



European  
Institute  
of Romania

**CONNECTIVITY-RELATED PROJECTS  
IN EUROPE AND CHINA: OPPORTUNITIES  
AND CHALLENGES TO INCREASED  
SYNERGIES**



**Connectivity-Related Projects in Europe and China:  
Opportunities and Challenges to Increased Synergies**

**AUTHORS:**

Doru Costea

George Cornel Dumitrescu

Clara Volintiru

Roxana Voicu-Dorobanțu

Cătălin Ploae

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CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND  
CHALLENGES TO INCREASED SYNERGIES

Project coordinator on behalf of the European Institute of Romania: Mihai Sebe

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7-9 Regina Elisabeta Bld.,

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**EXECUTIVE SUMMARY**

The undisputed truth of the consequential relationship between Europe and China is accompanied by a comparable complex, and sometimes tense, interaction between the two of the three biggest economies and trade partners of the world. Connectivity has been, and still is, one of the fundamental bricks in building the European Union, much like it has played an instrumental role in China's breath-taking advancement in the last decades. Initiatives are in place in both areas with a view to strengthening their texture and increasing their integration within the global environment. The EU-China Strategic Partnership includes one of the most ambitious endeavours in the record of their relation, which is connecting these initiatives even as they go beyond mere infrastructure of transportation, energy and logistics. The Belt and Road Initiative has come against a background of existing EU formats and schemes, and this brings about new opportunities and challenges. Moreover, the implementation of various projects under BRI so far and the European outlook on connectivity as introduced in the recent Joint Communication of the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy, call for intense and candid debates that bear in mind the need to provide viable and real beneficial results. Dialogue on policy connectivity is crucial for all other fields where connectivity is tantamount to sustainable development and its agenda needs to include issues that both parties agree, or disagree on without restraints.

Due to its favourable geography (the Black Sea, the Danube, two core TEN-T corridors) Romania could become an essential hub for at least the transport routes of OBOR that include the Black Sea and the countries around it as it had been in the old days. Romania as other CEE countries, is intrinsically linked to the overall trade policy positions of the European Union, as this is one of the exclusive competency areas of the EU. Experts have been quick to point out that given the "Trade Wars" context, EU might be in a position to profit. With the US imposing higher tariffs on Chinese goods, European producers will enjoy a competitive advantage over Chinese producers in the US market. In China too, European producers could have a competitive advantage over US producers in the current context. According to the most recent statistical data Romania-China trade reached the level of approximately 5 billion USD. It has seen the highest growth in the region over the most recent years in terms of the value of its imports from China. Overall, the CEE economies and China tended to gain market shares in product groups characterized by relatively non-dynamic import demand growth, and as such we could estimate that there is significant room for an expansion of China-CEE trade. Beyond

trade volumes, it is important to foster trade exchanges that are linked to global value chains and have a higher added value. BRI is in essence a funding project for a complex structure of infrastructure and development projects, encompassing various industries and reaching out to countries on almost all continents. The main pillars of this endeavour are the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund.

Extra-EU cultural goods imports does not seem to follow the growing relevance of China in connection to the European Union in trade and investments. This underlines, yet again, the feeling of unbalanced development in this relationship. The lack of equilibrium is more obvious when we look at the Extra-EU exports in cultural goods, where China's relevance is minimal and diminishing (4% in 2011 to 2% in 2016, although there is a growth in Hong Kong, so overall PRC+HK – 11% in 2011 to 12% in 2016).

**About the authors:**

**Doru Costea** (coordinator) is the author of Chapter I: Policy Connectivity. He is a retired diplomat and his last posting was Romania's Ambassador to China and Mongolia (2012-2017). Previously, he was Ambassador, Permanent Representative to the UN and Other International Organizations in Geneva (2003-2009), and Ambassador to Egypt (1997-2001), Kuwait and Oman (1991-1995). In the Ministry of Foreign Affairs, he was Secretary of State for Global Affairs (2009-2012) and director for analysis, policy planning and communication (2001-2003). He currently writes on issues pertaining to the world order, with a particular focus on the Greater Middle East, Europe and China.

**George Cornel Dumitrescu** is the author of Chapter II: Infrastructure connectivity. He is a senior researcher with the Institute for World Economy of the Romanian Academy, coordinating the department of Structural Changes in the Global Economy. The BRI has been one of his research themes since the Chinese president announced it in 2013. He is also an entrepreneur and a certified trainer with experience in delivering courses in the fields of project management, decision-making and negotiation.

**Clara Volintiru** is the author of Chapter III: Trade Connectivity. She is Associate Professor at the Bucharest University of Economic Studies (ASE). She received a PhD from the London School of Economics (LSE) and is specialized in international political economy. Her recent research was published by Oxford University Press, Springer, East European Politics, European Political Science Review (EPSR), and Research & Politics.

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**Roxana Voicu-Dorobanțu** is the author of Chapter IV: Financial Connectivity. She is Associate Professor at the Bucharest University of Economic Studies (ASE), holds a Ph.D. in International Business with a focus on international finance (ASE), an MA in Financial Management (ASE), and a postdoctoral degree (Romanian Academy). Co-Principal Investigator in a project funded by the Swiss National Foundation on developing entrepreneurship through venture capital, and Lead Investigator and Project Manager in an Erasmus+ Strategic partnership on Blockchain for Entrepreneurs, she was member in 18 research and development projects on venture capital, financing entrepreneurship (both research and training potential entrepreneurs – as certified trainer), regional development, fostering innovation, increasing sustainability and resilience. She is author/co-author of 2 books, 10 book chapters and reports, numerous peer-reviewed articles in journals and conference proceedings.

**Cătălin Ploae** is the author of Chapter V: People to People Connectivity. He is a lecturer at the Bucharest University of Economic Studies (ASE), holds a Ph.D. in International Business (ASE), a post-doctoral degree (Romanian Academy) and an MA in Marketing (University of Lille). Research interests on intercultural management, innovation and sustainable endeavors, community involvement and economic, environmental and social sustainability. Member in 14 projects (development of interdisciplinary research in educational system, economic sustainability, the assessment of Romanian agriculture sector), 7 co-financed by the EU. Member of the international academic organizations, he is also author/co-author of 5 books, 1 book chapter, 29 international peer-reviewed articles and contributions in conference proceedings.

*\*\* Disclaimer: This material represents a 2018 contribution of a Romanian team under the auspices of Aspen Institute Romania to the Research Programme and implementation plan on EU – China and China – CEEC Cooperation under the Belt and Road Initiative CASS – Beijing. The views belong to the authors and do not necessarily represent Romania's official positions on the respective topics.*

## CHAPTER I. Policy connectivity

### *In guise of introduction*

The every-day image on the streets in Europe and China is supposed to undergo a change in 2018: on January 19, the EU-China Tourism Year (ECTY) was launched in Venice, and an increasing number of people are expected to travel both ways between two of the most significant and influential spaces of the world. Available data show that citizens from the EU Member States spent 32.5 million nights and € 5.1 billion in China (including Hong-Kong SAR) in 2016; the number of their trips to the Middle Kingdom increased by 16 per cent between 2012 and 2016. There were fewer nights spent by Chinese in EU MS in the same year – i.e. 25 million only – yet, their number had tripled over the last decade or so<sup>1</sup>. A rich program of multifaceted events is to unfold during the ECTY that are supposed to strengthen links and networks among European and Chinese representatives of politics, business, culture, literature, history, creative arts and so on.

The first visible effect of this year-long event would be more knowledge, that will be exchanged between the two parties; further on, this would broaden the way to better understanding ‘The Other’ and tighten the existing bonds between businesses, creators, young and old, policy-makers and other members of society – and, should we zoom out, between European and Chinese societies in their entirety. This shall feed in the strengthening of Europe and Asia inter-connectivity in the broadest meaning of the word.

There is hardly a coincidence that Venice hosted the launch of this program: it was here that more than 750 year ago, Marco Polo began his 24-year long journey on the Silk Road. His exploits are well-known and so is his legacy; in modern terms, he and the many famous travellers and explorers of the era of Great Geographical Discoveries that began three centuries later, and lasted roughly two hundred years more, were the pioneers of networking and connectivity. The overarching goal of these endeavours has ever been to find and expand opportunities that would make peoples live more prosperous and, hopefully, peaceful days.

Over centuries, links between Europe, as a continent, and China, as an empire, largely followed the course of history. As long as ‘connectivity’ is related to ‘interaction’; flows of goods and peoples, as well as ideas, travelled between them – sometimes at a mere trickle, sometimes with irresistible penetrating force. And these flows, just like great rivers, were

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<sup>1</sup> Eurostat, Tourism statistics - EU and China, data extracted in February 2018 [http://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism\\_statistics\\_-\\_EU\\_and\\_China#cite\\_ref-1](http://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_statistics_-_EU_and_China#cite_ref-1).

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multi-layered so that undercurrents swirled and silt built up to form relatively short-lived dams. Resistance to ‘the Outside’ proved to be futile and became history. ‘Opening up’ and ‘reform’ are fundamental concepts that have been at work in China for nigh half a century and are credited with putting the country on the second place among the world’s economies. Europe offered the world the unique feat of putting peace first so that foundations could be cast of the largest and strongest grouping of sovereign and independent states that makes the European Union reach levels of prosperity undreamed of after two of the most devastating wars in the history of the continent. In present days, it seems natural that the two spaces look at each other as strategic partners and aim at stronger connections among them.

***On the road to connectivity***

This natural trend found a stronger institutional foundation in November 2013, when *The EU-China 2020 Strategic Agenda for Cooperation* was adopted and streamlined the ongoing actual bilateral work of more than 60 sectorial dialogues in four comprehensive chapters: peace and security; prosperity; sustainable development; and people to people exchanges<sup>2</sup>. Almost one year later, In April 2014, President Xi Jinping considered that ‘*we need to build four bridges for peace, growth, reform and progress of civilization, so that the China-EU comprehensive strategic partnership will take on even greater global significance*’<sup>3</sup>.

The reference to bridges was more than a simile the Chinese leader made in a city with the same name in the local language, and which he specifically mentioned in his remarks. It came against the background of debates and arguments in the press, academic, business and political environments, both in China and abroad, that had been triggered by President Xi Jinping’s addresses during his visits to Kazakhstan and Indonesia in September and October 2013 respectively; the wide-ranging discussions bore upon the range of the proposals, its complex opportunities and challenges, resources needed to implement them, similarities with, and differences from, previous endeavours, countries and entities that might be involved – indeed, the list of topics was, and still is, as wide as the possible consequences of the initiative themselves, be they expected or not.

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<sup>2</sup> Text of the *EU-China 2020 Strategic Agenda for Cooperation* availableat: <https://eeas.europa.eu/sites/eeas/files/20131123.pdf>.

<sup>3</sup> Speech by H.E. Xi Jinping President of the People's Republic of China at the College of Europe, April 1, 2014, <http://www.chinamission.be/eng/jd/t1143591.htm>.

Some 16 months later, in March 2015, the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce of the People's Republic of China were authorized to release a document entitled *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*<sup>4</sup>. Then, in June 2015, the 17<sup>th</sup> EU-China Summit, which also marked the 40<sup>th</sup> anniversary of the diplomatic relationship between the two sides, issued the customary Joint Statement that read: '*Both sides confirmed their strong interest in each other's flagship initiatives, namely the Investment Plan for Europe, and the "Silk Road Economic Belt" and "21st Century Maritime Silk Road" (The Belt and Road Initiative. [...] They decided to establish a new Connectivity Platform and to convene its first meeting as soon as possible in order to (i) share information, promote seamless traffic flows and transport facilitation, and develop synergies between their relevant initiatives and projects; (ii) identify cooperation 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 interoperable cross-border infrastructure networks in countries and regions between the EU and China*'<sup>5</sup>.

There is small wonder that BRI has been a matter of intense debate: after all, it is, as of now, a singular initiative of the kind, as it is supposed to relate to over 64 countries, besides China, which have a share of more than 63% of the world population, around 24% of the household consumption and contribute to almost a third of the global GDP<sup>6</sup>. The sheer size of the initiative justifies its qualification as 'global'; the ways and means that are to be used with a view to turning this ambitious vision into reality are matters of equally far-reaching debates as steps are being taken to this end.

'Connectivity' is one of the key-words in the Chinese document of March 2015 and it was highlighted later in the opening speech the Chinese President delivered<sup>7</sup> at *The Belt and Road Forum for International Cooperation* (Beijing, May 14, 2017). Actually, it may well be

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<sup>4</sup> *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, available at: [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html).

<sup>5</sup> EU-China Summit joint statement, *The way forward after forty years of EU-China cooperation* available at: <http://www.consilium.europa.eu/media/23732/150629-eu-china-summit-joint-statement-final.pdf>.

<sup>6</sup> Helen Chin, Winnie He, *The Belt and Road Initiative: 65 Countries and Beyond*, May 2016, Global Sourcing Fung Business Intelligence Centre. Data are quoted from Chinese sources. Available at: [https://www.fbicgroup.com/sites/default/files/B%26R\\_Initiative\\_65\\_Countries\\_and\\_Beyond.pdf](https://www.fbicgroup.com/sites/default/files/B%26R_Initiative_65_Countries_and_Beyond.pdf)

<sup>7</sup> *Work Together to Build the Silk Road Economic Belt and The 21st Century Maritime Silk Road*, Speech by H.E. Xi Jinping, President of the People's Republic of China at the Opening Ceremony of The Belt and Road Forum for International Cooperation, 14 May 2017, available at: [http://news.xinhuanet.com/english/2017-05/14/c\\_136282982.htm](http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm), accessed on July 12, 2017.



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considered that *connectivity* became the key-word in the Chinese approach: mere statistics reveal that, in the English translations of the two texts, the concept is mentioned 14 times among some 5,600 words of the document on *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* and 17 times in the latter, which is about 1,500 words shorter.

Numbers aside, it is worth noticing that the EU-China Joint Statement of June 2015 refers to a *new Connectivity Platform* to deal with practical components of future cooperation among entities of the two sides. In September 2015, the European Commission and the National Development and Reform Committee signed a MoU on establishing the Platform, which started working and ‘*enabled progress policy exchange and alignment on the principles and the priorities in fostering transport connections between the EU and China, based on the TEN-Ts framework and the Belt and Road initiative, and involving relevant third countries; (ii) cooperation on promoting solutions at the international level with a focus on green transport solutions; (iii) concrete projects based on agreed criteria including sustainability, transparency and a level-playing field*’<sup>8</sup>.

On July 15, 2018, in the margins of the 20<sup>th</sup> EU-China summit that was held in Beijing the next day, the Connectivity Platform had its third meeting, where ‘*the two parties reaffirmed their commitment to transport connectivity on the basis of respective policy priorities, sustainability, market rules and international coordination*’. Keeping with previous jointly agreed approaches, the debates included topics on involvement of Third Parties, both countries and international organizations, such as the International Civil Aviation Organization and the International Maritime Organization, as well as on promoting sustainability criteria, transparency and level-playing field in their cooperation on investment projects<sup>9</sup>.

Connectivity has been a key issue in the EU for quite some time as its broader meaning is clearly supported by its ‘Four Freedoms’ that are instrumental for its cohesion, along with other principles of equal importance. The narrower meaning of transportation, which is mirrored in the scope of the Platform, is found in the establishment of the Trans-European Transport Network (TEN-T) by the mid-1990s; later on, the *Connecting Europe Facility* was established, which ‘*supports the development of high performing, sustainable and efficiently interconnected trans-European networks in the fields of transport, energy and digital services*’.

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<sup>8</sup> European Commission - Press release, *EU-China Summit: moving forward with our global partnership*, Brussels, 2 June 2017, available at: [http://europa.eu/rapid/press-release\\_IP-17-1524\\_en.htm](http://europa.eu/rapid/press-release_IP-17-1524_en.htm).

<sup>9</sup> *EU-China Summit: deepening the strategic global partnership for transport*, available at: [https://ec.europa.eu/transport/themes/international/news/2018-07-16-eu-china-summit\\_en](https://ec.europa.eu/transport/themes/international/news/2018-07-16-eu-china-summit_en).

Furthermore, the *Innovation and Networks Executive Agency* manages particularly the investment segment of the related fields of transport, energy and telecommunications; the Agency also partially finances the implementation of the *Horizon 2020* – the biggest EU program which is dedicated to research and innovation, with €80 billion of funding available over 7 years (2014 to 2020)<sup>10</sup> – and more examples may be listed indeed.

### ***Recent steps on the road***

EU and China, two of the three biggest economies and leading traders in the world, are constantly reviewing and updating their approaches to each other in order to adapt to developments in their respective environments and to the growing pace of challenges and opportunities emerging from the global arena.

