

NEW SILK ROADS: THE NEED FOR EFFECTIVE COOPERATION BETWEEN THE EU AND CHINA

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Abstract

Investment in infrastructure, especially network infrastructure, testifies to the basic human need to connect. The connections may be built and managed to alter economic and geopolitical equilibria. The progress of the gigantic Chinese infrastructural project known as the Belt and Road Initiative (BRI) rang an alarm bell in the EU. The BRI may pose a risk to political cohesion within Europe and to EU policy with neighbouring countries. Accordingly, the EU has proposed a major project of its own that clarifies the European commitment to infrastructural investment. While it too has connectivity objectives, it is smaller in scope and distinct in approach. These differences reflect the value sets underlying the Chinese and European socioeconomic models. Cooperation under market-based rules has shown limitations owing to decisions of both the Chinese and some EU governments in violation of the spirit of the cooperation. Nevertheless, the Eurasian infrastructure gap is such that the two sides should cooperate effectively to turn a potential clash into a win-win outcome.

Introduction

Infrastructure is a broad term, embracing physical structures of various types mainly used by industries as inputs for the production of goods and services.¹ This encompasses “social infrastructure” (such as schools and hospitals) and “economic infrastructure” (including network utilities like transport facilities, energy transmission, water, and telecommunications).

Global investment in economic infrastructure currently amounts to 4% of GDP, or 2.6 trillion USD annually. In order to maintain current GDP growth, however, this must, as forecast, rise to 3.7 trillion USD² annually, 1.5 trillion of which for the 45 developing member countries of the Asian Development Bank.³

This urgent investment requirement derives mostly from ailing infrastructure in the developed countries, rapidly growing population in the developing world, and the universal demand for economic development.

Part of this investment stems directly from the human propensity for connection. Connectivity is necessary to make transactions, to manage organizations and to exploit the comparative advantages of different economic agents. Hence, in principle connectivity can

¹ Chris Chan, Danny Forwood, Heather Roper, Chris Sayers, “Public Infrastructure Financing: An International Perspective”. Productivity Commission Staff Working Paper (2009).

² McKinsey Global Institute, “Bridging infrastructure gaps: Has the world made progress?” Discussion Paper (2017).

³ Asian Development Bank, “Meeting Asia's Infrastructure Needs”, Report (2017).

improve the overall welfare of the economic agents who are connected. This is why the current trend is towards increasing global connectivity, not creating means of separation.⁴

Infrastructure overcomes the hurdles of both natural and political geography. Mapping these obstacles reveals that the old era of organization according to political space (how we subdivide the globe juridically) is giving way to a new era of organization according to functional space (how we actually use it).

In defining the functional space, the nationality of the economic agents involved in the infrastructure investment and in the management of the resulting services may not be neutral; nor that of the policy maker that sets the ‘rules of the game’, especially when geopolitics is at stake.

Perfect connectivity can equalize, in theory, bilateral relationships making interdependence ‘contestable’. However, connectivity can be unbalanced (*e.g.* due to unequal bargaining power and to ‘preferential attachment’ whereby agents prefer to connect to peers with the most connections) and can magnify risks (as popularised in faunal explanations that trace the incalculable effects of the flapping of a

⁴ Parag Khanna, *Connectography: Mapping the Future of Global Civilization*. New York: Random House, 2016. Parag Khanna, “Connectivity and the Future of Geopolitics”. ISPI Commentary, 29 October 2018.

butterfly's wing⁵ or the mistaken belief in the non-existence of the black swan).⁶

The globe-spanning infrastructural projects known as Belt and Road Initiative⁷ (BRI), One Belt One Road (OBOR), and the new (maritime) Silk Road have been analysed extensively due to their evolving design, colossal size and geopolitical implications.

While Chinese institutions have not yet published either an official map or a complete list of the projects planned under the BRI, the evidence available and the projects announced make it clear that it could alter the geopolitical equilibrium in the Eurasian land mass. On the one hand, the BRI offers additional connectivity to Europe and an opportunity to dilute Chinese influence across the region⁸; on the other hand, this opportunity might turn instead into a risk if the BRI should permeate the cracks in a weaker Europe.⁹

What is clear is that connectivity, by broadening the scope of competition and cooperation, is a driver of growth. The BRI has the potential to reduce trading costs¹⁰ and accelerate economic growth in

⁵ Edward Lorenz, who was a pioneer of chaos theory, originated the expression 'butterfly effect' for the way in which huge changes in outcome may result from tiny changes in initial conditions.

⁶ *The Black Swan* is a 2007 book by Nassim N. Taleb that focuses mainly on the extreme impact of rare and unpredictable outlier events.

⁷ This article refers to BRI, which is the name most recently used by Chinese government sources.

⁸ Parag Khanna, *The Future is Asian*. London: Orion, 2019.

⁹ Robert David Kaplan, *Return of Marco Polo's World: War, Strategy, and American Interests in the Twenty-first Century*. New York: Random House, 2018.

¹⁰ Francois de Soyres, Alen Mulabdic, Siobhan Murray, Nadia Rocha and Michele Ruta, "How Much Will the Belt and Road Initiative Reduce Trade Costs?" World Bank, Policy Research Working Paper 8614 (2018).

Europe (though it will still be slower than in other regions),¹¹ with an asymmetric distribution of gains in favour of urban hubs near border crossings.¹² Though much attention has been devoted to the opportunities for increased trade, the expected positive impact of BRI may be undermined by the clash of different economic models – the European market economy vs. Chinese non-market economy¹³ - and by China’s bilateral relations with European states, breaking the political unity of the European Union (EU).¹⁴

¹¹ Maryla Maliszewska and Dominique van der Mensbrugge, “The Belt and Road Initiative, Economic, Poverty and Environmental Impacts”. World Bank, Policy Research Working Paper 8814 (2019). Xin Wen, Hoi-Lam Ma, Tsan-Ming Choi, Jiu-Bing Sheu, (2019), “Impacts of the Belt and Road Initiative on the China-Europe trading route selections”. *Logistics and Transportation Review* 122 (2019).

¹² Somik V. Lall and Mathilde Lebrand, “Who Wins, Who Loses? Understanding the Spatially Differentiated Effects of the Belt and Road Initiative”, World Bank, Policy Research Working Paper 8806 (2018). Hui Lu, Charlene Rohr, Marco Hafner, Anna Knack, “China Belt and Road Initiative. Measuring the impact of improving transportation connectivity on trade in the region”, RAND (2018).

¹³ Erik Brattberg and Etienne Soula, “Europe’s Emerging Approach to China’s Belt and Road Initiative”. Carnegie Endowment for International Peace (2018). Citi, “China’s belt and road at five. A progress report” (2018). Bruegel, “The Belt and Road turns five”. Policy contribution (2019). Bruegel, Chatham House, China Center for International Economic Exchanges and The Chinese University of Hong Kong, “EU–China Economic Relations to 2025 Building a Common Future”. A joint report (2017). OECD, “China’s Belt and Road Initiative in the Global Trade, Investment and Finance Landscape”, Business and Finance Outlook (2018). Ulrich Paetzold, “Construction of infrastructure in Europe”. In: Carlo Secchi and Stefano Riela (eds.) *Infrastructure for growth: how to finance, develop, and protect it*. ISPI report (2019).

