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Dr. Grant F. Rhode is Senior Lecturer at the Frederick S. Pardee School of Global Studies at Boston University, and Adjunct Professor in Strategy and Policy at the U.S. Naval War College. He has taught at Tufts, Northeastern, and the University of Massachusetts, and guest lectured at the Indian Naval War College, Goa. He is Associate in Research at the Fairbank Center for Chinese Studies at Harvard University, Faculty Affiliate of the China Maritime Studies Institute of the U.S. Naval War College, and Visiting Researcher at BU's Center for the Study of Asia (BUCSA). He has been a Visiting Scholar in Taiwan at National Chengchi University and National Taiwan University. He is co-author of *Treaties of the People's Republic of China, 1949-1978*, as well as articles on Chinese foreign policy, maritime diplomacy in the China Seas, ethnic relations in Japan, and U.S.-China educational exchange. Dr. Rhode's current research focuses on China's role in historical and contemporary Eurasian maritime affairs. He completed graduate work in Chinese studies at Oxford and Cambridge Universities and a PhD in Asian Diplomatic History at the Fletcher School of Law and Diplomacy, Tufts University.

By Land and By Sea: China's Belt and Road in Europe

Grant Rhode

Since China's current president Xi Jinping announced his Belt and Road Initiative (BRI) in 2013, with allusions to the ancient land and maritime silk roads, it has become his signature foreign policy. President Xi proclaimed the modern land route as the Silk Road Economic Belt (SREB) in Kazakhstan in September, 2013, and the modern maritime route as the 21st Century Maritime Silk Road (MSR) in Indonesia in October, 2013. Together the SREB and MSR make up the BRI. In subsequent years, much BRI commentary and scholarship has focused on the Asian components of the initiative, [1] with less focus on the European side of the BRI. To address these less-well known BRI activities in Europe, Boston University's Pardee School of Global Studies convened a workshop on China - Europe relations on February 21, 2019, entitled "By Land and By Sea: China's Belt and Road in Europe".[2] The presentations of the eight panelists are summarized in this report, followed by concluding remarks with some thoughts about future prospects on China's activities and relationships in Europe.

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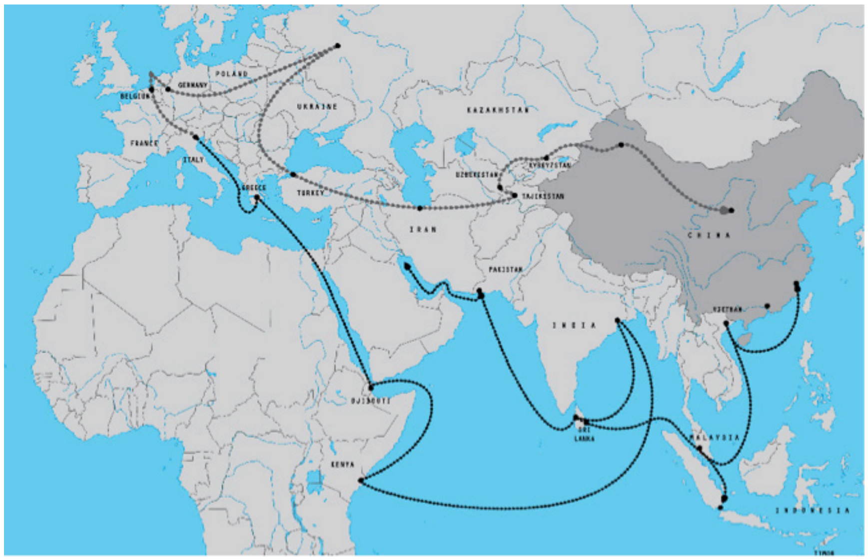
1 For a review of Asian BRI programs, see for example, Tom Miller, *China's Asian Dream: Empire Building Along the New Silk Road* (London: Zed Books, 2017). For a review of Asian MSR programs, see Vijay Sakhuja and Jane Chan, eds., *China's Maritime Silk Road in Asia* (New Delhi: National Maritime Foundation, Vij Books India Pvt Ltd, 2016).

2 Thanks to Boston University's Pardee School of Global Studies, the Center for the Study of Europe, and the Center for the Study of Asia for sponsoring this event. Thanks also to Robert Murowchick and Wen-hao Tien for their organizational work on this event, to Vincent Luo for editing the audio of the panelists, to Judith Katz for transcribing the recording, and to Jamie Rhode for maps included in this workshop report.

Background

China-Europe relations go back many hundreds of years. In fact, the map of current BRI routes is not substantially different from Marco Polo's late thirteenth century overland route to China and his sea route back to Europe. However, unlike the ancient silk roads, the current focus of the BRI is less on trade and more on infrastructure development projects in which China is involved as investor, financier, planner, and/or builder. Although often spoken of as a Eurasian project, the BRI includes Africa, and has come to include, both formally and informally, Chinese infrastructure development projects in South America as well.[3]



Belt and Road Initiative (BRI) Routes

No definitive list has been published of the countries partnering with China on BRI projects, or of the projects that are involved, but references cite over 70 countries and over 10,000 projects, involving over US$1 trillion, with mention of China possibly spending $3-4 trillion in total. There is substantial global demand for infrastructure projects. The Center for Strategic and International Studies (CSIS) in Washington D.C. projects that $26 trillion of demand for infrastructure projects exists in Asia alone between 2019 and 2030, including roads, railroads, ports, dams, and energy plants.[4] Thus, there is room in the infrastructure development business for projects sponsored by other players besides China's BRI projects. Many of the projects now referred to as BRI projects began before the BRI was announced in 2013, but have come to be referred to as BRI projects, such as the Piraeus and Hambantota port projects in Greece and Sri Lanka, respectively.

Within Europe, China has been increasing its involvement over the past thirty years, on both the economic and strategic fronts.[5] Although China's largest trade partners and investment locations began in northwestern

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3 For Africa, see Deborah Brautigam *Will Africa Feed China?* (New York: Oxford University Press, 2015). For South America, see Kevin Gallagher, *The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus* (New York: Oxford University Press, 2016).