**On the European side**, in July 2017, the Council of the EU adopted the *EU strategy on China*, where the readiness to cooperate with China on the BRI was stated ‘*on the basis of China fulfilling its declared aim of making it an open platform which adheres to market rules, EU and international requirements and standards, and complements EU policies and projects, in order to deliver benefits for all parties concerned and in all the countries along the planned routes*’<sup>11</sup>. Later that year, on October 24, the Commission Work Program for 2018 that was submitted to the EU decision making bodies – i.e. the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – included the goal of proposing a strategy ‘*to strengthen connectivity*’ in order ‘*to enhance links [...] across the board*’ between Europe and Asia<sup>12</sup>; the strategy was to contribute to the deliverables of the next Asia-Europe Meeting (ASEM) in the autumn of 2018.

The EU was true to its commitment: on September 19, 2018, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy introduced a Joint Communication on *Connecting Europe and Asia - Building blocks for an EU Strategy*<sup>13</sup> to the leading bodies of the EU, including the European Investment Bank. On that day, High Representative Federica Mogherini declared: “*Today we set out how the EU's approach to*

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<sup>10</sup> Website of the Innovation and Networks Executive Agency at: <https://ec.europa.eu/inea/en>.

<sup>11</sup> Council conclusions EU Strategy on China, 18 July 2017, available at: [https://eeas.europa.eu/sites/eeas/files/council\\_conclusions\\_eu\\_strategy\\_on\\_china.pdf](https://eeas.europa.eu/sites/eeas/files/council_conclusions_eu_strategy_on_china.pdf).

<sup>12</sup> Commission Work Programme 2018, *An agenda for a more united, stronger and more democratic Europe*, available at: [https://ec.europa.eu/info/sites/info/files/cwp\\_2018\\_en.pdf](https://ec.europa.eu/info/sites/info/files/cwp_2018_en.pdf).

<sup>13</sup> *Connecting Europe and Asia: Building blocks for an EU Strategy*, available at: [https://eeas.europa.eu/headquarters/headquarters-homepage/50708/connecting-europe-and-asia-building-blocks-eu-strategy\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/50708/connecting-europe-and-asia-building-blocks-eu-strategy_en). From now on, to be referred to as „*the Joint Communication*”.

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*sustainable connectivity can be expanded specifically in and towards the region with the biggest demand for infrastructure and the region with the highest predicted growth in the world: Asia*<sup>14</sup>.

The EU views that connectivity needs to be ‘*sustainable, comprehensive and rule-based*’ and pledges to pursue and expand actions on achieving it in four basic fields: transport, energy, digital and the human dimension<sup>15</sup>. Acknowledging the import of connectivity between Europe and Asia, the Communication notices, *inter alia*, that both areas need substantial investments in infrastructure: some EUR 1.5 trillion between 2021 and 2030 in the former case and around EUR 1.3 trillion a year in the latter. Moreover, the diversity in terms of economic models and development levels in the countries concerned calls for ‘*(c)onsistent and aligned rules, standards or practices [that] are needed to promote market access and the movement of goods, services, capital and people across borders. High environmental and social standards, adequate planning and full life-cycle cost-benefit analyses are necessary to ensure the sustainability of connectivity investments over the longer term. Fiscal and financial sustainability of infrastructure projects need to be ensured to avoid the risk of debt distress*’.<sup>16</sup>

Sustainable connectivity may be considered the ‘Trade Mark’ of the Joint Communication and it is to be achieved by taking a wide range of steps at bilateral, regional and international levels. Key-actions are outlined for said domains, with clearly-defined lines that target methodologies and juridical documents with other parties and also expand existing programmes and mandates of various existing EU initiatives<sup>17</sup>.

Moreover, EU pays particular attention to aspects like security, which is facing ‘*challenges [that] cannot be addressed solely through the internal or external policies of countries or entities*’, so that the EU ‘*should engage with partner countries to make transport connectivity with Asia safer and more secure, in particular in areas of cybersecurity*’. Similarly highlighted in this respect are EU enlargement and neighbourhood policies; ocean governance; and innovative financing for international cooperation in the next multiannual financial framework to be adopted for the 2021-2027 period<sup>18</sup>.

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<sup>14</sup> *The European way to connectivity – a new strategy on how to better connect Europe and Asia*, available at: [https://eeas.europa.eu/headquarters/headquarters-homepage/50752/european-way-connectivity-%E2%80%93-new-strategy-how-better-connect-europe-and-asia\\_pl](https://eeas.europa.eu/headquarters/headquarters-homepage/50752/european-way-connectivity-%E2%80%93-new-strategy-how-better-connect-europe-and-asia_pl).

<sup>15</sup> An educational fact-sheet in this respect is available at: [https://eeas.europa.eu/sites/eeas/files/europe\\_asia\\_connectivity\\_factsheet\\_1.pdf](https://eeas.europa.eu/sites/eeas/files/europe_asia_connectivity_factsheet_1.pdf).

<sup>16</sup> *The Joint Communication*.

<sup>17</sup> See boxes at pages 7, 10 and 13 of *the Joint Communication*.

<sup>18</sup> See boxes at pages 5, 8, 9 and 12 of *the Joint Communication*.

**On the Chinese side**, a most notable development was the inclusion of the BRI in the constitution of the Communist Party of China at the 19<sup>th</sup> Congress in October 2017, which makes the initiative an endeavour of paramount importance for China. There are several meanings the decision entails: it is consistent with the overall Chinese outlook that development is a comprehensive concept with a direct impact on humanity's drive to find solutions to problems it faces in all fields – from security and stability, both domestic and abroad, to malnutrition, poverty, illiteracy, human rights, social inequalities, extremism, terrorism etc. Likewise, it reveals the organic link between the Chinese domestic development plans and China's foreign policy, that is based, among other fundamentals, on 'Going Global' and 'Opening Up'; it is also *'an important platform for promoting the building of a community with a shared future for humanity'*<sup>19</sup>, which is the new concept China advanced on the global arena.

Chinese authorities adopted another decision that covers an ever increasingly important domain in the implementation of BRI-related projects, as more and more actors are either involved in, or considering joining the initiative. Earlier this year (on January 23, 2018), the Central Leading Group (Central Committee, as of March, 2018) for Deepening Overall Reform *'approved a guideline on establishing a mechanism to appropriately solve trade and investment disputes among the Belt and Road countries according to law'*. The mechanism was said *'to be created on the basis of China's current judiciary, arbitration and mediation agencies, and by absorbing and integrating legal service resources home and abroad'*<sup>20</sup>. The reason for this decision was summed up in remarks to a Chinese daily: *'The current system to solve disputes was "complicated, time-consuming and costly," Wang Yiwei, director of the Institute of International Affairs, Renmin University of China, told the Global Times. 'It applied laws from Western countries and used English as the common language.'*<sup>21</sup>

On August 26, 2018, an International Commercial Expert Committee was officially established with China's Supreme People's Court, following a Forum on the Belt and Road Legal Cooperation that had been held in July. The goal of the committee is to *'promote the just, professional and efficient settlement of international commercial disputes, ensure a stable, fair, transparent and predictable law-based business environment, thus ensuring more legal*

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<sup>19</sup> Xi stresses centralized, unified leadership of CPC Central Committee over foreign affairs, Xinhua, 15 May 2018, available at: [http://www.xinhuanet.com/english/2018-05/15/c\\_137181357.htm](http://www.xinhuanet.com/english/2018-05/15/c_137181357.htm).

<sup>20</sup> Senior leaders stress trade dispute mechanism for Belt & Road, XINHUA, 24 January 2018, available at: [http://www.china.org.cn/business/2018-01/24/content\\_50288588.htm](http://www.china.org.cn/business/2018-01/24/content_50288588.htm).

<sup>21</sup> China to create Belt & Road courts: report, in Global Times, January 25, 2018, available at: <http://www.globaltimes.cn/content/1086598.shtml>.

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*and institutional support for the BRI*'. In this exercise, China '*will continue to uphold the principles of extensive consultation, joint contribution and shared benefits, enhance the correlation rate between China's national standards and international ones, improve legal safeguard system, create a law-based business environment, and ensure high-quality and high-standard BRI development*', in the words of a Chinese official<sup>22</sup>.

***Contents of policy connectivity***

In China's view, policy connectivity is one of the five areas<sup>23</sup> of the BRI and '*it aims to complement the development strategies of countries involved by leveraging their comparative strengths*'. Examples of how this approach has been followed so far include '*enhanced coordination with the policy initiatives [...] such as Eurasian Economic Union of Russia, the Master Plan on ASEAN Connectivity, the Bright Road initiative of Kazakhstan, the Middle Corridor initiative of Turkey, the Development Road initiative of Mongolia, the Two Corridors, One Economic Circle initiative of Viet Nam, the Northern Powerhouse initiative of the UK and the Amber Road initiative of Poland*'. China is also '*promoting complementarity between China's development plan and those of Laos, Cambodia, Myanmar, Hungary and other countries*'.<sup>24</sup>

The list is understandably not exhaustive, given the circumstances under which it was mentioned; however, there are several aspects that are worth considering when looking deeper into the Chinese general narrative on the policy connectivity.

First, there is the mutually-reinforcing relationship between connectivity, particularly its cross-border scope, and policies that are supposed to achieve it: the list, even if short, reveals the diversity of the economic and political spaces that are to be covered by the BRI and that are making for the 'missing links' in securing transcontinental flows in the five fields as referred to in the general discourse. The common denominator in this diversity is the potential that increased connectivity would provide for reaching both local and (sub)regional sustainable development targets to the benefit of the respective peoples and to the world; the national and (sub)regional areas generally fall under the category of emerging economies and have been

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<sup>22</sup> Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference on August 30, 2018, available at: [http://www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/2511\\_665403/t1589844.shtml](http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1589844.shtml).

<sup>23</sup> The other fields are infrastructure, trade, financial, and people-to-people. See *Work Together to Build the Silk Road Economic Belt and The 21st Century Maritime Silk Road*, Speech by H.E. Xi Jinping, President of the People's Republic of China at the Opening Ceremony of The Belt and Road Forum for International Cooperation, 14 May 2017, op. cit.

<sup>24</sup> *Ibidem*.

among the most dynamic ones in terms of growth, particularly in South-East Asia and Central and Eastern Europe. At the same time, there are specific circumstances within the national and the cross-border environments that raise challenges to the policy-makers as far as security and resources, both financial and otherwise, are concerned; finding appropriate solutions to said challenges makes dialogue and cooperation mandatory in the early stages of planning and implementing viable and tailor-made options.

Second, policy connectivity is supposed to be achieved among existing initiatives and programs that have reached various levels of maturity in their implementation. In the EU-China relationship, for instance, the European segment, which the Chinese March 2015 document on the BRI specifically refers to as the ‘*developed European economic circle*’ as the ‘*other end*’ of the Belt and Road, has had its own outlook in this matter for quite some time now, as shown before. Moreover, besides the EU-based programs, several sub-regional formats were established, with a view to promote cooperation in specific fields that are relevant to the wider scope of connectivity and are basically integrated with, or closely related to, these programs. Some of these formats have a relatively long and definitely rich history, of more or less successful attempts, of providing generally favourable circumstances for national development and integration among themselves and within a larger context; most of the countries participating, if not all, are in various stages in their processes of integration into the EU and, in some cases, NATO; but all of them are parts of the general picture of the BRI, either directly, or as plausible ‘tributaries’ to the main routes.

### ***Connectivity formats and initiatives***

In the framework of Europe-China relationship, the 16+1 cooperation format has gained a visible place ever since it was launched in 2012 and it has connectivity among its main fields of interest. All outcome documents of the five summits so far, from Bucharest (2013) to Budapest (2017) make references to the topic in a rather incremental approach:

– the *Bucharest Guidelines* read that participating countries shall ‘(a)ctively discuss the possibility of building an international railway transportation corridor connecting China with CEECs and encourage businesses to establish bonded areas and distribution centers along the railway routes to build a new logistics passage between China and Europe’<sup>25</sup>;

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<sup>25</sup> The *Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries*, available at: <http://gov.ro/en/news/the-bucharest-guidelines-for-cooperation-between-china-and-central-and-eastern-european-countries>.



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- the *Belgrade Guidelines* (2014) expanded the idea of ‘improving connectivity and market-access between Asia and Europe. Encourage relevant countries to facilitate customs clearance, create new logistics routes and hubs and encourage the participation of businesses based on their own advantages.’<sup>26</sup>;

- last, but not least, the *Budapest Guidelines* (2017) stated that ‘*The Participants will further explore synergies between the Belt and Road initiative and the Trans-European Transport Network (TEN-T) and its extension to the Western Balkans and the relevant neighbourhood initiatives. Coordination on economic cooperation and connectivity between initiatives, including China-CEEC Cooperation, EU-China Connectivity Platform and EU Eastern Partnership, will provide opportunities for deepening cooperation among interested parties*’<sup>27</sup>.

A special reference is to be made here to *The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries*, which was issued at the 4<sup>th</sup> summit of the 16+1 cooperation in Suzhou, on November 24, 2015, and which reads, among other provisions that ‘(t)he Participants will work to reinforce a safe and efficient connectivity network on land, at sea and in the air between China and Europe, in conjunction with key transport passages, linkages and projects, and jointly build the New Eurasian Land Bridge Economic Corridor. This way, the Participants hope to make fresh contribution to Eurasian connectivity’<sup>28</sup>.

So far, the record of the ‘16+1 cooperation’ has been rather mixed in terms of actual achievements on the ground, particularly in terms of investments in infrastructure and the resulting image is somewhat unbalanced between intentions and implementations, with the former outranking the latter (more on that is to be found elsewhere in this set of essays). There are several reasons for this, and the most obvious one is that projects in this domain, be they ‘hard-infrastructure’ (high-ways, airports, power-plants etc.), or ‘soft-infrastructure’ (telephone networks, Internet, to say nothing about criminal justice systems)<sup>29</sup> need quite a long time to reach maturity and turn into reality: for instance, the construction of the Belgrade

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<sup>26</sup> *The Belgrade Guidelines for Cooperation between China and Central and Eastern European Countries*, available at: [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1224905.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1224905.shtml).

<sup>27</sup> *The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries 2017/11,28*, at [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1514534.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1514534.shtml).

<sup>28</sup> *The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries*, Suzhou, China, 24 November 2015, available at: [http://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/2649\\_665393/t1318038.shtml](http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1318038.shtml).

<sup>29</sup> Terms are used in *The World Economic Forum Global Competitiveness Index, 2016-2017*, available at: [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf).

Pupin Bridge started in October 2011 and the project was inaugurated in November 2014. Cross-border projects are virtually non-existent: the Budapest-Belgrade railway is the only one as of now and it is still at its opening stages, after more than 4 years since the relevant agreements were signed among the three countries.

At the same time, there are hardly any issues of political and/or strategic nature in the policies that the 16 European Participants promote in their relationship with China – quite the contrary: the format has secured yearly dialogues at the governmental top level and heads of delegations met with the Chinese Premier when they were standing in for their prime ministers; there were cases when European delegations were led by the respective Head of State. Several European Participating States, both EU and non-EU Members, concluded strategic partnerships with China and there are intense exchanges of visits of high-level officials within the frameworks of the ‘policy communication platform’ of the format<sup>30</sup>.

The European side of the format is more heterogenous than it may seem<sup>31</sup> and it was alluded to in viewing the ‘16+1 cooperation’ as a ‘one-on-one’ cooperation multiplied 16 times<sup>32</sup>, in spite of relatively shared political and ideological past and largely similar developments in the respective states after the end of the Cold War. The most visible and widely known differentiation is between the 11 states that are EU Members and the remaining 5 Western Balkan states; however, in this latter group, all have signed Association Agreements with the EU and are in various stages on their road to joining the EU, while Montenegro and Serbia have already embarked on accession talks with a perspective of completing the process by 2025. Meanwhile, there are rules and regulations in the economic, trade, finance and other sectors that are mandatory in the 11 EU Member States and, to some degrees, in the other 5 Participating States; consequently, certain procedures are to be followed and conditionalities must be observed in all 16 states: e.g. bidding processes for investment projects have to be open to all willing participants; procurement procedures have to be transparent and open to competition; issuance of state-guarantees as collaterals for credits are banned; state indebtedness is limited and so on. Said rules have a direct impact on the negotiations and/or

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<sup>30</sup> *Five-year Outcome List of Cooperation Between China and Central and Eastern European Countries*, Ministry of Foreign Affairs of the People’s Republic of China, November 28, 2017, available at: [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1514538.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1514538.shtml)

<sup>31</sup> This was also noted in an early Chinese paper on the 16+1 cooperation: LIU Zuokui, „The Pragmatic Cooperation between China and CEE: Characteristics, Problems and Policy Suggestions”, in *Working Paper Series on European Studies*, Institute Of European Studies, Chinese Academy Of Social Sciences Vol. 7, No. 6, 2013, available at: [http://ies.cass.cn/webpic/web/ies2/en/UploadFiles\\_8765/201311/2013111510002690.pdf](http://ies.cass.cn/webpic/web/ies2/en/UploadFiles_8765/201311/2013111510002690.pdf).