¹⁴ Astrid Pepermans, “China’s 16+1 and Belt and Road Initiative in Central and Eastern Europe: economic and political influence at a cheap price”. *Journal of Contemporary Central and Eastern Europe* 26 (2018), p. 181. Andreea Brinza, “How China Blew Its Chance in Eastern Europe. Seven years on, the 16+1 project has largely flopped”. *Foreign Policy*, Argument (2019). Dragan Pavličević, “A Power Shift Underway in Europe? China’s Relationship with Central and Eastern Europe under the Belt and Road Initiative”. In: Li Xing (ed.) *Mapping China’s ‘One Belt One Road’ Initiative*. International Political Economy Series. Palgrave Macmillan, 2019.

This paper contributes to the literature by focusing on how the differing European and Chinese economic models' impact on the main phases of the infrastructure lifecycle. Section 1 provides an overview of the BRI; Section 2 presents the commitment of the EU; Section 3 analyses the different approaches taken by EU and China to the main phases of the infrastructure lifecycle (project planning and design, construction, and management of the completed structure). Section 4 concludes.

1. The Belt and Road Initiative: Not Just Cement

The BRI was announced by Chinese President Xi Jinping in 2013 as a plan to connect Asia, Africa and Europe, but since then the initiative has developed into a catchphrase to describe practically every aspect of China's engagement abroad.¹⁵

The project consists of two main components: 'Belt' refers to the historical Silk Road¹⁶ from China through Central Asia to Europe; 'Road' refers to a maritime connection from southeast Asia to Europe involving the Indian Ocean, the Middle East and the east coast of Africa. The conclusion of this grandiose infrastructural project is scheduled for 2049, the centenary of the founding of the People's Republic of China.

¹⁵ Even sponsoring scholarships in BRI countries is, for *The Economist*, part of the Chinese project (see "Why China is lavishing money on foreign students", 26 January 2019).

¹⁶ The Silk Road was a network of trade routes named after the lucrative silk carried out from the east to the west. One of the most well-known Europeans to travel the *silk road* in Medieval times was *Marco Polo* (1245-1324), who reached further than any of his predecessors, by going beyond Mongolia to China.

The BRI promotes various types of infrastructure such as railways, motorways, ports and pipelines. As to the countries to be connected, the boundaries are 'elastic', since in the Chinese view any country that wants to be part of the initiative is welcome.¹⁷ However, according to the numerous articles on the BRI,¹⁸ the project is significant for its economic and geographic dimensions: investment of 1 trillion USD is to be channelled to over 70 countries representing more than 30% of world GDP, 62% of population, and 75% of known energy reserves.

The strengthening of connections thanks to improved infrastructure and the lowering of tariff and non-tariff barriers to trade is a physiological necessity given economic integration between east and west. Since trade with major markets is mainly by sea, goods produced in western China are costlier, as they have to reach Chinese ports on the Pacific. The BRI should foster the spread of the export miracle from the industrial regions in the south of China to the poorer, landlocked northern and western provinces, which suffer from weak trade connections.¹⁹ More westbound trade could offset rising

¹⁷ On 27 March 2017, New Zealand and China signed a non-binding Memorandum of Arrangement under which the countries agreed to work together in specified areas including developing a pathway for cooperation and exchanges to support the BRI.

¹⁸ In the BRI's official web portal <https://eng.yidaiyilu.gov.cn> it is not easy to find updated data on the size of the project. The data shown above has been provided by the World Bank ("Belt and Road Initiative", 29 March 2018), the European Parliament ("The new Silk Route - opportunities and challenges for EU transport". Research for TRAN Committee, 2018, and the EBRD website.

¹⁹ Richard Ghiasy and Jiayi Zhou, "The Silk Road Economic Belt: Considering security implications and EU-China cooperation prospects" 2017.

protectionism in the U.S.²⁰ and strengthen regional value chains,²¹ with China specialising in higher value-added activities and moving low-skilled, labour-intensive manufacturing to other countries.

Figure 1 – A Map of the Belt and Road Initiative



Source: Mercator Institute for China Studies (Merics)

²⁰ The U.S. launched an investigation into Chinese trade policies in 2017 and imposed tariffs on billions of USD worth of Chinese products and China retaliated in kind. However, both countries expressed the intention to negotiate a deal and to halt further tit-for-tat tariffs.

²¹ A value chain is the full range of activities that firms engage in to bring a product to the market, from conception to final use, from design, production, marketing, logistics and distribution to (after-sales) support to the final customer). Global and regional value chains are the natural offspring of globalization since activities are fragmented and dispersed across countries, mainly thanks to the reduction of transport, trade and investments costs and the specialization of firms and countries in tasks and business functions.

With reference to trade flows, China is the EU’s second-leading export market (Figure 2) and its leading source of imports (Figure 3); in both cases, China’s role relative to the EU’s other major trading partner, the U.S., is growing.

Figure 2 – EU-28 exports in value (% of total extra-EU exports)

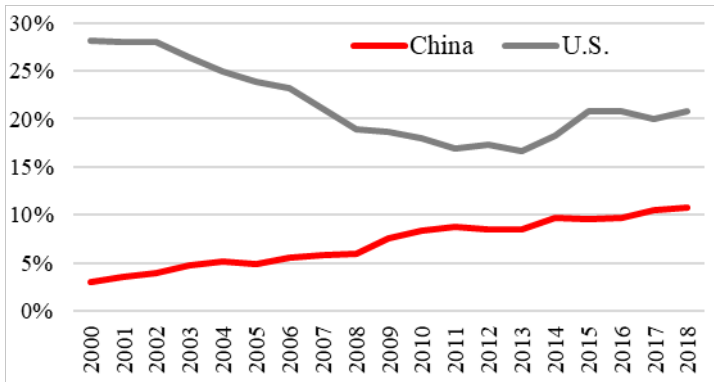
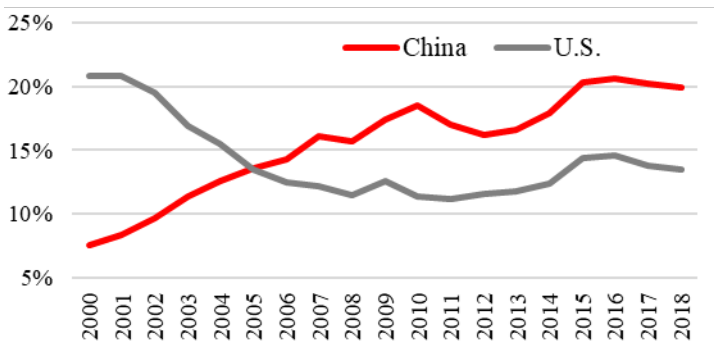


Figure 3 – EU-28 imports in value (% of total extra-EU imports)



Source: Eurostat

Railway traffic from China to Europe is surging;²² 48 Chinese cities have launched 65 freight routes, reaching 14 countries and more than 40 cities in Europe in 2018,²³ with Duisburg, Germany, as distribution hub.²⁴ More than two-thirds of the freight trains run from China to Europe, reflecting China's overall trade surplus with the EU.²⁵ Yet 70% of trade is still by sea, and over 25% by air. Shipping time from China to Central Europe by sea is some 30 days. Shipping time by train is about half that, but much costlier with the current infrastructure. Therefore, improving the capacity and reach of rail infrastructure could radically change shipping times. Meanwhile, given that rail transport will remain costlier than maritime for these routes, the time and cost reduction will have significant consequences for certain goods, impacting on choices of transport mode and total flows of international trade.

