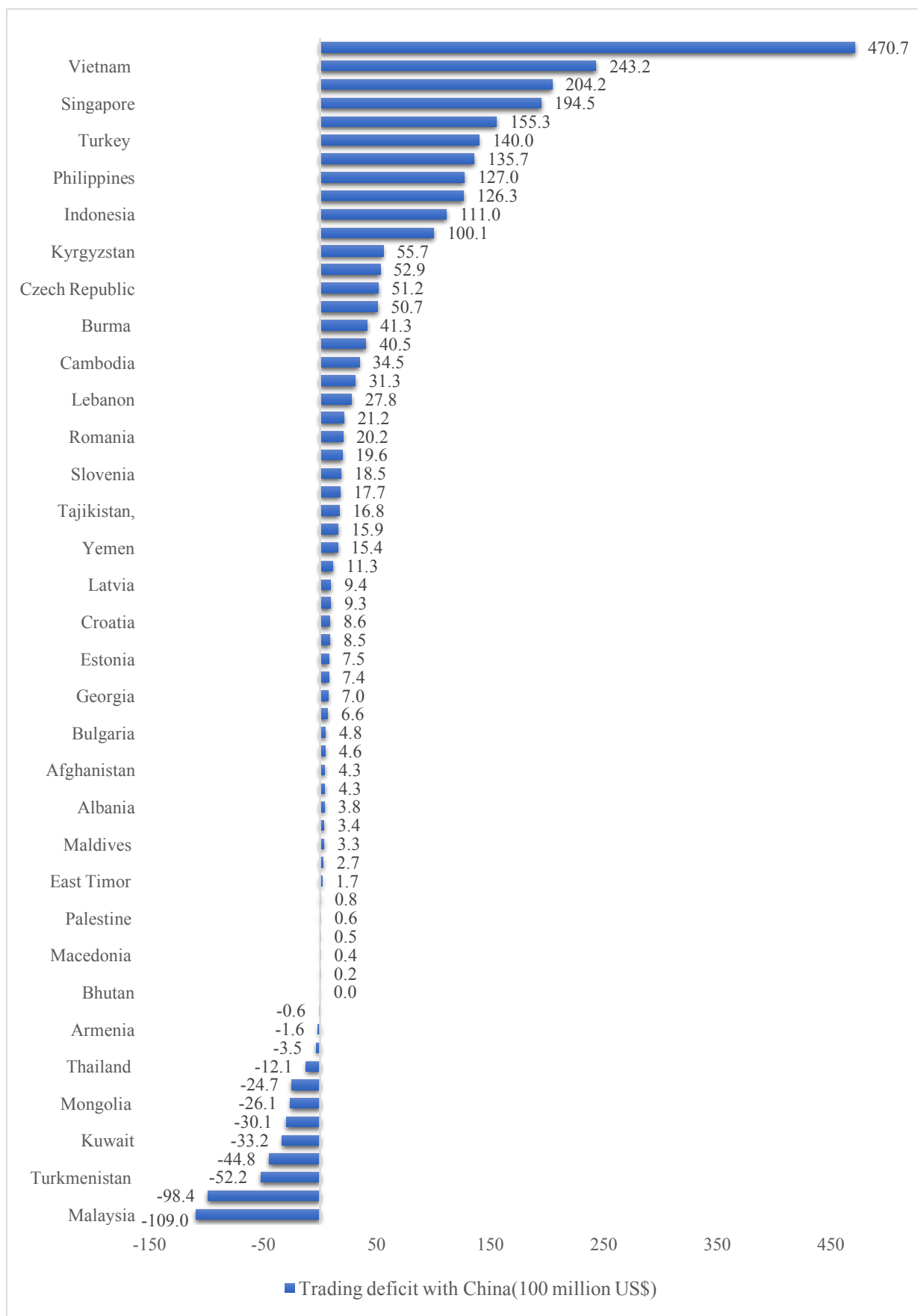
More fact and figures about EU-China trade please check [Annex 2- Facts and figures on EU-China trade](#).

Chart 2.5. Bilateral trade between China and the other countries along the Belt, 2011-2016(billion US\$)



Author’s elaboration based on data provided by SINOIMEX

Chart 2.6. Trade deficit with China, 2015 (Countries along the Belt, 100 million US\$)



Author's elaboration based on data provided by SINOIMEX

2.3. Chinese government proposal of BRI

Background of the BRI

China has been growing extremely rapidly for a long time, but a significant shift in its growth pattern occurred at the time of the global financial crisis.

During the global financial crisis, the Chinese Government delivered one of the largest stimulus packages in recent economic history. It saved China from recession by sending commodity prices sky-high. Though the stimulus program was effective, one of its lasting side effects was the creation of massive excess capacity in many industrial sectors.

Thus, in the recent period, China has been using a lot more measures to grow significantly *more slowly* than in the past. This pattern of growth manifests three problems:

- (1) Technological advance has slowed down.
- (2) The marginal product of capital is dropping. It takes more and more investment to generate less and less growth, which leads to empty apartment buildings, unused airports, and serious excess capacity in important manufacturing sectors.
- (3) Consumption is very low, especially household consumption.

Against this background, China proposed The Belt and Road Initiative, by stimulating the external market to solve the internal over-capacity, and by creating huge investment outside of China to lower-down the adverse effects due to the slowing-down economy.²⁸

The Stated and Less-stated Goals of BRI

The stated goal of the initiative is to bring prosperity to the developing Asian countries who are lack of capital, technology, and the capacity to embark on major infrastructure.

The less stated goals can be grouped into two categories: the strategy to solve China's inner problems and the strategic plan for global influences:

First, the BRI is the Chinese government's tool to solve its own economic problems: the overcapacity of infrastructure industry, the disparity of region development, and the need of economic transition.

On the other hand, at the global level, it helps China to promote internationalization of Chinese currency, to improve transport connectivity with its neighboring regions, to secure reserved energy, and to foster strategic divisions.

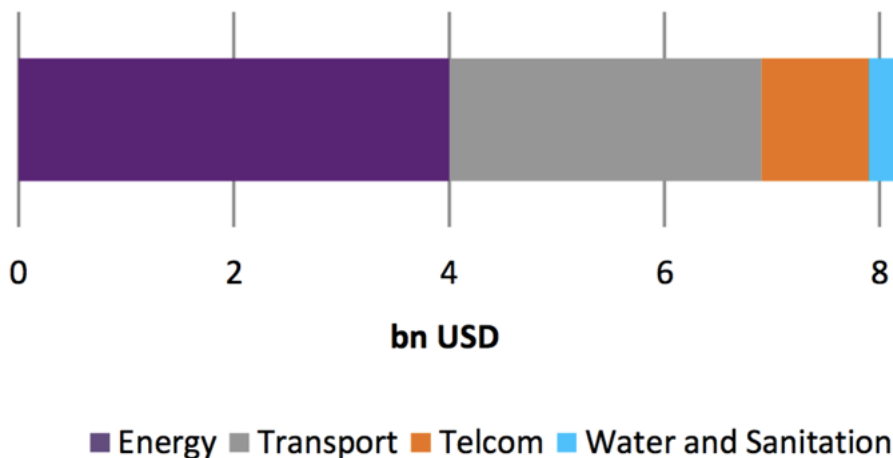
²⁸ The AIIB and the "One Belt, One Road," by David Dollar
<https://www.brookings.edu/opinions/the-aiib-and-the-one-belt-one-road/>
Viewed on Mar. 1, 2017

Dealing with excess capacity

Dealing with the country's excess capacity has become one of the top economic priorities of the Chinese Government in the recent years. The Chinese Government has announced a series of policy measures to address the issue of excess capacity and BRI is another way for Chinese policymakers to address this problem by moving the excess production capacity out of China.

Notably, there's a huge deficit of regional infrastructure building in Asia (As can be seen from *Chart 2.7. "Asia's Infrastructure Gap,"* the infrastructure gap in different industries in Asia is huge. Significant amount of investment is needed to fill in these gaps). Due to various social and political factors within this region, construction demand has not been effectively solved in private market. This is where BRI could step in: by lowering down the transportation and construction cost through state-backed policy coordination, the barrier of investment into the BRI region could be reduced. As such, China's heavy industrial capacity could be utilized to improve the infrastructure condition in BRI region and boost local economic development.²⁹

Chart 2.7. Asia's Infrastructure Gap



Source: NATIXIS.com; Asia Development Bank

²⁹ "Hidden strategic goals," by Simon Shen
<https://www.hongkongfp.com/2016/10/15/hidden-strategic-goals-one-belt-one-road-marshall-plan/>
Published on Oct. 15, 2016, viewed on Mar. 12, 2017

Supporting China's regional development

One of the principal objectives of BRI is to address China's deepening regional disparity.

Inequality between inland western regions and prosperous eastern seaboard provinces is a huge challenge for China's ruling party. Since 1999 the Chinese Government has pursued the so-called "Open-up the West Program (西部大开发)" to revive extremely underperforming places in West-China. However, the result of these efforts is very limited, and one side effect of it is a high concentration of state-owned enterprises and low penetration of private firms.

The Chinese government is trying different approaches to solving this situation, and BRI is treated as one of the key solutions. The economic rationale behind it is simple: instead of showering these provinces with more central government money, Chinese government wants to integrate them into regional economies (*Note from author: most of the projects of BRI are conducted by State-Owned Enterprises from West-China; and the starting points of most train lines by BRI are in West/South-West China*).

Facilitating economic transition

China has developed an impressive reputation as the 'world's factory' over the last three decades. In recent years, however, its comparative advantages in manufacturing, such as low labor costs, have begun to disappear. For this reason, the Chinese leadership wants to capture the higher end of the global value chain.

China expects BRI to play an important role in facilitating the export of higher-end Chinese manufactured goods (*Note by author: for example, the high-speed railway technology, the satellite technology, and telecommunication*). First, emerging markets targeted under BRI will be more willing to accept higher-end Chinese industrial goods than developed countries in North America and west Europe. Second, China is not just trying to export higher-end products through BRI, but to encourage the acceptance of Chinese standards, and to transform the *China-produced-low-quality to innovation-based economy and a leader in research and development*.³⁰

³⁰ "Understanding China's Belt and Road Initiative," by Peter Cai
https://www.google.lv/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwj91bilw-rTAhVDkCwKHQn6BnoQFgghMAA&url=https%3A%2F%2Fwww.lowyinstitute.org%2Fpublications%2Fundersstanding-belt-and-road-initiative&usg=AFQjCNEI_rith8Hedc87IKNx8MV8ixUb_Q&sig2=N_oo3v2LSjEl-pa4mNN5w

Published in Mar. 2017

Exporting currency

An important trend that will accompany the Belt and Road Initiative is the internationalization of the Renminbi. China has already expanded its local currency swap programs to 21 countries, and set up settlement banks in 8 countries. (As shown in detail in *Table 2.2. “BRI and RMB internationalization”*). It is also using the Asia Infrastructure Investment Bank, the New Development Bank and the Silk Road Fund to internationalize its currency.

This new trend will change global trade and reduce the reliance on US dollar. The internationalization of the RMB through BRI can allow China to challenge the United States’ leading role in the international arena, just as the status of the US currency was consolidated through Marshall Plan.³¹

Table 2.2. BRI and RMB internationalization

BRI and RMB internationalization, as of H2, 2016			
Bilateral local-currency swap		RQFII	RMB settlement bank
Belarus	Ukraine	Singapore	Russia
Indonesia	Hungary	Thailand	Malaysia
Uzbekistan	Singapore	UAE	Hungary
Kazakhstan	Albania	Malaysia	Singapore
Thailand	Sri Lanka	Hungary	Thailand
Pakistan	Russia	Qatar	Qatar
UAE	Armenia	Hong Kong	Laos
Malaysia	Serbia		Cambodia
Turkey	Tajikistan		
Mongolia	Pakistan		
	Qatar		

Author’s elaboration based on information provided by Standard Chartered Research

³¹ “Hidden strategic goals”, by Simon Shen
<https://www.hongkongfp.com/2016/10/15/hidden-strategic-goals-one-belt-one-road-marshall-plan/>
 Published on Oct. 15, 2016, viewed on Mar. 12, 2017

Enhance transport connectivity

The Belt and Road Initiative has a heavy focus on transport connectivity across the economic corridors, with commitments to build railways, highways and strategic port facilities. By doing so, China is creating a much shorter route to more markets.