<sup>32</sup> Q.v. „16+1 or 1x16? China in central and eastern Europe”, in François Gaudemont, Abigaël Vasselier, *China at the Gates: A New Power Audit of EU-China Relations*, European Council on Foreign Relations, December 2017.



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implementation of relevant projects and observance of their provisions calls for laborious efforts of understanding and adaptation from all parties concerned.

All these notwithstanding, the 16 European countries rank rather well in terms of the ease of doing business, as they figure on the first 50 places, with two exceptions, among 190 countries covered by the World Bank in its 2018 report<sup>33</sup>, and the general prospects for the EU Member States in Central and Eastern Europe at least look promising as well, following their ‘*best performance of a decade*’ in 2017<sup>34</sup>.

Other reasons for the apparently slow progress in the cooperation between China and its 16 European partners are deeper and more structural than circumstantial. For one, there is the obvious difference between the economic and business environments, which is a result of the very different systems of societal management in force in the two areas. The pragmatic approach is championed by both sides as the key to the issue, particularly when keeping in mind the emphasis on the ‘win-win’ fundamental concept. There is little doubt that, from this point of view, there is a complementarity between the considerable Chinese expertise and resources and the investment opportunities in the countries concerned; likewise, a cursory analysis of various sectoral policies in the 16 European countries reveals that targets of the respective national plans largely match the goals as listed in the outcome documents of the format, as well as in bilateral cooperation programs. However, as common wisdom says, ‘the devil is hidden in the details’ – and some of those are quite consequential, mainly in the EU Member States, with a special emphasis on procurement and financing mechanisms.

The increasing awareness of challenges rooted in the differences among the 16 European countries has facilitated the trend of ‘mini-groups’ that would embark on sectoral cooperation with China (e.g. the China-Hungary-Serbia Joint Working Group on Infrastructure Cooperation; China, Hungary, Macedonia and Serbia set up a working group on custom clearance); besides, as far as the BRI is concerned, dedicated bilateral high-level MoUs were signed between China and European Participating States to the 16+1 format.

As mentioned above, the Chinese initiatives, both the 16+1 format, and the BRI, were launched against the background of existing cross-border cooperation programs and schemes that include, one way or another, connectivity among participating countries. This was actually explicitly acknowledged in the 2015 Suzhou *Medium-term Agenda*, which stated: ‘*Instead of*

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<sup>33</sup> *Doing Business 2018 – Reforming to create jobs*, a World Bank Group Flagship Report, available at: <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB2018-Full-Report.pdf>. The exceptions are Albania (65) and Bosnia-Herzegovina (86).

<sup>34</sup> Q.v. *Economic Snapshot for Central & Eastern Europe*, Focus Economics, May 9, 2018, available at: <https://www.focus-economics.com/regions/central-and-eastern-europe>.

*replacing existing bilateral cooperation mechanisms or platforms, it strives to complement and reinforce them, aiming at enhanced and expanded cooperation between China and the 16 countries. 16+1 cooperation will develop synergies with major EU initiatives and plans and contribute to the China-EU partnerships for peace, growth, reform and civilization.’ On a specific note, further on it reads: ‘(t)he Participants encourage and support synergies between 16+1 cooperation on connectivity and the EU’s existing network priorities and their extension to the Western Balkans’<sup>35</sup>.*

There is hardly any need to elaborate on the role and importance of peaceful development and stability of the Western Balkans for its peoples, first of all, and for Europe as a whole. One of the first cooperation formats in the recent history of this space is the South East European Cooperation Process (SEEC), which was set up in 1996 as a ‘*regional cooperation forum [aiming] at strengthening the good-neighbourly relations among all participants from South East Europe (SEE), and transforming this region into an area of peace, security, stability and cooperation, with the main goal of full integration of SEE into European and Euro-Atlantic structures.*’<sup>36</sup> Twelve years later, in 2008, the ministers of Foreign Affairs decided to set up the Regional Cooperation Council (RCC), which endorsed its ‘South-East Europe 2020 Strategy’ in November 2013 and includes connectivity as a key domain of interest, alongside with competitiveness, skills and mobility, rule of law and security cooperation. Among the particular features of this format is the wide range of participants to its programs, with states that are located outside the geographical area – e.g. Latvia, Poland, Spain, as well as Canada, UK and USA and others – and multilateral organizations and institutions, including OSCE, OECD, Council of Europe etc. An official on behalf of The High Representative of the Union for Foreign Affairs and Security Policy and a representative of the European Commission are participating as well<sup>37</sup>.

The Western Balkans is an area that figures high on the EU enlargement process agenda. On February 6, 2018, the EU Commission adopted a strategy for the Western Balkan countries that highlights the ‘*European future of the region as geostrategic investment in a stable, strong and united Europe based on common values*’ and ‘*clearly spells out that the EU door is open to further accessions when – and only when – the individual countries have met*

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<sup>35</sup> *The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries*, Suzhou, China, 24 November 2015, [ibidem](#).

<sup>36</sup> *South-East European Cooperation Process – SEEC*, available at: <https://www.rcc.int/pages/111/south-east-european-cooperation-process--seecp>.

<sup>37</sup> More on the website of the Regional Cooperation Council, available at: <https://www.rcc.int/home>.

*the criteria*<sup>38</sup>. Moreover, the Eastern Partnership that was established in 2009 rounds up the image of on-going and future European work and joint efforts in various fields, including connectivity.

In this respect, a specific macro-regional approach is the EU Strategy for the Danube Region, which the MS endorsed in April 2011<sup>39</sup> and which, quite naturally, is of a special relevance for Romania, as the longest segment of the river makes her southern borders with Serbia and Bulgaria to reach the Black Sea after making the second-largest river delta in Europe. The importance of the Danube as a ‘Blue Corridor’, or ‘Blue Highway’ is self-explanatory for securing an environment-friendly and cost-efficient connecting route between the Easternmost and Westernmost areas in Europe, thanks to the network of canals that link it to the Main and Rhine rivers in Central and West Europe, with the Black Sea-Danube segment that starts in the Romanian harbour of Constanța.

Moreover, the Black Sea itself is an area that has witnessed one of the earliest initiatives for sub-regional cooperation, following an initiative that was launched in June 1992 at Istanbul, at a summit of the Heads of State and Governments of the countries in the region. The initiative aimed at developing mainly the economic cooperation among participating countries within the framework of the Black Sea Economic Cooperation (BSEC). On May 1, 1999, the Charter of the organization entered into force and turned BSEC into a full-fledged international organization<sup>40</sup>. Thanks to its geographical position, the relevance of BSEC can be hardly overestimated for the overall picture of the BRI, as it would secure Europe’s connections with the Caucasus and further on with the Caspian and Central Asia. Recent developments, particularly in the regional security and stability of the area, have greatly affected the general climate of cooperation among the participants, while prospects of future cooperation have been somewhat dimmed.

Attempts to increase intra-European policy connectivity and, consequently, enhance connectivity *per se* include the vertical North-South axis, with the Croat-Polish Three Seas Initiative (TSI), which was launched in August 2016, at Dubrovnik. The TSI is ‘*an informal platform for securing political support and decisive action on specific cross-border and macro-regional projects of strategic importance to the States involved in energy, transportation, digital communication and economic sectors in Central and Eastern Europe*’; the initiative is

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<sup>38</sup> *Strategy for the Western Balkans*, available at: [https://ec.europa.eu/commission/news/strategy-western-balkans-2018-feb-06\\_en](https://ec.europa.eu/commission/news/strategy-western-balkans-2018-feb-06_en).

<sup>39</sup> The website of the Danube Region Strategy is available at: <http://www.danube-region.eu/>.

<sup>40</sup> More about the Black Sea Economic Cooperation at: <http://www.bsec-organization.org/Pages/homepage.aspx>

*‘open to partnerships on specific projects with interested state or business actors from around the world who are committed to the fundamental values and principles of the European Union’<sup>41</sup>.*

At the second summit held in Warsaw, in July 2017, the participating states emphasized, *inter alia*, their conviction that *‘enhanced infrastructure, economic and social cooperation/ interconnectivity of the 3 Seas Initiative countries along the North-South and East-West axis is in the interest of all participants of the 3 Seas Initiative, as well as the entire European Union’* and that it *‘is open to interested business entities from all over the world and global partners’<sup>42</sup>.*

The third summit of the Three Seas Initiative was convened in Bucharest, in September 17-18, 2018 and it focused on concrete steps forward that are meant to further the implementation of its goals. The Joint Declaration that was released at the end of the proceedings highlighted the agreement on a short list of priorities: interconnection projects in three key areas - transport, energy, digital; a similarly important development was the organization of the first edition of the business forum, which adopted a Joint Statement on the creation of the Network of the Chambers of Commerce and a Letter of Intent in relation to the Three Seas Fund<sup>43</sup>.

### ***Policy connectivity of diversities***

This list of connectivity-related initiatives is obviously far from being exhaustive, as it sets aside a sizeable number of bi-, tri- and pluri-lateral formats, both in Europe and elsewhere in areas neighbouring Europe. The mere diversity of countries and regions in the European space itself reveals the paramount importance of policy connectivity, since national sustainable development plans are no longer conceivable in isolated, autarchic approaches, irrespective of the size and strength one country or another may enjoy; it is a commonplace to state that increasing interdependence has been the fundamental trend of growth. The same is true for the

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<sup>41</sup> *The Joint Statement On The Three Seas Initiative (The Dubrovnik Statement)*, August 25, 2016, available at: [http://predsjednica.hr/files/The%20Joint%20Statement%20on%20The%20Three%20Seas%20Initiative\(1\).pdf](http://predsjednica.hr/files/The%20Joint%20Statement%20on%20The%20Three%20Seas%20Initiative(1).pdf). The participating countries were Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

<sup>42</sup> *The Second Summit of the 3 Seas Initiative*, Joint Declaration, Warsaw, July 6, 2017, available at: <https://www.ceep.be/www/wp-content/uploads/2017/07/THE-SECOND-SUMMIT-OF-THE-3-SEAS-INITIATIVE-joint-declaration-2017.pdf>.

<sup>43</sup> *Joint Declaration of the Third Summit of the Three Seas Initiative*, Bucharest, 17-18 September 2018, available at: <http://three-seas.eu/wp-content/uploads/2018/09/BUCHAREST-SUMMIT-JOINT-DECLARATION.pdf>.

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need to acknowledge the diversity of solutions that may be instrumental in facing the same increasingly diversified challenges that emerge from said interdependence.

However, policy connectivity is a concept that has evolved and is supposed to expand against a certain background – very much similar to the connectivity-related initiatives that may prove most consequential in the years to come, provided they grow roots in pre-existing realities. This background exceeds the needs and opportunities to develop and/or upgrade connectivity components to include international regulations, institutions and rules that have been in place for several decades and that are more or less universally accepted and enforced. They may well be in need to be updated in keeping with developments and tectonic shifts of influence and power at the global level; their positive contribution to development and growth across the world is undeniable though, nor can they be replaced without elaborate, comprehensive consultations and dialogues.

The various formats that are in place between Europe and China are supportive to the mutually educational process of the on-going dialogue on policy connectivity, which is by no means an easy task, even as opportunities to increase and deepen the Europe-Chinese connectivity are plenty. If it were to zoom in, for instance, on investment policies, the record of the Chinese ODIs, financial and otherwise, is impressive, but it has been basically acquired in M&A<sup>44</sup>-type of operations in the developed EU Member States and North America, while green- or brown-field investments are largely found in developing and emerging economies. This means that both Chinese and European partners, with a particular emphasis on CEE players, need to continue climbing up the steep learning curve of better understanding the business environment of each other. Within the 16+1 framework this endeavour is provided by diversified sectoral dialogues at ministerial level (e.g. of economy and/or trade, convened every two years), ad-hoc entities ('associations', 'centers') in energy, finance, investments, business, tourism etc. Equally important, there is a huge number of B2B events in the guise of exhibitions, festivals, fairs and tours that bring together the 'actual players', including representatives of SMEs in trading and manufacturing; business forums are traditionally organized back-to-back with the yearly summits as well and the interaction among the participants is instrumental in securing the necessary feed-back to authorities in charge of managing the cooperation. As mentioned before, this algorithm of dialogue is at work in the EU-China strategic partnership as well, from yearly summits to high-level sectoral meetings and numerous programs and working groups.

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<sup>44</sup> Mergers and acquisitions.

## *Challenges*

The Chinese outlook lists policy connectivity as a natural component of the general efforts that are necessary to achieve the goals of the BRI and is staunchly promoting the ‘win-win’ principle as the corner-stone of the entire approach. The very essence of connectivity resides, after all, in securing working and sustainable interactions among parties concerned with a view to providing favourable circumstances so that the targets of said interactions be reached. This calls for comprehensive knowledge and understanding of how the development concept is at work in the ‘real life’ of the respective parties, while acknowledging the existence and impact of the fundamental values that different societies are built upon and respecting them as such.

There is arguably no coincidence that, in the record of the Europe-Chinese relationship, the 16+1 format and the BRI came to the fore in the aftermath of the financial and economic crisis a decade ago; the same is true for the Investment Plan for Europe, better known as the Junker plan. Both economies had to strive with its effects, irrespective of how far and deep they were; decisions that were made to mitigate negative results and/or prevent them from proliferating have taken their toll on various domains and indicators, while projecting their outcomes in a rippling effect across national borders by virtue of globalization. Reactions and programs to manage the recovery and to set up coordinates for future actions have been determined by realities in the respective economic and social environments, just like targets and lines of actions for the next timeframes are closely depending on specific needs and challenges that may be shared, to various degrees, in the two areas. Consequently, there is a certain degree of conceptual specificity in the way plans for the future are conceived and implemented. There is hardly any novelty in these assertions; yet, what is a game-changer is the unprecedented degree of interdependence of markets, manufacturing, financing and overall societal developments at both global, and Europe-China levels. And this calls for a more comprehensive and bold dialogue on policies between the two sides.

The on-going EU-China relationship, while one of the most relevant and globally influential, is also, naturally, home to disputes and contentious issues that are well-known and both parties are striving to find out solutions of the constructive compromise kind. It is quite obvious that, in all these efforts there is a fine line between policies and politics, and this cannot be helped. Likewise, as argued above, the dialogue on policy connectivity is not easy; moreover, in any dialogue there are basic factors that determine its outcome, among which communication and perception may be considered most relevant; they themselves are results

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of historic processes of accumulation of information and past experiences and may pave the way to the desired success as long as balanced and mutually reinforcing solutions are found and implemented to bridge gaps and bring different positions closer. This intricate exercise needs to rely on equality and trust among parties, which may be instrumental in deciphering the intentions and motivations for various decisions taken before, during, and after the dialogue aiming at establishing the policy connectivity.

There are several instances that highlight the impact that communication and perception have on the scope and quality of the dialogue on policy connectivity, even if all of them are not directly related to the matter. The considerably unbalanced levels of investments that each side has reached in the other's economy has causes that need to be examined in order to secure the level ground for a smooth two-way flow, as well as for projects and programs in third parties – after all, the BRI is meant, by definition, to bring benefits to *all* economies it covers, just like it is emerging as the most relevant endeavour that the Chinese economy is determined to accomplish for securing its own goals at home. The issue of equal and fair treatment of businesses in their interaction, both bilaterally and in third countries, is of the essence and settling it would be a strong incentive for possible increased policy connectivity as well.

Sectoral policies are facing equally relevant challenges and prompt, comprehensive communication is needed to find solutions that are agreeable across the board. This is valid for the EU initiative of reviewing its policy of dealing with FDIs<sup>45</sup> (the 'screening process') and trade<sup>46</sup>; it is also valid for the Chinese decision of setting up institutions like the aforementioned dispute settlement mechanism.

Last, but certainly not least, challenges facing the policy connectivity emerge from the nuanced and, sometimes, clear-cut differences between the European concept and the Chinese one concerning the contents and role of values in their bilateral cooperation. This reality is one of the issues that both parties seem to agree to disagree on; at the same time, its impact is bound to stay and, more significantly, to influence decisions and trends of action that are relevant for the general goal of connecting realities. Dealing with this group of challenges may become pressing in a candid and transparent dialogue as it becomes clearer and clearer that the not-so-distant future of general development is to be shaped by the 'Fourth Industrial Revolution'.

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<sup>45</sup> Foreign Direct Investment.

<sup>46</sup> *European investment policy: A common approach to investment control*, a letter of Germany, Italy and France to the Commission, July 27, 2017, available at: [http://g8fip1kplyr33r3krz5b97d1.wpengine.netdna-cdn.com/wp-content/uploads/2017/08/170728\\_Investment-screening\\_non-paper.pdf](http://g8fip1kplyr33r3krz5b97d1.wpengine.netdna-cdn.com/wp-content/uploads/2017/08/170728_Investment-screening_non-paper.pdf) ; *EU puts in place new trade defence rules*, European Commission, 20 December 2017, available at: [http://europa.eu/rapid/press-release\\_IP-17-5346\\_en.htm](http://europa.eu/rapid/press-release_IP-17-5346_en.htm).