Along with trade, China's growing economic presence in Europe is signalled by the fact that the EU is now one of the prime destinations for Chinese foreign direct investment (FDI).²⁶ Annual FDI from China in the EU-28 soared from 700 million EUR in 2008 to 35

²² China's Daily, "Trips made by China-Europe freight trains surge in 2018". 14 December 2018.

²³ Xinhuanet, "Across China: China-Europe freight train service expanding under Belt and Road Initiative", 9 April 2019.

²⁴ Deutsche Welle, "In Duisburg, China expands trade influence in Germany". 16 June 2019.

²⁵ Jakub Jakóbowski, Konrad Popławski, Marcin Kaczmarek, "The Silk Railroad. The EU-China Rail Connections: Background, Actors, Interests". OSW Centre for Eastern Studies number 72 (2018).

²⁶ Rodhium Group and Merics, "EU-China FDI: Working Towards Reciprocity in Investment Relations". Papers on China n. 3 Update May 2018.

billion EUR in 2016. This unparalleled rise was partially clouded over in 2017-2018 by the drop in Chinese investment in the EU owing to China's regulatory crackdown on capital outflows and stricter screening of FDI in some EU member states.

2. The EU's Answer to BRI

On 19 September 2018, the EU presented its proposal "Connecting Europe and Asia".²⁷ The proposal was approved by the Council on 15 October 2018²⁸ in the view of the 12th Asia-Europe Summit (ASEM, of which China is a member), held on 18 and 19 October 2018.²⁹

Some aspects reveal the ambitious strategic aim for this EU project: 1) very rapid approval, 2) the budget commitment, considering that the EU was about to suffer a reduction of resources with the exit of the United Kingdom, a net contributor to the budget,³⁰ 3) the EU connectivity objectives that are apparently similar to the Chinese.

²⁷ European Commission and High Representative of the Union for Foreign Affairs and Security Policy, "Joint Communication: Connecting Europe and Asia - Building blocks for an EU Strategy". JOIN (2018) 31 final.

²⁸ Council of the EU, "Connecting Europe and Asia – Building blocks for an EU strategy - Council conclusions". 15 October 2018.

²⁹ The summit brought together leaders of 51 European and Asian countries, EU representatives, and the Secretary General of the Association of Southeast Asian Nations (ASEAN).

³⁰ The UK's departure leaves a 'hole' in the EU annual budget of about 12-13 billion EUR a year; to partially fill that gap, the Commission has proposed that other countries should 'chip in' more in the next Multiannual Financial Framework covering the period 2021-2027. That proposal was not welcome by wealthier countries, such as the Netherlands, Austria, Denmark, and Sweden, as reported by Politico.eu in "5 big EU budget headaches" (17 December 2018): "*Their informal slogan is 'a smaller EU, a smaller budget'.*"

The European response to the BRI can be explained if one examines the Chinese project not only for its admittedly impressive quantitative data or for the potential benefits of transport infrastructures that converge, overland and by sea, in Europe. The BRI also represents one of the main foreign policy instruments in the new Chinese era of by Xi Jinping's presidency, with its aim of expanding China's political influence³¹ leveraging on the size of the economy. In the span of just a few years China has become the third largest economy in terms of GDP, drawing ever closer to the United States and almost on a par with the EU (Figure 4).

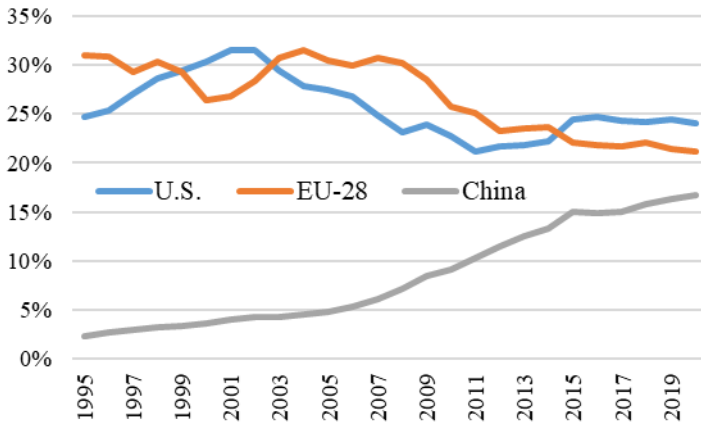
Apart from its size, China is perceived as a partner requiring special attention, as it seems 'sceptical' of the benefits of the market economy, *i.e.* the EU model.³² For this reason, when it entered the World Trade Organization in 2001 China was classed as a non-market economy (NME). According to the WTO, in NMEs "*the government has a complete or substantially complete monopoly of its trade and where all domestic prices are fixed by the State.*"³³

³¹ Financial Times, "Belt and Road is globalisation with Chinese characteristics", 3 October 2018.

³² The Treaty on EU (art. 3, par. 3) states that the EU is a social market economy based on the experience that the market mechanism is the most efficient way to meet consumer demand for goods and services. However, public intervention is necessary to set the "rules of game", to support poorer regions, to protect vulnerable people and the environment.

³³ WTO, "Technical Information on anti-dumping".

Figure 4 – GDP at current prices (% of world total)



Source: IMF, World Economic Outlook, April 2019

For the European Commission,³⁴ China is an NME owing “to the extensive system of plans issued and followed up by various levels of government under the leadership of the Chinese Communist Party, the extensive State-owned sector with its numerous State-owned enterprises including the various supervision and control mechanisms, the financial market, the procurement market and the system of investment screening.”

When globalisation was mainly trade-based, the conditions for admitting an NME to the WTO were trade-related. In particular,

³⁴ European Commission, “Significant distortions in the economy of the people’s republic of china for the purposes of trade defence investigations”, Staff Working Document SWD (2017) 483 final/2.

WTO countries importing from NMEs can adopt heftier antidumping³⁵ tariffs by comparing the price of NME exports with those of higher-priced third countries. And after 18 years since its admission to the WTO³⁶, EU still considers China to be an NME.³⁷ However, since globalisation has coupled trade with direct investment to develop global value chains, the concerns can no longer be confined to the simple triad: exports, dumping and countervailing antidumping tariffs.