Securing energy reserves

Mining and energy projects are also central to Belt and Road Initiative, with China widely purchasing mines as well as generation and transmission projects across BRI countries. Chinese companies now own almost a quarter of Kazakhstan's oil production, and over 15 billion US\$ of oil, gas and uranium deals have recently been signed with Uzbekistan.³²

Fostering strategic divisions

BRI may lower the solidarity of Asia-Pacific integration organizations headed by the US and Japan, such as APEC. By searching out APEC member states which desperately need infrastructure, BRI allows China to foster bilateral integration with those member states. That, in turn, will undermine the significance of APEC and delay these states' entry in the US-led Trans-Pacific Partnership (TPP).

Other interests/goals

- The expansion of China-controlled telecommunications networks: CITIC Telecom CPC recently acquired Linx Telecommunications, which serves Russia, Kazakhstan, and Eastern Europe.³³
- Satellite navigation and location service: China plans to launch another 30 Beidou-satellite-navigation-system satellites during 2016-2021, with the first 18 satellites being launched before 2018 to cover BRI countries.³⁴

³² "China's One Belt One Road Initiative", by the Parliament of Australia
http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook445p/ChinasRoad

Viewed on Apr. 24, 2017

³³ "CITIC Telecom CPC acquires Linx assets", by Enterprise Innovation
<https://www.enterpriseinnovation.net/article/citic-telecom-cpc-acquires-linx-assets-1081208743>

Viewed on Mar. 27, 2017

³⁴ "中国北斗卫星导航系统(中英对照白皮书2016)", by The State Council Information Office of China
<http://www.en84.com/nonfiction/whitepapers/201606/00017221.html>

Published on Jun. 2016, viewed on Mar. 27, 2017

2.4. The current progress of BRI

China's political, financial and diplomatic departments have been fully mobilized in support of the BRI: Major infrastructure plans along the 6 economic BRI corridors have been announced; Financial institutions like the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund, and the New Development Fund, has been created; International organizations and forums like the Shanghai Cooperation Organization (SCO), the ASEAN plus China (10+1), Asia-Pacific Economic Cooperation (APEC), and the China-Arab States Cooperation Forum (CASCF), have been used to promote the initiative.

Progress in infrastructure connectivity

A series of cross-border projects, including railway networks, highways, and ports, have started construction in 2015-16; while other projects are in the process (As can be seen from Table 2.3. "*Infrastructure Projects of BRI, as the end of 2016*"). Projects that China is involved in are mainly concentrated in Southeast Asia and western Asia, especially those Asian countries in good bilateral relations with China.

Table 2.3. Infrastructure Projects of BRI, as the end of 2016

Type of infrastructure	Project	Start time
Railways	China-Laos railway	December 2015
	China-Kyrgyzstan-Uzbekistan railway	Restarted in January 2016
	High-speed railway in Iran	February 2016
Highways	Highway in Pakistan (China-Pakistan Economic Corridor)	May 2016
Ports	Port city project in Sri Lanka	Restarted in March 2016
Waterways	international waterway project in Vietnam	April 2016
Nuclear power plants	Nuclear power plant in Pakistan	March 2016
Hydro-power stations	Hydropower station in Pakistan	January 2016
Electric power plants	Electric power plant in Mongolia	May 2016
Airports	International airport in Maldives	April 2016
	International airport in Nepal	April 2016

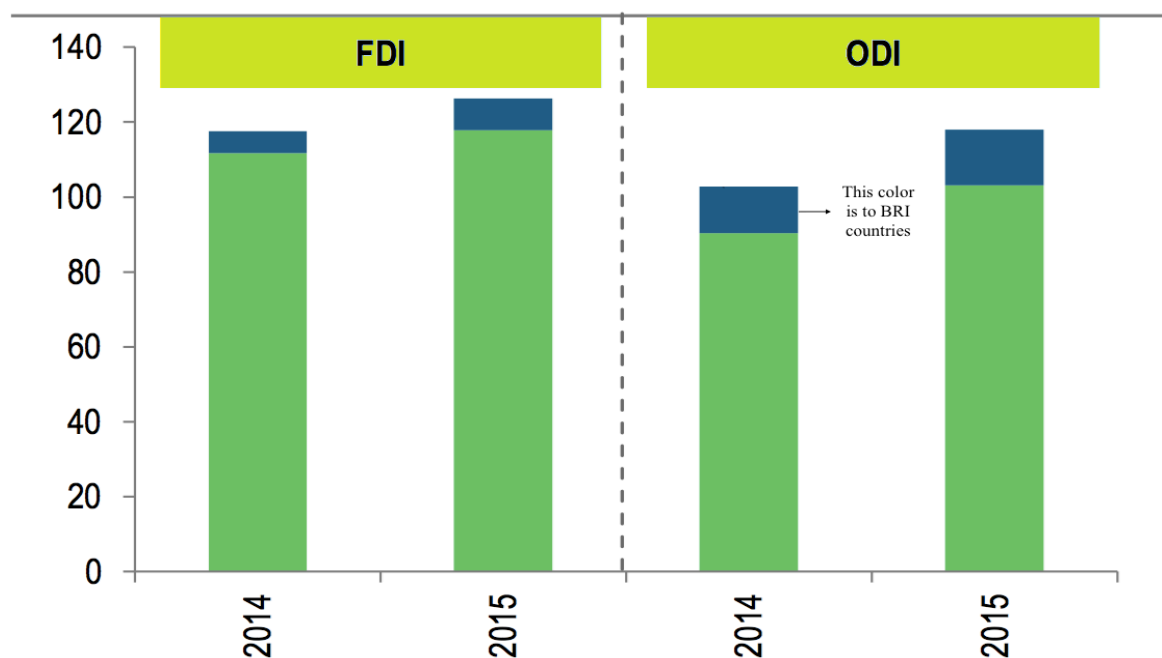
Source: Standard Chartered Research

Progress in investment and trade facilitation

The Belt and Road Initiative has accelerated China's shift from the world's biggest goods exporter to a major capital exporter.

China’s foreign investment grew rapidly since 2014. China’s single-year foreign direct investment (FDI) and outward direct investment (ODI) to countries along the belt reached 148 billion US\$ and 85 billion US\$ in 2015, growing 18.2% and 23.8% respectively, comparing to 2014.³⁵ (As demonstrated in *Chart 2.8. “China’s FDI and ODI, total and to BRI countries, 2014-2015”*, shown in blue color, that both China’s FDI and ODI to BRI countries, has grown from 2014 to 2015).

Chart 2.8. China’s FDI and ODI, total and to BRI countries, 2014-2015, billion US\$



Source: Standard Chartered Research

Progress in financial cooperation

The Belt and Road Initiative has facilitated the internationalization of the Renminbi. China has expanded its bilateral local-currency swap program to 21 BRI countries, granted Renminbi Qualified Foreign Institutional Investors (RQFII) quotas to 7 BRI countries, and set up Renminbi settlement banks in 8 BRI countries. (Country list is shown in *Table 2.2. “BRI and RMB internationalization”* in Section 2.3 [Exporting currency](#)).

³⁵ “China – Significant headway on ‘One Belt, One Road’ “, by Standard Chartered Research https://research.sc.com/Portal/ReportNow/97959?YYY800_wu7LSu3RDxK7eEt6JbmsTEkB2CYPq1c1xc9PZ30Z6bUAQYyqNnm34H4hhCSiz4MU
Published in Oct. 2016, viewed on Apr. 3, 2017

These will help to expand Renminbi trade settlement and promote Renminbi-denominated overseas financing.³⁶

2.5. Innovative Factors

BRI put focus on Central and Eastern European countries

Under the framework of BRI, China has become a major sponsor of projects in the transport and energy sectors of the Central and Eastern European Countries (CEECs)³⁷. These projects are complementing efforts of the EU and international financial institutions to upgrade regional connectivity.

Situation of the Central and Eastern European countries

Due to historical reasons, countries in CEE have relatively weaker economic conditions than Western Europe. As can be seen from *Chart 2.9. “GDP per capita of EU countries at current market prices”*, most of the Central and Eastern European countries have a below-EU-average GDP per capita.

And CEECs rely massively on trade and capital from Western Europe and the US³⁸. This puts them in a potentially harmful position in case of demand in the West falls, or banks tie down the liquidity. When the 2008 economic crisis hit the region, this is exactly what happened, and it resulted in investments withdrawing and demand collapsing. As can be seen from *Chart 2.10. “Real GDP growth in Central and Eastern European countries, 2005-2015”*, all the CEE countries suffered a massive fall in Real GDP growth starting from the years of financial crisis; and from *Chart 2.11. “HICP inflation of the CEE countries”*, one can see that the HICP inflation starts to grow at a faster speed from 2008 and still no sign of slowing down; and *Chart 2.12. “Unemployment rate of the CEE countries, 2006-2010”*, shows that there is an evident growth in unemployment rate in all the CEE countries from the year 2008.

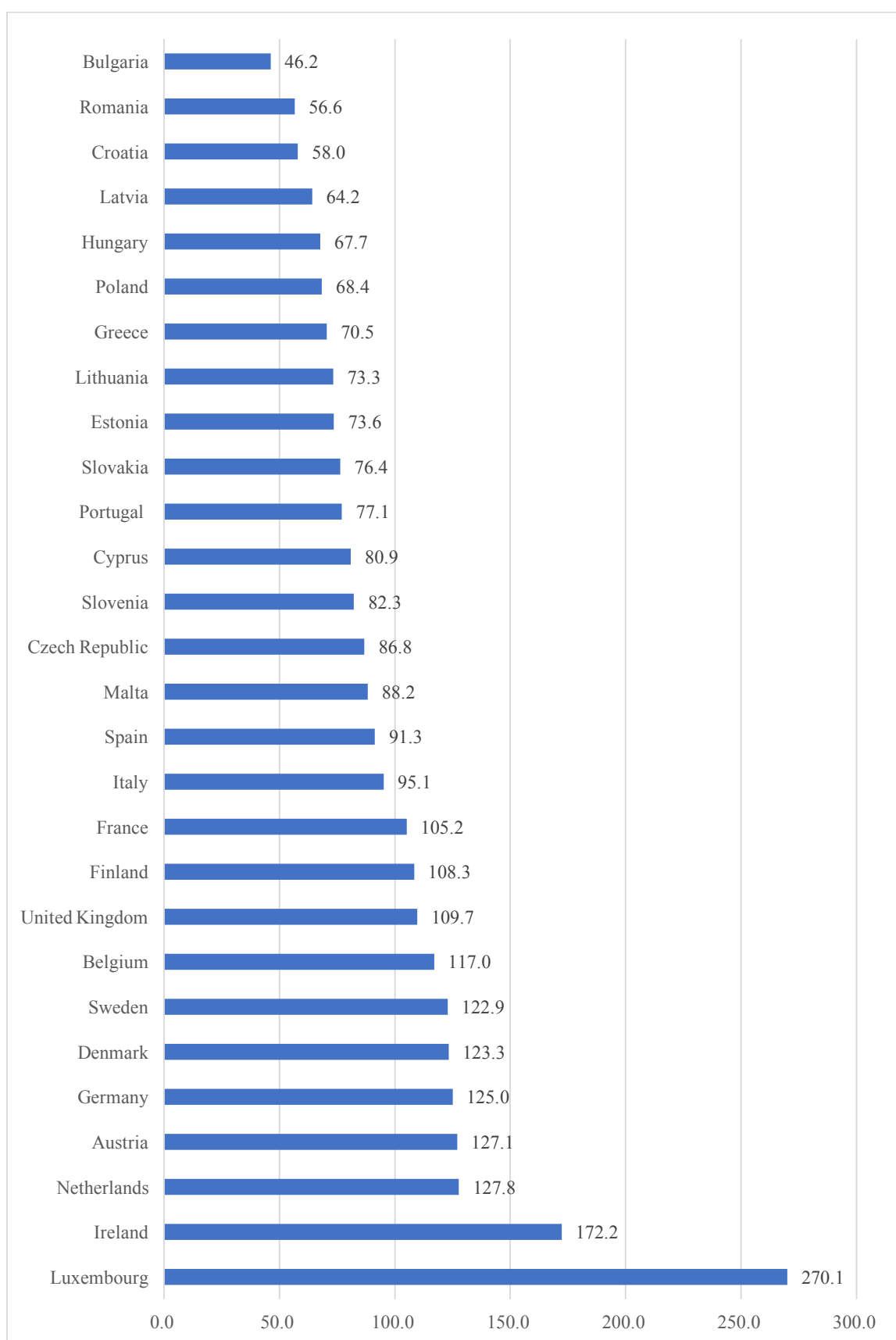
³⁶ “China – Significant headway on ‘One Belt, One Road’”, by Standard Chartered Research https://research.sc.com/Portal/ReportNow/97959?YYYY800_wu7LSu3RDxK7eEt6JbmsTEkB2CYPq1c1xc9PZ30Z6bUAQYyqNnm34H4hhCSiz4MU

Published in Oct. 2016, viewed on Apr. 3, 2017

³⁷ CEECs: Central and Eastern European Countries (CEECs) is an OECD term for the group of countries comprising Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania.