Both the EU and China are fully aware of the unavoidable impact this momentous change shall have on their societies, on their relationship and on the world at large, and both have put in place comprehensive and far-reaching programs in this respect. ‘Previews’ of what consequences this revolution incurs are already available in our present daily life, be it in the guise of access to information, which is supposed to be unfettered in order to turn opportunities into realities, or in high-level political decision-making processes – to say nothing about the security domain in all its components, ‘hard’ and ‘soft’ alike.

***The road goes ever on and on...***

At the end of the day, policy connectivity is, or rather should be, the result of an all-encompassing dialogue as long as its ultimate goal is inherent in its definition: connectivity is supposed to make participants look in the same direction and act in concert to each other; the image of the rails that make trains run across continents from Yiwu to Duisburg may be helpful in this respect, as long as the underlying subgrade is even.



## ***CHAPTER II. Infrastructure connectivity***

### *A brief history of connectivity between East and West along the Silk Road*

According to Liu , the beginning of what is called now the Silk Road dates back in the Third Century BC, as the trade between the Yuezhi, a nomad people that dominated the steppes of Asia for centuries<sup>47</sup>, and agricultural China started developing. Yuezhi used to trade jade and horses for the Chinese silk and farming products, acting as middlemen between China and other countries from Central Asia. A crucial role in the development of the Silk Road had a petty Chinese official named Zhang Quian. He was sent by the Chinese Emperor Wudi (140 BCE) to negotiate an alliance with the Yuezhi against Xiongnu, a migratory people that used to loot Chinese villages and towns. On his way to the Yuezhi camp, Zhang Quian was captured by the Xiongnu and held captive for over a decade. Although he was not successful in his mission, until he returned home, he followed the Xiongnu in their expeditions across Central and Southern Asia, visiting or hearing stories about new lands, full of opportunities for China (Uzbekistan, Afghanistan, Iran, India, Asia Minor, the Roman Empire and so on). In the end, Zhang Quian's mission proved to be far more fruitful, by opening up China to the rest of the world<sup>48</sup>.

Jhutti argues that "Da (Greater) Yuezhi, or in the earlier pronunciation d'ad-ngiwat-tieg, has been seen to equate with the Massagetae who occupied the oases and steppe lands of West Central Asia in the time of Herodotus; here Massa renders an Iranian word for "Great", hence "Great Getae"<sup>49</sup>.

Delev underlines that "The Getae were a north Thracian tribal group... The earlier historical tradition places their territory between the Haemus (Stara Planina, Balkan range) and the Istros (Danube) River, and near the coast of the Pontos Euxinos (the Black Sea), while later authors often refer to them as also inhabiting vast lands beyond the Istros. The Getae were a horse-riding people like the Scythians; Thucydides referred to them explicitly as mounted archers, *hippotoxotai* ... Herodotus called the Getae "the noblest as well as the most just of all the Thracian tribes"<sup>50</sup> ... Some modern historians have suggested a close relationship between

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<sup>47</sup> The Yuezhi lived in a region relatively near China, northwest of its western borders, between the northern foothills of the eastern end of the Tianshan Mountains and the Turfan Depression, their homeland in what is now Xinjiang Province.

<sup>48</sup> X. Liu, *The Silk Road in World History*. Oxford University Press.

<sup>49</sup> S. S. Jhutti, *The Getae*, Dept. of East Asian Languages and Civilizations, University of Pennsylvania.

<sup>50</sup> Herodotus. *Histories*, 4.93.

the Getae and the other large northern Thracian tribal group the Dacians (Daci, Dakoi)”<sup>51</sup>. “The Getae and Dacians were closely related; some historians even suggest that these were names applied to a single people by different observers or at different times. Their culture is sometimes called Geto-Dacian”<sup>52</sup>.

***Figure 1: Yuezhi Warrior***



Source: <https://i.pinimg.com/originals/8390/74/839074fa93e47011e44f13533b4ea5d7.jpg>;

***Figure 2: Dacian warrior***



Source:

[https://upload.wikimedia.org/wikipedia/commons/8/8d/Dacians bearing the draco on Trajan%27s Column.jpg](https://upload.wikimedia.org/wikipedia/commons/8/8d/Dacians_bearing_the_draco_on_Trajan%27s_Column.jpg)

If the theories of these historians are valid, then, we would not be wrong to say that the relatives of our ancestors traded first on the Silk Road.

<sup>51</sup> Peter Delev, „Getae” in *The Encyclopedia of Ancient History*, Blackwell, pp. 2911-2912.

<sup>52</sup> *Getae*, available at: <https://www.britannica.com/topic/Getae>.

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The Silk Road expanded to the west in the next centuries. Thus, Pliny the Elder (23-79 CE) argued that the amount of silk and other luxuries imported in the Roman Empire from Asia made the imperial treasury bleeding (the British Empire was in the same situation before the first Opium War). Roman traders made their purchases at depots near the eastern side of the Mediterranean. Traders of various Asian nationalities travelled the silk routes to caravan cities near the Mediterranean to supply these Roman depots with such things as silks from China and spices from India<sup>53</sup>.

Rezakhani argues that at its zenith in 200 CE, the Silk Road and all its ramifications over the Roman Empire was the longest road on Earth. In the Asian part, the road passed through Turfan, Kashgar, Kokand, Samarkand, Bukhara, Susia, Ctesiphon and Byzantium. From Kashgar, trade routes to the south passed over the mountains to the great trading centre of Bactria and northern Kashmir<sup>54</sup> (See Figure 1)<sup>55</sup>.

Nicolae Iorga, a Romanian historian, argues that in the Middle Ages two trade roads were linking the East to the West, both starting from Cracow and Lemberg. One was crossing the deserted and dangerous realm of the Tartars that led to the port of Caffa. The other passed through Galicia, a historical region between Central and Eastern Europe, to Suceava, Iași, Vaslui, Bârlad, Southern Moldavia reaching the Black Sea at Cetatea Albă<sup>56</sup>.

Pach emphasises that before Bartolomeu Dias opened the sea route to Asia via the Cape of Good Hope in 1488, the flow of goods from East Asia, including China was carried out mostly in the ancient terrestrial corridors that reached the Black Sea shores and thus the Romanian principalities and Transylvania. Brăila, Cetatea Albă (Tyras in Figure 1), Chilia, Rucăr, Târgoviște, Tîrgușor, and so forth were vital commercial centres on the way to Poland, Hungary and other countries in northern and central Europe<sup>57</sup>.

Pach also underlines that even after the fall of Constantinople, and of the commercial cities of Caffa<sup>58</sup>, Chilia, and Cetatea Albă (in 1484), during the Ottoman domination, there was a continuance of the spice supply from Wallachia to Transylvania in the second half of the 15th

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<sup>53</sup> X. Liu, *op. cit.*, p. 20.

<sup>54</sup> Maxwell Gordon Lay, Fred J. Benson, *Roads and highways*, available at: <https://www.britannica.com/technology/road>.

<sup>55</sup> K. Rezakhani, „The Road That Never Was: The Silk Road and Trans -Eurasian Exchange” in *Comparative Studies of South Asia, Africa and the Middle East*, 30(3), pp. 420 -433.

<sup>56</sup> N. Iorga, *Istoria lui Ștefan cel Mare povestită neamului românesc*, Minerva, Institut de Arte Grafice și Editură, București, 1904

<sup>57</sup> Z. P. Pach, *Levantine Trade Routes and Eastern Europe in the Middle Ages. XVe Congrès International des Sciences Historiques*, Bucarest, 10-17 août 1980. Rapports (Bucharest, 1980). Available at: <http://www.medievalists.net/files/09012313.pdf>.

<sup>58</sup> Former name of Feodosiya, a town in Crimea.





## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

### *Romania on OBOR`s corridors*

As we have briefly emphasised, our forefathers traded on the Silk Road since the very early history.

Figure 2 reveals that there are multiple ways to connect China to the European Union, on land, air, and sea. Due to its favourable geography (the Black Sea, the Danube, two core TEN-T corridors) Romania could become an essential hub for at least the transport routes of OBOR that include the Black Sea and the countries around it as it had been in the old days.

***Figure 4: OBOR`s Main Terrestrial Corridors***



*Source: Authors' based on Map data Google, 2018*

Table 1 gives us a better picture of the place of Romania on OBOR`s corridors. Our country could be part of two or even three corridors out of six that we took into consideration, amongst them four being main corridors and one just a variation of the main corridor (Corridor 6).

**Table 1: Belt and Road Routes**

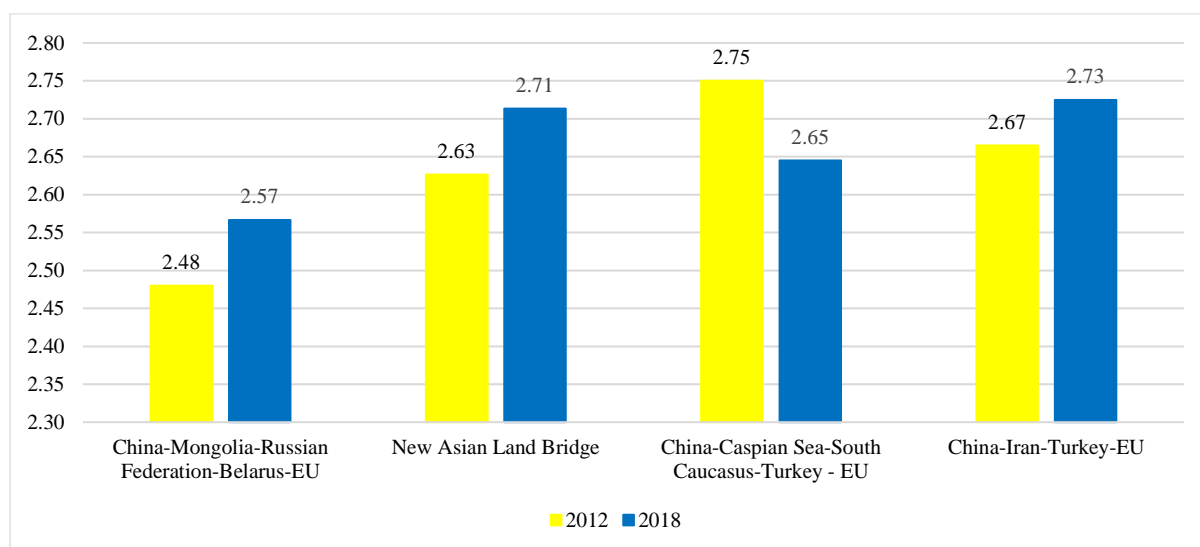
<b>Regions</b>	<b>Northern Routes</b>		<b>Central Routes</b>	<b>Southern Route</b>
	China-Mongolia- Russian Federation- Belarus-EU (Corridor 1 in Figure 2)	New Asian Land Bridge (Corridor 2 in Figure 2)	China-Caspian Sea-South Caucasus-Turkey- EU (Corridors 3 and 6 in Figure 2)	China-Central Asia-Iran- Turkey-EU (Corridor 4 in Figure 2)
<b>European section</b>	Russian Federation, Belarus and the EU countries	Russian Federation, Belarus and the EU countries	The EU countries (Bulgaria and Romania) Turkey	The EU countries (Bulgaria and Romania) Turkey
<b>Middle (Central) Section</b>	Russian Federation	Russian Federation	Georgia Azerbaijan Possibly Armenia Turkey	Iran
<b>Eastern section (Central Asia)</b>	Mongolia, China	Kazakhstan, China	Turkmenistan Kazakhstan China	Kazakhstan Turkmenistan or Kyrgyzstan, Uzbekistan China

*Source: Author based on Figure 4*

## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

To establish a hierarchy of OBOR`s corridors we used the Logistics Performance Index (LPI)<sup>61</sup>, calculated by the World Bank. We determined the average of the overall LPI score for the countries in each corridor. The results are displayed in Chart 1<sup>62</sup>.

**Chart 1: Overall LPI Score for OBOR Corridors**



Source: Author`s calculations. World Bank, 2018, Retrieved from <https://lpi.worldbank.org/international/global>

It is important to mention that we did not take into consideration in our analysis the LPI of China and the EU countries. We wanted to establish the attractiveness of the respective corridors for both the EU and China.

Thus, in 2018, China-Iran-Turkey-EU had the best overall LPI score due to the following components and ranks: infrastructure (1), tracking and tracing (1), international shipments (2) customs (2), logistics quality and competence (2), timeliness (2). We are going to analyse the components in the following paragraphs, where we assess each main corridor.

### *Northern Routes*

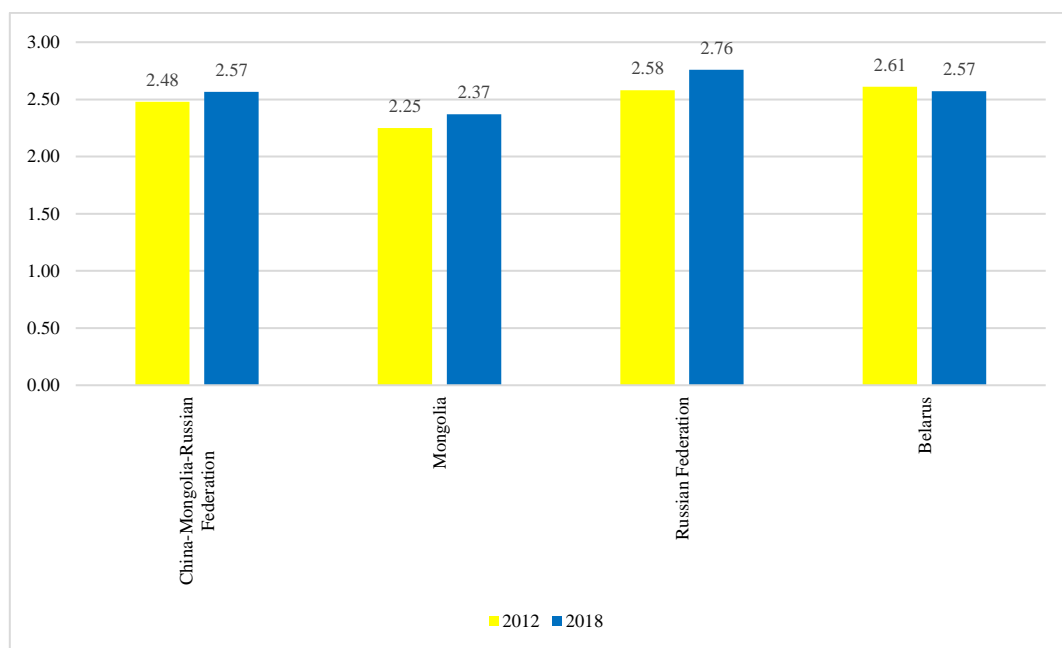
Corridors 1 (China-Mongolia-Russian Federation-Belarus-EU) and 2 (New Asian Land Bridge) form the northern routes that have as their backbone the Trans-Siberian Railway that

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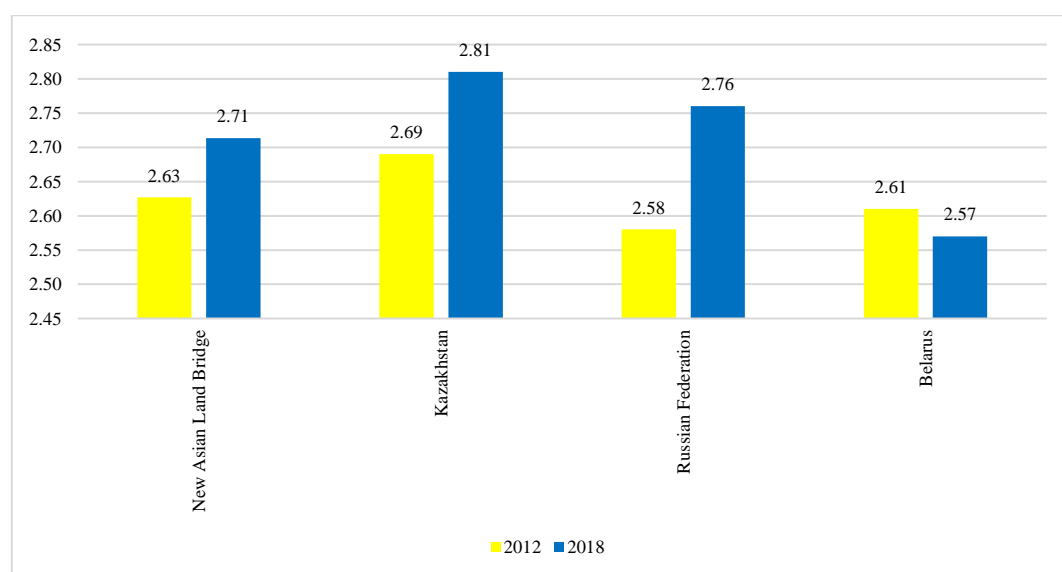
<sup>61</sup> The Logistics Performance Index is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. It analyses customs, infrastructure, international shipments, logistic competence, tracking & tracing, timeliness.

connects Moscow to the Russian Far East, but also to China, Mongolia, and North Korea. The railway is 9,852 km long, and it is entirely double-tracked and electrified. The New Asian Land Bridge is the equivalent of TRACECA's Trans-Russia Corridor. This topic will be approached in the last part of this chapter (See Table 1).

