

BELT AND ROAD: CHALLENGED BY A SYSTEMIC RIVAL?

The EU is at a geopolitical crossroad. With the return of great-power politics dynamic to the international system, the ability for the **EU to influence global politics is being challenged**. The emergence of the United States' administration which has withdrawn from its traditional global leadership role in favour of isolationism and protectionist policies has called into question the **viability of the post-World War II international system**. Subsequently, China has used its **return to the international system to reshape** it in its vision. The Belt and Road Initiative (BRI) has been a catalyst for this initiative and the linchpin of Beijing's global ambitions.

Since its launch in 2013, Beijing has acquired an increased standing of global influence and has built an **extensive network of allies and partners**. This has by extension affected the EU's international influence and rendered China a systemic rival as declared by the European Commission in March 2019. Even more vigilance is needed in relation to China's growing sway with the EU's smaller members, notably in Central and Eastern Europe (CEE). Against the backdrop of these developments, the Tatra Summit 2019 held a focus group which provided a great opportunity to have a sobering conversation among experts about Beijing's global ambitions through the BRI, refining EU's China strategy, and potential areas where bilateral and multilateral collaboration is viable. The following presents a summary of the views and key findings of Tatra Summit 2019 focus group.

Beijing's global ambitions through the BRI

When assessing China's role as a systemic rival to the EU, policy makers must accept that the **BRI is a national geopolitical initiative** and its promotion as an international business venture is a veneer. There was a broad consensus among the participants of the focus group that the upper echelons of the Chinese government are cemented in their commitment to the BRI. While Western leaders derive legitimacy from election results, **domestic legitimacy for President Xi Jinping is linked to the success of the BRI**. Equally, it was agreed that given the current shift in American trade policy, China had doubled down on its support for the project with the long-term goal of exploiting the growing vacuum of leadership on the international stage. This notion is supported by the measures Beijing has adopted to ensure BRI's achievement, manifested in economic, military and diplomatic spheres.

Nowhere is this commitment more evident than in the central government's generous subsidies. Let us consider an example of transporting cargo - the operational cost of moving a container to Europe by rail is approximately \$6000 where each rail freight transports 50 containers. Currently, the EU is paying around \$1300 per cargo which indicates that **Beijing is providing a subsidy of approximately \$4700 per container**. Although a lump sum is set aside for subsidies annually, the central government is aware of the unsustainability of this

scheme. Despite the net loss, the **government appears prepared to deploy alternative means of subsidies** to local trucking, container yard fees, as well as container handling so the net cost for foreign buyers will remain essentially unchanged. Complimenting these subsidies is the desire of and push by Beijing for more **Chinese companies to expand globally**.

Furthermore, the BRI is indirectly supported by China's heavy investment in their military and dual-use technologies. Participants of the focus group agreed that investment in capabilities, both hardware and software, has enabled China to **gain influence and power well beyond their borders**. One feature of this development was China's **disregard for political pressure coming from foreign actors**, like the EU, when it comes to issues like the South China Sea, the detention camps of Uyghurs and other minorities, as well as the problematic situations in Taiwan and Tibet. Although it was recognised that military investment is decreasing, China's military **capabilities represent a feature of the BRI** that should not be discounted by EU policy makers.

The developments described above are complimented by China's international diplomatic outreach. **Beijing is building a formidable roster of allies** stretching over multiple continents through a variety of avenues, such as advantageous lending practices through the Asian Investment Infrastructure Bank and the BRI, as well as arms sales. China's soft power should not be overlooked when it comes to engagement with international organisations, such as the United Nations. Participants of the focus group argued that Beijing is preoccupied with Washington and the ongoing trade war. **China has relegated the EU to a second-tier international actor** and only engages Brussels on their terms.