Due to the government's role in the Chinese economy, there is a risk that foreign investors could acquire control of European undertakings in order to get access to critical technologies, infrastructure, inputs, or sensitive information³⁸ and so pursue the government's "Made in China 2025" plan to use subsidies and protection to create world leaders in key industries.³⁹ This risk arises especially, but not only, when foreign investors are State-owned or State-controlled or State-influenced. To counter it, in 2019 the EU

³⁵ According to the WTO, "*dumping is, in general, a situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country*".

³⁶ China became a member of the WTO on 11 December 2001.

³⁷ See the US and EU position regarding China's status in the WTO as reported by The Economist in "China takes on the EU at the WTO" (7 December 2017).

³⁸ European Commission, "Welcoming Foreign Direct Investment while protecting Essential Interests", COM (2017) 494 final.

³⁹ Jost Wübbeke, Mirjam Meissner, Max J. Zenglein, Jaqueline Ives and Björn Conrad, "Made in China 2025. The making of a high-tech superpower and consequences for industrial countries", Merics Papers on China n. 2 (2016). Robert Kalcic, "Is China's innovation strategy a threat?". Bruegel (2017).

adopted a coordination mechanism⁴⁰ to complement national procedures for screening FDIs that might raise security or public order concerns.

Moreover, China could become a threat to the relations that the EU is developing with partner countries in the European Neighbourhood Policy⁴¹ and even, more importantly, to the harmony within the EU itself that is essential to common decisions in such sensitive areas as foreign and security policy. The Memorandum of Understanding (MoU) that China signs with individual EU member under the BRI umbrella might align these countries' priorities with those of China, making the MoUs a 'Trojan horse'.⁴²

In short, the EU answer to the BRI is a way to counterbalance the investment of a country whose economic size and model could be a hindrance to the core aim of EU, *i.e.* guaranteeing a market-based model at home and promoting it worldwide, within the WTO and through a network of agreements.

3. The Significant Differences between the Chinese and European Projects

Despite the similarities in ambition and in actual infrastructural projects, China's BRI and the EU's answer differ significantly in

⁴⁰ Regulation (EU) 2019/452 of 19 March 2019 establishing a framework for the screening of foreign direct investments into the EU.

⁴¹ This is a privileged relationship that the EU offers to its neighbours - both on the Eastern and the Mediterranean sides - based on partnership and cooperation agreements and, more recently, with association agreements.

⁴² Financial Times, "Chinese premier says Beijing is committed to free trade with Europe", 12 April 2019.

approach to the main phases of the infrastructure lifecycle: project design and planning, construction, and management.

3.1. The Planning Phase

Planning starts by defining objectives, identifying problems, evaluating alternatives, and developing plans. This process should envisage negotiation among the public authorities of the countries involved; and in negotiations, bargaining power matters.

Attractive financing conditions offered by Chinese financial institutions might be an incentive for EU members as well as the EU's neighbours to prioritise transport infrastructure projects (and national funds) that are not part of the Trans-European Network⁴³ (TEN-T). If European States prefer to allocate national funds to BRI projects instead of the TEN-T ones already planned, the completion of the European transportation network may not be guaranteed.

This is the risk that the EU is running due to proactive Chinese bilateral diplomacy in Europe mainly within the so-called 17+1 initiative. This group, established since 2012, comprises the “1” – that

⁴³ TEN-T is a set of linear infrastructure (railways, roads and waterways) and nodal infrastructure (urban nodes, ports, logistic platforms, and airports), which cover all the current 28 Member countries and some neighbouring countries under the Eastern Partnership. This is a partnership established in 2009 between the EU and six countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) to cooperate, among other areas, in the field of transportation.

is, China – and the “17” – namely 12 EU members in Eastern Europe and 5 Balkan countries involved in the EU enlargement process.⁴⁴

The eastern European countries all have a powerful need for infrastructure, and in their view EU, national and private resources⁴⁵ are not sufficient to fill the gap, while the mix of Chinese assets and local ‘soft skills’ would be.⁴⁶ We have seen the effect of this influence recently, for example, in the Czech Republic, Hungary and Greece, where gratitude to China has outweighed the interest in political unity within the EU or consistency in national foreign policy.

Chinese investment in the Czech Republic has increased significantly in the last three years, in particular thanks to CEFC China Energy⁴⁷, later taken over by the state-owned Citic Group, which acquired a significant portfolio in various Czech firms.⁴⁸ It is no coincidence that Czech President Miloš Zeman has offered support

⁴⁴ The 17 countries are: Albania, Bosnia Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.

⁴⁵ For Bruegel, among the main reasons those countries have a low capacity to attract resources due to “*the high-risk and uncertain return associated with long-term investment in environments with weak governance, volatile macroeconomic and political conditions, and fragile public finances.*” See “The Belt and Road turns five”. Policy contribution (2019).

⁴⁶ For Erik Brattberg and Etienne Soula, these eastern European countries generally have regulatory environments that are “*more favourable to China than those in Western Europe*”. See “Europe’s Emerging Approach to China’s Belt and Road Initiative”. Carnegie Endowment for International Peace (2018).

⁴⁷ Foreign Policy, “Prague Opened the Door to Chinese Influence. Now It May Need to Change Course”, 16 March 2018.

⁴⁸ CEFC China has made a wide array of investments in the Czech Republic, including: a stake in the banking and private equity giant J&T, Charter airline Travel Service and the national carrier Czech Airlines; brewery group Lobkowicz; hotels and office buildings; the machinery firm Zdas, and first-division soccer club Slavia Prague.

in turning his country into an “*unsinkable aircraft-carrier of Chinese investment expansion*” in Europe.⁴⁹ Meanwhile, the Czech Republic demonstrated its friendship with Beijing by banning a pro-Tibet demonstration during President Xi’s visit to Prague (thus abandoning its long-standing commitment to human rights) and seeking, within the Council of the EU, to narrow the scope of the regulation to coordinate FDI screening in the EU.⁵⁰

Hungary was one of the first European countries to develop bilateral relations with China to improve and expand trade and investment. A milestone was the approval by China, Hungary and Serbia of a plan to modernise the Belgrade-Budapest railway⁵¹ to facilitate the delivery of Chinese goods to Europe from the Chinese-owned port of Piraeus.⁵² Hungary expressed its gratitude when, in 2016, together with Greece and other countries, it blocked direct reference to China in an EU statement about the ruling by the Permanent Court of Arbitration in The Hague that quashed Chinese legal claims in the South China Sea.⁵³ Moreover, Hungary was the

⁴⁹ The Economist, “Chinese investment, and influence, in Europe is growing”, 4 October 2018.

⁵⁰ See footnote 42.

⁵¹ The planned railway, which could cut journey times from Belgrade to Budapest down to about three hours from the current eight, is also important to China since it comprises a crucial section of a so-called “Land Sea Express Route”, which China agreed in 2014 to build with Hungary, Serbia and Macedonia.

⁵² Tamas Matura, “Chinese Investment in Hungary: Few Results but Great Expectations”. In: John Seaman, Mikko Huotari, Miguel Otero-Iglesias (eds), *Chinese Investment in Europe: a country-level approach*. IFRI, Elcano Royal Institute, Merics (2017).

