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Engaging but not endorsing China's Belt and Road Initiative

China's fondness for memorandums of understanding (MoUs) in its relations with foreign entities is well known. Governments, think tanks and international institutions – including many United Nations organs – are regularly asked by Chinese counterparts to sign such letters of intent for cooperation of some sort. As Europeans discuss the balance of opportunities and challenges of MoUs with China, this Clingendael Policy Brief proposes that inspiration should be drawn from Japan's approach of conditional engagement. While care should be taken not to align one's own priorities with Chinese priorities, MoUs can be a tool to forge cooperative ties with Chinese banks and businesses. Significant commitment to follow up is required to test the real potential for such cooperation.

Never before have Chinese MoUs been the subject of debate as they have been in Europe in recent months. Such MoUs have mostly been considered rather harmless outcomes of official meetings, requested by the Chinese in order to showcase back home some practical output of a visit. Yet the Italian government's intent to sign an MoU to advance jointly the construction of China's grand economic diplomacy strategy, the Belt and Road Initiative (BRI), was different. Despite opposition from within Europe and the United States, the Italian government eventually signed this MoU during Chinese President Xi Jinping's state visit to Italy on 23 March 2019. Even Dutch members of parliament raised critical questions.¹

Italy's BRI MoU with China: why the fuss?

Why is there all the fuss surrounding Italy's signing of this so-called BRI MoU? After all, more than a few countries in Central and Eastern Europe – including Poland and Hungary – signed such an MoU with China back in 2015. Two differences stand out. First, Italy is the first G7 member country to sign. This adds to its symbolic value for China, as the MoUs constitute a rubber-stamp approval of China's BRI. Second, views on China have hardened recently in many parts of Europe. This is symbolised by two documents published by the European Commission in March 2019, meant as input for the growing debate on China's influence in Europe. One, *EU-China: A strategic outlook*, labels China not just as a strategic partner, but also as a systemic rival.² The other, a proposal for a new European Union

1 In its soothing response, the Dutch government refused to condemn Italy and stated that bilateral MoUs between EU member states and China do not necessarily undermine EU unity, as long as member states remain committed to EU agreements; see Ministry of Foreign Affairs of the Netherlands, *Answers to questions by members Amhaouch, Van den Berg and Van Helvert about Italy's intention to join China's Belt and Road investment programme*, April 2019 (in Dutch), available [online](#).

2 European Commission and HR/VP contribution to the European Council, 'EU-China: A strategic outlook', 12 March 2019, available [online](#).

(EU) industrial policy,³ sets out to strengthen Europe's tools for dealing with the challenges while reaping the opportunities stemming from China. This includes measures to create a European investment screening mechanism (now being implemented), as well as steps to deal better with government subsidies and update the export controls regime (which are in an earlier phase of development).

The chagrin of many in Brussels about individual EU member states signing BRI MoUs lies in the MoUs' potential to align these countries' priorities with those of China. This potentially undermines EU unity and cooperation, for instance when the EU is negotiating a trade deal with China. Fundamentally a letter of intent, the Chinese side will often try to turn an MoU into a concrete commitment when it suits them, and ignore it when it does not. As such, MoUs often benefit China much more than they benefit other countries.

Importantly, the debate in Europe on BRI MoUs (mostly with potential recipient countries of Chinese infrastructure projects) should be matched by more discussion on another set of MoUs being advanced by the Chinese government with advanced economies: MoUs for business cooperation with Chinese companies in third countries. These have received much less attention, but important lessons may be drawn from these MoUs as well.

Symbolic importance to China

Several of the seventeen Central and Eastern European countries engaging with China under the (now) 17+1 Framework can attest to this: all have signed MoUs, but Chinese promises often remain unfulfilled. Poland, for example, is highly disappointed with the slow and ineffective progress of bilateral cooperation within the framework. Yet the Chinese government's behaviour should be no surprise; this is how more-powerful actors

can be expected to behave in cases of power asymmetry. However, the consequences of aligning one's priorities with China should act as a note of caution for the enthusiasm with which governments sign a BRI MoU. After all, such MoUs hold significant symbolic value for the Chinese side.

So the real question is: can governments and other stakeholders engage with China's BRI without endorsing it in full? Here, Europeans stand to benefit from a closer look at Japan's experience and policies in this regard. After all, the Japanese government has walked the fine line with China between cooperation and resistance for many years longer than Europe. Fundamentally, Tokyo has been consistent in its attempts to engage China – but on its own terms.