4 "China's Belt and Road at Five." *CSIS* webinar, Jonathan Hillman comments, October 1, 2018. https://www.csis.org/events/chinas-belt-and-road-five-0

5 For background on China-Europe economic relations, see Philippe Le Corre and Alain Sepulchre. *China's Offensive in Europe.* Translated by Susan Emanuel (Washington, DC: Brookings Institution Press, 2016). For a review of strategic issues, see Robert Ross, Øystein Tunsjø, and Zhang Tuosheng, eds., *US-China-EU Relations: Managing the New World Order* (London and New York: Routledge, 2010).

Europe, especially in the UK, France, and Germany, China demonstrated its broader European interests by establishing relations with sixteen central and eastern European countries (CEEC) as a group in 2012. These 16+1 countries include eleven EU countries (orange) and five western Balkan countries (yellow). Following the BU panel in February, 2019, Greece joined this group in April, modifying the group to 17+1.

16+1 CEEC (Central and Eastern European Countries)

Annual 16+1 summits have been held since 2012, the first in Warsaw and the most recent in 2019 in Dubrovnik. During the first five years, China signed at least 225 agreements bilaterally or multilaterally with these sixteen countries. Many of the agreements were economic in nature, while others were diplomatic, political, and cultural. Some were specifically designated as BRI agreements. The largest financial agreement was made in 2014 to provide Chinese financing and construction for a high-speed rail line between Belgrade and Budapest. Like other financial agreements, this has been slow to materialize, such that there is some impatience by the CEEC as they express concerns that the 16+1 has become more of a "talk shop" than an action relationship with China. From the point of view of northwestern Europe, there is concern that China is using a divide and conquer strategy in Europe by building special relationships with a large subgroup of European countries less central to the Brussels-based EU group of twenty-eight countries.[6] At the Boston University symposium, the panelists made their remarks against this background of China's global and European involvements.

Panel 1: Geo-Economic Perspectives

Philippe Le Corre, former French defense official and Senior Fellow at the Harvard Kennedy School of Government, opened the first panel with remarks on "Assessing China's offensive at the periphery of Europe – South Europe Case Studies." He began by noting that China's interest in Europe may have been opportunistic originally, but it is becoming more strategic—more than just a collection of opportunities for China. As such, China in Europe is becoming a more fashionable topic. US-China relations are at

6 During the 2018 16+1 summit meeting, China discussed expanding membership to include two additional EU countries, Austria and Greece, and three additional former Soviet republics, Belarus, Ukraine, and Moldova.

their lowest point in decades, making the China-Europe relationship a priority at all levels, for both Europe and China. The recent EU-China summit was less confrontational than prior meetings and produced more results, although a trade agreement is not on the horizon. European businesses currently struggle against a lack of market access in the Chinese market. The EU Commission plays the role of 'bad cop' versus the southern European government 'good cops.' Europe may be seen as consisting of three groupings: western Europe consisting of France, Germany, and the UK powerhouses, along with Scandinavia and Benelux; the 16+1 central and eastern European countries; and the southern European countries including Portugal, Spain, Italy, and the Balkans. Differing dynamics occur in the different groupings, which China plays against each other, especially the big countries against the periphery. China tries to create communities of interest through establishing a vehicle like the 16+1, but primarily works through bilateral relationships. Since the 2008 financial crisis, many countries have sought to privatize industries, utilities, and financial sectors, pushed by the IMF, the European Central Bank, and the EU Commission. China has become involved as a player taking over some of these available privatization efforts.

Le Corre's presentation focused on southern Europe in global context. Although the Balkans is also an important part of this group, case study remarks here include Portugal, Greece, and Italy.[7] Portugal has had a long relationship with China, but it is a relationship of unequals. An old empire with a 450-year presence in Macau, Portugal since 2012 has attracted Chinese business and individuals with its "golden visa" program, in which visas are issued to Chinese investors who buy property in Portugal. These visas may eventually be converted into Portuguese, and therefore into EU, passports. An example of Chinese business involvement in Portugal includes China's Three Gorges Corporation investing in Portugal's top utility company EDP (Energias de Portugal, S.A.), which has investments in Spain, Brazil, and the United States. Issues about EDP primarily serving Chinese interests have arisen as Portugal is a member of the EU and of NATO. China has also invested in the Portuguese flag carrier airline TAP Air Portugal, hospitals, media, and radio stations, and is very close to the government of Portugal. China's relationship with Greece began with a benign sharing of Olympic hosting in Athens in 2004, and in Beijing in 2008. China was in Athens to learn from Greece prior to 2008, about the time that China began to get involved in the Greek port of Piraeus, first with leasing arrangements and then with purchase of a large portion of the port by COSCO, China's premier shipping and port management company, despite opposition by Greek union labor. China's goal in buying and developing Piraeus is to connect to eastern Europe by rail, and to exploit Greek shipbuilding industries. China has made other investments in Greece as well, especially around the harbor, but also the State Grid Corporation of China (SGCC) has bought a portion of IPTO, Greek's electric transmission company. Italy has commanded the largest single Chinese investment in Europe, the acquisition by ChemChina of Pirelli Tyre Company, involving an investment of €7.5 billion. Although Portugal, Greece, and Italy have not signed agreements to become part of the BRI, they all have attended BRI summits, and Italy may become the first G7 country to join the BRI.

These economic activities have translated into political influence for China. In June, 2017, Greece blocked a statement at the UN criticizing China's human rights record. Another statement about China's activities in the South China Sea was criticized by Greece, Croatia, and others. The EU Commission is implementing an investment screening mechanism, a move that is being criticized but not blocked by some EU countries. China uses its economic activities to support its international goals. Beijing is creating a chain of friendly countries, both formally and informally, especially in southern Europe. China has the cash to do this, although its resources are shrink-

7 For more detail on southern European case studies, see Philippe Le Corre, "China's Rise as a Geoeconomic Influencer: Four European Case Studies." *Carnegie Endowment for International Peace*, October 15, 2018. https://carnegieendowment.org/2018/10/15/china-s-rise-as-geoeconomic-influencer-four-european-case-studies-pub-77462.

ing along with its economy. China has overpaid in some cases, particularly in Piraeus. Southern Europe is weaker economically and is experiencing rising anti-European sentiments, but it also has cultural differences with China. The Pew Research Global Survey in 2018 on popular attitudes towards China in Europe showed that Spain is least positive on China, with Italy a close second.[8] There is a problem with China's soft power because it is unpopular in most European countries. It is uncertain how attitudes will play out in the long run, but there are strong tendencies to keep Europe together. Le Corre believes that Southern Europe will go along with the rest of Europe despite China's role as a new player in the region.