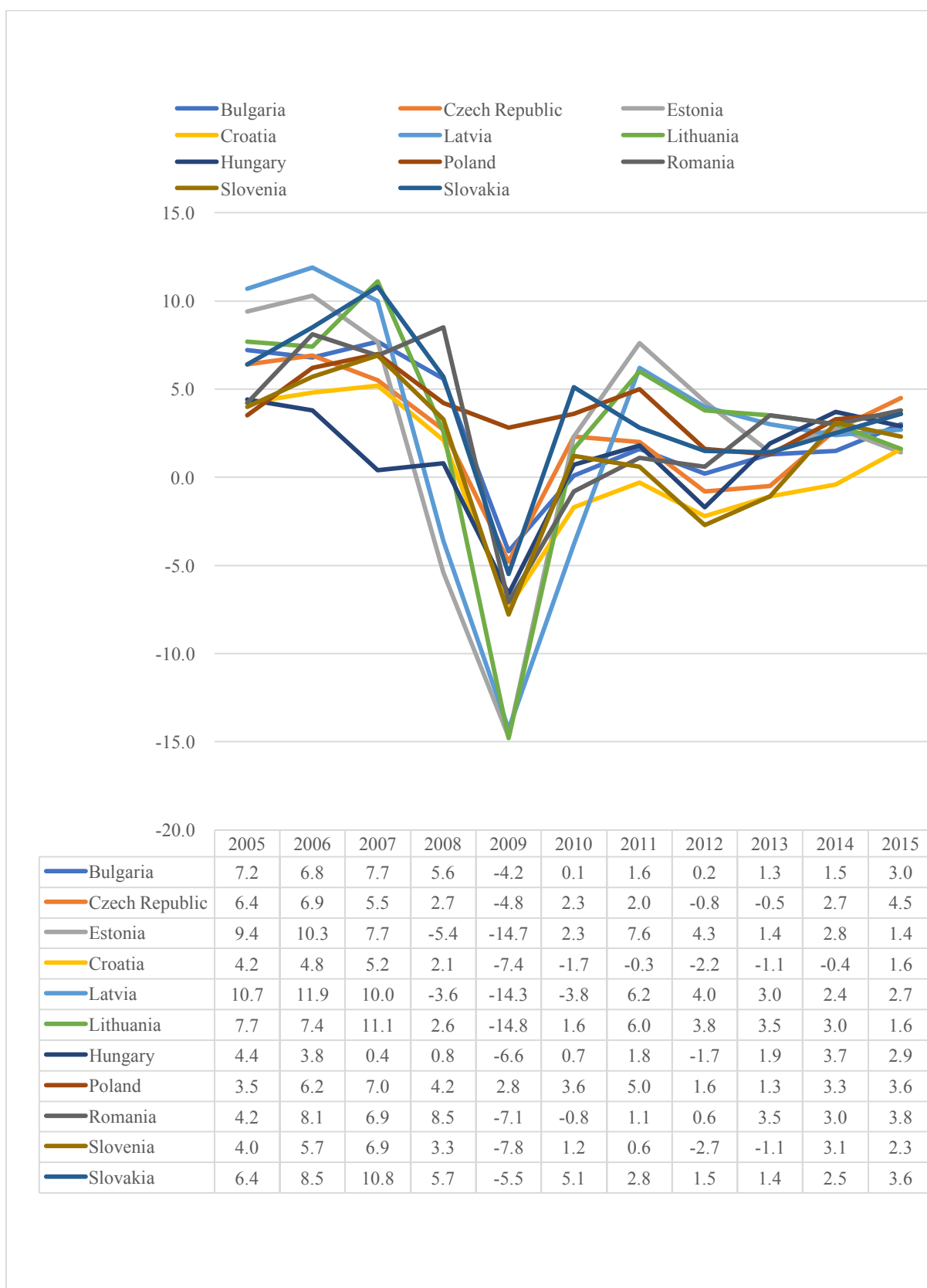
³⁸ “Partners or rivals? Chinese investments in Central and Eastern Europe”, by Marta Golonka, p17-19.

Chart 2.9. GDP per capita of EU countries at current market prices (PPS, EU-28 = 100), 2015



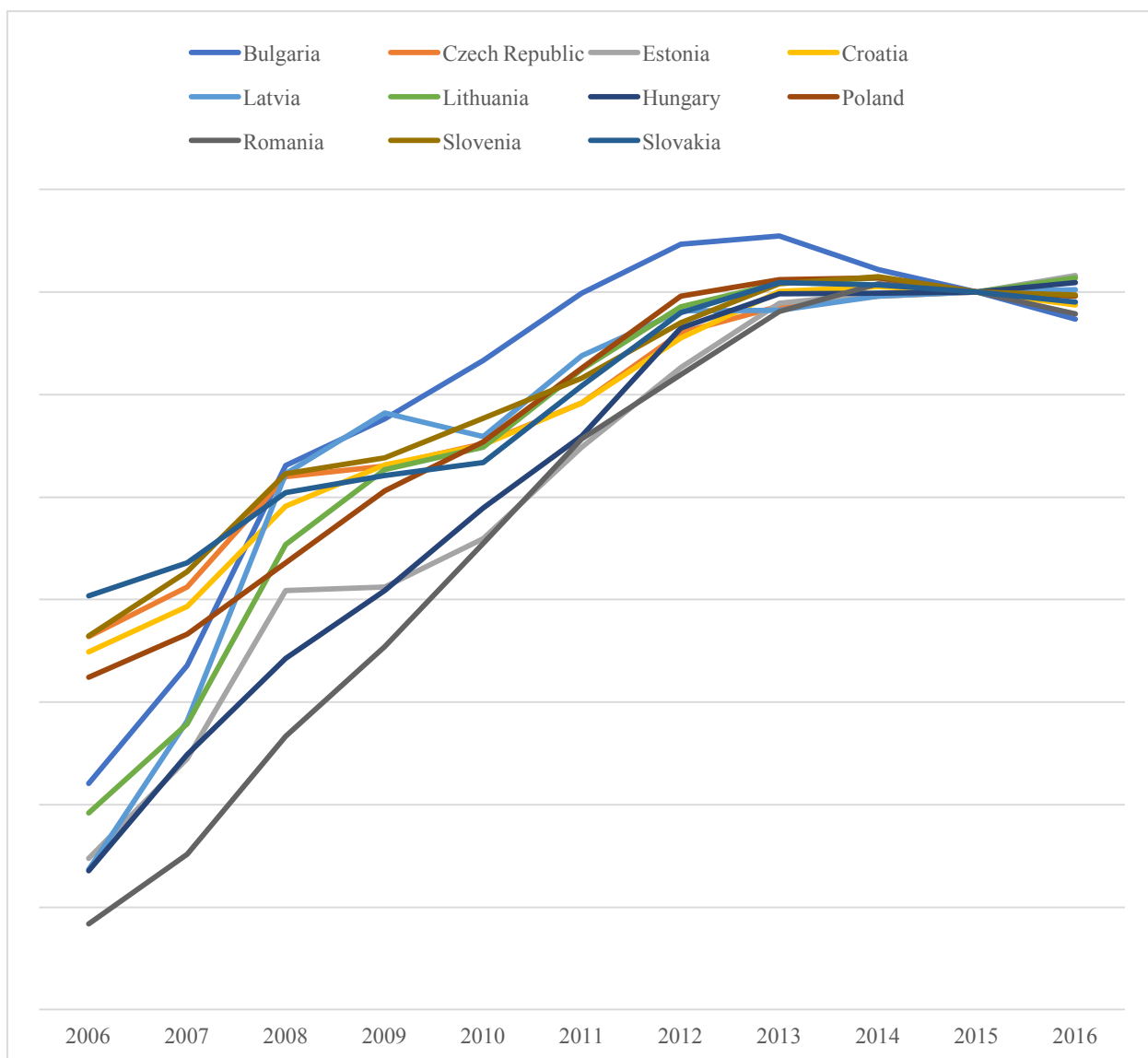
Author's elaboration based on data provided by Eurostat.

Chart 2.10. Real GDP growth in Central and Eastern European countries (% , 2005-2015)



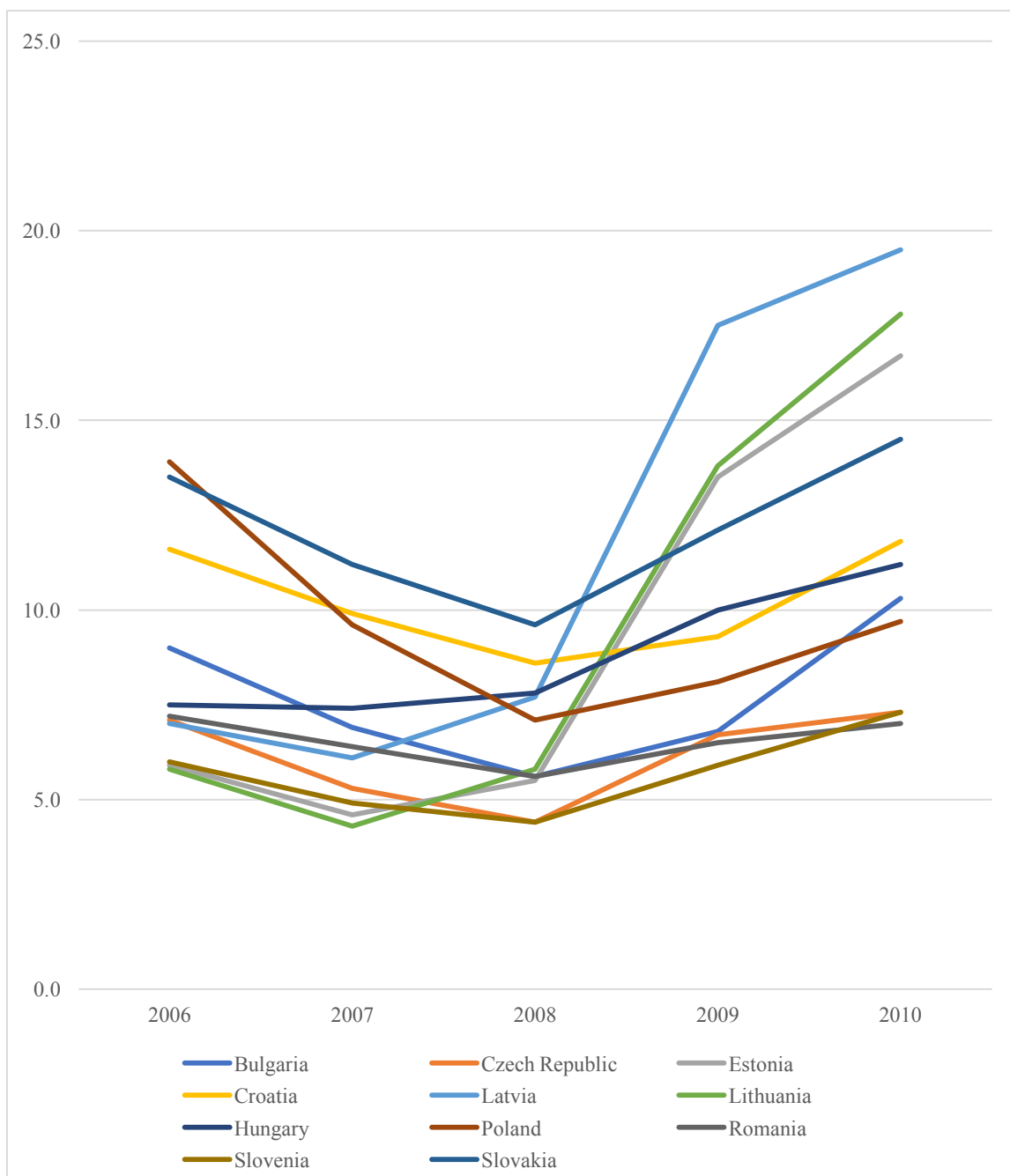
Author's elaboration based on data provided by Eurostat.

Chart 2.11. HICP inflation of the CEE countries, 2006-2016



Author's elaboration based on data provided by Eurostat.

Chart 2.12. Unemployment rate of the CEE countries, 2006-2010, (percentage of active population, i.e. labor force)



Author's elaboration based on data provided by Eurostat.