Japan's conditional engagement

The common understanding of the BRI in the Japanese academic community and government is that it is a diplomatic strategy initiative of the Chinese government, while at the same time the slogan of an order that establishes Xi Jinping's political authority. The Japanese government therefore deems it unnecessary to express support for the BRI.

Set against this background, the Japanese government's evaluation of the BRI and its policy regarding cooperation with it are formulated in wordings that have been carefully considered. Japanese Prime Minister Shinzo Abe's conditional support for China's initiative at the 22nd International Conference on the Future of Asia, held in Tokyo in June 2017, illustrates this. Abe then recognised the BRI as having the potential to connect East and West as well as the diverse regions found in between. At the same time, he proposed several principles regarding cooperation with the BRI. First, infrastructure should be open for use by all, and be developed through procurement that is transparent and fair. Furthermore, projects should be economically viable, financed by debt that can be repaid and not harm the soundness of the debtor nation's finances. Prime Minister Abe added his expectation that the BRI would fully incorporate such a common frame of thinking, be in harmony

3 European Political Strategy Centre, *EU industrial policy after Siemens–Alstom: Finding a new balance between openness and protection*, March 2019, available [online](#).

with the free and fair trans-Pacific economic zone, as well as contribute to the peace and prosperity of the region and the world. Thus, while recognising the BRI's potential, the Japanese government set clear conditions for lending support to the initiative, and at the same time outlined the necessary requirements for Japan's engagement with it.

Europe's other MoUs: third market cooperation

In Europe, Chinese Premier Li Keqiang had called for 'trilateral cooperation' between European and Chinese companies on the sidelines of the EU-China summit in 2015. Although the language has changed since then, the objective still stands, and several practical steps towards this end have been taken, with varying and oftentimes unknown outcomes.

At the EU level, the EU-China Connectivity Platform was initiated in 2015 and the EU-China Co-Investment Fund was signed between the European Investment Bank (EIB) and the Silk Road Fund. Since then, both sides have discussed the coordination of projects (especially in Central and Eastern Europe), transparency (of planning and contracts) and possible cooperation in the Connectivity Platform – with limited success. In the eyes of European officials, China is still not ready to connect on project finance regulation.

Separately, several European players have signed bilateral MoUs with China. Most remarkable among these may be the MoU between Germany's Siemens and China's Belt and Road Construction Promotion Center, which was signed in the presence of Germany's Chancellor Angela Merkel and China's President Xi in 2017. This business-to-government MoU focuses on the application of digital technologies for the BRI. Several European governments have also signed MoUs for economic cooperation in third markets. In September 2018, for example, Italy's Ministry for Economic Development (MISE) and the Chinese National Commission for Development and Reforms (NDRC) signed an MoU

on collaboration in third countries, with Africa as the prime continent.

On the occasion of Chinese Premier Li Keqiang's visit to the Netherlands in October 2018, China's Ministry of Commerce and the Dutch Ministry of Foreign Affairs signed an MoU on strengthening cooperation in third markets. According to the MoU, the two parties will establish a working group to support and promote the two countries' enterprises to conduct cooperation in a third-party market. While the MoU does not mention the BRI, it does include EU 'connectivity speak' in stating that projects under this MoU should be economically, environmentally and socially sustainable, with high standards of transparency and good governance.

Although the Chinese government's push for MoUs with a diverse set of European actors is evident, real follow-up and, hence, practical successes are more difficult to find. For example, as of May 2019, no follow-up has been given to the China-Netherlands MoU. Even the working group has yet to be established. Does this suggest work in progress? Hardly so. More likely, it signals a lack of interest, ability and opportunity perceived by both sides. While the limitations imposed by the sheer (market-based) reality on the ground may explain the hesitation of the Dutch government to adopt a facilitative role, it also suggests failure on the Dutch side to consider this as an opportunity to engage Chinese players on the ground. By contrast, as discussed below, the Japanese government has acted on the opportunity, albeit with disappointing results.

MoUs as tools to strengthen economic relations?

The Japanese government believes that it is important in Japan's foreign policy towards China to strengthen economic relations and to separate the economy from politics. It wants to create a mechanism that prevents the deterioration of political relations from affecting economic relations. Tokyo thinks that signing an MoU will deepen the integration of economic relations. By signing

a ‘third countries business cooperation MoU’ (like the China-Netherlands MoU) Tokyo has shown that countries need not sign up to the BRI to cooperate with China. Also, Japan has shown that a ‘BRI MoU’ (like the one signed between Italy and China) and ‘third countries business cooperation’ are different things – even if the Chinese government and the Chinese Communist Party most likely consider them to be two of a kind.