Thomas Berger, Professor of International Relations and Director for the Center of the Study of Asia at Boston University, continued the panel with remarks on "Assessing China's offensive in the center of Europe – Germany and Northern Europe." As a specialist on both Germany and Japan, he noted current press interest in the geo-strategic shift from west to east, and that deepening Europe-China ties are a reflection of that trend. American Vice President Mike Pence's speech at the February 2019 Munich Security Conference extending greetings from President Trump was followed by a notable absence of applause, indicating how Europe is drifting away from the United States and leaving room for China to replace America. China and Europe are working together and developing areas of cooperation notwithstanding deep differences, such as in human rights and in the depth of security ties with the U.S. The press may exaggerate China's influence in Europe, but economics is bringing Europe and China together. European business opportunities in China go back twenty years. China is Germany's largest trading partner: In 2017, German exports to China equaled $97 billion in goods, while Germany imported $115 billion in Chinese goods. Daimler was the largest part of the market. Trade with China equates to 2% of Germany's GDP, similar with other northern European countries, thus China's economic slowdown has a large impact. Aside from strictly economic issues, China is attractive in another sense, as an alternative to the U.S. as a "card" to play, so to speak. China can provide leverage vis-a-vis the U.S. on a number of issues, perhaps most notably on global environmental issues. The George W. Bush administration in 2001 withdrew from the Kyoto Protocol on global warming, and in June 2017 the Trump administration withdrew from the 2015 Paris Agreement on climate change. On climate issues, Europe views the U.S. as unreliable compared to China. Europe now faces the prospect of U.S. trade sanctions against Europe. European Commission President Jean-Claude Juncker staved off application of American tariffs against the EU, but the application of U.S. tariffs against China worries Europe. President Trump has expressed annoyance at what he sees as an excess of German autos in U.S. Europeans are concerned that the Trump administration will misuse Section 232 of the Trade Expansion Act of 1962 to block European imports on national security grounds, which adds to European anger. Europeans consider this national security threat interpretation to be a gross violation of trading norms, a feeling that increases the appeal of Europe-China trade talks. Europe and China are beginning to cooperate on a number of security issues, such as on Iran. With the U.S. withdrawal in May 2018 from the Joint Comprehensive Plan of Action (the "Iran nuclear deal"), President Trump has threatened secondary sanctions on companies doing business with Iran. The most prominent of these is the Chinese technology giant Huawei, which has fallen afoul of U.S. sanctions. Europe and China have overlapping interests in avoiding these sanctions. Europe created a formal payment system for European and Chinese companies doing business with Iran to avoid the U.S. payment mechanism called the SWIFT system,[9] reducing U.S. leverage. China and Europe cooperate on some aspects of Africa as well.

8 https://www.pewresearch.org/global/2018/10/01/international-publics-divided-on-china/

9 SWIFT is the common acronym for the Society for Worldwide Interbank Financial Telecommunication.

On the other hand, China-Europe relations suffer from problems as well. China has an image problem in Europe. China's political system is unattractive in Europe, where even in countries that have a relatively favorable opinion of China, such as Hungary, over 50% of the population say that they do not trust China. In Germany, 62% of the population shares this opinion. China's record on human rights is viewed negatively, a view that highly correlates with a distrust of China. One human rights example with Chinese economic consequences is China's economic pressure on Norway by refusing to buy Norwegian salmon after the Nobel Peace Prize was awarded to Chinese dissident Liu Xiaobo in 2010. China succeeded in pressuring Norway to apologize in 2016, and Norway agreed to not raise high level questions about human rights. The Uighur issue in northwest China's Xinjiang autonomous region is another current human rights issue negatively affecting China-Europe relations.

A lack of trust affects the types of agreements that European countries are willing to enter into with China. European countries are dismayed by trade issues with U.S., but they also share America's concern about China's trading practices. Technology transfer, lack of access to China's markets in services and public bidding, and cyber-security concerns are all problems for Europeans in their relations with China. For instance, Germany is considering limiting Huawei products in the development of 5G capabilities in critical infrastructure and other strategic industries. European countries generally don't like to talk about security issues, but traditional security concerns continue to exist today, particularly with Russia. For all of the U.S.-European relational issues, there is no alternative for Europe aside from the U.S. NATO is still very important, and the U.S. security guarantee is still vital. For example, the British and French together were barely able to combat the Libyan armed insurgency in March 2011, and relied upon the U.S. to assist with providing munitions. There are clear limits to how far Europe will drift away from the U.S. The bottom line is that shifts are occurring, and China's influence is increasing, but these changes should not be exaggerated. The U.S. is good at infuriating Europe, and at alienating the world on issues such as Iran, but in the end, the U.S. has a lot of influence, and significant barriers remain to Europe-China ties. China needs to learn how to play the role of global influencer. In the future, the U.S. could resume its world leadership role, and continue to be the major power.

Grant Rhode, Senior Lecturer at Boston University and Adjunct Professor at the U.S. Naval War College, presented thoughts on "Piraeus: Emerging Hub of the Maritime Silk Road in Europe." He noted that Piraeus was the key Athenian port during the period of classical Greek civilization in the 5th c. BCE. A cultural common bond tying together Greece and China is the recognition by both parties of Greece's role as the cradle of "Western civilization" and China's role as the cradle of "Eastern civilization." As noted by Philippe Le Corre in his remarks on Greece, China began its involvement in the port of Piraeus around the time of the Beijing Summer Olympics in 2008, which coincided with the beginning of the Western financial crisis of 2008-2009. As Greeks grappled with a crippling debt crisis, the Chinese state-owned enterprise COSCO, the China Ocean Shipping Company, leased half of the port of Piraeus, reducing carrying costs of a struggling port for Greece that ranked 116 in the worldwide rankings for container ports, handling about 700,000 TEUs annually[10]. COSCO leased container piers II and III at Piraeus, while Greece continued to run container pier I and the passenger terminal. Lease terms were in the range of €4.3 billion over 35 years, less a 9% discount rate plus promised improvements to piers II and III. To increase efficiency, COSCO invested in cranes and reduced labor wages, inciting major protests by Greek dockworkers. Nevertheless, by 2012 the Chinese half of the port

10 TEU stands for twenty-foot equivalent unit, a container size standard in the shipping industry for measuring container shipping volume.