The motivation/reasons why China choose to focus on Central and Eastern part of Europe

Great market potential and Geostrategic role as a bridge to the EU market

First, the CEE economies are transitional economies and have diverse economic development modes. The countries are making the transition from being emerging economies

to developed economies which offers a testing ground for Chinese enterprises looking to invest in the European Union.

Enjoying relatively good investment conditions such as cheap and abundant labor, and it's more likely to accept Chinese high-standard technology (like high-speed railway) than the west Europe. Thus, the CEE economies can help China access the EU market and EU technology more easily.

The key leverage point for building a Silk Road Economic Belt

Most CEE countries enjoy good relations with China, the construction of a Silk Road Economic Belt led by China is less likely to meet prominent strategic resistance. Chinese investment in the region has increased in recent years with multilevel cooperation and exchanges, and this will pave the way for the Silk Road Economic Belt stretching to the EU.³⁹

Considering these geographic advantages, “16+1” cooperation framework has been founded in 2012 to prepare for the conduction of the Belt and Road Initiative (2013).

The “16+1” Cooperation Framework

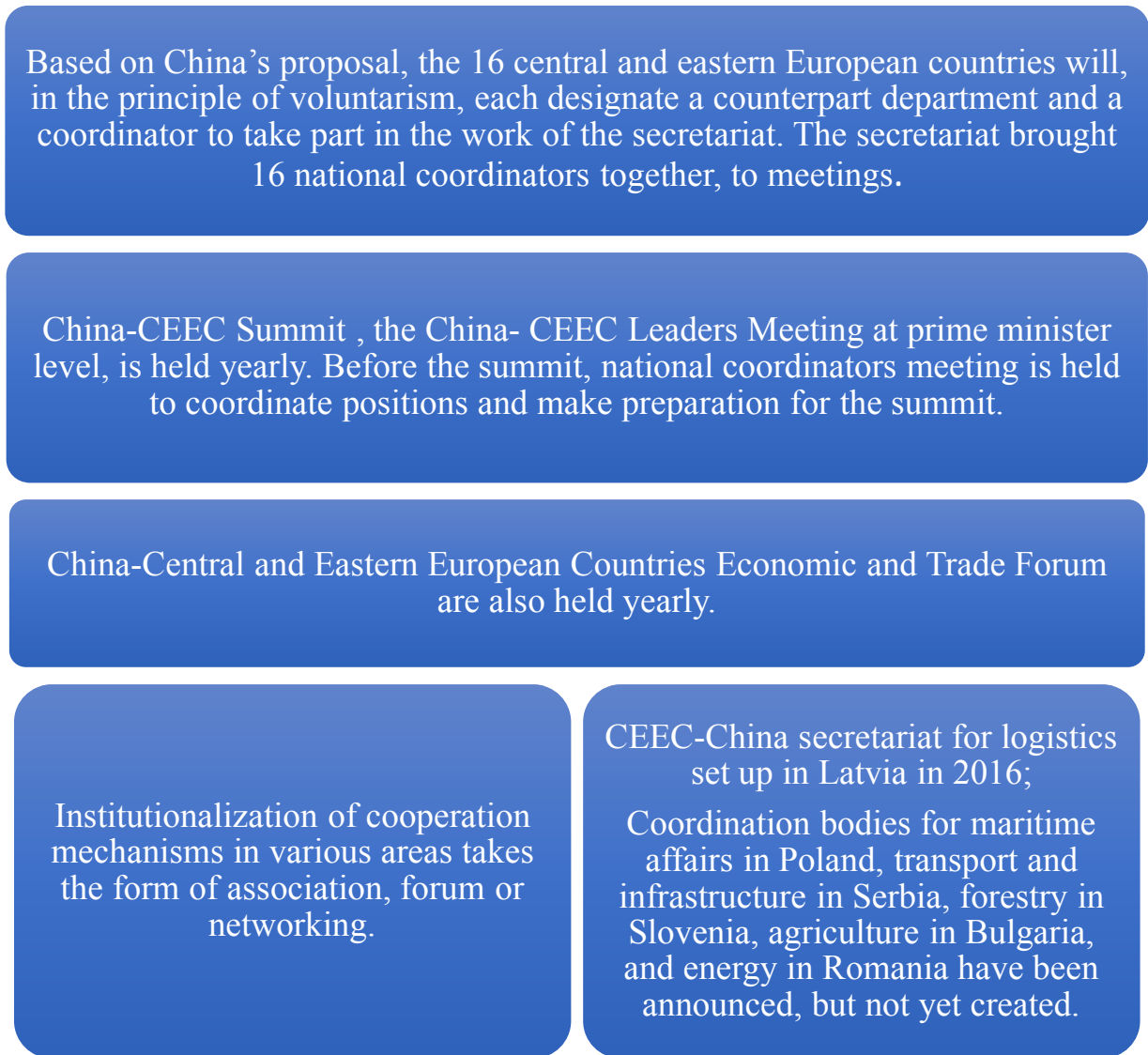
In 2011, while CEECs were 'looking east' for new investments in support of their recovery, China proposed the “16+1” Cooperation Framework (in 2012), a loose multilateral networking platform to scale up its relations with the CEECs. The proposal designed a China-centered institutional setup, with different mechanisms and arrangements with 16 Central and Eastern European countries (CEECs).

The 16 CEE Countries which are involved in the Chinese initiative are 11 EU countries (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia) and 5 EU candidate countries (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia).

It has been evolved to adapt to the Belt and road Initiative and created an additional layer to the EU-China multilateral setting. (Details information about the “16+1” cooperation framework, please check *Figure 2.4. “Structure of the ‘16+1’ framework”*).

³⁹ “The Role of Central and Eastern Europe in the Building of Silk Road Economic belt,” by Liu zuokui
<http://16plus1-thinktank.com/1/20160111/1096.html>
Published on Jan. 11, 2016, viewed on Apr. 3. 2017

Figure 2.4. Structure of the “16+1” framework



Author’s elaboration based on information provided by Institute of European Studies

<http://16plus1-thinktank.com/1/20151203/868.html>

The progress of BRI in CEECs

After the set-up of “16+1” platform, Chinese firms are increasingly investing in Central and Eastern European countries (See *Figure 2.5, “Ongoing projects in CEECs invested by Chinese investors”*). These investments are quite a new phenomenon and still constitute a small share of China’s total foreign direct investment (FDI) in Europe (10%), but since the launch of the Belt and Road Initiative, there has been a growing inflow of Chinese investments into the region, which is expected to increase further in the future.

Figure 2.5. Ongoing projects in CEECs invested by Chinese investors

In 2013 a high-speed railway started operating from Chengdu, the provincial capital of Sichuan province, in Southwest China, to Łódź, in Poland. So far, railway lines for container trains have opened up in 16 Chinese mainland cities, heading to 12 European cities including many CEECs such as Łódź in Poland, Pardubice in the Czech Republic, and Košice in Slovakia.

Hungary was the first European country to sign a memorandum of understanding (MoU) on BRI co-operation with the Chinese government and has also signed deals to build a high-speed rail line between Budapest and Belgrade. With the line expected to be completed in 2017, the 85% Chinese-financed project will shorten the travel time between the two capitals from 8 hours to 3.

In 2015, China and the CEE countries scored an overall trade volume of US\$ 56.2 billion despite the sluggish global economic growth. Chinese companies have invested roughly US\$ 5 billion in the CEE countries.

China has set up a Eur 10 billion investment fund to finance projects in infrastructure, high-tech manufacturing, and consumer goods sectors in Central and Eastern Europe. The fund will be run by Sino-CEE Financial Holdings Ltd, established by the Industrial and Commercial Bank of China in earlier 2016. The formal launch of the company was made by the Chinese Prime Minister Li Keqiang during the China-CEEC 16+1 Summit held in Riga, Latvia.

Author's elaboration based on information provided by UITP (Union Internationale des Transports Publics): <http://www.ceec.uitp.org/china-announces-€10-billion-investment-fund-ceec>

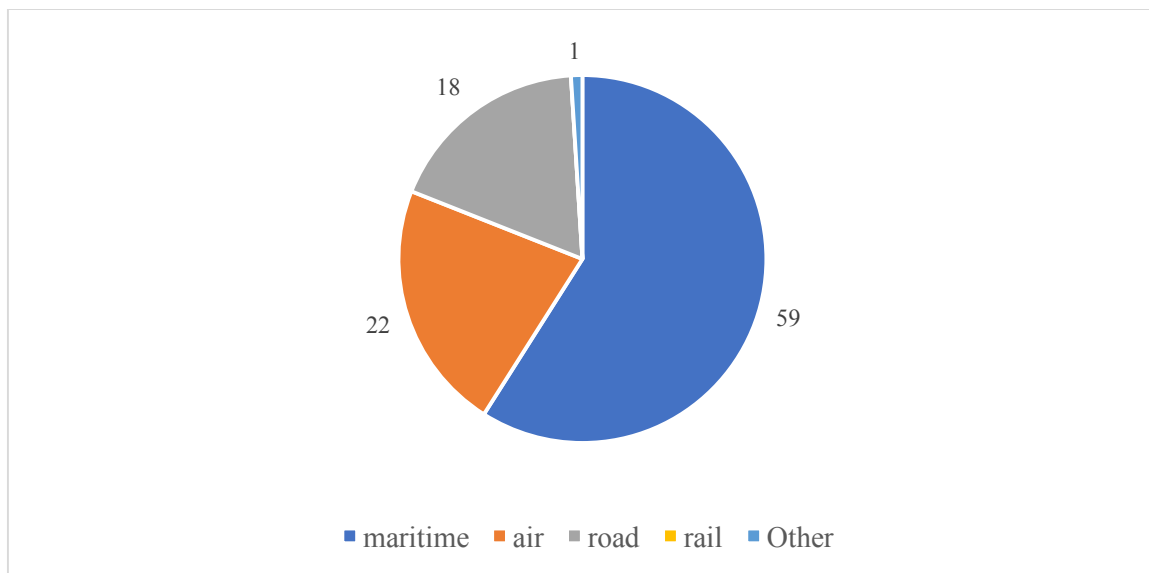
Infrastructure as an innovative factor for effectiveness of EU-China trade

One of the Belt and Road's key objectives is to ease obstacles for cross-border trade, in particular through improving transport infrastructure. This should reduce the cost of transportation, thus stimulate trade between China and these countries. The same effect should be expected for the EU due to cheaper transportation with other Belt and Road countries, as well as with China.

The trade transport mode used by EU and China

Transport fee is one of the main component factors considered when determining the final price of a product. The different modes (air, sea, road, rail, and inland waterways) have different processes and costs. And there are government preferences for the use of certain modes, for example, the use of short sea or rail over the use of crowded roads.⁴⁰ So it's important to consider the transport mode when assessing the impact of transportation costs on trade. Data shows that China's trade transportation is dominated by the maritime mode while the EU is dominated by land transportation. (As demonstrated from *Chart 2.13. "Split of transport mode in China's international trade"* and *Chart 2.14. "Split of transport mode in EU's international trade, 2014 (%)"*)

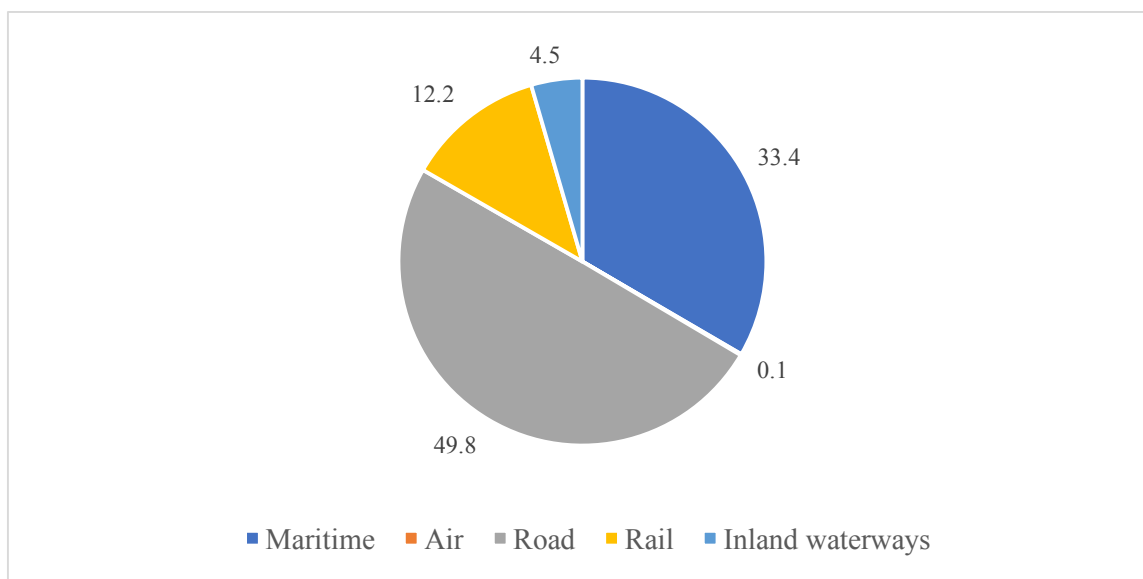
Chart 2.13. Split of transport mode in China's international trade, 2014 (%)



Author's elaboration based on data provided by Chinese customs

⁴⁰ "Transport Modes," by UNECE (United Nations Economic Commission for Europe)
<http://tfig.unece.org/contents/transport-modes.htm>
Viewed in Apr. 2017

Chart 2.14. Split of transport mode in EU's international trade, 2014 (%)



Author's elaboration based on data provided by Eurostat.

