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EUROPE'S CONNECTIVITY STRATEGY AND THE CHALLENGE OF CHINA

RIVALRY, RECIPROCITY, OR BOTH?

The EU's new strategy for connecting Europe and Asia, implicitly a response to China's Belt and Road Initiative, is an important first step in promoting European priorities in terms of connectivity. However, uncertainties, including those surrounding the financial implications, remain.

The EU's connectivity strategy, published in September 2018 and officially a Joint Communication on "Connecting Europe and Asia – building blocks for an EU strategy", denotes Europe's first attempt to formulate a response to the Chinese Belt and Road Initiative (BRI). The BRI, focussing on infrastructure development and investments in over 80 countries, including some within Europe, has been increasingly attracting attention and even causing concern at regional as well as global levels. It has duly become a strong and recognizable brand.

Even so, there are calls for a precise definition of the initiative, both in terms of the resources invested, as well as those projects that explicitly fall under the BRI banner. At the same time, the BRI, consisting of the Silk Road Economic Belt and the 21st Century Maritime Road, is often seen as an attempt to alleviate China's industrial over-capacity. More importantly, it is regarded as being at the core of China's geo-economic and geostrategic attempt to establish a Sinocentric regional order through connectivity and infrastructure development.

As stated in the European Union's Global Strategy for Foreign and Security Policy of June 2016, Brussels is strongly aware of the importance of a connected Asia for European prosperity, with trade between both regions amounting to 1.5 trillion euro. The BRI offers opportunities to connect the Trans-European Transport networks (labelled TEN-T) to networks in Asia. At the same time, however, it poses significant challenges for Europe.

First of all, a level playing field is seemingly lacking. China-funded projects are most often implemented by Chinese companies, are generally less open to local or international companies, and frequently lack a transparent bidding process. Furthermore, China typically provides loans to countries rather than investments, which can result in a debt trap and loss of sovereign control, as was the case in Sri Lanka's Hambantota Port project.

Second, there are fears of growing political influence in Europe. According to the *Economist*, Chinese investments in Europe amounted to 30 billion euro in 2017, accounting for one-fourth of the country's total FDI outflows. These are still concentrated in Western Europe, but with an increasing share going to Central and Eastern

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Europe. The Czech Republic, Hungary and Greece are often-quoted examples of countries where China's influence is said to be visible, causing intra-European divisions and blocking EU-level criticism of China. Additionally, the 16+1 framework, a platform driven by China to promote cooperation between Beijing and 16 Central and Eastern European countries, is often seen as a tool for driving a wedge between the European Union and its neighbourhood, and undermining EU rules.

Third, in multilateral fora, China's brisk activity has stood in stark contrast to European ambivalence and wait-and-see stance. The Asia-Europe Meeting (ASEM), a forum in which 51 countries from both regions participate, is a good example. According to a recently published inventory, since 2014 China has organized 12 events in the ASEM framework, of which seven related directly to connectivity, including initiatives on Eurasian transport, industry dialogue, people-to-people exchanges, policy coordination, and trade and capital flows. Europe's response to these initiatives, at least until recently, has been muted.

Fourth, concerns have risen about standards, environmental considerations and social requirements, including labour rights or human rights, often lacking in China-sponsored projects.

The EU's connectivity strategy emphasizes three core ideas. Connectivity has to be economically, fiscally, environmentally and socially *sustainable* in the long term. It needs to be *comprehensive*, covering transport links, digital networks, energy flows, and people-to-people networks. Finally, connectivity needs to be *rules-based* and *transparent*.

The Achilles heel of the strategy is likely its financial backbone. The EU's external action budget for 2021–2027 has been increased to 123 billion euro, of which 10 billion would go to Asia and the Pacific as part of the Neighbourhood, Development and International Cooperation Instrument. The Instrument also includes an investment framework of up to 60 billion euro in order to guarantee sustainable investment *inter alia* in connectivity projects in the EU neighbourhood, Western Balkans, Africa, or regions with critical infrastructure and connectivity needs. Eventually, much will depend on the extent to which additional financial resources can be raised from the private sector, as well as from national, international and multilateral financial institutions.

The EU's strategy can be seen as an important first step in countering China's integration towards the West. It proposes a European model for connectivity and a blueprint for building up international support for the values and principles it promotes, allowing Europe to help shape the rules of the global marketplace. Importantly, it looks beyond investment in infrastructure, pointing the way to niche markets in which the EU has a comparative advantage, such as green technology, digital connectivity, or educational mobility.

The promise of short-term financial injections provided by China will likely remain very appealing for countries in Asia and Europe alike, trumping longer-term concerns. Even so, the new strategy sets out the conditions for Europe to cooperate with China, bilaterally and multilaterally, and to find synergies, not least in the EU's immediate neighbourhood. For its part, China officially welcomes a more proactive EU role in connectivity, opening up avenues for cooperation or even healthy competition. As is always the case with strategy papers, however, the proof of the pudding will be in the eating.

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