**Chart 2: Overall LPI Score for China-Mongolia-Russian Federation-Belarus-EU**



**Chart 3: Overall LPI Score for New Asian Land Bridge**



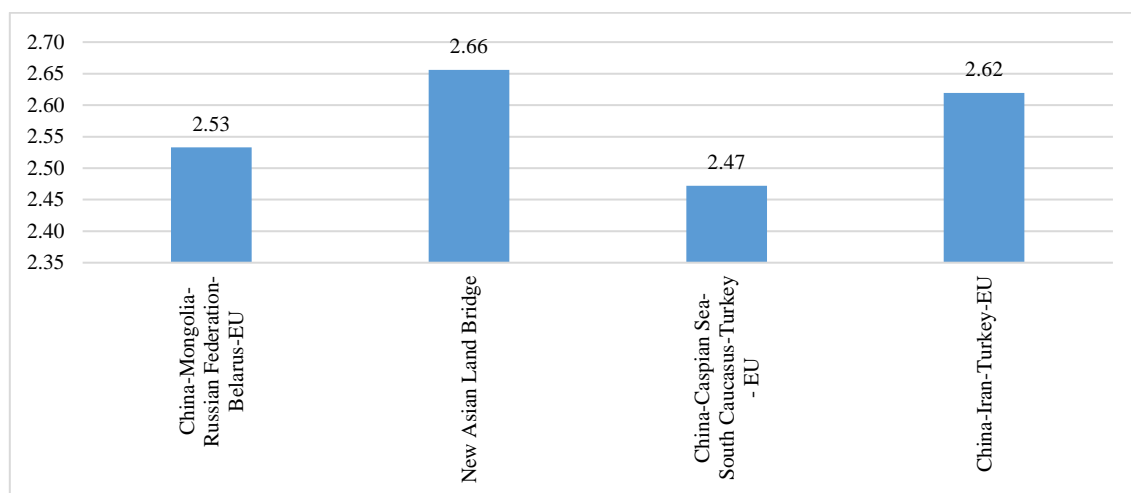
Source: Author's calculations. World Bank, 2018, Retrieved from <https://lpi.worldbank.org/international/global>



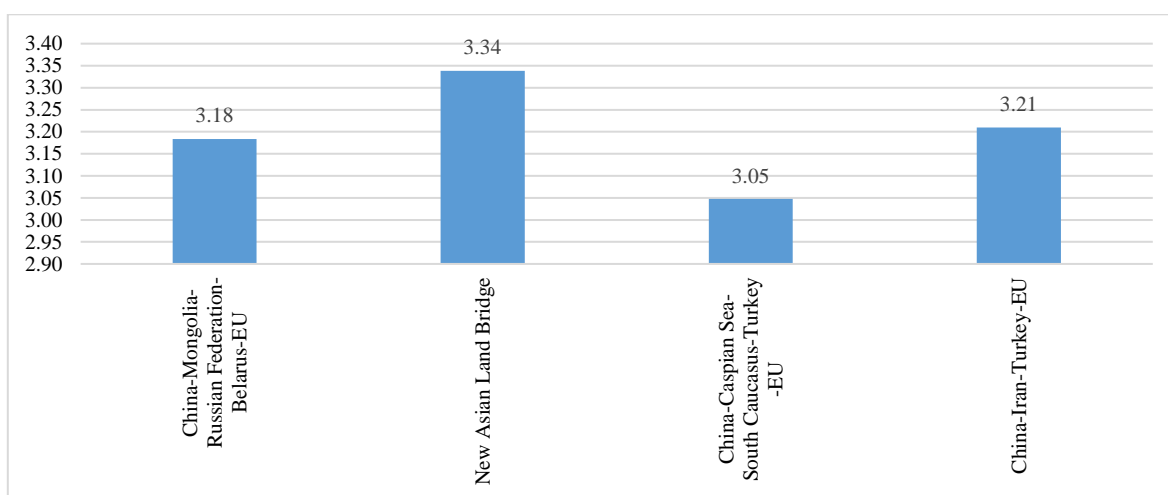
## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

Among the northern corridors, the New Asian Land Bridge (Chart 3) ranks first, recording the highest scores regarding logistics quality and competence and timeliness (Chart 4 and Chart 5).

**Chart 4: Logistics quality and competence, countries' average score in 2018**



**Chart 5: Timeliness, countries' average score in 2018**



Source: Author's calculations. World Bank, 2018, Retrieved from  
<https://lpi.worldbank.org/international/global>

The best performer of China-Mongolia-Russian Federation-Belarus-EU route is the Russian Federation that increased its score from 2012 to 2018, followed by Belarus, also having

a positive trend. In 2012, the Russian Federation ranked 95<sup>th</sup> in the world regarding the overall LPI score, but in 2018 it moved up to 75<sup>th</sup>. Mongolia recorded a score of 2,37 in 2018, the lowest in all analysed countries of this paper. Still, the country gained ten positions in the world LPI ranking (from 140<sup>th</sup> in 2012 to 130<sup>th</sup> in 2018).

In the northern corridors, Kazakhstan has the highest LPI score in 2018 (2,81). This central Asian country is part of three main corridors, having the role of a transportation hub in the Chinese initiative, due to her favourable geography.

The northern terrestrial routes have the advantage of crossing only a few countries on their way to Europe. The infrastructure is reliable and has good quality. The transit time is around 16 -19 days (UIC, 2017).

However, Pepe underlines one of its weak points, namely the fact that the Trans-Siberian is one of the most used rail lines in the World and it has already reached its total loading capacity<sup>63</sup>. Beifert *et al.* adds on some other problems hindering the cargo transport on these corridors at the entry points in the EU<sup>64</sup>. They emphasise some technical and regulatory constraints imposed by the Polish Railways (PKP S.A.) and the German Railways (Deutsche Bahn), namely:

1. Moving the containers from a platform of 1435 mm of gauge on a platform of gauge 1520 mm and the other way around;
2. The accepted length of freight trains differs from a gauge to another (1050 m for the gauge of 1520 mm and 600 m for the gauge of 1435 mm);
3. The maximum allowed load on the axle is 25 tons in the Russian Federation, while in Europe it is just 22.5 tons;
4. Different regulatory and legal framework (the Agreement on International Goods Transport for the CIS countries, Baltic States, Iran, China, and Mongolia and the Convention Concerning International Carriage by Rail for most of the EU countries);
5. The insufficient logistic capacity of the border crossing at the Brest–Małaszewicze between Belarus and Poland.

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<sup>63</sup> J. M. Pepe, „Eurasian Transport Integration Beyond Energy: Geoeconomic Transformation and Geostrategic Response”, in *Beyond Energy. Energiepolitik und Klimaschutz. Energy Policy and Climate Protection*, Springer VS, Wiesbaden.

<sup>64</sup> A. Beifert, Y. Shcherbanin, E. Vinokurov, *Trans-Eurasian Land Transport Corridors: Assessment of Prospects and Barriers*, 2018.

## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

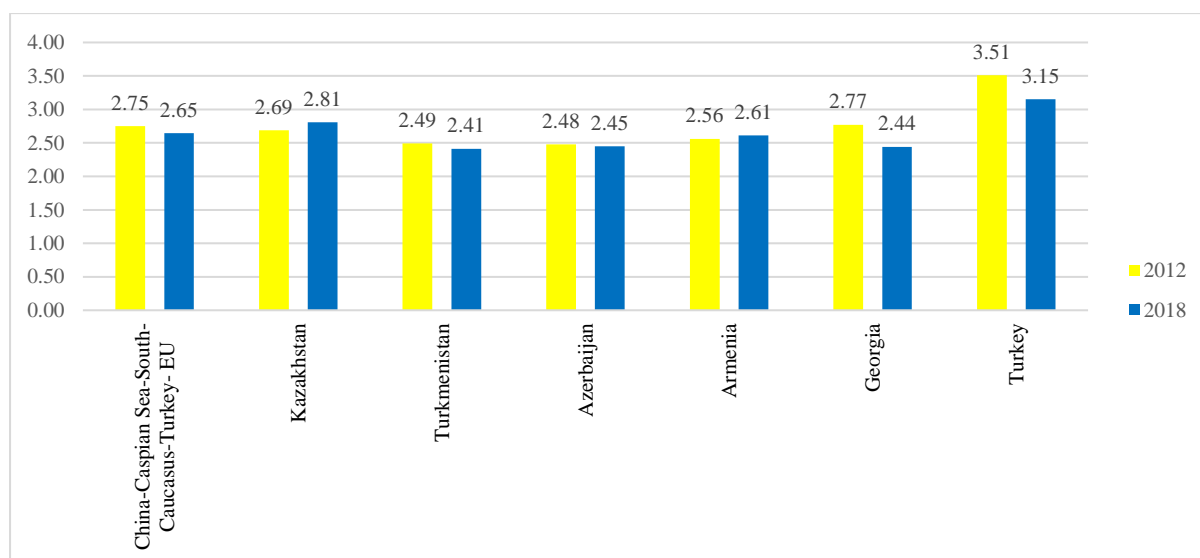
### *Central Route/s*

The analysis was made as for one route (the countries selected in Chart 6), even if it had two alternatives, namely the corridors 3 and 6 (China-Caspian Sea-South Caucasus-Turkey-EU or South Caucasus-Black Sea-EU via Romania). Corridor 3 corresponds to TRACECA's Trans-Caucasus Route (Table 5).

Through these routes, which are not very clearly defined currently due to some hopefully temporary connection issues (the Caspian Sea to mention one), China could reach to the EU but also to the Middle East, especially the Gulf countries, Iran and Turkey. If operational, in our opinion, these corridors could put Romania directly on OBOR's map.

From an EU perspective, the Trans-Caspian corridor has the advantage of promoting Chinese-EU trade as well as promoting EU's access to energy markets in Central Asia circumventing its dependency on Russia, primarily in energy.

**Chart 6: Overall LPI Score for China-Caspian Sea-South-Caucasus-Turkey- EU**



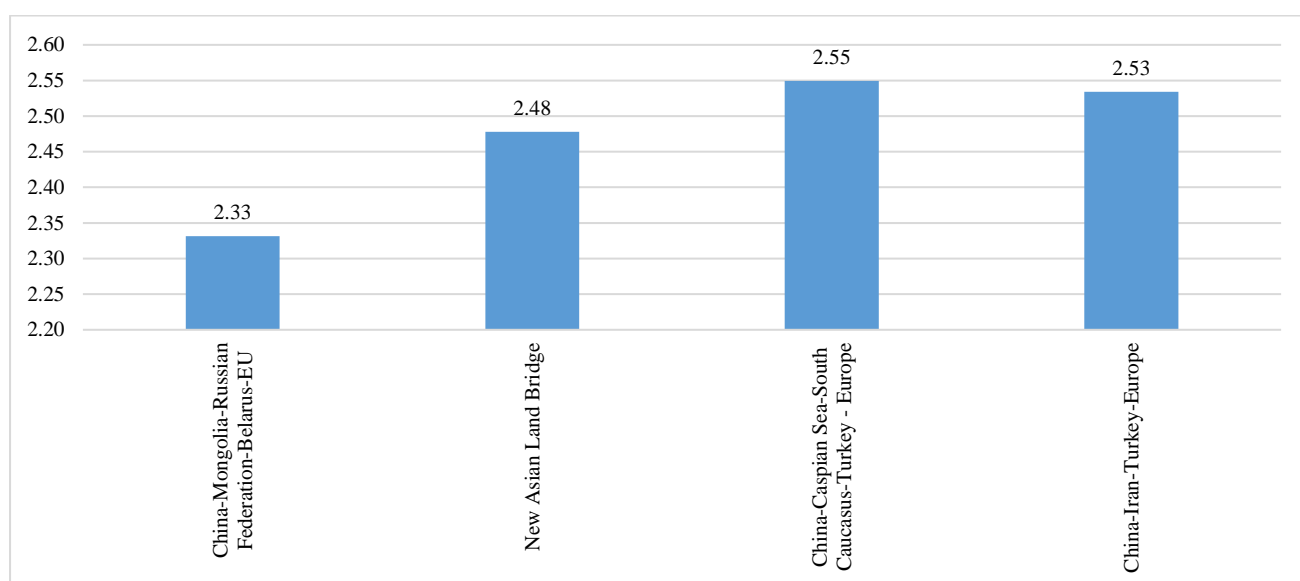
*Source: Author's calculations. World Bank, 2018, Retrieved from  
<https://lpi.worldbank.org/international/global>*

If Kazakhstan was the LPI champion of the Northern routes, the central route (6) has its own LPI leader, namely Turkey (overall LPI score of 3,15 in 2018, 47 in world LPI ranking). In 2018, the lowest overall LPI score was recorded in Turkmenistan (2,41) and Georgia (2,44). Without Turkey, this corridor would have an overall LPI score of 2,54, making this the last route amongst the significant four (1,2,3,4) OBOR corridors in Fig 2.

The EU has established good political relations with countries along the Middle Corridor, which are also home to hydrocarbon resources and/or are passageways for transport of such resources<sup>65</sup>.

The central route ranks the first among the analysed OBOR corridors regarding the customs score (2,55), namely the efficiency of customs and border clearance, rated from “very low” (1) to “very high” (5). For comparison basis, Germany (no. 1 on world overall LPI ranking) recorded a score of 4,09 in 2018.

*Chart 7: Customs score, countries` average score in 2018*



Source: Author`s calculations. World Bank, 2018, Retrieved from <https://lpi.worldbank.org/international/global>

Vinokurov and Tsukarev<sup>66</sup> argue that an alternative route to the Corridor 3, passing through Kazakhstan and the Caspian Sea to Baku/Makhachkala, and then on to Georgia (Poti) hold less promise (Corridor 5 in Fig. 2). According to the two researchers, there is a mid-potential route through Urumqi–Aktau–Makhachkala–Novorossiysk–Constanța (EU).

#### *Southern Route*

The corridor China-Central Asia-Iran-Turkey-EU is the equivalent of TRACECA`s Trans-Turkey (Table 5). From Turkey, it can connect to Bulgaria and **Romania** and then to the

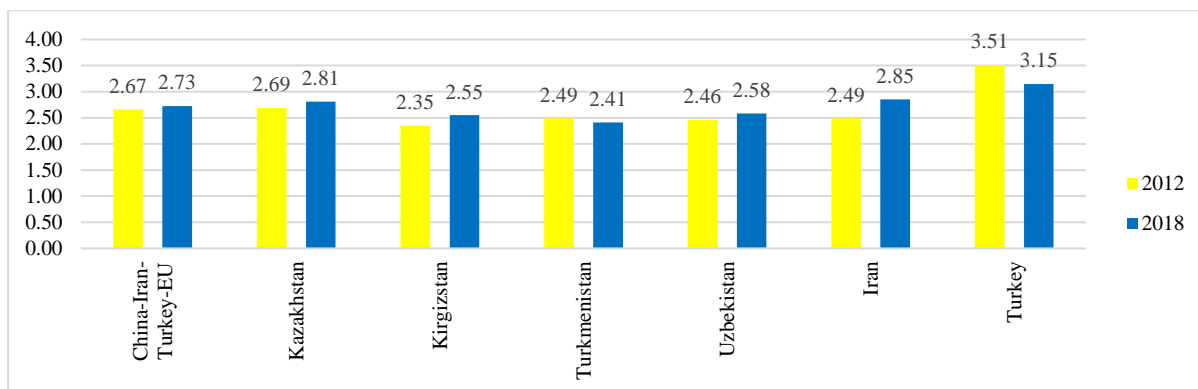
<sup>65</sup> F. Inan, D. Yayloyan, *New Economic Corridors in the South Caucasus and the Chinese One Belt One Road*.

<sup>66</sup> E. Vinokurov, T. Tsukarev, „The Belt and Road Initiative and the transit countries: an economic assessment of land transport corridors”, in *Area Development and Policy*, volume 3, 2018, pp. 93-113.

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rest of the EU via the TEN-T corridors (Orient-East or Rhine-Danube). As mentioned, regarding the LPI, it ranks the first in the analysed corridors.