The empirical analysis of how BRI can improve the EU countries' trade by invest in transport infrastructure

*Herrero and Xu (2016)*⁴¹ has created a gravity model⁴² to assess empirically what the impact of a reduction in transportation costs might be on bilateral trade between EU and China. Their model is based on the methodology proposed by *Baier and Bergstrand (2009)*⁴³, and the result from their model shows that a reduction in transportation costs has a statistically significant and positive impact on international trade: a 10% reduction in railway, air or

⁴¹ "China's Belt and Road initiative: can Europe expect trade gains?", by Alicia Garcia Herrero And Jianwei Xu <http://bruegel.org/wp-content/uploads/2016/09/WP-05-2016.pdf>

Available from 2016

⁴² In this model, the equation to calculate effect of the reduction of transportation costs on bilateral trade is:

$$\begin{aligned} \ln(\text{Trade}_{ij}+1) = & b_0 + b_1 \ln(Y_i) + b_2 \ln(X_j) + b_3 \text{Tariff}_{ij} \\ & + b_{4,1} \ln(\text{RailC}'_{ij}) + b_{4,2} \ln(\text{AirC}'_{ij}) + b_{4,3} \ln(\text{OceanC}'_{ij}) \\ & + b_5 \text{controls}_{ij} + e_{ij} \end{aligned}$$

Trade_{ij}, refers to export values from country *i* to country *j*;

Tariff'_{ij}, *RailC'_{ij}*, *AirC'_{ij}*, *OceanC'_{ij}* are bilateral tariffs, railway transportation costs, air costs and maritime costs that have been adjusted for the multilateral resistance factors;

Y_i is the GDP of the exporting county;

X_j is the GDP of the importing country;

Other control variables are contiguity between two countries (those with shared borders), common currency, common language and post-colonial relationships.

⁴³ "Estimating the effects of free trade agreements on international trade flows using matching econometrics", by Scott Baier and Jeffrey Bergstrand

<http://www.sciencedirect.com/science/article/pii/S0022199608000998>

Available since 2009

maritime costs, will increase trade by 2%, 5.5% or 1.1% respectively. (The details result from the model can be seen in Table 2.4. “*Estimated reduction of transport cost for the EU countries through BRI*” (%).)

Table 2.4. Estimated reduction of transport cost for the EU countries through BRI (%)

Estimated reduction of transport cost for the EU countries through BRI (%)	
Countries	Estimated reduction of transport cost (%)
Austria	8.85
Belgium	9.42
Bulgaria	2.49
Croatia	3.96
Cyprus	2.44
Czech Republic	2.82
Denmark	8.63
Estonia	3.33
Finland	6.14
France	7.64
Germany	8.37
Greece	5.3
Hungary	8.68
Ireland	1.82
Italy	6.64
Latvia	5.88
Lithuania	6.81
Luxembourg	2.68
Malta	2.17
Netherlands	9.35
Poland	8.22
Portugal	5.29
Romania	2.62
Slovakia	9.18
Slovenia	7.89
Spain	5.55
Sweden	1.12
United Kingdom	3.85

Author’s elaboration based on data provided by Bruegel paper, “China’s Belt and Road initiative: can Europe expect trade gains”: <http://bruegel.org/wp-content/uploads/2016/09/WP-05-2016.pdf>

The conclusion of their research: transportation costs are found to be statistically and economically significant in fostering international trade, and EU countries would be benefiting from China's Belt and Road initiative through deducted transport cost and increased global trade.

CHAPTER 3. EU AND BRI: BENEFITS AND CHALLENGES

In this chapter, will analyze the opportunities and challenges that BRI can bring to the EU.

The opportunities such as: helping to mitigate EU's imbalanced level of development by investing in CEE countries; boosting trade and investment through increased FDI capital and improvement of infrastructure, creation of a bridge for EU-Russia relationship, and offering a platform for EU-China better cooperation on Security issues.

Though there are benefits, there are many concerns and challenges to be solved. Some challenges need great attention, especially China's non-reciprocity in market access and dumping practices, the huge deficit generated by trading with China, and the emerging conflicts with EU legislation.

Based on the analysis of both the benefits and the challenges, author will offer suggestions to the EU institutions on whether EU should welcome the Belt and Road initiative and what should be the EU's role in this cooperation in the Section [CONCLUSION AND RECOMMENDATION](#).

3.1. Cooperation: Benefits

Easing imbalance development: investing in CEE countries

As already been discussed in Section 2.5. [BRI put focus on Central and Eastern European countries](#), CEE countries are the primary target markets of the Belt and Road Initiative, with the help of "16+1 framework", a few projects are already on the way and several on the agenda. (see *Table 3.1. "Planned projects in CEECs by BRI"*)

Table 3.1. Planned projects in CEECs by BRI

Planned projects in CEECs through BRI
<ul style="list-style-type: none">• Routes to connect Łódź (Poland) with Piraeus• Chemical industry in Hungary• Ports in Croatia• Nuclear reactors in Romania• Shared stakes in Ljubljana airport

Author's elaboration based on information provided by Emerging Europe, <http://emerging-europe.com/voices/voices-economy/one-belt-one-road-a-big-task-for-europe/>

According to the Briefing of European Parliament, the Chinese investment in the Port of Piraeus, along with investment in high-speed railways from Piraeus to Budapest and from Port of Constanta to Vienna via Bucharest and Budapest, have opened new trade routes between China and the CEE countries. And these projects will help narrow the existing infrastructure gap between these countries and the 'old' EU Members.⁴⁴

Boost trade and investment

Chinese Investment: Increased Capital for EU

In European countries, after the financial crisis, increased capital has been needed: Since 2011, global foreign and direct investment flows to Greece, Italy, Portugal and Spain have more than halved, and the number of FDI projects in Central and Eastern Europe have declined by 12%. In the meanwhile, Chinese investments in Europe doubled in 2014, to a record \$18 billion.⁴⁵ Bilateral cooperation moved to a new level when President Xi Jinping proposed building a “China-EU partnership.” (*Figure 3.1. “Chinese capital investment projects in the EU”* gives a general picture on the Chinese investment deals in the EU, carried out with the Belt and Road Initiative)

⁴⁴ “One Belt, One Road (OBOR): China's regional integration initiative,” by European Parliament’s Briefing [http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586608/EPRS_BRI\(2016\)586608_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586608/EPRS_BRI(2016)586608_EN.pdf)

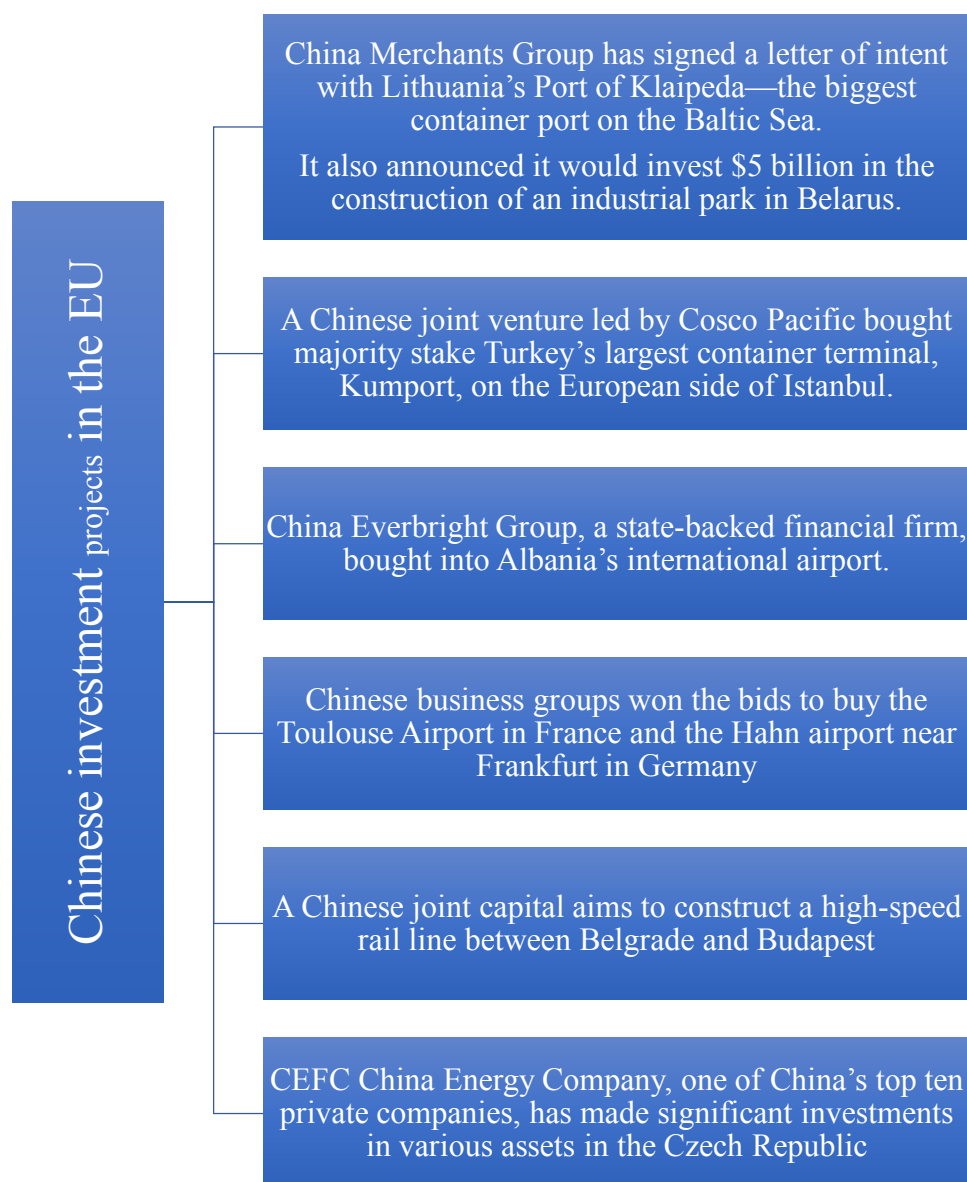
Available on Jul. 2016, viewed on Apr. 1, 2017

⁴⁵ “China Invests in Europe: A Strategic Buying Spree,” by Jacqueline Grapin

<http://www.europeaninstitute.org/index.php/ei-blog/270-european-affairs/ea-november-2015/2105-china-invests-in-europe-a-strategic-buying-spre>

Published in Nov. 2015

Figure 3.1. Chinese capital investment projects in the EU



Author's elaboration based on information provided by "It Takes a Road", by Gal Luft.

http://www.iags.org/Luft_BRI.pdf

Chinese Investment: Improved infrastructure

As mentioned in Section 2.5. [Infrastructure as an innovative factor for effectiveness of EU-China trade](#), the Chinese investment in Belt and Road Initiative is mainly focused on the Infrastructure field, which will end up reducing the international trade transport cost and contributing to the economic development in that area. What's more, improving infrastructure along the land-based Silk Road Economic Belt has the potential to contribute to the regional stability in Eurasia, from which both China and the EU could benefit regarding of new markets and energy security.

A bridge to EU-Russia relationship

As discussed in Section 1.3. [EU and Russia Sanctions](#), tension between EU and Russia has brought evident losses to individual EU countries in the agriculture industry. EU-Russian reconciliation could be the cornerstone of stability in Europe.