In May 2018 the Japanese and Chinese governments signed an MoU on business cooperation in third countries. This MoU does not mention the BRI, but does include an agreement to set up a public-private committee to promote cooperation in third countries. As such, it may be regarded as an attempt to cooperate in countries where China might also push its BRI. The symbolic value to the Chinese government of the language and concepts included in the MoUs is illustrated by the informal account of the negotiations of this MoU by one of the Japanese officials involved: when Japanese negotiators proposed to Chinese representatives that its preferred ‘Free and Open Indo-Pacific’ (FOIP) vision be mentioned in the MoU – next to China’s BRI – the Chinese side reportedly preferred to leave out reference to the BRI and to FOIP entirely.⁴ The rational decision of both sides not to mention the FOIP or the BRI in the MoU can be interpreted as a sign of a shared understanding by both governments that deepening economic ties would contribute to a more stable relationship between the two countries.

Both sides moved swiftly with their attempts to stimulate business cooperation in third countries. A seminar was held in Bangkok at the end of May 2018 and an infrastructure cooperation forum was held in October 2018 on the sidelines of the China-Japan Summit in Beijing. An MoU was then signed for 52 specific projects. Despite the government push, practical cooperation proved difficult. Cooperation on the Thai railroad collapsed in December 2018 when ‘risk concerns’ caused

Japanese companies Itochu and Hitachi to back out of the team led by the Thai conglomerate CP Group, which also included China Railway Construction.⁵ The commercial viability of the costly high-speed railway was in doubt because of weak forecasts for demand, and most of that burden was to be shouldered by the private sector.

In terms of outcomes, Japan’s ‘third country cooperation MoU’ is so far just as disappointing as some ‘BRI MoUs’ and EU attempts to further on-the-ground cooperation (or at least coordination) with the Chinese side. This should serve as a reality check for other developed partners – including Italy and the Netherlands – that agree to greater cooperation on infrastructure projects with Chinese companies.

Cooperate, coordinate and forge synergies

Summing up, what stands out is that Japan’s conditional engagement with China has resulted in an MoU on business cooperation in third countries that mentions neither the BRI, nor Japan’s preferred ‘Free and Open Indo-Pacific’. European governments that do want to cooperate with China on infrastructural connectivity should do the same, by making the signing of an MoU conditional on reference not just to China’s BRI but also to Europe’s *Euro-Asia Connectivity Strategy*, which emphasises sustainable, comprehensive and rules-based connectivity. Or they should have China agree not to mention either, similar to the China-Netherlands MoU.

Japan’s example indicates that carefully negotiating an MoU with China will reduce the symbolic value to China, while still allowing for cooperation. It also shows that significant commitment to follow up is required to test the real potential for business cooperation. European countries seem to

4 Author’s informal communication with a Japanese diplomat, 29 November 2018.

5 Toru Takahashi, ‘Sino-Japanese cooperation thrown off track over Thai rail project’, *Nikkei Asian Review*, 16 December 2018, available [online](#).

have done little in this regard. Surely, this is because of the limited role that Japanese and European governments can actually play to facilitate cooperation. Unlike in China, private companies' activities are, after all, independent of government priorities, and with market-based cooperation as a guiding principle, private companies will take opportunities as they arise, irrespective of a government's impetus.




The limited success of the MoU in terms of furthering cooperation between Japanese and Chinese companies in third countries

should not, however, be a reason to steer away from such cooperation. Rather, it should serve as impetus for continued attempts at engagement as well as reinforced cooperation between like-minded countries. Public reports about successes and failures in this regard may be one of the more promising avenues to steer the practices of Chinese banks and businesses towards more transparency and a more sustainable approach. Now is the time for exchange of best practices, and cooperation and coordination in this regard, between Japan and the EU and its member states.

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www.clingendael.org
info@clingendael.org
+31 70 324 53 84

 @clingendaelorg
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About the authors

Maike Okano-Heijmans is a Senior Research Fellow at the Netherlands Institute of International Relations 'Clingendael' in The Hague. She is a Scientific Coordinator of the Asia-Pacific Research and Advice Network (#APRAN) for the European Commission and the European External Action Service.

Tomoki Kamo is a Professor of Chinese Politics and Foreign Policy at the Faculty of Policy Management at Keio University, and Vice-Chair of the Center for Contemporary Chinese Studies at Keio University, Japan.