increased productivity from handling 12 containers per hour to 44 containers per hour. By 2016, the port of Piraeus, half under Chinese management, had quintupled its annual volume to over 3,700,000 TEUs handled, raising Piraeus' port ranking to 38 worldwide. Greece decided that it would be willing to privatize its ports and railroads, and did so with Piraeus in 2016, even though Greece elected its socialist party Syriza into power in 2015. In August, 2016, COSCO bought 51% of the shares in the Port of Piraeus Authority for €280 million, with an option to buy another 16% by 2020 for €88 million, and a commitment to make €300 million worth of improvements, guaranteeing Chinese management and operation rights to the port for 35 years until 2052. Again, there were Greek dockworker protests, but these have subsided as dockwork employment has grown, wages have increased, and positive economic impact has resulted for the Greek-owned hotel, retail, and restaurant businesses in Piraeus. Additionally, the ancient trireme port is the current passenger port of Piraeus, which under Chinese management— but mostly Greek port workers— has grown to be the largest passenger port in Europe, providing both domestic Greek island service and international cruise service to the eastern and western Mediterranean, northern Europe, and the Caribbean. Piraeus may now handle the biggest giga container ships— those with a capacity of 20,000 TEU— and has developed its ship repair facilities that are now drawing business away from repair facilities in other parts of the Mediterranean. Over the past decade, Piraeus experienced growth of 195%, at least three times higher than any other port in Europe. China has invested in some two dozen other ports in Europe, but none of them comes close yet to the performance of Piraeus under Chinese management. The port of Piraeus at present seems to be generally regarded as a win by both the Chinese and the Greeks.

The Piraeus case stands in sharp contrast to the Hambantota port case in Sri Lanka, in which the Chinese became involved around 2009. China offered the Sri Lankan government high interest loans of over 6%, while making it a term of these loans that Chinese construction firms be hired to do the bulk of the work on the port, thus the loans were both earning China substantial interest and were employing excess capacity Chinese construction labor and materials. The Piraeus arrangements were re-negotiated in 2016, while Hambantota arrangements were renegotiated in 2017, when Sri Lanka could no longer make payments on the loans. Sri Lanka had fallen into a Chinese "debt trap," and to solve this debt problem, China offered to forgive debt worth US $1.12 billion in a "debt for equity swap" in which China received control of the port and 15,000 adjacent acres for 99 years. The value of the port remains uncertain, however, as Hambantota has not yet been able to attract enough shipping to make the port commercially viable. The port only attracted 34 ships in 2012, and is attracting about 300 ships annually at present, but it needs to attract something in the range of 2,500 ships to be commercially viable and vibrant. It is possible that commercial viability is not China's primary goal: the Indian Navy worries that the Chinese rationale for controlling the port is military, not commercial. So far, the port at Hambantota has not been a commercial win for either Sri Lanka or China, in stark contrast to Piraeus' win-win assessment.

The development of Piraeus as a gateway, or hub, into the CEEC 16+1 countries has been slowed by the lack of adequate road and railroad connections. China is working on the Belgrade to Budapest railway concept, which will probably not be operational until 2025 at the earliest. Getting to Belgrade from Piraeus efficiently is another as yet unsolved problem. Despite Chinese interest, the Greeks privatized their train system, TRAINose, by selling it in 2017 to the Italian national railway company, Ferrovie dello Stato Italiane. The connections through North Macedonia to Serbia are poor. The Chinese have built one-third of the road between the Montenegrin port of Bar and the Serbian border, leaving the transport link unfinished at present, and also leaving Montenegro in what looks like a debt trap similar to Sri Lanka's problem with Hambantota. Thus, Piraeus has become increasingly successful as a port under Chinese management, but it has not yet been able to fulfill its often portrayed role as a successful 'gateway' or 'hub' to central Europe.

Kevin Gallagher, Professor of Global Development Policy and Director of the Global Development Policy Center at Boston University, placed Europe within the broader context of both BRI program scope and development theory. He began by noting that the BRI is about five years old, but that many of the investments are long-term 100-year investments, so ongoing evaluation is necessary to assess their impact and success. Following the analytical framework developed at BU's GDP Center, he sees that BRI must be multilateral to be successful. He noted that the second BRI summit would take place in Beijing April 27-29, 2019. It would be the largest gathering of heads of state thus far in the 21st century. Chinese President Xi Jinping will give the first address, and IMF Chair Christine Lagarde will be second. The head of the World Bank will attend, but the Trump administration will not be represented. On a global level, the gap between haves and have-nots is continuing to diverge within nations and within households. Inequity is one of the core drivers of unrest and right wing nationalism. Many trillions of dollars are needed to fund global infrastructure that is climate-friendly and does not exacerbate the national and global inequities throughout the world. Private markets, with their short-term focus on returns, are unlikely to fund longer-term investments such as infrastructure. The economic historian Charles Kindleberger pointed out after the Lausanne Conference of 1933 that world economy needs a system of long-term finance. These institutions were created at the United Nations Monetary and Financial Conference (the "Bretton Woods Conference") in 1944, but are now struggling with legitimacy.

China does not like the analogy between the BRI and the Marshall Plan, but the comparison is useful. The Marshall Plan in today's dollars amounted to about $2.5 trillion, or about 6% of U.S. GDP in its first year (1948-49). The BRI was similar in its first year, valued at about 9% of Chinese GDP. Total Chinese investments in the BRI are projected at $4 trillion and above, the largest public outlay in modern times. How should the BRI be evaluated? The distinguished historian Charles Maier wrote an article that provides a great methodology for assessing the potential for the BRI to be a success.[11] The Marshall Plan was viewed as a success because it succeeded on three levels: 1) Domestic political benefits for the U.S. accrued as New Dealers had won the war and wanted to globalize their model; 2) U.S. hawks did not want to see the rise of another Hitler or an activist USSR, and Marshall had the best plan to achieve this goal; and 3) U.S. commercial interests would benefit. John D. Rockefeller headed a committee for commercial opportunities in which U.S. firms strongly benefitted. All three constituencies got on board, recognizing the huge opportunity they had in rebuilding Europe. The Marshall Plan ethic exported to Europe prevented the rise of Communism in many countries, prevented the rise of authoritarianism, and created many economic opportunities for U.S. companies. In the host countries, economies grew and governments did not get thrown out of office. Workers appreciated the encouragement of unions (except those affiliated with the U.S.S.R.), and productivity increased in Europe. The success of the BRI hinges on several points: Chinese productivity must rise; it must be successful from the point of view of host countries as well; and it cannot annoy the West. That is something that we see happening now—the West is attacking BRI because it is afraid of it.