The Belt and Road Initiative aims to “keep Russia in” by working with Russia’s development projects in the Far East and organizations like the Eurasian Economic Union(EEU), the Collective Security Organization of the Commonwealth(CSTO) and the Shanghai Cooperation Organization(SCO). Thus, it opens opportunities for the EU to pursue its geostrategic ambitions in Central Asia and paves the way to EU-Russian reconciliation.⁴⁶

Cooperation in Security issues

Both the EU and China have suffered attacks from organized groups on domestic soil. (As discussed in Section 1.3. [Refugee Crisis](#), that the terrorism threat with connection to the huge inflow of refugees has caused widely panic in the EU, even threatened the EU’s common value.) Such threats also can potentially damage the fragile EU-China economic cooperation across unstable regions in Central and West Asia. So, it is import for the EU and China to find an effective way to cope with the common threats caused by terrorism and extremism.

As most non-conventional security threats are likely to occur in a connection with or act as triggers for other crises, it is reasonable for the EU and China to start bilateral cooperation in these areas on a technical level, which would not only will increase mutual understanding and trust between the EU and China, but also help to establish concrete operations and joint actions.

The bilateral cooperation between the EU and China also needs to expand into countries used as the transit hub of traffickers or as safe-zones for terrorists. This will ensure that countries in Central Asia and the Middle East can enhance their security governance capacities with the assistance of the EU and China, as well as other stakeholders.

⁴⁶ “One Belt One Road: Opportunities for Europe-China cooperation,” by Wang Yiwei
<http://europesworld.org/2015/05/13/one-belt-one-road-opportunities-europe-china-cooperation/#.WP2iwTJh0ch>
Published on May. 13, 2017, viewed on Apr. 2, 2017

Currently, the Belt and Road Initiative provide the best platform available for that kind of cooperation, as an infrastructure-based initiative, it covers almost all the sensitive countries and focuses on development in those zones.⁴⁷

⁴⁷ “Non-conventional Security Cooperation: a priority for the China-EU Comprehensive Strategic Partnership,” by Liu Ming and Dai Yichen
<http://www.friendsofeurope.org/global-europe/non-conventional-security-cooperation-a-priority-for-the-china-eu-comprehensive-strategic-partnership/>
Published on Sep.1, 2016

3.2. Cooperation: Concerns and Challenges

Cooperation in BRI: Concerns

(1) BRI vs Marshall Plan (Geopolitical concern)

Concern:

Some have viewed BRI as China's Marshall Plan with a long-term goal of gaining geopolitical advantage in the Eurasian continent.

Answer:

- I. Though the BRI strategy has been viewed by some as Chinese version of the Marshall Plan, they are very different. The Marshall Plan aimed to help recover European economy after the end of the WWII, so it was a short-term program (1947-1951).

The BRI is designed to be a very long-term project that will take China tens of years if not centuries. This adds a great amount of uncertainty in the road ahead.

- II. The Marshall Plan, or European Recovery Program, aimed at aiding those Western European countries to last out those hard years, through which the US could keep hold of both the EU's left-wing and the Soviet bloc to explore the opportunity to boost its own economy.

The BRI strategy attaches no strings, and the collaborative partners are equal (*Note from author: at least as stated by the Chinese official channels*). It is mutually beneficial. Rather than dividing the partners, the BRI plan shall bring Asia and Europe closer.

- III. At a globalizing age, neither the US nor China is the only aid provider – there are many other sources of external support, such as the World Bank and ADB, as well as other donors like Japan. It is hard for any actors to dominate Eurasian geopolitics by merely building some railroads and harbors.⁴⁸

⁴⁸ “China's ‘One Belt, One Road’ Strategy Is Not Another Marshall Plan,” by Shen Dingli
<http://www.chinausfocus.com/finance-economy/china-advances-its-one-belt-one-road-strategy/>
Published on Mar. 16, 2015

(2) BRI and Military sensitive areas, like the SEECs (Military concern)

Concern:

The Belt and Road Initiative makes China a new geopolitical actor in SEE with the implications to the existing regional conflicts.

Answer:

First, China has neither military installations nor servicemen in the Balkan region.

Second, *according to the statement of Chinese government*, China has no interest and willingness to play a role in this regional geopolitical game, only to seek an effective cooperation in economy and trade area, and this is China's long-term attitude to not only the Balkan region but all other parts of the CEE.⁴⁹

(3) BRI and Low Investment Return (Economic concern)

Concern:

- I. Many of the developing countries along the Belt and Road are politically unstable and economically vulnerable. While financial assistance will be provided to BRI countries through AIIB and other mechanisms, capital cannot provide the stability or security necessary to see these projects through, nor guarantee that counterparts will hold on to their end of the bargain.
- II. So far, more than 90% of China's foreign investment has been done through state channels and state-owned enterprises (SOEs). Since SOEs answer to government shareholders and enjoy state financial support, there has been little incentive for these Chinese companies to carefully assess cost, benefits, and risks. As a result, investment returns have been low.

⁴⁹ "Afterthoughts: Riga 2016 International Forum of China and Central and Eastern European Countries", by Latvian Institute of International Affairs
https://www.google.lv/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0ahUKEwjzgiOWhePTAhUF3iwKHQYOB4YQFggmMAE&url=http%3A%2F%2Fwww.liia.lv%2Fen%2Fpublications%2Fafterthoughts-of-the-riga-2016-china-and-central-and-eastern-european-countries-564%3Fget_file%3D1&usq=AFQjCNEUWrLfFuJs4xjAguCCyBShNV0g7g&sig2=wF3IbiHa5gg3EGNPVS1BvQ&cad=rja

Published on Nov. 2016

Answer:

In the article “Three Ways to Profit from China's Rising Global Economic Influence”, Henry To analyzed why the BRI projects should be a relatively safe investment:

- I. Capital guarantee: China’s big amount of domestic savings (over \$5 trillion annually), along with the country’s huge amount of foreign currency reserves, means the country has an excess capacity to invest in infrastructure projects in areas outlined in the Belt and Road initiative;
- II. Market potential: China’s 14 neighboring countries, except for the Special Administrative Regions of Hong Kong and Macau, are stuck in poverty and have desperate needs for basic infrastructure; the Asian Development Bank (ADB) estimated in 2010 that developing Asian countries have an infrastructure demand of US\$ 8 trillion over 10 years to 2020.
- III. Competitors analysis: The world’s developed regions, i.e. the U.S., Western Europe, and Japan—as well as traditional development institutions such as the World Bank and ADB—don’t have the capacity or the motivation to start a similar infrastructure program.⁵⁰

Cooperation in BRI: Challenges***(1) China's non-reciprocity in market access & Dumping.***

Since the Belt and Road Initiative starts, China has been actively investing in the connectivity between China with the EU, aiming at cutting transport cost and trading barriers with the single market, but substantive discussion with China of reciprocity and market access remains thin on the ground.

This is a particularly problematic issue for the EU, that China has been employing dumping tactics to sell products below cost on the European market, thus producing international price discrimination. European companies therefore find themselves at a disadvantage or lack of reciprocity regarding to market access conditions, comparing with the Chinese players.

⁵⁰ “Three Ways to Profit from China's Rising Global Economic Influence”, by Henry To
<https://www.forbes.com/sites/greatspeculations/2016/08/24/three-ways-to-profit-from-chinas-rising-global-economic-influence/#12a39ef8543b>
Published on Aug. 24, 2016

What is more, the imported Chinese products within the European market are often found not within European standards of quality, consumer health, and environmental and social protection.

(2) Trade deficit

As have been discussed in Section 1.2 [Bilateral trade between EU and China: Statistic data](#) and Section [2.2. Statistics Data of BRI](#), that member countries of the EU have significant trade deficit with China.

According to the European Parliament Briefing on the matters of CEECs, their trade with China exhibits a high geographical and product concentration, with few changes in product specialization over time. Overall, CEECs have so far failed to export more value-added and high-technology goods to China.

And as mentioned above, there are many *remaining market access barriers in China*.

Given these circumstances, it is hard for the EU to defeat the trade deficit in the short term and in the long run.

(3) BRI & Emerging conflicts with EU legislation

A common Chinese practice in respect of infrastructure works in developing countries is to grant funds that tied to sovereign guarantees and to Chinese companies who will carry out most of the contracts. This is a breach of the EU's internal market rules if used in EU Member States in public tenders.

CONCLUSION AND RECOMMENDATION

The Belt and Road Initiative is the most important international project that China has initiated for the last few decades. It aims to stimulate economic development over a vast area covering sub-regions in Asia, Europe and Africa. Most importantly, this massive bloc between the EU and China accounts for more than 60% of the world's population and 30% of global GDP.

The Belt and Road Initiative provides a constructive framework for EU-China cooperation. However, some perceive China's presence in Europe as a potential threat. In this thesis, author analyzed and concluded, from the political view and economic view, instead of a threat, BRI is bringing the EU a solution to several of its key challenges it's dealing with now.

So, why should EU welcome the Belt and Road Initiative?

- (1) In general, it's benefiting EU. Though there are a lot of concerns and challenges to be solved, economic gains through cooperation with China or any other countries should be welcomed. The development of infrastructure connections could help narrow the development gap within Europe and improve EU-China connectivity.
- (2) Currently, EU is getting through some hardships: imbalance development within the continent, the financial crisis, the Russia Sanctions which lead to nowhere but restrict the EU's agriculture exports, the Refugee problems, the Brexit and currently uncertain future of TTIP. At this moment, the cooperation China proposed can be a win-win and at some level helps to ease the situations above.
- (3) Some concerns about the countries involved are new European countries and their neighbors, which looks very tricky, almost a challenge of European Union's unity. But in fact, all the countries involved have asked the cooperation to follow EU's law and rule. The fact that these countries are cooperating with China won't make them less pro-Europe.
- (4) Some concerns about China's political ambitions, whether it is another "Marshall plan", or whether it's China's military scheme over the Balkan region. Others have economic concerns on the low project return. Detailed answers to those concerned have been presented in Section 3.2. [Cooperation in BRI: Concerns](#).
- (5) Some concerns about the trade deficit, market dumping, China's non-reciprocity in market access and the breaching of EU's regulation of China's form of funding.

Those concerns indeed need solutions, as presented in Section 3.2 [Cooperation: Challenges](#). But it should not stop the two biggest economies from cooperating with each other, solutions could be laid on the EU-China Bilateral Investment Agreement(BIA) or Bilateral Investment Treaty(BIT), which is currently under negotiation, as mentioned in Section 1.2 [Bilateral trade between EU and China: The EU-China Bilateral Investment Agreement](#).

- (6) As a matter of fact, resisting it or not, the BRI is going on, with or without the EU on board. The earlier the EU will reach out, the more it can shape the initiative to its favor.

As one can see, the Belt and Road Initiative offers EU many opportunities and at the same time lots of challenges.

Because different EU member countries have different conditions and are in different stages of development, the approaches they took towards the Belt and Road Initiative are different. It's hard to measure the overall effects of the BRI program in the whole European Union; Thus, the assumption will be that if the cooperation brings more positive effects to the member countries than negative effects, it benefits EU.

Instead of ignoring or resisting it, EU should keep close attention to China's activities in Europe and use EU's institutional leverage to help the EU member states to take advantage of this initiative. The following recommendations should be considered:

(1) Set up a common framework for projects' evaluating and cooperation

The first thing for the EU to do is to project a single voice towards China and avoid representing different policies and priorities between European institutes and the EU member states. As discussed in the previous sections, the BRI is more focused on CEECs which are with less-experienced governments, they are more likely to open sensitive sectors to Chinese investments and lower down the high-standards of transparency and sustainability shared by the EU member states, therefore, a united framework and guideline will be very crucial.

(2) Multiple levels of cooperation mechanism

Considering the number of nations involved and the wide range of cooperation the initiative covers, it will be necessary to engage several channels of cooperation. For example, at the EU level, it can promote intergovernmental cooperation, build multi-level macro-policy exchange and communication mechanism; and at the country level, countries along the Belt

and Road may coordinate their economic development strategies and policies, work out plans and measures for regional cooperation, negotiate with China to solve cooperation-related issues, and jointly provide policy support for the implementation of practical cooperation and large-scale projects.

(3) Strengthen governance/monitoring of the projects

Though one of the main reasons that China puts a focus on CEECs is to bypass EU rules and regulations, the European Institutions still must understand the desire of those member states to secure as much investment from China as possible. Hence the EU's strategy must welcome BRI and seek areas of win-win cooperation such as the connectivity platform. To do so, the Commission needs to take actions to assist and guide the EU member countries involved, to pay close attention to the Chinese investment activities in Europe, and to urge greater transparency from the BRI projects and their full compliance with EU, WTO and OECD's guidelines.

(4) Get more leverage and control during the cooperation

The BRI strategy is still in its initial development phase and only few details are available on how it should work in practice.

At the same time, Chinese government not only has strong feelings about reviving the old Silk Route, but also is persistently working towards convincing new partners to participate in the project and to explore options for cooperation.