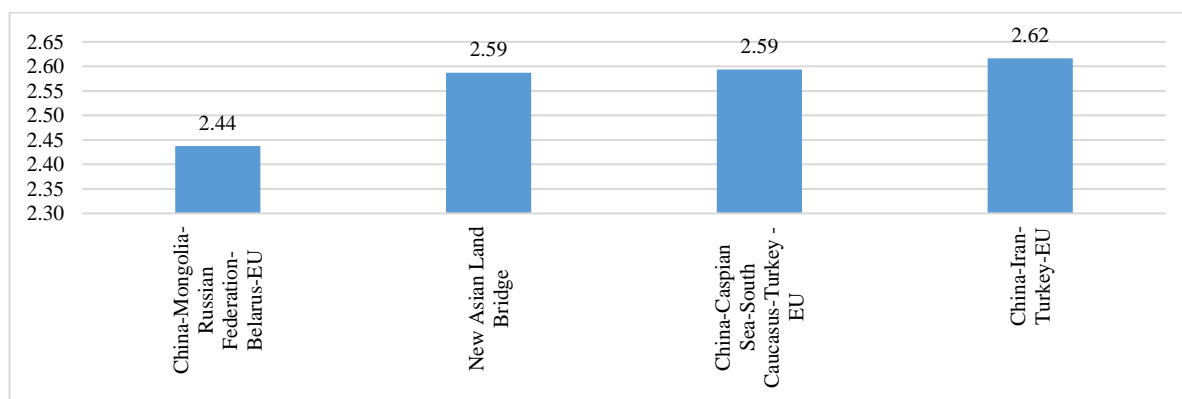
**Chart 8: Overall LPI Score for China-Iran-Turkey- EU**



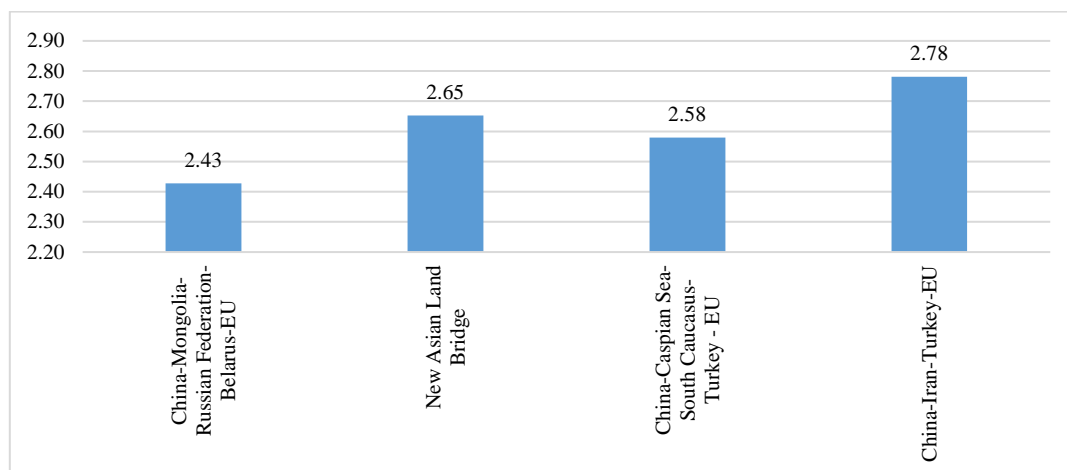
Source: Author's calculations. World Bank, 2018, Retrieved from  
<https://lpi.worldbank.org/international/global>

Among the countries in this corridor, Turkey is the best performer though it dropped in the world LPI ranking from 27 in 2012 to 47 in 2018. Iran comes second (overall LPI score of 2,85 in 2018 and progressed in the world overall LPI ranking from 112 in 2012 to 64 in 2018, a remarkable leap forward).

**Chart 9: Infrastructure score, countries' average**



Source: Author's calculations. World Bank, 2018, Retrieved from  
<https://lpi.worldbank.org/international/global>

**Chart 10: Tracking and tracing, countries' average score**

Source: Author's calculations. World Bank, 2018, Retrieved from

<https://lpi.worldbank.org/international/global>

The champion of the OBOR corridors regarding overall LPI score ranks first for two out of 6 components (Chart 9 and Chart 10), namely infrastructure (Germany's score is 4,38) and tracking and tracing (Germany's score is 4,22).

The Turkey-Iran-Kazakhstan service, which runs through Turkmenistan and Uzbekistan, was established in 2002 as an ECO block train<sup>67</sup> and its regular service started in the same year. It has, however, failed to attract traffic, since China showed no interest in the connection until recently when it presented its OBOR strategy<sup>68</sup> (Pepe, 2018).

Turkey plays a central role in both central and southern corridors. Vinokurov, Tsukarev<sup>69</sup> emphasise that this group of routes extend the transcontinental trade footprint of China to southern Russia, Transcaucasia, and Western Kazakhstan. Transport of cargo along those routes will incentivise the development of transport infrastructure in the regions crossed by the corridors.

Given the strong trade relationship with Europe, connections to European countries, and notably Germany, are already guaranteed by two different services. These have been introduced by Turkish State Railways (TCDD) between Turkey and Germany via the eastern Balkans and Austria along the corridor: Dresden/Nürnberg - Praga - Viena - Bratislava - Győr - Budapest - Arad - București - Constanța / Craiova - Sofia - Thessaloniki/ Plovdiv - Istanbul) or the corridor Niș - Sofia - Dimitrovgrad - Istanbul. A second service is the Ro-Ro connections

<sup>67</sup> Members of Economic Cooperation Organization (ECO) had agreed to run a container train between Turkey-Iran-Central Asia in 2002. Train was named as Istanbul-Tashkent-Almaty ECO Block Train.

<sup>68</sup> J. M. Pepe, *op. cit.*

<sup>69</sup> E. Vinokurov, T. Tsukarev, *op. cit.*

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(Roll on–Roll off ships that can carry lorries and trains without loading/unloading) between the Turkish Mediterranean and Black Sea ports, and European, South European and Russian ports<sup>70</sup>.

China has already become increasingly involved in the modernisation and expansion of the Turkish rail network. The first high-speed train line between Ankara and Istanbul was the first major completed HSRL by China in a foreign country. Meanwhile, the Turkish State Railway (TCDD) reports that negotiations started with China on loans to be provided by Chinese banks for the realisation of a freight-dedicated HSL between Kars and Edirne (2000km) once the Baku–Tiflis–Kars is put into operation. To finalise the Baku–Tiflis–Kars line as soon as possible, China’s National Machinery Import-Export Corporation got involved in the project and worked with both Ankara and Tiflis

The factor changing the economic rationale of the route will be, again, the Chinese interest in using the corridor.

The infrastructure of the existing Caspian ports cannot cope with an increased freight flow from the east, needing severe modernisation. On the other hand, there are not enough flat-bottomed container vessels to carry the cargo over the Caspian Sea.

Pepe<sup>71</sup> mentions that these routes share a common problem with the northern ones, namely the gauge standard. While China and Europe use the standard gauge 1435mm, Russia, Finland and the former Soviet Republics of Central Asia and the Caucasus use the broad 1520mm gauge, and also, different electrification and signalling systems.

Vinokurov and Tsukarev<sup>72</sup> underline that the capacity of corridor 5 is quite modest, and it is barely used in trade between China and Europe. This route will require the most significant outlays, including construction of additional container facilities in Baku and port facilities in Poti, and construction of motorways and tunnels going through challenging mountainous terrain. InfraNews industry experts estimate total investments in the Urumqi–Aktau–Baku–Poti–Constanța (EU) route at \$8 billion and in the Urumqi–Aktau–Makhachkala–Tbilisi–Poti–Constanța (EU) route at \$4 billion. Such massive capital expenditures combined with the need to trans-ship cargo at several ports make these routes very problematic. This route (Corridor 5) is an alternative to Corridor 3 in Fig. 4.

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<sup>70</sup> J. M. Pepe, *op. cit.*

<sup>71</sup> *Ibidem.*

<sup>72</sup> E. Vinokurov, T. Tsukarev, *op. cit.*

## ***Romania's transportation infrastructure in the context of OBOR***

### ***General facts and figures***

Transport is a crucial sector for and of the economy. It embraces a complex network of around 1.2 million private and public companies in the EU, employing approximately 10.5 million people and providing goods and services to citizens and businesses in the EU and its trading partners. Transport also includes mobility for Europeans, thus contributing significantly to the free movement of persons within the internal market (European Commission, 2018).

Romania has a high potential to develop an intermodal transport system due to its unique geographical location between the Orient and the Occident, engulfing within its border the Danube and the Black Sea, two of the most important waterways of Europe. Constanța is the largest port at the Black Sea and accommodates the largest container terminal (See Box 1).

#### ***Box 1: The port of Constanța***

- Main port on the Black Sea – 3,926 ha;
- Natural water depths up to 19 m;
- Can accommodate the largest ships Post-Panamax;
- 1,000 ha available for expansion;
- In January 2007, the Port of Constanta had become a free trade zone;
- It links the inland waterway and the Sea via the Black-Sea-Danube Canal;
- Accommodates any river vessel;
- The Black Sea-Danube Canal is 64.4 km long and 90 m wide. The water depth is 7 m, and the clearance under the bridges is 17.5 m;
- It shortens the transit from the Far East to Western Europe by 4,165 km as compared to the traditional routes ports through the Mediterranean Sea.

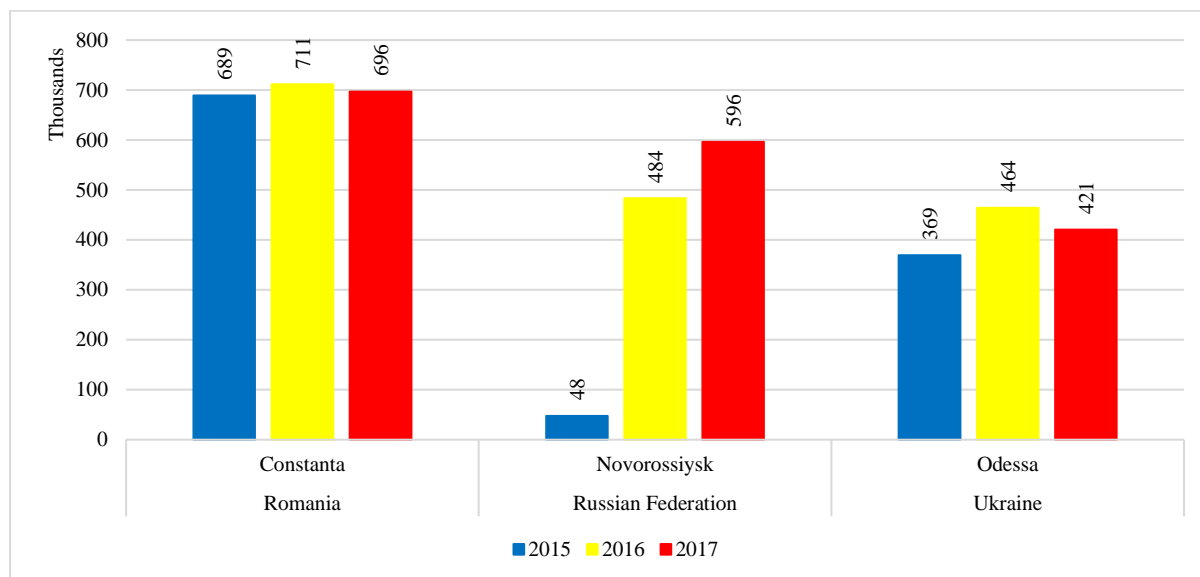
*Source: Simona Lascu - Constanta Port Business Association. (n.d.). Retrieved from*

<http://portbusiness.ro/wp-content/uploads/2017/04/Prezentare-eveniment-Silk-Road>



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**Chart 11: Leading Black Sea TEU ports for the period 2015-2017 (TEUs)**



Source: Author, based on the data provided by PortsEurope.com,

<https://www.portseurope.com/ranking-leading-mediterranean-and-black-sea-teu-ports-for-the-period-2005-2017/>

Chart 11 includes imports, exports and transshipment of containers through the most important ports at the Black Sea, confirming the leading role of Constanța Port.

In September 2016, the Government of Romania adopted The General Transport Master Plan (GTMP). The Master Plan covers all the investment in infrastructure until 2030, namely rails, highways, express roads, inland waterways, ports and so forth.

To finalise the projects envisaged in the General Transport Master Plan amounts to over 43 billion euros, which includes investment projects in the transport infrastructure of Romania for the road, rail, air, sea and multimodal sector. The master plan provides the construction of over 7,000 kilometres of road, of which over 1,200 kilometres of highway and over 1,900 kilometres of expressways. It also contains measures for modernising over 5,000 kilometres of railways, 15 airports, and 11 multimodal centres. Only for road transport, Romania needs approximately €13 billion.

According to the GTMP, by 2030 Romania has to finalise 11 highways and 19 express roads, without taking into consideration the modernisation and maintenance of the existing ones.

**Table 2: The primary indicators of the General Transport Master Plan of Romania between 2014 -2030**

<b>Indicator</b>	<b>Length (Km)/Units</b>	<b>Estimated cost (million euros)</b>
<b>For road transport sector</b>		
Highways	1,218.70	13,253.6
Expressways	1,907.10	10,367.34
Transregio Roads	3,213.30	1,965.38
Transeuro Roads	343.00	190.05
Touristic Roads	244.00	130.86
Ring Roads	179.51	460.83
Total Roads	7,105.61	26,368.06
<b>For the rail sector</b>		
Rehabilitation	2,716.00	10,072.80
Electrification	489.00	1,122.04
Rehabilitation of freight and travel services lines	439.00	1,436.50
Higher speed rails	1,384.00	301,36
Rehabilitation of rail for tourism	429,00	810.40
Bucharest -Henri Coandă Airport	19.60	97.15
Total Rail Sector	5,047.60	13,538.89
<b>Shipping Sector</b>		
Fairway	-	1,920.00
Port interventions	-	1,433.24
Total Shipping sector	-	3,353.24
<b>Aviation</b>		
Airports	15	1,922.87
Multimodal Centres	11	294.24

Source: Author's, based on the data provided by GTMP, 2016

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The financing sources for the whole budget of 36.7 billion euro of the projects included in the Master Plan in the stretch between 2014 -2030 are EU funds (42%) and the contribution of the Romanian national budget (58%), including the co-financing required for the European projects. To that, between 2014 -2020, an additional amount of 7.8 billion euro will be added, particularly for the roads sector.

*EU main corridors including Romania*

*Orient –East*

This long northwest-south-eastern corridor will connect central Europe with the maritime interfaces of the North, Baltic, Black and Mediterranean seas. It will foster the development of those interfaces as major multimodal logistic platforms and will improve the multimodal connections of major economic centres in Central Europe to the coastlines, using rivers such as the Elbe and the Danube.<sup>73</sup> Table 3 displays the routes of Orient-East Corridor by transport mode.

**Table 3: Orient-East Route by transport mode**

Mode	Type	Route
<b>Roads</b>	Core	Germany, Czech Republic, Austria, Hungary → Romania (Cenad – Arad –Timisoara – Lugoj – Drobeta Turnu Severin – Maglavit) - continues to Bulgaria (Sofia, Burgas, by the Black Sea, or Kapitan Andreevo, by the border with Turkey (Edirne), and Greece (Thessaloniki, Athena, Piraeus (connection to the maritime route), Igoumenitsa.
<b>Rails</b>	Core	Germany, Czech Republic, Austria, Hungary → Romania (Curtici – Arad – Timișoara – Orșova – Filiași – Craiova – Calafat) - continues to Bulgaria (Sofia, Burgas, by the Black Sea, or Kapitan Andreevo, by the border with Turkey (Edirne), and Greece from Bulgaria (Thessaloniki, Athena, Piraeus (connection to the maritime route), Igoumenitsa.