How is the BRI going so far for China? BU's GDP Center says that China is winning. BRI is working well for China's companies domestically. Increased environmental restrictions domestically are less restrictive aboad. Japan's pattern was similar in the 1980s and 1990s. Those companies that had slowed due to environmental regulations, or because of their maturation in the business life cycle, benefited from going abroad. Going global helps companies with tremendous domestic power obtain global market share. The Ministry of Foreign Affairs in Beijing

11 Charles S. Maier, "The Politics of Productivity: Foundations of American International Economic Policy after World War II." *International Organization*, 1 October 1977, Vol.31(4), pp. 607-633.

has been cautious, but the ministries dealing with finance and the Bank of China are very excited about the BRI. They feel the BRI will help to internationalize China's currency, the renminbi, increase commercial activities, and create more involvement in Africa. Response from host countries, however, has been more of a mixed bag. They are happy with getting more infrastructure financing, as international organizations had withdrawn from infrastructure finance in the 1970s, preferring instead to help with education and health care. Santiago Levy, a BU professor who became deputy minister of finance in Mexico and then vice president for sectors and knowledge at the Inter-American Development Bank (IDB), said that development efforts had created a lot of educated people with no roads to drive on or places to work, and that there are now many highly trained dishwashers in New York City. BRI is helping to address this issue by moving the focus to infrastructure. However, one of the problems with the BRI is the growing issue of debt. The role of local communities is often overlooked. Ministries of finance might be happy, but GDP Center work in Cambodia, Bangladesh, and Andean Amazon shows that local communities do not necessarily know that deals are happening. When Chinese firms show up in the middle of the Amazon, neither the locals nor the Chinese understand what they are about to do, and an increase in social conflict often results. In Cambodia there are problems over fisheries rights, and in the Andean Amazon, problems arise over rights to forests and agriculture. These disputes can have significant ramifications on China's bottom line. For example, China might expect to construct a $2 billion hydropower project in three years, yet even after six years, work has not yet started due to these types of troubles. A conundrum has developed: in places where China has been successful, it is viewed as a threat, and where it has failed or has caused concerns, those who want to see China fail are amplifying those opinions. A challenge for China is how to deal with this conundrum. Evaluation of the BRI includes assessing how the BRI is impacting China domestically, how the BRI is impacting host countries, and how the BRI is impacting third parties, a question which will arise at the April 2019 summit.

For China, it is important to project success and legitimacy. China has already succeeded with the Asian Infrastructure Investment Bank (AIIB), started in 2014. The U.S. first criticized the AIIB and said it would have nothing to do with it, claiming it would exacerbate climate issues. Now this organization is the envy of the Bretton Woods institutions. AIIB has excellent policies around climate, as well as social and environmental engagement. Still small, the Bank has made $8 billion in investments so far, but it will ultimately be larger. It may develop issues if it finances a large hydroelectric project or another project with more serious environmental impacts, but so far, it is an exemplary international institution. Regarding multilateralism, the OECD used to be the institutional apparatus for engagement between the U.S. and host countries. Currently, there is not a multilateral forum for discussion of European integration, other than lots of bilateral agreements and deals. Europe and the U.S. are China's largest markets. China is looking for better infrastructure access to European markets. Access to U.S. markets via the Pacific is easier than shipping to Europe.

Panel 2: Geo-Strategic Perspectives

Vesko Garcevic, former Montenegrin Ambassador to NATO and Professor of the Practice of Diplomacy at Boston University, opened the second panel with remarks on "Chinese and Russian strategic influence in Southeastern Europe." He began his remarks citing Winston Churchill's observation that the Balkans produce more history than they can consume, such that "Europe has to deal with it." The new factor currently is that China is everywhere in the Balkans, and the concern is that as young economies, the Balkans may not get a fair deal. As a subset of the 16+1 countries, the Balkans cannot be separated from the big picture, but in fact China is building a special relationship with the periphery of Europe. The deeper the relationships that Western Balkan countries build with China, the more difficult it might be for Serbia, Montenegro, Bosnia, Albania, and North Macedonia—the non-EU 16+1 countries— to gain entrance to the European Union. China provides much-needed financial resources to the Balkan countries that need these resources. China and Russia are both more popular in the Balkans than they are in the West. Following the break-up of Yugoslavia, there is a residual socialist culture in the Balkans that is more similar to the Chinese and Russian mindset than those in the West might imagine, even with a younger generation running the Balkan countries. A passive dependency on China is developing in the Balkans. The Chinese dictate the loan terms and bring many of its own people and companies. If local companies only get 20% of the business in a Chinese-sponsored project, it is a big deal and has a significant impact on local employment.

The countries of the western Balkans have about 14 million citizens, and are in debt to China by $6.5 billion. Montenegro is the most vulnerable of the Balkan countries. Traditionally, the region is in Russia's sphere of influence, but there are differences in the way that Russia and China work in the Balkans. Russia works against both NATO and the EU. China does not work against NATO, and has open channels of communication with the EU. Russia takes advantage of instability, but China avoids instability and tries to work with the elites in power. China wants 10-15 years of continuity so to ensure the implementation of agreements. Aside from these differences in the way that Russia and China operate, there are also similarities. Both Russia and China prefer state-led, top-down companies. They both prefer to deal only with top management. Neither wishes to deal with environmental impact, business transparency, or long-term impact on the economies of the countries involved. Both suffer from corruption and weak institutions, and do well in states with similar profiles. China is an ideal partner for murky business deals where lack of scrutiny is preferred. States with this type of profile are susceptible to being undermined by Chinese influence.