⁵³ Reuters, “EU’s statement on South China Sea reflects divisions”, 15 July 2016.

only country in the EU-28 whose ambassador did not endorse a report⁵⁴ issued in April 2018 underlining the risks of the BRI since it “runs counter to the EU agenda for liberalising trade, and pushes the balance of power in favour of subsidised Chinese companies.”

In 2016, the state-owned China Ocean Shipping Company (COSCO) acquired a 51% stake in the Piraeus Port Authority, gaining control of the largest harbour in Greece. Since the Chinese acquisition, the port has experienced unprecedented growth thanks to new technologies and improvements to collateral infrastructure. In six years, port traffic has grown by 300%; Piraeus is now one of the most important ports in Europe, an access point for what the Chinese call “Land-Sea Express Route”, a network of railway connections that should link the port to the western Balkans and to northern Europe⁵⁵. Greece found a way to be grateful in 2017 by, surprisingly, blocking an EU declaration to the UN criticising China’s human rights violations⁵⁶, and it eventually joined the 16+1 group as the 17th European member in 2019.⁵⁷

Yet China’s diplomatic activity in the European continent goes beyond the 17+1 and has already penetrated the eastern border. China signed MoUs with Portugal in December 2018 and Italy in March 2019, to foster cooperation under the umbrella of the BRI. Chinese

⁵⁴ Handelsblatt, “EU ambassadors band together against Silk Road”, 17 April 2018.

⁵⁵ Shivali Pandya and Simone Tagliapietra, “China’s Strategic Investments in Europe: The case of maritime ports”, Bruegel (2018).

⁵⁶ Reuters, “Greece blocks EU statement on China human rights at U.N.”, 18 June 2017.

⁵⁷ Kathimerini, “Greece joins China’s 16+1 initiative”, 12 April 2019.

firms have been investing in Portugal since the financial crisis (Energias de Portugal Fidelidade, Luz Saude, Redes Energéticas Nacionais, Millennium bcp) and Italy has recognised China as an affluent investor, capable of buying the country's low-rated bonds and helping to stimulate its slow-growing economy. Since the signature of the MoUs, neither Portugal nor Italy has been especially keen to be over strict with security procedures for screening Chinese investments in Europe.⁵⁸

The European countries that have recently entered into bilateral relationships with China have done so in hopes of benefiting from a special friendship whose ripe fruits cannot be harvested by acting together within the EU or within the sub-regional configuration of the 17 European members of the 17+1 initiative. However, by re-dividing the EU along national borders, China can exploit its bargaining power.⁵⁹

In contrast to China and its BRI, the EU approach aims to bring benefits to all EU countries, with multilateral action that reduces the risk of unequal treatment as in the case of the TEN-T. Looking east, the EU's goal is to strengthen the internal market connections with strategic partners and jointly determine which projects to implement and how⁶⁰; the final objective must be the wellbeing and development

⁵⁸ For Portugal: Financial Times, "Portugal PM warns on EU protectionism over China investment screening", 3 March 2019; For Italy: Politico.eu, "Under budget pressure, Italy breaks EU trade line on China", 9 November 2018.

⁵⁹ Politico.eu, "Europe, don't let China divide and conquer", 20 April 2018.

⁶⁰ European Commission, "Investment Plan for Europe: stock-taking and next steps". COM (2018) 771 final.

of all the territories involved, giving a voice to the people affected by the projects, on the basis of appropriate public consultations. The EU intends to act in an inclusive manner, promoting regional cooperation (thus taking a notably different approach from “divide and rule”) as was done, for example, with ASEAN⁶¹ and Mercosur.⁶²

3.2. The Construction Phase

Regarding the second phase, *i.e.* infrastructure construction, problems might arise with procurement, financing, and the characteristics of the work.

During the last decade, Chinese firms have become stronger abroad. A significant indication is the soaring proportion of funds for World Bank projects outside of China awarded to Chinese firms:⁶³ from 5.4% in 2007 to 34.8% in 2017. A similar trend is found for civil works alone and for goods (Figure 5).

The limited data available indicate that the majority of BRI-related procurements go to Chinese firms⁶⁴ at the expense of local contractors in partner countries.

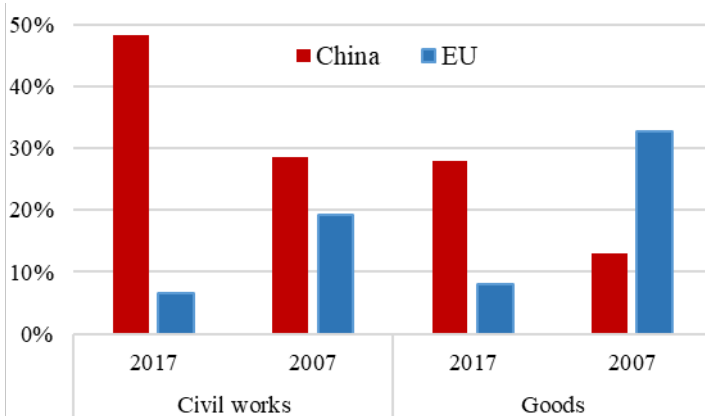
⁶¹ ASEAN, the acronym for Association of South-East Asian Nations, was created in 1967 to foster economic and political cooperation between the countries of southeast Asia. The member countries are: the Philippines, Indonesia, Malaysia, Singapore, Thailand, Brunei, Vietnam, Burma, Laos and Cambodia.

⁶² Mercosur is an economic and political bloc comprising Argentina, Brazil, Paraguay, Uruguay, and Venezuela (suspended since December 2016). In June 2019 the EU and the four founding members of Mercosur reached an agreement on a bi-regional Association Agreement to boost free trade.

⁶³ World Bank, “Procurement Contracts Award Summary”.

⁶⁴ Tania Ghossein, Bernard Hoekman and Anirudh Shingal, “Public Procurement in the Belt and Road Initiative”. World Bank Group, discussion paper 10 (2018).

Figure 5 – Procurement contracts awarded by World Bank to China’s and to EU’s suppliers



Source: World Bank

Preferential treatment in violation of competitive tendering could reduce efficiency and, in any case, it raises problems of equity, especially when projects are not funded solely by the Chinese authorities but by such institutions as the Asian Infrastructure Investment Bank (AIIB⁶⁵). The AIIB, as a multilateral bank, lends according to international standards, including competitive tenders

⁶⁵ AIIB is a multilateral development bank created primarily to finance major infrastructure projects on the continent. AIIB started its operations in 2016 and currently involves 97 Member States. The institution has a capital of 100 billion USD, of which almost 31% is Chinese and 23.4% is subscribed by members outside the region such as Germany, France, Italy, Spain and the UK.

and environmental impact studies, which are compulsory within the EU.