<sup>73</sup> Description Main Missing Links Success Stories. (n.d.). Retrieved from <https://ec.europa.eu/transport/sites/transport/files/themes/infrastructure/ten-t>

Mode	Type	Route
<b>Air</b>	Core	Romania (Timisoara and Craiova) Bulgaria (Sofia) and Greece (Athens)
<b>Ports</b>	Core	Romania (Drobeta Turnu Severin, Calafat), Bulgaria (Burgas), Greece (Piraeus, Igoumenitsa)

Source: Author, based on the European Commission, <http://ec.europa.eu/transport/infrastructure/tentec/tentec-portal/map/maps.html>

### *Rhine - Danube*

This Corridor provides the central east-west link between continental European countries, connecting France and Germany, Austria, Slovakia, Hungary, Romania, and Bulgaria all along the Main and Danube rivers to the Black Sea by improving (high speed) rail and inland waterway interconnections. The countries that have first been aligned with the project are the Czech Republic and Slovenia (See Table 4).<sup>74</sup>

**Table 4: Rhine-Danube Route by transport mode**

Mode	Type	Route
<b>Roads</b>	Core	France, Germany, Czech Republic, Slovakia, Hungary → Romania (Cenad - Arad – Timișoara – Lugoj – Sebeș - Sibiu – Pitești – București – Constanța or București – Alexandria – Craiova – Maglavit – Drobeta Turnu Severin)
<b>Rails</b>	Core	France, Germany, Czech Republic, Slovakia, Hungary → Romania (Arad – Simeria - Coslariu - Sighișoara - Brașov - Predeal - Brazi - București - Videle - Caracal - Filiași - Orșova - Timișoara - Arad or București - Constanța)
<b>Air</b>	Core	Timișoara, Craiova, București
<b>Ports</b>	Core	Giurgiu, Cernavodă, Galați, Constanța

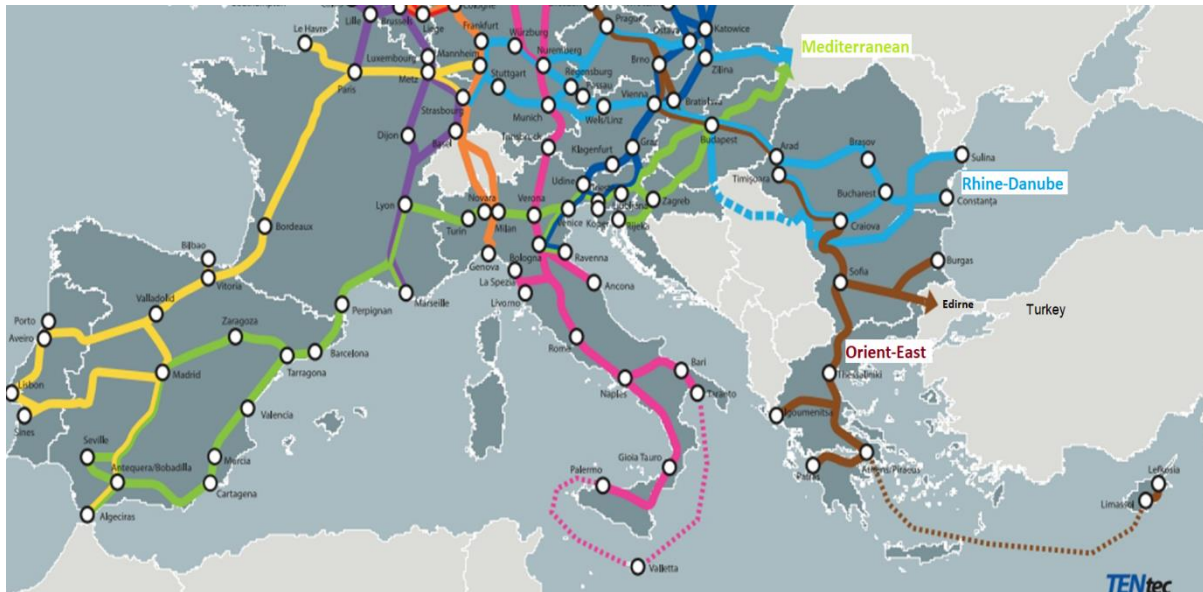
Source: Author, based on the European Commission, <http://ec.europa.eu/transport/infrastructure/tentec/tentec-portal/map/maps.html>

<sup>74</sup> The Rhine Danube Corridor - European Commission, available at: [https://ec.europa.eu/transport/modes/rail/ertms/corridors/rhine-danube-corridor\\_](https://ec.europa.eu/transport/modes/rail/ertms/corridors/rhine-danube-corridor_)

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Rhine-Danube is the essential TEN-T Corridor for Romania, crossing our country from west to east and the other way around, including economic hubs such as Timisoara, Braşov. Craiova, Bucureşti and Constanţa, the largest port at the Black Sea and a multimodal transport hub (rail, road, air and water, sea and inland).

**Figure 5: The EU TEN -T Corridors including Romania**



Source: Author's alteration of the map provided by [https://ec.europa.eu/transport/themes/infrastructure\\_en](https://ec.europa.eu/transport/themes/infrastructure_en)

The Connecting Europe Facility (CEF) Regulation, adopted in 2013, allocated a budget of 24 billion euros for the transport sector in the stretch between 2014 and 2020. The cost of developing transport infrastructure in the EU is estimated at over EUR 1.5 trillion for 2010-2030. Completion of the TEN-T core network alone will require about EUR 500 billion until 2030. According to the experts of the European Commission, the completion of the TEN-T core network alone would create 10 million extra jobs and would lead to an increase of 1.8 % of the GDP in 2030 as compared to 2015 (European Commission, 2018).

The EU-China Connectivity Platform set up in 2015 has been instrumental in enhancing the understanding but also the synergies between our relevant infrastructure plans, strategies, and policies in view to develop seamless transport operations through stronger cooperation regarding environmental performance, safety or efficiency standards. Beyond the identification of potential TEN-T projects with a financial gap which could attract financing from third parties, the sharing of information on the relevant legislation applicable in the EU and China,

EU-China dialogue on investment can help to develop more transparent, fair and fruitful cooperation in the transport sector.

It is clear that ensuring a level playing field for investors remains a condition to ensure the objectives described above. Both EU and China have therefore subscribed to that approach and included in the conclusions of June 2016 and 2017 of the Connectivity Platform Chairs', the objective of 'promoting transparency and a level playing field based on market rules and international norms.' We now seek to obtain from China to deliver by the next meeting of the chairs scheduled to take place in 2018<sup>75</sup>.

Šteinbuka et al.<sup>76</sup> argue that 'The Juncker Plan and China's Belt and Road Initiative are symmetrical. This strategy, which was unveiled in 2013, is focused on connecting the countries of Eurasia and the broader world through improved infrastructure networks, investment projects, and cultural exchanges. Both the Belt and Road Initiative and the Juncker Plan will be primarily focused on infrastructure and cross-border connections. The plan is for 'Silk Road' infrastructure projects to extend all the way to Budapest, where they could link up with EU infrastructure projects funded by the Juncker Plan. With the EU's know-how and mature legislation system, and China's vast market needs and fast-moving innovation on advanced technology, the EU and China are natural partners, The Connectivity Platform would provide visibility on investment opportunities along the Silk Road to interested investors and other parties, as well as to provide a level playing field for investors and relevant business on both sides. Some of these projects might be suitable for financing by EU resources (including EFSI) and/or Chinese funds (such as the Silk Road Fund). The EIB would contribute to the work of the Platform to explore opportunities for co-financing infrastructure links between the EU and China, in the framework of EIB external mandates'.

On the 2nd of April 2016, the Commission adopted new maps of the extension of the trans-European transport network (TEN-T) to the neighbouring countries, including Turkey (Annex III, vol. 32). Figure 2 reveals the potential of connecting Romania to Turkey via terrestrial and waterways (Orient-East Corridor and by sea Rhine-Danube Corridor), and thus to China, via Iran or South Caucasus countries. Via Orient-East Corridor, the consignments from Asia sent via the Suez Canal to Piraeus can be transported to Bulgaria, Romania, Hungary, Czechia, Germany and the rest of the Western European countries via TEN-T corridors.

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<sup>75</sup> Answer given by Ms. Bulc on behalf of the Commission. July 19., available at: <http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2017-003701&language=EN>.

<sup>76</sup> I. Šteinbuka, T. Muravska, A. Kuznieks, „Cooperation Formats of China and Europe”, in *Baltic Journal of European Studies*, 7 (1), pp. 98-118.

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On the 19<sup>th</sup> of September 2018, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy adopted a Joint Communication regarding a new and comprehensive strategy to better connect Europe and Asia. According to the document, it aims at:

- Creating transport links;
- Offering connectivity partnerships to countries in Asia and organisations;
- Utilising various financial tools to promote sustainable funding.<sup>77</sup>

In the EU's vision, the relations with the Asian countries will develop in the following years due to their global importance. Asia encompasses around 60% of the world population and accounts for 36% of the EU's exports (€673bn) and 46% of the EU's imports (€853bn)<sup>78</sup>.

In the stretch between 2021-2030, the EU needs €1,5 trillion for the TEN-T network, while Asian countries around 1,3 trillion a year in the following decades to maintain the current growth rates. The Commission also emphasises that both parties should be interested in developing trade routes between Asia and Europe that are viable, efficient and eco-friendly. Since currently, regarding value, 70% of the trade goes by sea, over 25% is carried by air, while rail remains relatively marginal, the potential for growth in all sectors is substantial<sup>79</sup>.

For the EU, TRACECA (Transport Corridor Europe-Caucasus-Asia) corridors (Table 5) could be the backbone of the connectivity with Asia. The programme started in 1993 with the aim to strengthen economic relations, trade and transport in the Regions of the Black Sea basin, South Caucasus and Central Asia<sup>80</sup>.

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<sup>77</sup>EU steps up its strategy for connecting Europe and Asia, European Commission, Press release. available at: [http://europa.eu/rapid/press-release\\_IP-18-5803\\_en.htm](http://europa.eu/rapid/press-release_IP-18-5803_en.htm).

<sup>78</sup>Eurostat (2018). Extra-EU trade by partner, available at: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext\\_lt\\_maineu&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_maineu&lang=en).

<sup>79</sup> *Ibidem*.

<sup>80</sup> For the first time, TRACECA Programme was initiated at the Conference in Brussels, in May 1993, involving Ministries of Trade and Transport from 8 countries: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Members of this Conference adopted Brussels Declaration, to give rise to implementation of the interregional programme of technical assistance "TRACECA", financed from the European Union and aimed at the development of the transport corridor from Europe, crossing the Black Sea, Caucasus, the Caspian Sea and reaching the Central Asian countries. In the period of 1996-1998 Ukraine, Mongolia and Moldova joined the Programme. At the First Annual Meeting of IGC TRACECA in Tbilisi, March 2000, Bulgaria, Romania and Turkey officially applied to the European Commission with a request to join TRACECA Programme and as a result have become members of the Basic Multilateral Agreement of the international transport on development of the Europe-Caucasus-Asia corridor (MLA). In July 2009, the Islamic Republic of Iran accessed to the MLA TRACECA, and on the outcomes of the Seventh meeting of the IGC TRACECA, 16 June 2009 the status of observer in the IGC was granted to the Republic of Lithuania. *History of TRACECA*, available at: <http://www.traceca-org.org/en/traceca/history-of-traceca>.

**Table 5: TRACECA Routes**

	<b>Trans-Russia</b>	<b>Trans-Caucasus</b>	<b>Trans-Turkey</b>
European section	Belarus	Ukraine Romania Bulgaria	Bulgaria Turkey
Middle (Central) Section	Russia	Black Sea Ferry, Georgia, Caspian Ferry, Azerbaijan	Iran
Eastern section (Central Asia)	Kazakhstan Uzbekistan Kyrgyzstan	Kazakhstan Uzbekistan Kyrgyzstan	Turkmenistan Uzbekistan Kyrgyzstan

*Source: TRACECA, 2008*

We did the same calculations for TRACECA`s corridors, excluding LPI indicators for both ends, namely China and the EU countries.

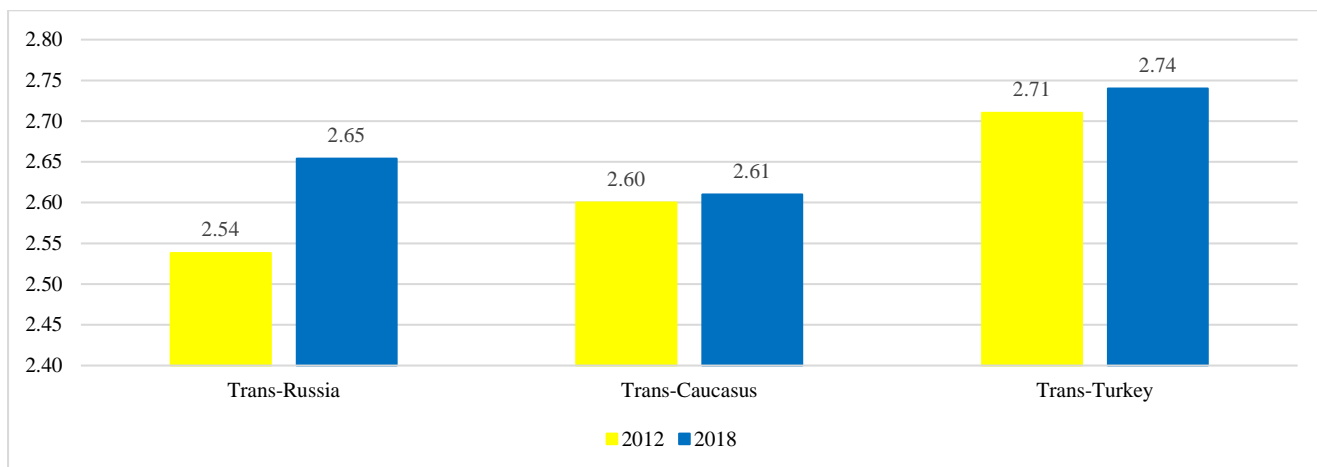
In Chart 12 we could see that based on LPI, the most attractive corridor was TRACECA`s Trans-Turkey, with an average score of 2,74, followed by Trans-Russia and only lastly Trans-Caucasus. We identified the same ranking in 2012, the year before the launch of BRI initiative and 2018, five years later.

The Trans-Turkey corridor is the equivalent of OBOR`s corridor including Iran and Turkey. As a first conclusion, one can say that from the LPI perspective, the south corridors of both TRACECA and OBOR are the most attractive.



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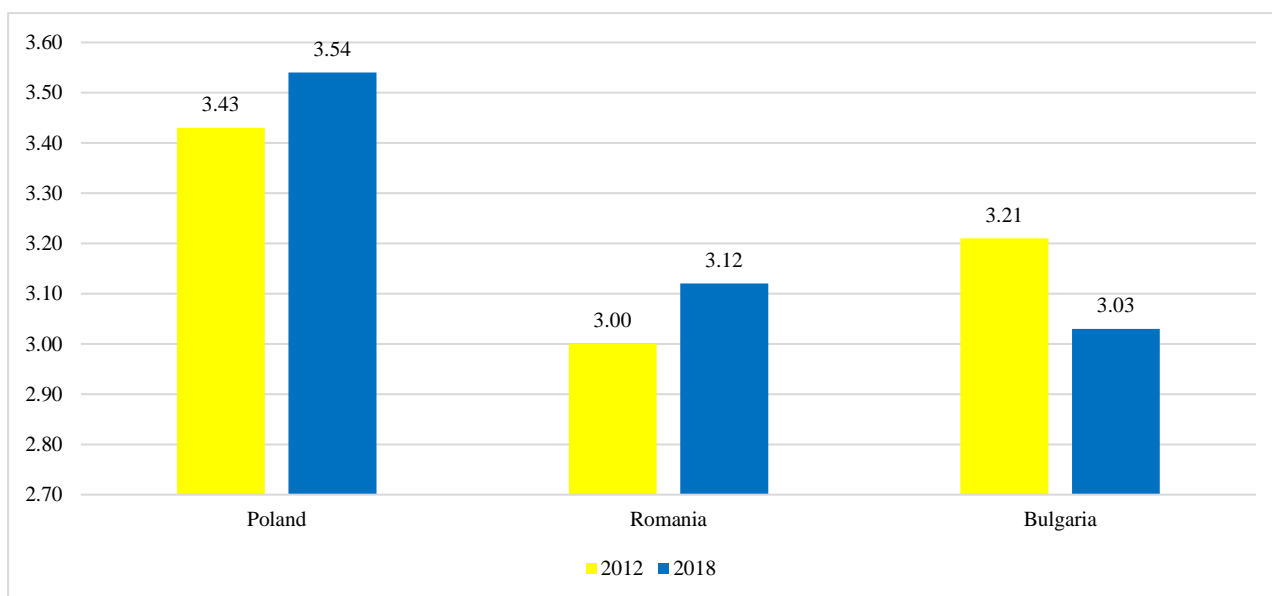
**Chart 12: Overall LPI Score for TRACECA Corridors**



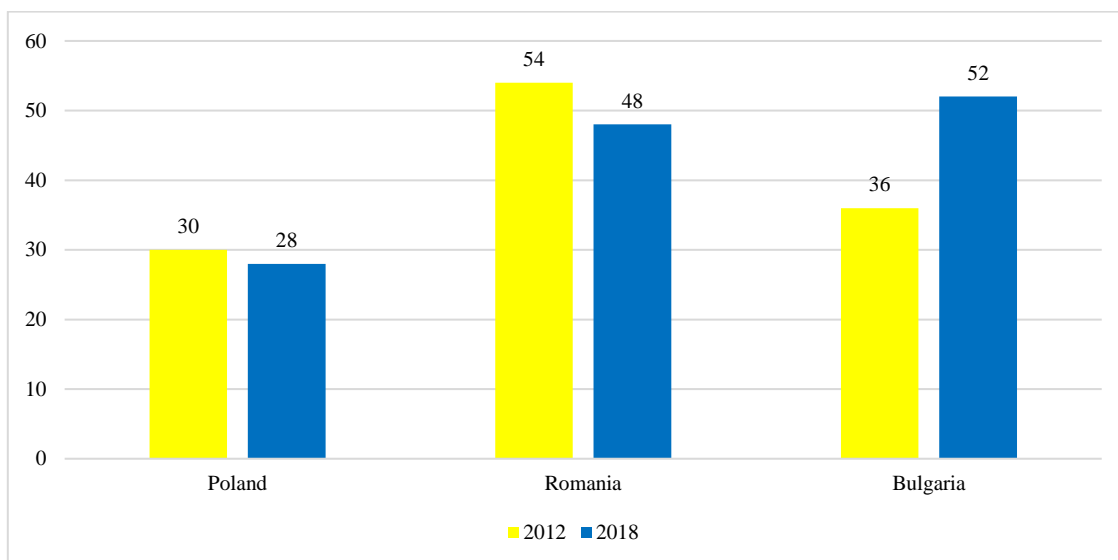
Source: Author's calculations. World Bank, 2018, Retrieved from  
<https://lpi.worldbank.org/international/global>

The points of entry in the EU of the analysed OBOR corridors are Poland, Romania and Bulgaria.