Georgios Dimitrakopoulos, long-serving former Member of the European Parliament from Greece, presented remarks on "The emerging presence of China in the Arctic and the Mediterranean." He pointed out that China's maritime strategy toward Europe not only includes the Maritime Silk Road by way of the Indian Ocean, but it also includes the Polar Silk Road. China broached this subject as a strategic priority at both the 18th and 19th Party Congresses in 2012 and 2017. China's interest in the Arctic is not new, as China participated in the Spitsbergen Treaty, in which forty-six signatory countries all ratified by 1925 the treaty granting Norway's sovereignty over the Arctic archipelago of Svalbard. In 2013, China was granted observer status in the Arctic Council, the intergovernmental forum that deals with Arctic-related issues, nations, and peoples. China's current position is based on its 2018 White Paper on the Arctic,[12] in which it respects the institutional and legal rights of Arctic states, but also asserts the right to be involved under international law in the Arctic, even though it is not an Arctic state. The White Paper refers to the 1982 United Nations Convention on the Law of the Sea (UNCLOS), and defines China as a "near-Arctic" state. China and Russia agreed to cooperation in navigation in the Arctic in 2015. China's interests in the Arctic are scientific, such as climate change, flooding impact on agriculture; strategic, such as naval activity, satellites for missile positioning, weather; and resource, such as un-extracted oil and gas, fishing rights, and tourism attractions. As ice melts due to climate change, China acknowledges the rights of states to petition the United Nations to modify exclusive economic zones per UNCLOS. Dimitrakopoulos suggested that the United States should ratify UNCLOS.

12 http://english.gov.cn/archive/white_paper/2018/01/26/content_281476026660336.htm

Regarding impact on Europe, China's ability to increasingly use the Arctic as a shipping route will create an alternative for a shorter route to the northern ports of Europe, especially to the largest European ports which are on the North Sea. As ice recedes and the shipping season becomes longer, the Polar Silk Road will become a viable competitor to the Maritime Silk Road through the Strait of Malacca and Suez Canal. This will affect the dynamic of Chinese trade with Europe, the center of gravity of which has been shifting slowly from northern Europe toward the Mediterranean. The increasing feasibility of an Arctic route will put pressure on slowing the direction of this shift.

Robert Ross, Professor of Political Science at Boston College and Associate of Harvard's Fairbank Center for Chinese Studies, closed the formal panel remarks by considering the question "China and Europe: A bridge too far?" He opened by provocatively suggesting that China's Belt and Road Initiative (BRI) is a "nothing burger," when viewed through the lens of politics. Sovereign countries can "just say no" to Chinese deals. The Chinese are not in the business of foreign aid. Demand is growing for each other's goods, thus container shipping is expanding to meet demand. Rail as well as shipping could also handle demand. Rail transport is three times faster than sea transport, but it is also three times more expensive. Obstacles to rail transport from China to Europe include problems with infrastructure and political stability issues. Ocean transport is the most feasible, The BRI is a small component of ocean transport. Trade is important to politics. Countries are dependent on export markets for domestic jobs, income, investment, and consumerism. China is expanding its influence in Europe as it is becoming a larger market for European goods. For instance, China is now Germany's third largest export market after the United States and France. However, as Chinese GDP growth slows according to the current trend, China will absorb fewer European exports. Chinese production of its own consumer goods will also slow European exports to China. Europe's dependence on China as an export market is not likely to grow.

Economic power does not translate directly into strategic influence, but military power does. China will not have military/strategic influence in Europe, at least in the medium term. The Chinese Navy is preoccupied with Asia, and will not have a significant presence in the Mediterranean or North Sea for a while. China will not be a military power in Europe, or be able to help Europe deal militarily with Russia. It will not challenge either American or Russian military influence in Europe. China cannot help Europe with its security affairs. China has some level of cooperation with Russia, making Russia more of a threat to Europe, not less of a threat. China will not be a threat to Europe that would require American help. Europe will have to be self-reliant or rely on the United States to deal with Russia.

The BRI faces problems as China invests in places with a lot of corruption, bad environmental conditions, and unstable economies. Eventually BRI will succeed. Headlines focus on President Xi Jinping's goal to spread Chinese influence. If Xi were not associated with the BRI, few would pay attention to it. It is a Chinese program to support infrastructure development. It is typical for large continental powers to use resources to connect themselves within their regions. The BRI can be seen as a normal program. The BRI gets everyone concerned because of Xi's connection with it.

Min Ye, Associate Professor of International Relations at Boston University, served as discussant for the panel. Having begun work on the Belt and Road Initiative shortly after it was announced by Chinese President Xi Jinping

in the fall of 2013, she sees the initiative as a result of the twelve nation Trans Pacific Partnership (TPP) negotiation, and China's response to it. China felt excluded from the TPP negotiation. At the time, China was scared, feeling vulnerable to possible multilateral encirclements. The Maritime Silk Road (MSR) was an afterthought that Chinese speechwriters came up with. For China there were three drivers at the time: domestic recession and overcapacity made going global a possible solution; multilateral diplomacy was not going well for China; there was rising tension in the maritime realm including the East and South China Seas. President Xi used the BRI concept to focus and develop his political power in response to these three drivers, which coalesce into the three national priorities of development, multilateral diplomacy, and strategic considerations facing a rising power. However, implementation of the BRI has been less a function of Xi's concept than a function of other state actors, especially large State Owned Enterprises (SOEs) that have found a place in global BRI projects, allowing them to adjust to domestic recession.[13] The BRI is vague about priorities and has many different implementers, but the value of the policy exists regardless of the leader, and it is not dependent for survival as a policy on the current president of China. China in Europe is not new, and the past can be used to understand the future.

Developments following the workshop

Current European political transformations toward fragmentation, populism, and autocracy are affecting China's actions. In northern Europe, there is an uncertain process for Britain as it works to exit the EU, increasingly polarized politics in France, and an impending change of leadership in Germany. China's earlier decision to use the UK as its base in Europe is in doubt as Brexit proceeds. The EU in Brussels particularly, and the northern European countries in general, have taken a tougher stance toward China than have southern Europeans, with Greece satisfied that China has given the country a partnering option in addition to and as an alternative to the EU.

Several important developments underscore the uncertainty and rapid change highlighted at the workshop. In early March, the European Commission issued a report with relatively tough language regarding China-Europe relations, including calling China a 'systemic rival.'[14] President Xi Jinping began a three country European visit from March 21-26, 2019 shortly after the report was issued. While President Xi was in Rome, Italy became the first G7 country to sign on to the BRI despite American and northern European objections. The meeting included discussions about Chinese investments in the Italian ports of Trieste, Genoa, Ravenna, and Palermo. If Trieste becomes a focal point for trade into central Europe, as proposed, the impact could be negative for Piraeus, Greece, and Bar, Montenegro. From Italy, President Xi went on to visit Monaco, a symbol of the growing focus on small as well as large countries, and then to France, symbolizing great European power. While there, he announced China's purchase of 300 Airbus jets in the wake of the two Boeing 737 Max crashes, and then met with President Macron, Chancellor Merkel, and European Commission President Juncker. By this time, the northern European leaders had moved toward a more China-accepting and celebratory mood, not raising the difficult points

13 Min Ye, "China's Silk Road Strategy." *Foreign Policy*, November 10, 2014, and "China and Competing Cooperation in Asia-Pacific: TPP, RCEP, and the New Silk Road." *Asian Security* 11, 2015, no. 3 (December 8, 2015): 206-224. Her current work for publication focuses on state implementation of the BRI.