However, for the modernisation of the Belgrade-Budapest railway two Chinese public firms - China Railway International Corporation and the Chinese Export-Import Bank (also known as Exim Bank) - were chosen by the Hungarian authorities without public tender⁶⁶ and thus in violation of EU rules. Following the Commission's inquiry⁶⁷, at the end of 2018 Hungary decided to launch a new tender for the Hungarian part of the railway, given that the initial bids significantly exceeded the estimated cost of the project. So construction will not start until 2020, a year later than originally scheduled.⁶⁸

Moreover, firms from countries based on pluralism, 'checks and balances' and political conditionality⁶⁹ might face higher costs that would hamper their international competitiveness.

An analogous allocative problem arises when competitive tendering is distorted by unfair competition. For example, in Europe contracts are awarded according to the Most Economically Advantageous Tender (MEAT), which considers both price and qualitative factors. In practice, however, the evidence suggests that

⁶⁶ Financial Times, "EU sets collision course with China over 'Silk Road' rail project", 20 February 2017.

⁶⁷ Reply of 28 February 2017 by the EU Delegation to China on recent media reports related to the Belgrade-Budapest railway project.

⁶⁸ Hungary Today, "Govt to Call New Tender for Budapest-Belgrade Railway Upgrade", 19 December 2018.

⁶⁹ Financial Times, "China's reputation as development financier on the line", 10 September 2018.

MEAT, *de facto* favours the lowest bidder⁷⁰, as in Poland (motorway A2), Croatia (Pelješac bridge) and Bulgaria (Elin Pelin-Kostenets railway), where the Chinese bids were impossible for European firms to match. This is a case of how different economic models distort competition, tilting the playing field: subsidies that are legal in China are forbidden by both the WTO⁷¹ and the EU.⁷²

The construction itself can pose a risk for security in the recipient country. Chinese private security firms are involved in the BRI to protect workers and assets against possible terrorism and unrest. But the presence of private security agents could be a problem for the host countries due to the difficulty of controlling their activities. Despite their nominally private status, these firms tend to operate with the tacit support of the Chinese government and are often staffed by former People's Liberation Army officers with close ties to the Chinese authorities.⁷³

As far as financing is concerned, China offers loans that some developed countries and international organisations refuse to provide because of the long time frame for returns to infrastructure projects.

⁷⁰ Ulrich Paetzold, "Construction of Infrastructure in Europe". In: Carlo Secchi and Stefano Riela (eds.) "Infrastructure for Growth: How to Finance, Develop, and Protect it". ISPI report (2019).

⁷¹ According to the WTO, specific subsidies - *i.e.* those available only to a firm or a group of firms - that require recipients to meet certain export targets, are prohibited.

⁷² A firm that receives government support gains an advantage over its competitors; therefore, art. 107 of the TFEU generally prohibits State aid unless it is justified by reasons of general economic development.

⁷³ Meia Nouwens and Helena Legarda, "Guardians of the Belt and Road. The internationalization of China's private security companies", Merics (2018).

However, China does not report cross-border project financing in a standardised or transparent manner, making it hard to truly assess the present value of the host countries' debt to China. What is sure is that China usually demands major concessions as part of the debt relief. One case is the motorway in Montenegro, which was financed for 85% of its cost by the Chinese Exim Bank. The massive borrowing for the first phase (about 20% of Montenegro's GDP) led to a downgrade of Montenegro's credit rating, and should there be repayment problems control of the infrastructure could shift to China⁷⁴. Such a shift has already been effected in Tajikistan (in 2011 China wrote off debt in exchange for some 1,200 sq. km of disputed territory) and in Sri Lanka (the port of Hambatonta will remain under Chinese control until 2116 in exchange for a reduction in debt). Laos has signed up for a Chinese-funded railway costing 6 billion USD (about 35% of the country's GDP), necessitating machinery imports that have widened the trade deficit. Malaysia has recently cancelled some oil and gas pipeline projects and suspended others worth 23 billion USD⁷⁵, and the risk could extend to other countries that are heavily indebted for projects forming part of BRI.⁷⁶

⁷⁴ Reuters, "Chinese 'highway to nowhere' haunts Montenegro", 16 July 2018.

⁷⁵ Financial Times, "Malaysia cancels China-backed pipeline projects" (9 September 2018); The Economist, "Can't pay. The problems – for all sides – of China's 'debt-trap diplomacy'", 8 September 2018.

⁷⁶ John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective". Centre for Global Development (2018).

Moreover, China asks the BRI countries to accept dispute settlement based in China, where fairness is hardly guaranteed, given that the courts are under the political control of the Communist Party.⁷⁷

As to the project as such, a significant question is that of environmental sustainability. China is helping Pakistan to meet its energy requirement by funding the construction of several coal-fired plants, a technology that has been abandoned by other countries in the region owing to its environmental impact.⁷⁸ This strategy was opposed by local communities in Bangladesh, which were against Chinese-financed coal plants and argued that the projects will worsen air pollution, trigger human health problems and contribute to global warming.⁷⁹

Since its inception, the EU has focused on the creation of a single market based on a level playing field in market access, fairness and transparency in public procurement, and non-discriminatory market practices. Thus, in the EU the effectiveness and efficiency of firms is paramount, while nationality does not matter. The EU intends to

⁷⁷ The Economist, “A belt-and-road court dreams of rivalling the West’s tribunals”, 6 June 2019. Jerome A. Cohen, “Law’s Relation to Political Power in China: A Backward Transition”, *Social Research: An International Quarterly* 86 (2019), p. 231.

⁷⁸ Financial Times, “Pakistan’s pivot to coal to boost energy gets critics fired up”, 31 July 2018.

⁷⁹ Financial Times, “China must calibrate overseas lending towards Paris climate goals”, 10 December 2018.

‘export’ its internal model and to adopt an instrument to make procurement more transparent to share with its partner countries.⁸⁰

The EU promotes systems of connectivity that respond to the challenges of climate change and environmental deterioration, in particular by promoting the decarbonisation of the economy and respecting strict standards. Along with environmental sustainability, the EU promotes projects that guarantee financial sustainability. To facilitate financing, the EU intends to combine the resources of international financial institutions and multilateral development banks with those of the private sector. In addition to the recent experience of the European Fund for Strategic Investments (EFSI), an instrument of the so-called ‘Juncker Plan’⁸¹ that has been successful in leveraging public resources to attract private investment,⁸² the EU has gained solid experience in managing investment instruments, such as the Neighbourhood Investment Facility (NIF), the Central Asian Investment Fund (IFCA) and the Investment Facility for Asia (AIF). The European Investment Bank (EIB), and the European Bank for Reconstruction and Development (EBRD) are both expanding their lending activities, offering new

⁸⁰ European Commission, “Amended proposal for a regulation on the access of third-country goods and services to the Union’s internal market in public procurement and procedures supporting negotiations on access of Union goods and services to the public procurement markets of third countries”, COM (2016) 34 final.

⁸¹ The Juncker Plan, named after the President of the Commission Jean-Claude Juncker, was launched in November 2014 to reverse the downward trend of low-levels of investment and put Europe on the path to economic recovery.