At this agenda setting stage, the EU would benefit from actively engaging in the initiative. By doing so, EU will be able to shape the initiative, to bring in EU's own ideas and positions, and to clarify important issues such as the concrete legal and political framework the initiative may base on.

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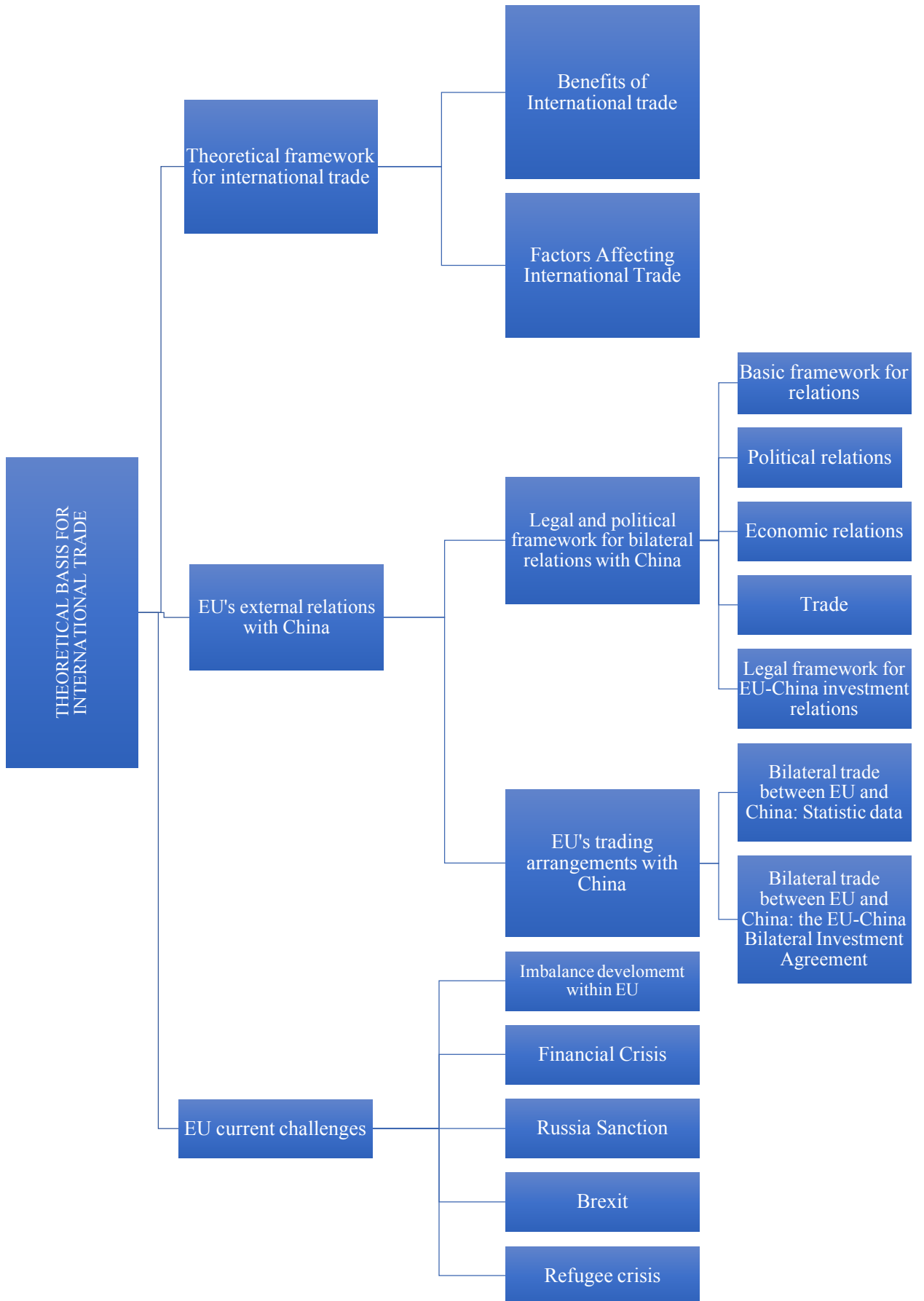
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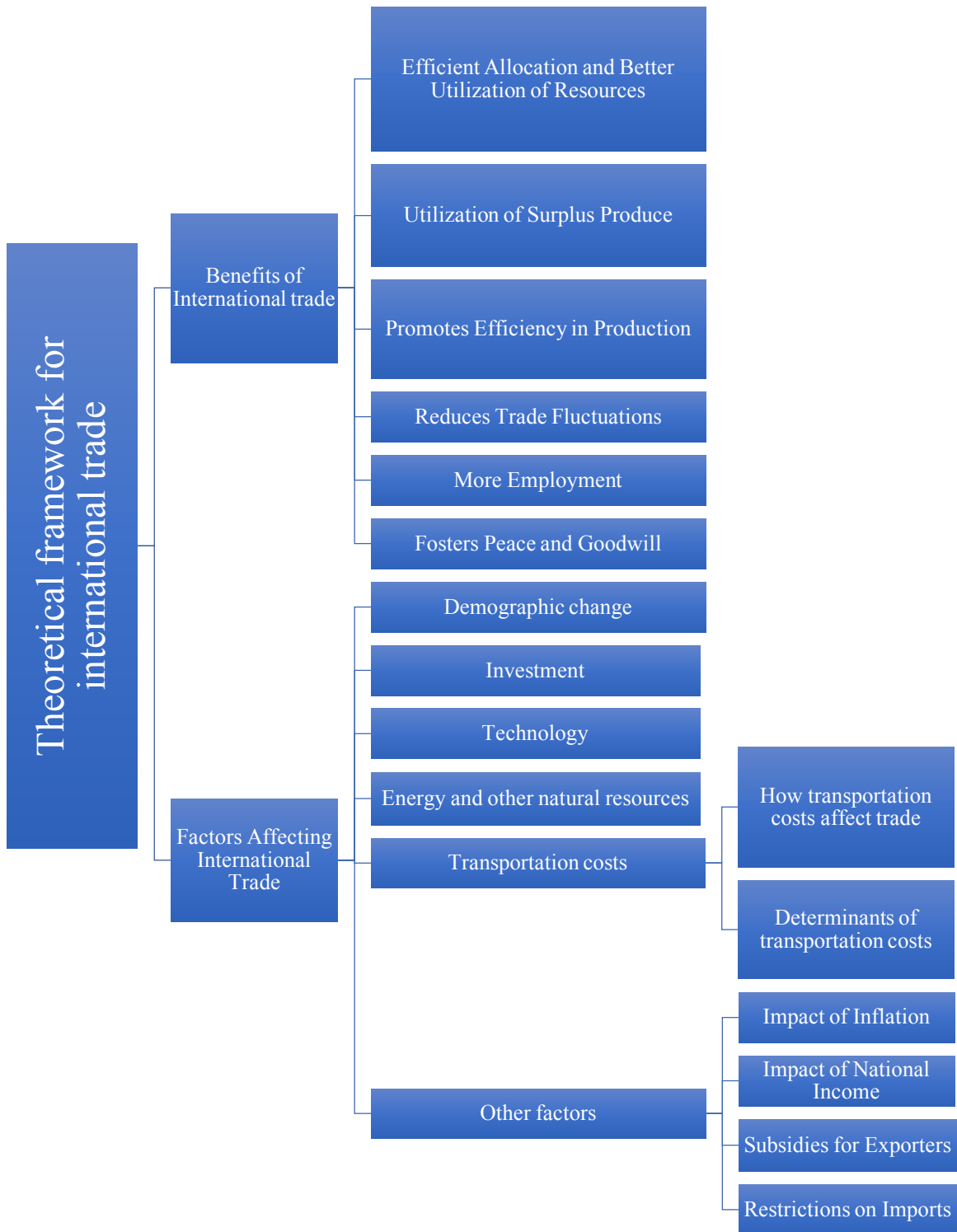
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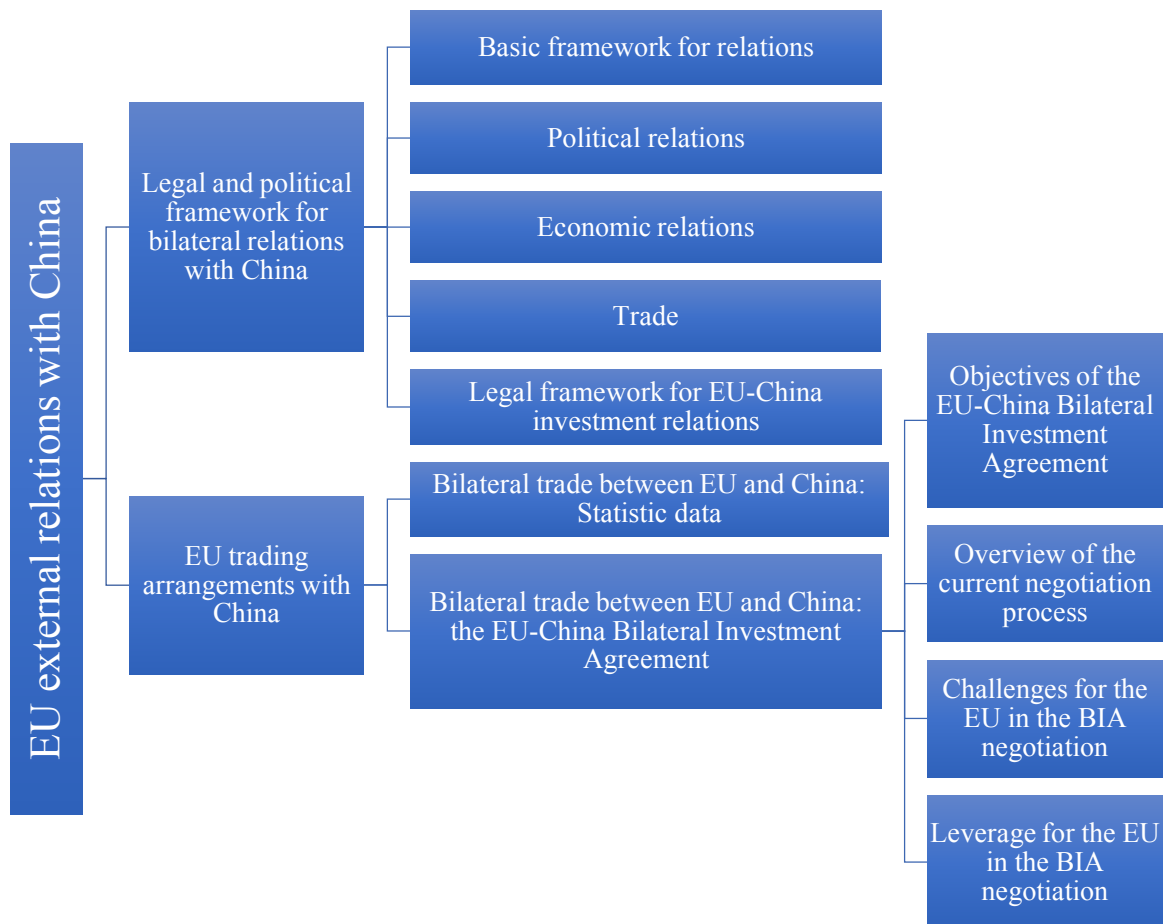
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Annex 1- The detailed structure of this Master thesis