14 European Commission, "EU-China: A Strategic Outlook", March 12, 2019. The report both recommended cooperation with China on issues like climate change and Iran, as well as changes in Europe's favor, such as reciprocity giving equal access to Chinese markets as China has in Europe, and European safeguards against Chinese security threats to digital infrastructure.

contained in the still fresh European Commission report. Difficulty in trade and tariff talks between China and the U.S., and threats of U.S. tariffs against Europe, appear to have made the $30 billion Airbus deal more interesting to both China and Europe, more of a 'no-brainer' while both parties struggle in their relations with the U.S.

In fact, despite Brussels' worry that China is practicing a 'divide and conquer' approach in Europe by cultivating relations in the 16+1 CEEC, China showed interest in accommodating the European Union by scheduling this year's EU-China Summit before the 16+1 Summit, reversing the order from last year. The emphasis at the EU-China Summit in Brussels on April 9, 2019, was on EU reinforcement of it partnership with China. At the same time, the Europeans obtained agreement from China for further talks on limitations to forced technology transfers, reform of WTO rules, and a bilateral Sino-European investment treaty by 2020. The 16+1 Summit in Dubrovnik, Croatia, from April 11-13, 2019, acknowledged China's priority toward the EU, yet expanded the group beyond 16 to 17+1, with Greece joining the group of 16. This was not a completely surprising development given Greece's sympathies toward Chinese port investment in Piraeus. However, Greece's Central Archaeological Council halted COSCO's Piraeus port investment plan by declaring two-fifths of Piraeus a protected "archaeological zone." This mixed message from Greece that makes Piraeus more difficult to develop further could incentivize China to become more interested in Italy's port of Trieste.

For China, a capstone was in the second BRI summit held in Beijing on April 25-27, 2019, a vast event with attendees from many countries. Senior Europeans attended, while senior Americans did not. The BRI is President Xi's primary vehicle for defining what he called 'a new type of great power relations' when he gained office in 2012. The BRI concept is flexible and evolving, following the twists and turns of global political change. About 5,000 delegates attended in 2019, including eight more heads of state at the second BRI summit, compared to the first summit in 2017. In tone, Xi was more muted on Chinese presence in other countries, and promised zero tolerance of corruption in BRI projects. He emphasized quality projects that are "open, green, and clean," lofty rhetoric yet be demonstrated in practice. Although elected on a stance challenging China's BRI, Malaysian Prime Minister Mahathir bin Mohamad attended the summit, indicating an openness among some to revisiting ideas of the BRI. President Xi also addressed trade concerns within the context of the ongoing U.S.- China trade conflict. Overall, the BRI summit, through addressing some concerns of the project host countries over the past two years, seems to have been a partially successful exercise in re-branding the BRI concept for the next two years.

Aside from China's moves during Spring 2019, substantial European changes took place during May and June, 2019. In the elections for the European Parliament during May, right wing nationalist parties increased their number of seats from about 20% to 25% of the 751 parliament seats, while left-leaning green parties also increased their representation. Thus, the moderate center of the parliament has been reduced, with the adjective 'fragmentation' being widely used in the press to describe the outcome of the elections. Populist, nationalist results were particularly marked in Italy, Hungary, Poland, and France. In the UK, hard line Brexiteers strengthened their position, while centrist Prime Minister Theresa May decided to step down as prime minister in June. During July, 2019, the Greek election resulted in a replacement of left-leaning socialist Syriza Party Prime Minister Alexis Tsipras with center right New Democracy Party Prime Minister Kyriakos Mitsotakis. Prime Minister Mitsotakis reaffirmed Greece's commitment to its relationship with China, although policy details remain to be determined. Thus Greece, even though now under substantially different leadership, is likely to remain a stronghold of Chinese involvement in Europe. With the weakening of the core fabric of the EU through the fragmenting elections results, and the escalation of US tariff regimes toward Asia, North America, and Europe, opportunities for China in Europe have been growing.

Key Points Summary

Panelist and discussant remarks provided a narrative of the current 'state of play' in China-Europe relations, in which a number of competing viewpoints were presented. In the first panel on geo-economic dimensions, Philippe LeCorre examined how China has emerged as a key player in both the 16+1 group and in southern Europe, where he focused on the case examples of Portugal, Greece, and Italy. These countries are more sympathetic to China's involvement in Europe than the northern European countries, leading to a northern 'bad cop' and southern 'good cop' dynamic. Nevertheless, he concluded that southern Europe in the end would step in line with northern Europe in developing China policy, a thesis subject to ongoing debate. Parsing Europe into three subsets of countries for analysis provided a useful framework for considering nuances of Chinese relations within Europe.

Thomas Berger analyzed China's economic relations with the skeptical EU power center in northern Europe, traditionally the region of Europe most closely aligned with the United States. He provided the larger context of geostrategic shift from West to East, the increasing role of China in Europe as a part of that trend, and the partial vacuum created by US ambiguity in its economic, political, and strategic with Europe and elsewhere during the current administration. It was helpful to have the China-Europe relationship framed within the larger global dynamic. EU policy on climate, Iran, and trade barriers is now closer to China's views than to U.S. views. China has problems in Europe with image and reciprocal trade and investment practices, making China's involvement a 'mixed bag.' He concluded that these aspects will, in the longer run, make it difficult for China to compete with the United States as the premier global influencer.