⁸² European Commission, “Investment Plan for Europe: stock-taking and next steps”. COM (2018) 771 final.

prospects for cooperation. Since the EU approach is inclusive and, in intention, calibrated to internationally-agreed standards, the aim is to continue cooperation with the International Monetary Fund (IMF) and the World Bank and deepen the cooperation with the Asian Development Bank (ADB) and the AIIB.

3.3. The Management Phase

For the third phase, that of management of the infrastructure, it is useful to recall that some infrastructures have the characteristics of a natural monopoly.⁸³ This could require effective *ex-ante* regulation to allow all operators running transport services to use the infrastructure without discrimination.⁸⁴ The liberalisation of rail transport in Europe, which is still underdeveloped compared with aviation and maritime transport, demonstrates that this is the key to preventing vertical integration where the infrastructure manager (usually a monopoly) has some link to the service provider; this unbundling avoids preferential treatment for the latter against competitors, thus potentially increasing the welfare of consumers and of society overall. For this third phase, there is no extensive evidence of management methods arising from BRI, which is still under construction. However, given China's strategy in promoting national firms, both in

⁸³ A monopoly is defined 'natural' when fixed costs determine a falling average cost curve such that there is only room in a market for one firm to fully exploit available economies of scale. Hence, in the case of a natural monopoly, the most efficient number of firms in that industry is one.

⁸⁴ Stefano Riela, "Transport, Communications and Infrastructure in a United and Effective Europe". In: Natalie Tocci (ed.), *Imagining Europe: Towards a More United and Effective EU*. Rome: Nuova Cultura, 2014, p. 42.

infrastructure investment and in construction, it is likely that the BRI is intended in part to ensure control of the logistics chains for trade with Europe. Transport and warehousing costs can be a significant component of the price of final goods, and controlling their management will enable China to become more competitive.

The EU's approach to infrastructure management is inspired by the principle of competition. The Treaty of Rome (1957) instituted “*a system ensuring that competition in the common market is not distorted*” as a pillar of its social market economy.⁸⁵ In this framework, competition could be understood either as liberalisation or as regulation. Liberalisation means removing barriers to open up markets to private firms. However, when competition in the market is not feasible, then public regulation can set prices and other conditions for firms holding a natural monopoly in order to enhance productive efficiency while curbing allocative inefficiency and so protecting consumers' welfare.

⁸⁵ See footnote 32.

4. Cooperation between the EU and China

When 27 EU ambassadors voted in April 2018 on a report⁸⁶ highlighting the risks entailed in the BRI, this was not an outright rejection of the Chinese project. It is in the European Union's DNA to cooperate with third countries, since it was cooperation between European states that forged the EU's own principal achievement, namely the single market. Even though the four fundamental freedoms –free movement of goods, services, capital and persons – are not yet fully functioning, the EU is now the world's largest market in terms of population and second in terms of GDP. The rules of the common market rely on the social market economy model, in which market forces are the most efficient generator of prosperity.

Consistently with its Treaties, the single market has not turned the EU into an economic “fortress”: the EU is the world's largest exporter and importer of goods and services, the largest foreign direct investor and the most important destination for FDI. The EU seeks to promote its successful model within the WTO and through bilateral trade deals encompassing investment liberalisation. However, for the EU, trade should be “free and fair,”⁸⁷ where fairness may be described by EU Trade Commissioner Cecilia Malmström's foreword to the document on EU trade strategy⁸⁸ after the suspension of the negotiations for the

⁸⁶ See footnote 56.

⁸⁷ Art. 3, par. 5 of the Treaty on EU.

⁸⁸ European Commission, “Trade for All. Towards a More Responsible Trade and Investment Policy”, COM (2015) 497 final.

Transatlantic Trade and Investment Partnership⁸⁹: “open markets do not require us to compromise on core principles, like human rights and sustainable development around the world or high quality safety and environmental regulation and public services at home.”

In the specific case of infrastructure, cooperation is required if China and the EU have a shared interest in promoting development in the Eurasian continent. According to the Asian Development Bank,⁹⁰ over 20 trillion USD will be needed by 2030 to build energy, transport, telecommunications and water management infrastructures. Surely, neither the EU, whose annual budget will probably remain little above 1% of its GDP, nor China can fill much of this gap alone, acting unilaterally. For the EU members, given their substantial infrastructure funding requirements, third country investment and financing, as envisaged by BRI, can be an important and welcome contribution.

The increase in trade and investment between the EU and China led the two sides to deepen their 2003 partnership agreement by adopting, in 2013, a “Strategic agenda for cooperation.”⁹¹ At the last two EU-China Summits (the 20th in July 2018 and the 21st in April 2019) the two parties declared that “*such cooperation should abide by the shared principles [emphasis added] of market rules, transparency,*

⁸⁹ TTIP is the acronym of Transatlantic Trade and Investment Partnership: a deal to cut tariffs and regulatory barriers to trade between the US and the EU. Negotiations started in June 2013 and were paused in November 2016.

⁹⁰ See footnote 3.

⁹¹ The EU-China 2020 Strategic Agenda for Cooperation.

open procurement and a level playing field for all investors, and comply with established international norms and standards, respective international obligations, as well as the law of the countries benefitting from the projects, while taking into account their policies and individual situations.”⁹²

In the field of transport infrastructure, cooperation should prioritise projects, avoid duplications, and integrate the BRI and the TEN-T; in the event of bottlenecks and capacity constraints caused by the additional traffic induced by BRI investment, it.⁹³ Standards should be harmonised wherever possible, and in any case, interoperability of transport and communication systems must be guaranteed. Moreover, as noted, network infrastructure tends to be a natural monopoly; this implies that ‘service competition’ (fostered by effective regulation of the infrastructure management) is more welfare-improving than ‘infrastructure competition’.

Accordingly, in 2015 the two parties signed a “Memorandum of understanding on establishing a Connectivity Platform between the EU and China” in order to:

⁹² The text cited is taken from “Joint statement of the 20th EU-China Summit” and it was, in almost its entirety, the one used in the “Joint statement of the 21st EU-China Summit”.

⁹³ European Commission, “Concept note for the workshop on China One Belt One Road: opportunities and challenges for the EU. The view point of the Industry”. TEN-T Days 2016.

- “(i) share information, promote seamless traffic flows and transport facilitation, and develop synergies between their relevant initiatives and projects;*
- (ii) identify co-operation opportunities between their respective policies and sources of funding, including the Trans-European Networks and The Belt and Road Initiative, and;*
- (iii) actively explore business and investment opportunities open to both China and the European side, and;*
- (iv) create a favourable environment for sustainable and inter-operable cross-border infrastructure networks in countries and regions between the EU and China.⁹⁴”*

At the 20th Summit in 2018 the EU members presented a list of TEN-T projects⁹⁵ that could be included in the EU-China Connectivity Platform, and at the 21st in 2019 the two sides agreed on a joint study to determine the most appropriate railway corridors, identify bottlenecks, and identify and prioritise the missing links to improve the capacity and efficiency of rail corridors.⁹⁶

The “shared principles” in these joint statements – *i.e.* market rules, open procurement and a level playing field for all investors - are essentially the core principles of the EU single market. Thus, it would

⁹⁴ Joint statement of the 17th EU-China Summit (29 June 2015).