Another diplomatic area that China is exploiting to advance the BRI is its relationship with the EU and its member states. Participants of the focus group argued that Beijing is deploying a divide and rule strategy, designed to alienate Europe from America and split Europe internally. By emphasising bilateral relations with EU member states, Beijing is **undercutting EU's collective ability** to take decisive actions to protect its interests. In addition, China has **profited from the internal competition among CEE countries** which are elbowing each other to secure Chinese capital, lending credence to the statement "*We (EU members) are neighbours but not friends*", specifically when it comes to relations with China.

Finally, it was indicated that as the common EU policy towards China is normally dominated by the priorities of larger members, **smaller states are attracted to the "17+1" format**. Some participants highlighted that China perceives two groups of member states within the EU: Germany and all the other members.

Refining the EU's China Strategy

The focus group attendees shared some interesting insights on the potential reasons why CEE countries are eager to engage with China on the BRI. For example, Hungary, is heavily dependent on internal EU trade with Germany which makes it dangerously vulnerable to ebbs and flows of German economy. Hence, the Hungarian government sees great **merit in diversifying its trade portfolio** and reducing its economic dependency on Western European states. It is worth noting that this push for diversification would go beyond China and would include other major Asian economies, such as Japan and South Korea. An additional appealing feature of the **BRI is its ability to modernize current supply chains** traveling from West to East, as they are somewhat antiquated and built around former relations with the Soviet Union. One of the promises of improvement has already materialized with the ongoing construction of the Belgrade-Budapest train connection. This modernization improves connectivity and provides more commercial opportunities for local businesses. Finally, from a purely geopolitical outlook, it was reiterated that **smaller CEE nations are unable to be hostile towards great powers**, even with the backing of Brussels.

Given the vast systemic issues stemming from China, it was agreed that the EU must use every instrument within its arsenal to defend its interests and reduce Chinese political influence requiring a full deployment of the EU's economic, political, and diplomatic levers. However, a disheartening picture emerged within the focus group when areas of leverage were discussed. According to the participants, **European leverage is linked to how seriously China takes the EU**. Previously, it was known that Beijing's perception is that Europe's Common Security and Defence Policy (CSDP) is not independent from Washington's influence. This perception was based on **Europe's light military prowess and inability to act decisively**. Other issues which could be used as potential leverage, such as **human rights or gender equality**, were immediately categorised as impotent options for the EU to consider. Consequently, it was deduced that the primary tool for the EU to improve its **leverage against China was the access to the European single market**. As the end consumers for Chinese products, access to European market and its customers is critical for both the short and long-term success of the BRI.

To date, the **EU has assumed a cautious approach towards China** without major consequences, while simultaneously failing to influence Beijing to change its behaviour. For Brussels to send a message to Beijing, it was agreed that multiple reforms were needed. One example of this would be to improve the **EU's position towards China was to make it a horizontal issue**. As China has an impact on a plethora of issues within the EU, it should be integrated into the EU policy-making process. This shift in policy making could potentially give **momentum to stalled EU initiatives** such as building a fiscal federation, drafting a credible European army or pursuing future enlargement. It was also agreed the **EU should shift BRI negotiations to a multilateral platform** whenever possible and avoid bilateral engagements between China and respective member states. Doing so would subsequently decrease competition among CEE member states for Chinese capital. Furthermore, the recent decision by EU leaders **to not open ascension talks with Albania and North Macedonia**, undoubtedly profits Beijing which has another avenue of influence to exploit, right at the EU's doorstep.

Selective Bilateral Collaboration

Although the focus group called for the EU to adopt a series of reforms to strengthen its policies and to encourage assertiveness in EU-China relations, they did not lobby for a prohibition on selective collaboration. With China in the midst of shifting its energy production from **coal to greener technologies**, EU members with an expertise in renewables and clean energy have a role to play. Considering China is looking to import technological expertise, **strategic cooperation on renewable energy programs** is one avenue for the EU to consider. This would also bolster the EU argument and its push for China to potentially **change the type of Chinese investments** from mergers and acquisitions to more greenfield projects. Finally, this continued engagement would provide a buffer for Brussels as it potentially recalibrates its common strategy on BRI and continues the protracted negotiations related to the EU-China Comprehensive Agreement on Investment.