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China's Belt & Road Initiative: nice for China, not for Europe

When it started to happen in Africa, we were cynical. China was offering economic benefits to banana republics with corrupt leaders in exchange for their votes in the UN on matters that were important to China. And these countries accepted the Chinese offer. Ha! It showed their economic weakness and their lack of moral spine. Something like that would never happen in our civilized and principled Europe, we thought then.

Now, we have to think again. In June, Greece blocked the EU from speaking out on human rights abuses in China at the United Nations Human Rights Council in Geneva for the first time. Was that because Greece thinks China is doing fine on human rights? Hardly likely. It is because Greece has become increasingly dependent on the economic benefits China has to offer. There are multiple signs of that. In 2016, Greece was one of the countries that prevented the EU from declaring that China should adhere to a ruling by the International Court of Justice in The Hague regarding China's activities in the South China Sea.

We ourselves fostered the growing Greek dependence on China by forcing Greece to adhere to very strict EU austerity measures that have made the Greek economy shrink by more than a quarter since 2008. During that same period, the economy of Germany grew by almost 10 per cent, thus giving Greece the impression that EU policies were much more in the interest of richer western European members of the EU than in the interest of Greece.

In 2010 it was the EU that forced Greece to privatize as much of its public property as possible in order to pay off state debts. That the harbour of Piraeus, in which the Chinese state-owned company COSCO already had a share, fell into Chinese hands in 2016 has a lot to do with this EU-policy. Why did the EU not decide to help Greece by investing in Piraeus instead, thus serving the interest of the EU in the longer run and drawing Greece closer to its heart? Why did it leave Greece no choice but to accept the Chinese bid? No wonder that Greece might feel it owes more to China than to the EU, and that it also has more to expect from China than from the EU for its future. This should be a warning sign to the EU. Greece is slowly drawn into China's sphere of political influence, partly even against its will, and the EU and its member states have let it happen by sticking to an ideology that combines the promotion of austerity with a stress on the privatization of public goods, an ideology that so far has proven to be counterproductive for growth in Greece.

But of course, China also has an active role in making things like this happen. It is one of the effects of a Chinese policy that is now called the Chinese Belt & Road Initiative. The wanted or unwanted effect of this policy is that it divides Europe and draws individual countries in the east and southeast of Europe away from the EU and into the arms of China.

The Belt & Road is an almost world-spanning Chinese plan to build stronger connections with the outside world, mainly through

infrastructural projects like harbours, railway lines, roads and digital connections. China presents this plan as a great opportunity for the world to develop together with China. China wants to show that it has become the new, benevolent leading force in creating future prosperity and unity for the world. Everybody is invited to join in, but China leads the way. Within Europe, China mainly focuses on cooperation with eastern and southeastern European countries, some of them members and some non-members of the EU.

One might say that there are important strategic factors that make it attractive to join China's Belt & Road Initiative. Isn't it a great opportunity at a time when the US is becoming less involved with Europe? Isn't it good to partner up with a country that is taking over the traditional American role in promoting globalization and free trade? Why not pivot to China? Why be so distrustful and slow when China offers to help the EU?

The Belt & Road could easily turn out to be a trap. The Indian government has recently refused to participate in the Belt & Road. India sees it basically as a colonial Chinese enterprise that may saddle countries with loans they cannot repay, in exchange for infrastructural projects that are not economically viable.

Countries in Europe run the same risk. China has a lot of overcapacity in construction it wants to export abroad. One could see this as a new, more sophisticated form of dumping. Not of just goods this time, but of whole construction projects. Take the 350 kilometres long high-speed railway line between Hungary's capital Budapest and Serbia's capital Belgrade. This project is clearly of interest to China. First, it forms part of the upgrade of the connection between the Greek harbour of Piraeus and China. Goods from China can be exported over this railway line from Piraeus to Central Europe. Second, China can showcase its ability to build high-speed railway connections in Europe. The success of this line has become a crucial part in the whole Belt & Road in Europe and China's president Xi Jinping has connected his personal prestige to it. And third, it can make the participating countries

more loyal to China because of closer economic ties. Thus, the project has both political and economic benefits for China.

But what are the benefits for Hungary and Serbia? The construction costs are an estimated 2.5 billion euro. Who will pay for that? Hungary and Serbia themselves. China's Export-Import Bank offers a loan to Hungary and Serbia they are of course supposed to repay. Interest on the loan is estimated to stand at 2 or 2.5 percent, but the exact agreements have not been made public. The money to repay the loan should ideally come from profits of the exploitation of the railway line and from possible spinoff-effects on the Hungarian and Serbian economy. But will it? Hard to say. The European Commission has its doubts, for one. There are not enough potential passengers in the area to make use of the connection and it is doubtful the transportation of goods will make it profitable in the shorter run.

Many Chinese high-speed projects in other parts of the world have been stalled because of difficulties in financing and doubts about profitability and the export of high-speed rail is described as not very successful by the China Railway Construction Company itself. The main risk China runs is that Hungary or Serbia will default on the loan. China, however, is taking this risk, at least for the time being, because its president has made the success of the Belt & Road a cornerstone of his foreign policy.

The project shows the close, typically Chinese connection between politics and economics, where the two ideally go hand in hand. In practice, though, economic rationale easily loses out to political priorities. Not something we are hoping to see more of in Europe.

Who will construct the line? Chinese companies, mainly. This February, the European Commission has started a probe into the project because it doubts if the tendering process for the Hungarian section of the line has been done according to EU law. According to EU law, big projects like this should have an open and transparent tendering process, where who finances

a projects has nothing to do with who is allowed to construct the project. But according to the rules of the Export-Import Bank, financing is only made available if Chinese companies are involved in its construction. An almost unsolvable contradiction.

Still, Hungary and Serbia want the deal. Why? Partly it is their general view of China as the country of the future, an upcoming economy that offers much more possibilities for cooperation and economic prosperity than the EU does. They have trouble with all the restrictive rules, the hassle and the criticism that come from the EU. Partly it is the hope that the railway line will become profitable in the long run and that it will lead to a wider economic upturn in the region. This hope might come true, like it did when China invested in the harbour of Piraeus, but it is also might not. The reasons to follow through on it anyhow might be more political than economic from the Hungarian side as well: Hungary wants closer cooperation with China because China offers an alternative for the EU.

We should be really worried that EU member states like Hungary and Greece and prospective members like Serbia are more attracted to China than to the EU and should do well to listen better to the needs of these countries. Where does the EU go wrong?

Why is the EU becoming less and less able in convincing its eastern and southern member states of its attractiveness?

This is especially surprising because what China offers the EU should in essence be superfluous. In 2014, the EU has published its own plans for better connecting the north to the south and the east to the west: the trans-European transport network, with funding of around 25 billion euro attached to it. If China wants to be involved in Europe, we should invite China to participate in these European plans based on European needs and rules instead of jumping on the Chinese bandwagon. But the only way this can happen is when first of all the EU member states are convinced that these plans are indeed better for them than the Chinese plans and that they take their needs for development into consideration.

If we join in on the Chinese Belt & Road instead, we will lose out in the end. We will be serving Chinese needs rather than European ones. It will corrupt a free and open tendering process within the EU and it will easily lead to politically tainted projects that will never run a profit or might never even get realized. But most importantly: it will lead to more tensions and divisions in an already divided Europe while China's influence in Europe grows stronger. In exchange for what exactly?

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