⁹⁵ List of projects to be considered in the framework of the EU-China Connectivity platform, available at: <https://ec.europa.eu/transport/sites/transport/files/2018-07-13-european-transport-infrastructure-projects.pdf>

⁹⁶ Minutes of the 4th Chairs’ Meeting of the EU-China Connectivity Platform (9 April 2019).

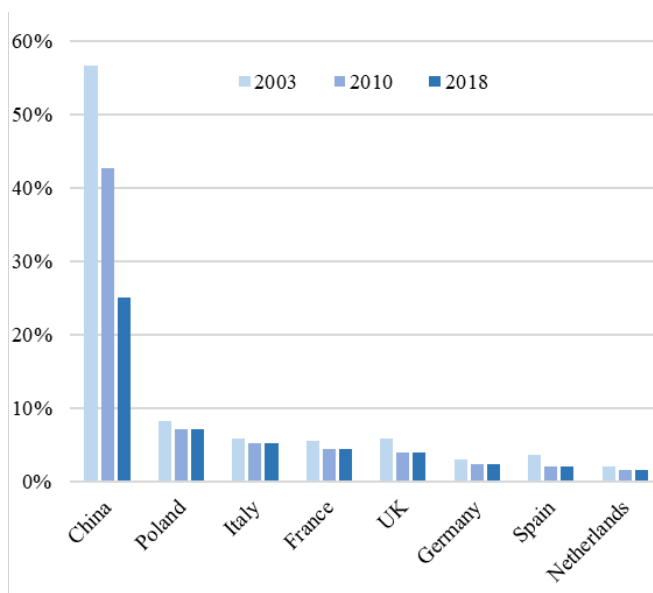
appear that the “reciprocity” urged by the Commission⁹⁷ and the European Council (22 March 2019) in the relationship with China was essentially defined by EU standards.

However, there is little evidence of reciprocity if this is to be understood as Chinese adoption of EU principles, as is confirmed by some of the BRI projects mentioned above, by the number of antidumping measures adopted by the EU against unfair Chinese exports⁹⁸, and by Chinese restrictions on FDI (Figure 6).

⁹⁷ European Commission and High Representative of the Union for Foreign Affairs and Security Policy, “Joint Communication: EU-China – A strategic outlook”. JOIN (2019) 5 final.

⁹⁸ European Commission, “Working document accompanying the 37th Annual Report from the Commission to the Council and the European Parliament on the EU’s Anti-Dumping, Anti-Subsidy and Safeguard activities and the Use of trade defence instruments by Third Countries targeting the EU in 2018”. SWD (2019) 141 final.

Figure 6 - FDI Regulatory Restrictiveness Index⁹⁹



Source: OECD

⁹⁹ The FDI Regulatory Restrictiveness Index provided by the OECD measures statutory restrictions on foreign direct investment across 22 economic sectors. It gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI: 1) Foreign equity limitations; 2) Discriminatory screening or approval mechanisms; 3) Restrictions on the employment of foreigners as key personnel and 4) Other operational restrictions, *e.g.*, restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. Restrictions are evaluated on a zero (open) to 1 (closed) scale.

5. Conclusions

Although the EU's proposal would appear to have a geographical overlap with the Chinese BRI, its objectives go beyond mere transport connectivity. The European documents reflect the need to institute effective tools for defending EU values domestically and abroad, guaranteeing political cohesion among EU members and with neighbouring countries.

Outward foreign direct investment is undeniably a vehicle for strengthening political influence and achieving strategic objectives. Chinese realisation or acquisition of the control of strategic infrastructure carries major geopolitical implications, reinforcing the idea that China is the fulcrum of the world economy.

However, the EU's concerns are not related to the nationality of the infrastructure developer or manager,¹⁰⁰ as long as firms are chosen by a competitive procedure on a level playing field and the infrastructure is managed in a non-discriminatory way according to EU standards. Thus, the requirements imposed by the EU are not obstacles springing from some emerging protectionism within the Union¹⁰¹ but are

¹⁰⁰ There is no evidence that Chinese aid jeopardises the effectiveness of Western aid in accelerating economic growth in assisted countries (AidData, "Chinese Infrastructure Projects and the Diffusion of Economic Activity in Developing Countries". Working Paper 64 (2017); and at the Piraeus Harbour, for example, COSCO has demonstrated its management skills as well as financial capabilities (Philippe Le Corre, "Chinese Investments in European Countries: Experiences and Lessons for the 'Belt and Road' Initiative". In: Maximilian Mayer (ed.), *Rethinking the Silk Road*. London: Palgrave Macmillan, 2018).

¹⁰¹ For Liu Zuokui, Europe has witnessed an increase in protectionism, especially due to the emergence of ultra-right forces. See "Europe's Protectionist Position on the

consistent with the single market model that is also promoted abroad through agreements with third countries.

Despite an ‘ideological’ distance on the proper role of the free market, the EU and China have found a shared interest in developing a framework for cooperation, especially in transportation. The attractiveness of a special relationship with China, however, should be reconsidered in light of the evidence that China’s effective investment in Europe still lags considerably behind the announcements made with such fanfare; in any case, the EU itself remains the main investor in Eastern Europe (see for example Hungary¹⁰² and Czech Republic).¹⁰³

It is up to the EU itself to offer an olive branch to China as it proposes to strengthen cooperation in its infrastructure and development initiatives. On the EU side, as the Commission recalls,¹⁰⁴ “[n]either the EU nor any of its Member States can

Belt and Road Initiative and Its Influence”. *China International Studies* (2018), p. 145.

¹⁰² Hungary, for example, notwithstanding the significant strengthening of political relations with Beijing, has not received the expected boom of Chinese investment. See Tamas Matura, “Chinese Investment in Hungary: Few Results but Great Expectations”. In: John Seaman, Mikko Huotari, Miguel Otero-Iglesias (eds.), *Chinese Investment in Europe: a country-level approach*. IFRI, Elcano Royal Institute, Merics (2017).

¹⁰³ Chinese FDI in the Czech Republic is well below the amount announced by President Zeman and has been targeted mainly to brownfield rather than greenfield projects or heightening the productivity of the firms acquired. In part, this is a consequence of the regulatory and financial problems encountered by the main Chinese investor, CEFC. See Krzysztof Dębiec and Jakub Jakóbcowski, "Chinese investments in the Czech Republic: changing the expansion model", Centre for Eastern Studies (OSW), Analyses, 6 June 2018.

¹⁰⁴ See footnote 99.

effectively achieve their aims with China without full unity” and member States that want to strike deals with China, individually and within sub-regional cooperation frameworks - such as the 17+1 initiative – should guarantee consistency with EU law. So it is certainly a welcome development that President Macron invited Jean-Claude Juncker, as President of the Commission, to be present at his meeting with the Chinese President in Paris (26 March 2019); and that in its cooperation with China the Italian Government intends to involve the AIIB, making it more likely that EU principles will not be violated.

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