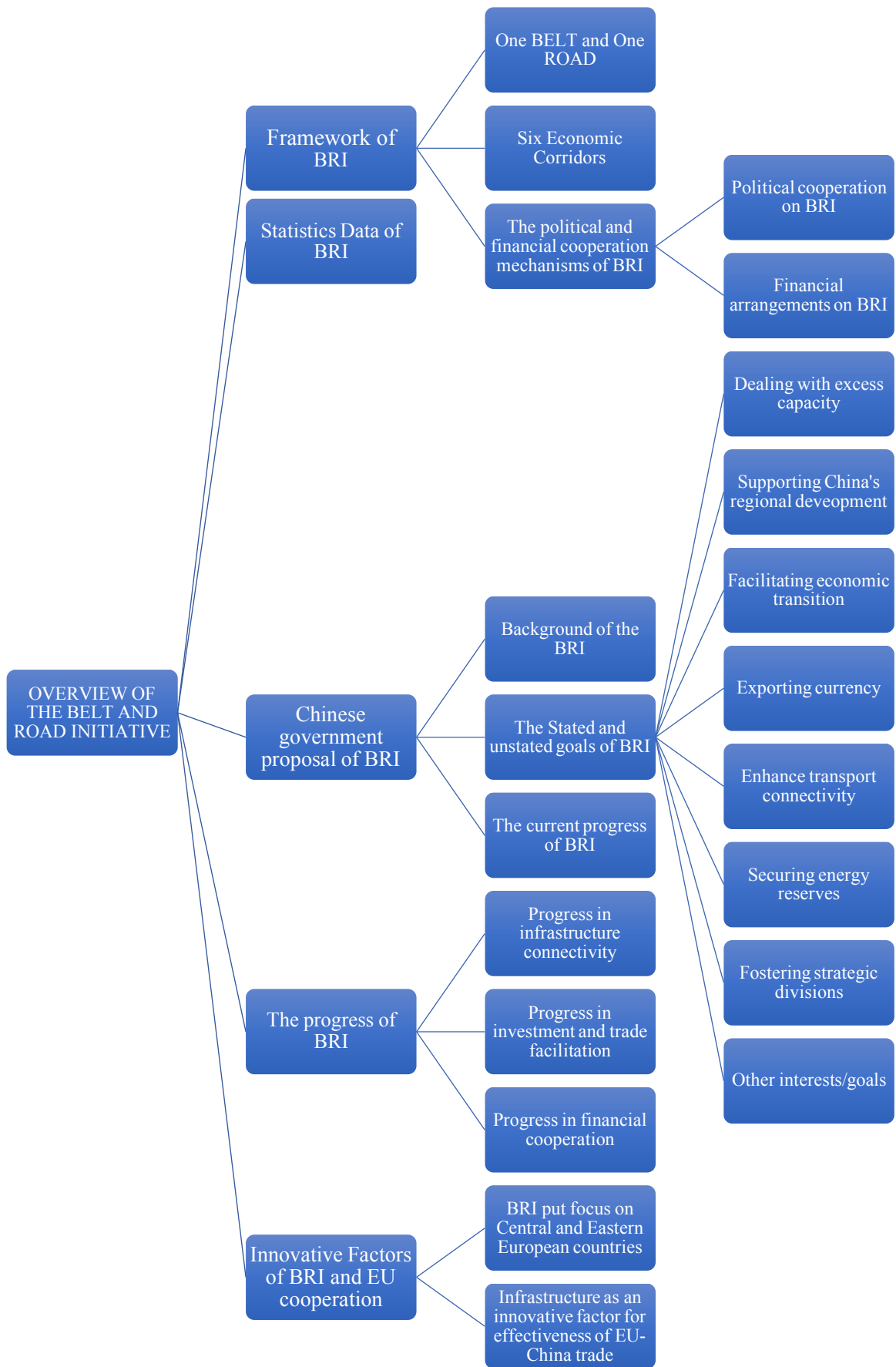
Character 1: THEORETICAL BASIS FOR INTERNATIONAL TRADE



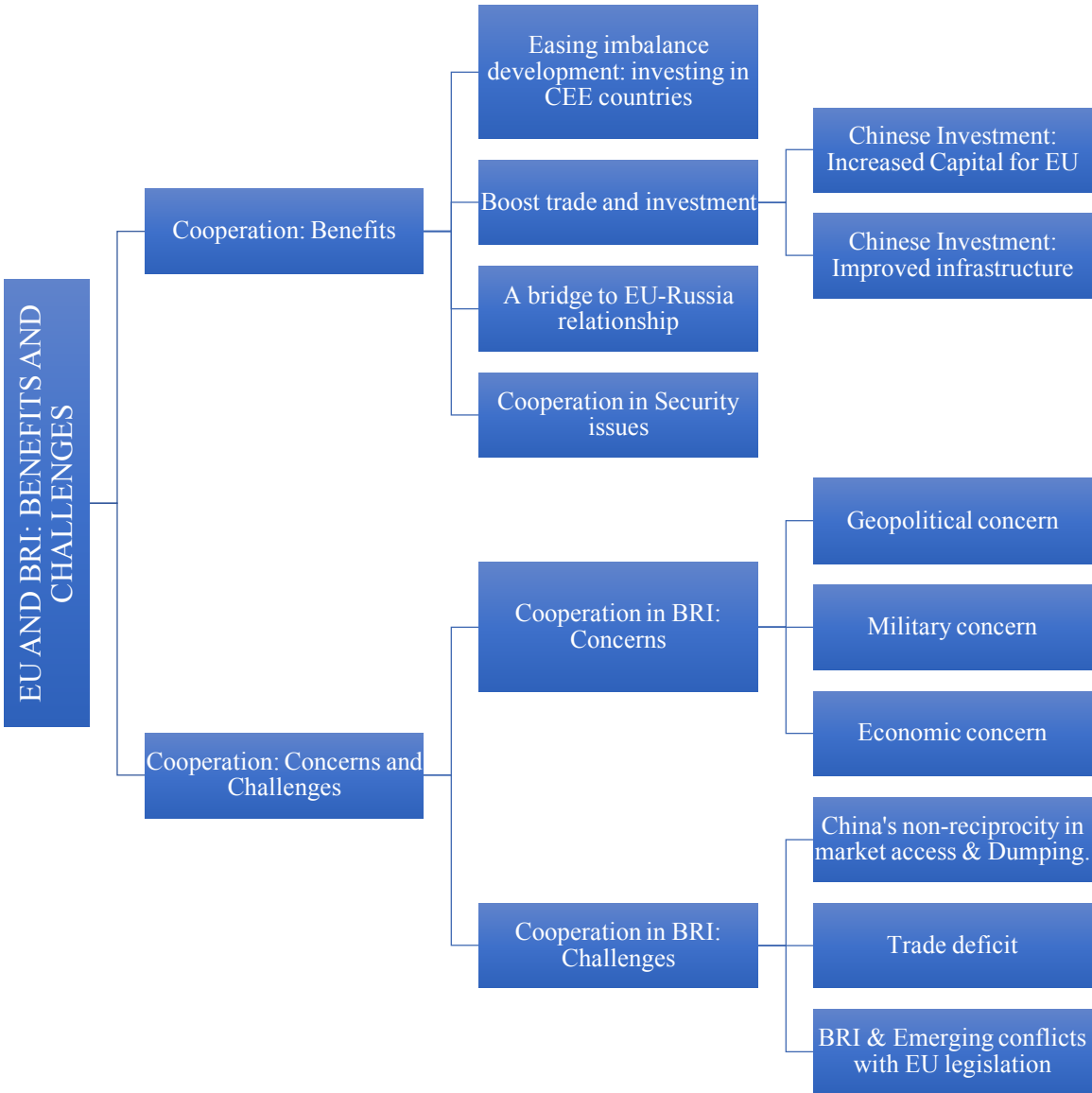




Chapter 2: OVERVIEW OF THE BELT AND ROAD INITIATIVE



Chapter 3: The BRI and EU



Annex 2- Facts and figures on EU-China trade

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China is the second largest economy and now also the world's biggest trading nation

China's growth in 2013 was 7.7 %, and international estimates predict China may be on track to become the world's biggest economy within the next 10 years, with an internal market of 1.39 billion potential consumers by the end of 2015. China's rise as a major global economy was boosted by its WTO membership in 2001, which made it reform and open its economy. This provided a platform for China to establish itself as a major global trader - becoming the world's biggest exporter in 2009 and the world's biggest trading nation (sum of exports and imports) in 2013.

China and the EU are trading more than €1 billion every day

Just two decades ago, China and the EU traded almost nothing. Today, we form the second-largest economic cooperation in the world. In a remarkably short timeframe, our economies have integrated to a point where it is difficult to imagine one without the other. Our bilateral trade in goods reached €428.1 billion in 2013. Trade in services, however, is still about ten times lower at €49.9 billion (2012 data) and remains an area full of potential if China were to open its market more.

China has become one of the fastest growing markets for European exports

In 2013, our exports to China increased by 2.9% to reach a record € 148.1 billion. EU exports have nearly doubled in the past five years, contributing to rebalancing the relationship. China is the EU's biggest supplier, with € 279.9 billion worth of imported goods in 2013 (down by 4% or 11.7 billion compared to 2012). This produced a trade deficit of €131.8 billion with China in the same year, down by 10.7% compared to 2012, and down by 22.5% compared to the 2010 record of €170.1 billion. Europe's trade deficit with China is mainly caused by sectors like office and telecommunication equipment, shoes and textiles, iron and steel.

In the long term, China's importance as a strategic market can only increase

Every year, 20 million Chinese households pass the threshold of household income of USD13,500 (a threshold at which middle class families become able to afford key consumer goods and services, like cars). This translates into extraordinary growth opportunities for

European businesses. Even if China's GDP growth rate is gradually slowing down, China continues to generate an impressive amount of additional output year after year. 90 % of global economic growth over the next years is expected to be generated outside Europe, a third of it in China alone.

Reducing the bilateral trade deficit is not about importing less, but exporting more

Through better market access, European exporters should be well placed to increasingly sell their products on the rapidly expanding Chinese consumer market. By way of comparison, the EU still exports more than 2.5 times more services to Switzerland (€82.9 billion) than to China (€29.8 billion). As a result, the EU still exports more goods and services to Switzerland (€216.3 billion) than to China (€173.7 billion). With the USA, our number 1 trading partner, the difference is even more apparent: the EU exports double as much goods, and 5 times more services to the USA than to China (2012 data).

The EU's trade defence instruments cover only a tiny share of the EU's total imports from China

Trade defence measures are not protectionist tools; they are legal procedures in accordance with international rules and aim to address unfair trading practices. The EU bases its trade defence instruments on strict and non-political procedures. On 20 March 2014, the EU had 52 anti-dumping measures and three anti-subsidy measures in force against Chinese imports. The combined measures affect less than 2% of total imports from China.

About half of China's exports are produced by foreign invested companies

Companies from Japan, Taiwan, Hong-Kong and South Korea play a dominant role in China's so-called "processing trade" process, where imported components are assembled in China and then exported as finished products. The role of European enterprises in China's processing trade regime, however, is relatively limited. European companies mainly invest in China to serve the Chinese market. On the other hand, companies in Europe do source part of their intermediate goods and input from China. In a world of global value chains, we need to import to be competitive and able to export.

Only 2.6 % of the total 2012 flow of foreign direct investment (FDI) into Europe came from China

According to Eurostat data, in 2012 Chinese investments into the EU accounted for 2.6 % of total foreign direct investment flows into the EU (up from 1.0 % the year before). By

contrast, the share of total EU flows of FDI into China stays at a steady 20% of all inward FDI, which makes the EU's 28 Member States together one of the top 5 FDI providers to China along with Taiwan, Hong Kong, the USA and Japan. EU companies invested € 15.5 billion in China in 2012, with Chinese FDI into the EU amounting to € 7.6 billion in 2012. Although Chinese investment into the EU is rising, it starts from a very low base: total FDI stocks only amounted to 0.7% of total foreign direct investment in the EU. Part of the Chinese outward investment may however be routed via Hong Kong or other third countries.

At the end of 2012, foreign banks in China held a market share of only 1.82%

European services companies continue to find it difficult to access the Chinese market. Red tape and lengthy procedures are often the main reason. China maintains investment and ownership caps in many sectors such as banking, construction and telecommunications. Foreign law firms in China are currently not allowed to employ Chinese lawyers and are not permitted to participate in bar exams to gain Chinese qualifications.

64% of all fake goods seized at European borders in 2012 came from China

Intellectual property rights infringement remains a serious problem for European businesses in China. In 2012, four out of every five European businesses operating in China rated Beijing's enforcement of IPR laws and regulations as inadequate.

China's public procurement market is very difficult to access for foreign companies

It is difficult for European companies to access the Chinese market in the area of public procurement. A recent study from the European Chamber of Commerce in China points out problems regarding lack of transparency, unfair implementation of public procurement awards, and unsatisfactory appeals procedures.

Foreign companies face many trade barriers in China

China increasingly uses country specific standards which foreign competitors find hard to meet. China also applies export restrictions on raw materials. Other issues that concern international business in China are the lack of a level playing field for foreigners, subsidies and financing issues, transparency and predictability in government and rulemaking. According to a recent survey, 45% of EU companies operating in China reported missed business opportunities owing to market access and regulatory barriers.

DOCUMENTARY SHEET

Master thesis “THE EU AND CHINESE BELT AND ROAD INITIATIVE:
THE OPPORTUNITIES AND CHALLENGES”,

Elaborated in the Faculty of Business, Management and Economics
of the University of Latvia.

Herewith I confirm by putting my signature that the research has been conducted individually, as well as the fact that only the indicated sources of literature have been used in the paper and that the electronic copy of the paper corresponds to the printout.

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I recommend/do not recommend the paper for defense.

Advisor: Dr.oec., Prof. Tatjana Muravska _____ .____.2017
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