Grant Rhode looked at China's aggressive approach but mixed record in port development projects central to the Maritime Silk Road part of the BRI, referencing a dozen ports in Asia and a dozen ports in Europe having Chinese investment. China is investing in ports around the south, west, and north perimeter of Europe, indicating that there is a comprehensive Chinese view regarding the MSR in Europe. In a closer comparison of two ports, he concluded that Piraeus, Greece, has been an overall success with some problems, while Hambantota, Sri Lanka, continues to be mired in problems. Piraeus has demonstrated outstanding growth as a port, but has not yet become the envisioned hub for maritime access into the 16+1 group. China has avoided Greek labor demonstration problems in its program for the Belgian port of Zeebrugge. Thus, China appears to be learning from its mistakes, and is in the port business for the long term.

Kevin Gallagher pointed out China's increasing sophistication in BRI finance with successes such as the Asian Infrastructure Investment Bank, AIIB, which has become an exemplary institution with strong climate policies. The studies of the Global Development Policy Center, which he leads at BU, finds that so far the BRI is doing well for China, with the understanding that the BRI is five years old and infrastructure investments are 100 year investments. To become successful in the longer run, as the Marshall Plan was, he suggests that Chinese BRI programs should be integrated multilaterally, and that debt issues in particular must be addressed.

In the second panel on geo-strategic dimensions, Vesko Garcevic discussed the important legacy of Balkan history within Europe, and how China has now joined Russia as a great power competitor to the European Union and United States in the Balkans. He noted Balkan comfort with residual socialist culture operating from the top down as it does in Russia and China. He also noted that Russia and China, which also suffer from corruption and weak institutions, prefer working with countries lacking transparency. In this context, murky business becomes good business. Balkan countries are satisfied if they get 20% of the benefit of a deal with China. Thus far, the 14 million people of the western Balkans are $6.5 billion in debt to China.

Georgios Dimitrakopoulos explored China's involvement in the Arctic, noting that China's maritime strategy toward Europe involves not just the Indian Ocean Maritime Silk Road, but also the Polar Silk Road as an alternate route. China has had an interest in the Arctic going back to the 1925 Spitsbergen Treaty, and more recently in 2013 when it became an observer to the Arctic Council. China's 2018 White Paper on the Arctic refers to 1982 UNCLOS provisions, and to China as a 'near Arctic' state that has scientific, environmental, strategic, and resource interests in the Arctic. As polar ice melts, the Arctic shipping route will become more viable, possibly redirecting the current shift from north to south European ports back toward the northern ports again.

Robert Ross posited that China's strategic/military involvement in Europe was an unlikely development. He is pessimistic about the BRI's short-term prospects. Current slower Chinese economic growth will inhibit the sale of European goods in China. He suggested that people generally give more credence to the BRI than it deserves, primarily because it is President Xi's program. China's slower economic growth will lead to an increasing focus of China in the Asian region, without military power in Europe in the medium term.

Min Ye addressed the origins of the BRI as a response to the now-collapsed Trans Pacific Partnership or TPP, in which China felt excluded and encircled multilaterally. The BRI was used by Xi to develop China's political power, but it is currently more dependent on state actors other than Xi, who are adjusting to domestic recession. She suggested that the idea of the MSR could have begun as a speechwriter afterthought, but subsequently gained traction as a viable program. The BRI has vague priorities and many implementers, but has a policy value independent of China's current president, and will likely outlast the current political leadership.

Conclusion

The two panels comprised a collage of snapshots that, taken together, provided a comprehensive look at contemporary China-Europe relations within the context of the BRI and greater global relations. A key aspect in all of the remarks and discussion was an emphasis on uncertainty and rapid change. Nevertheless, major features of Europe-China relations were outlined and explored, and more common ground than differences were identified. It is clear that a new 'political map' of Europe is evolving. No doubt China is studying and interpreting this new political map, and calculating how to pursue its European game accordingly, while Europe calculates how to develop its relationship with the new great power of the twenty-first century, China.

Appendix A: Port Information

Top 10 European container ports

Rank 2017	Rank 2016	Rank 2007	Port		2017 1000 TEU	Growth 2016/2017	Growth 2007/2017
1	1	1	Rotterdam	(NL)	13,735	10.9%	27.3%
2	2	3	Antwerp	(BE)	10,451	4.1%	27.8%
3	3	2	Hamburg	(DE)	8,820	-1.0%	-10.8%
4	4	4	Bremerhaven	(DE)	5,537	0.9%	13.2%
5	6	8	Valencia	(ES)	4,832	2.1%	58.8%
6	5	6	Algeciras	(ES)	4,381	-8.0%	28.1%
7	8	-	Piraeus	(GR)	4,060	10.5%	195.7%
8	7	7	Felixstowe	(UK)	3,810	-5.1%	14.0%
9	9	12	Marsaxlokk	(MT)	3,150	2.3%	65.8%
10	13	10	Barcelona	(ES)	2,969	32.8%	13.7%
	10 year growth 5 northern European ports						14.3%
	10 year growth 5 Mediterranean ports						72.4%

Chinese port lease lengths and equity stakes

PORT	COUNTRY	LEASE YEARS	EQUITY STAKE	RANKING
Koh Kong	Cambodia	99	100%	199
Darwin	Australia	99	80%	179
HAMBANTOTA	SRI LANKA	99	70%	169
Melaka Gateway	Malaysia	99*	49%	148
Kuantan	Malaysia	99	49%	148
Maura	Brunei	60	57%	117
Gwadar	Pakistan	40	?	40 + ?
Columbo	Sri Lanka	35	85%	120
PIRAEUS	GREECE	35	51%/67%	102
Kyaukpyu	Myanmar	0	70%/50.9%	61
Doraleh	Djibouti	?/10	23.5%/?	34

*Freehold status for reclaimed, man-made islands not included: China could hold in perpetuity.

Lease agreement information highly opaque with limited detail.

Source: C4ADS, Thorne and Spevack "Harbored Ambitions", 2017.

Ten largest container ports in Europe

European ports with Chinese investment

Appendix B: China and Russia in the Balkans

The Chinese generosity comes at costs:

States in the region are in
passive dependency on China

Beijing arranges the financing of projects keeping the participation of local companies to a minimum

Chinese loans, granted under soft and permissible conditions increased the region's debt burden:

Serbia 2.12 billion dollars
Bosnia 1.78 billion dollars
Montenegro around one billion
N. Macedonia around 600 million

Is China a more difficult actor to deal with?

Unlike Russia, Beijing profits from stability

Also unlike Russia, China does **not rely on propaganda** to export its ideology or try to undermine the aspirations of states in the region to join NATO or the EU

At the same time, its growing "soft" power hinders the EU's own model for the Balkans