**Chart 13: Overall LPI score at entry points in the EU for OBOR Corridors**



Source: Author's calculations. World Bank, 2018, Retrieved from  
<https://lpi.worldbank.org/international/global>

**Chart 14: Overall World LPI rank at the entry points in the EU for OBOR Corridors**

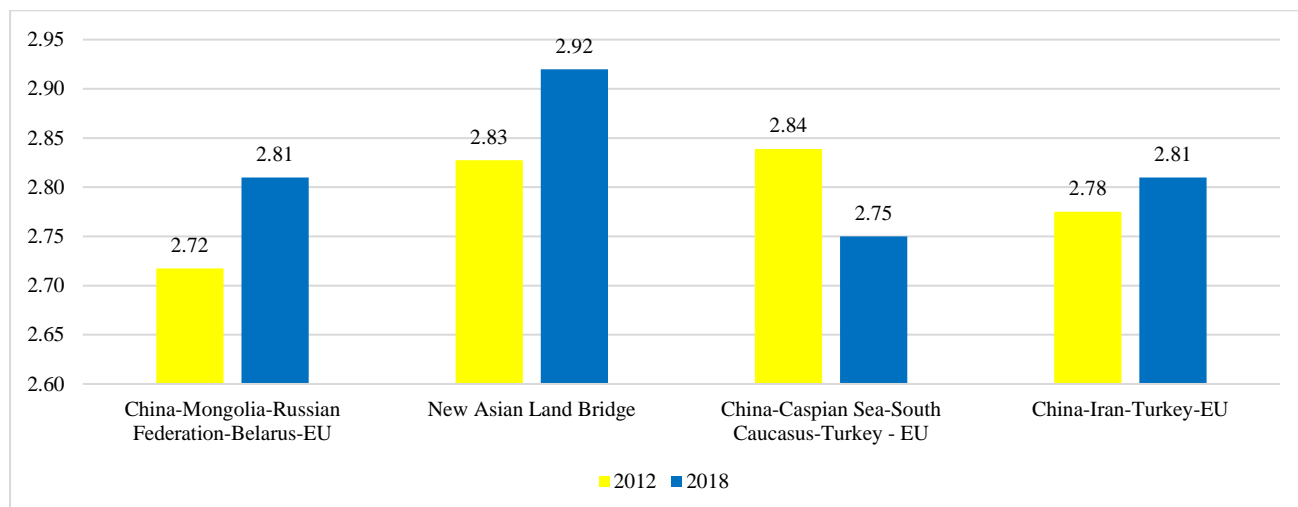
Source: Author's calculations. World Bank, 2018, Retrieved from <https://lpi.worldbank.org/international/global>

We see in Chart 13 that in 2018, Poland has the highest score (3,54) and ranks (28), form all three entry points, recording a positive trend between 2012 and 2018, as well as Romania, that ranks second. In the analysed stretch, Romania gained six positions in the world LPI ranking, the highest progress of all three. Bulgaria, though, registered a decrease in both score and rank in the analysed time frame.

If we add all three countries in our OBOR's corridors assessment, we notice a change in the hierarchy (See Chart 15). Thus, the New Asian Land Bridge takes the lead with a score of 2,92, higher than China-Iran-Turkey-EU, the best performer in between EU and China.

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**Chart 15: Overall LPI Score for Obor Corridors with Romania, Bulgaria and Poland included**

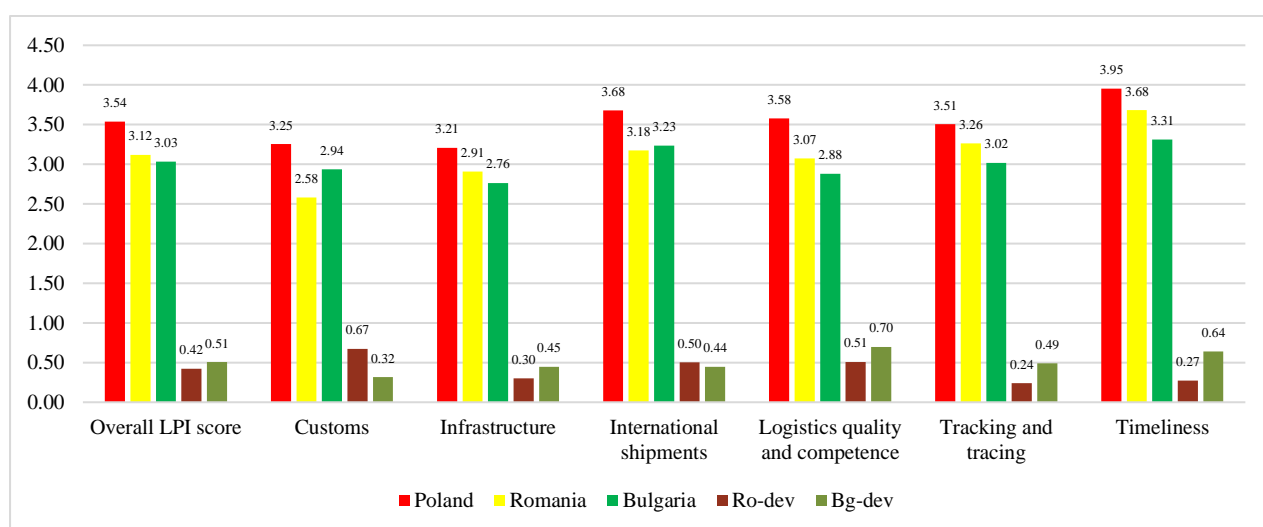


Source: Author's calculations. World Bank, 2018, Retrieved from <https://lpi.worldbank.org/international/global>

Poland also makes attractive the corridor China-Mongolia-Russian Federation-Belarus-EU, that is at parity with China-Iran-Turkey-EU.

It means that Romania and Bulgaria have to upgrade their LPIs, so they cover the gap between them and Poland and even exceed it.

**Chart 16: LPI, components and deviation of Romania and Bulgaria compared to Poland**

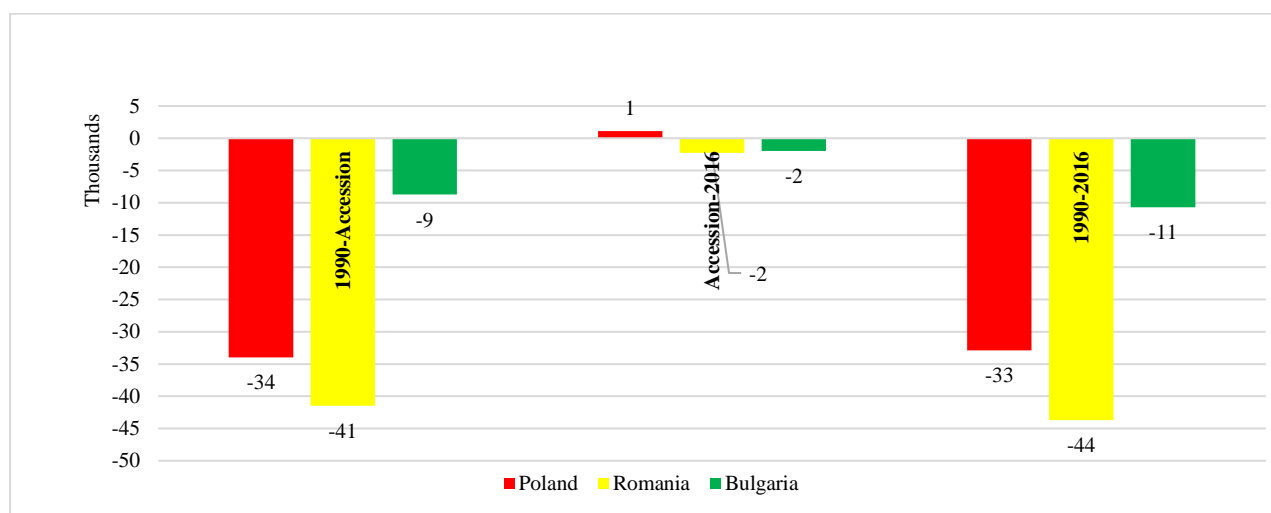


Source: Author's calculations. World Bank, 2018, Retrieved from <https://lpi.worldbank.org/international/global>

In 2018 Poland bests Romania and Bulgaria at all components (Chart 16). Romania ranks better than Bulgaria regarding infrastructure, logistics quality and competence, tracking and tracing and timeliness (4 out of 6).

In comparison with Bulgaria, Romania has to improve the efficiency of customs clearance process and also the ease of arranging competitively priced shipments.

**Chart 17: Freight transport, Rail, Million tonne-kilometres**



Source: Author's calculations based on data provided by OECD, Retrieved from <https://data.oecd.org/transport/freight-transport.htm#indicator-chart>

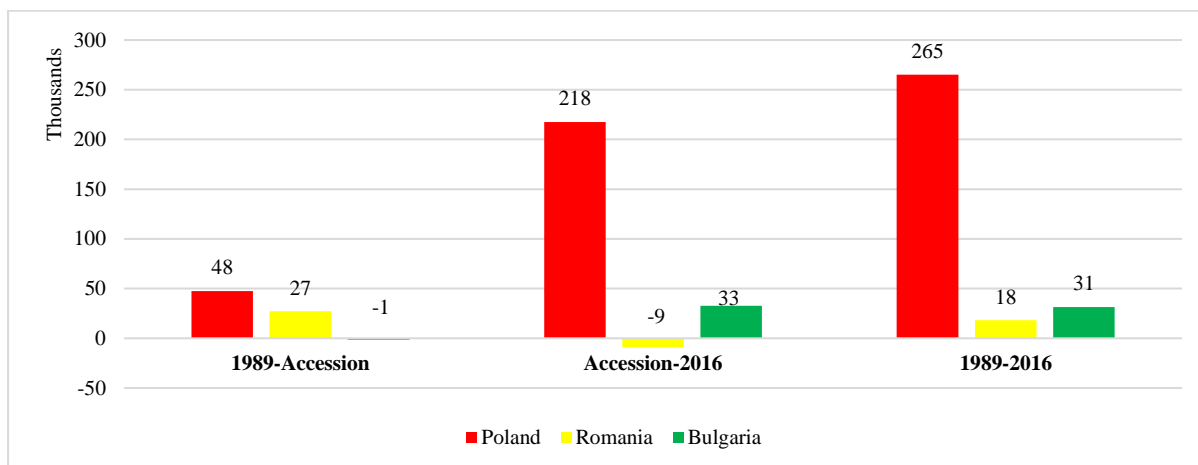
Chart 17 reveals that regarding freight transport on the rail, before the accession in the EU, all three countries lost massively, Romania the most (-41.000 million tonne-kilometres - MTK). After joining the EU, only Poland managed to register a small increase (1 million tonne-kilometres).

Before the accession to the EU Poland compensated the loss in freight transport on rail by a significant increase in freight transport by road (+48.000 million tonne-kilometres, against the loss of 34 million tonne-kilometres by the rail). Romania lost on rail 41.000 MTK and gained only 27.000 MTK on the road, while Bulgaria lost 9.000 MTK and also lost 1.384 MTK on the road (Chart 18).

Regarding freight transport on the road, after the accession, Poland and Bulgaria registered progress, while Romania recorded a decrease between 2007 and 2016 (-9.000 MTK).

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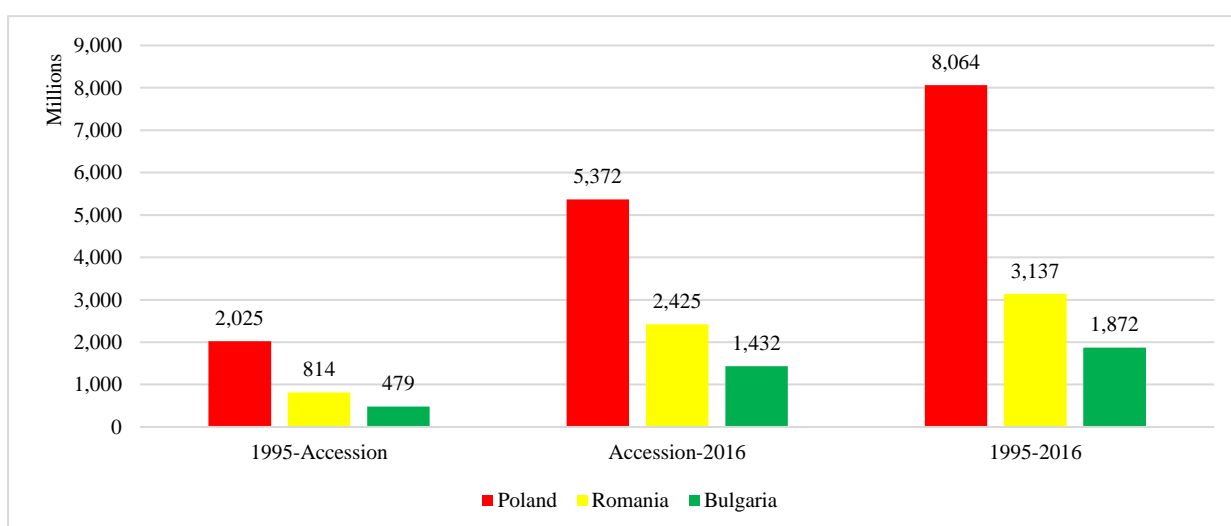
**Chart 18: Freight transport-Road, Million tonne-kilometres**



Source: Author's calculations based on data provided by OECD, Retrieved from <https://data.oecd.org/transport/freight-transport.htm#indicator-chart>

Thus, Between 1989 and 2016 Poland increased freight transport by road with 690%, Bulgaria by 207%, while Romania recorded an increase of just 60%. Between 1990 and 2016, Poland decreased the rail freight by 39%, while Romania and Bulgaria by 76%.

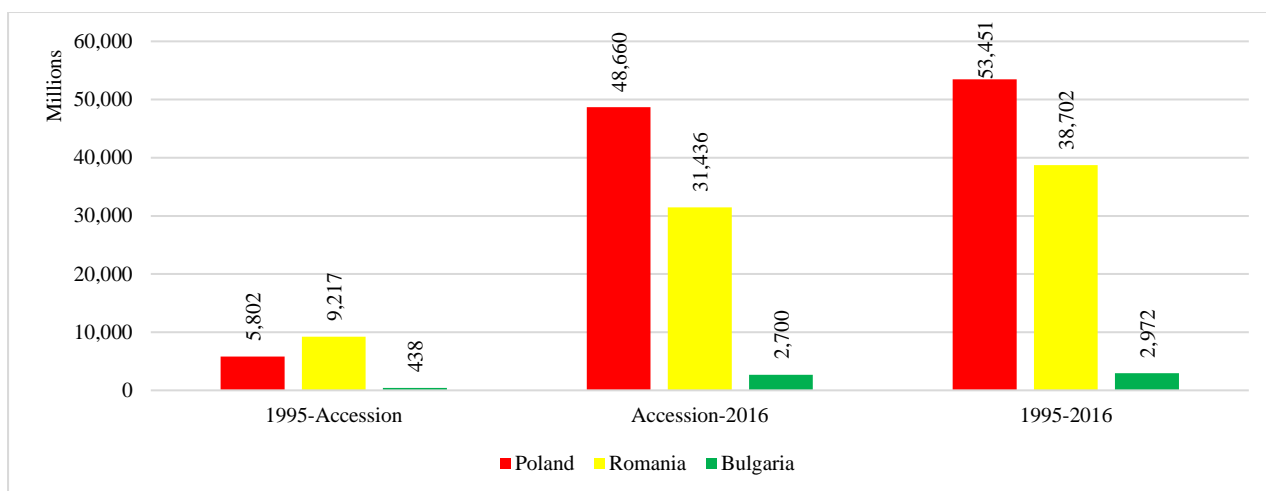
**Chart 19: Infrastructure investment in rail, in Euro**



Source: Author's calculations based on data provided by OECD, Retrieved from <https://data.oecd.org/transport/infrastructure-investment.htm>

In Poland`s case, the investment in rail transport reflected in the positive trend of rail freight, as compared to Romania and Bulgaria where the opposite happened.

**Chart 20: Infrastructure investment-road, in Euro**



Source: Author`s calculations based on data provided by OECD, Retrieved from <https://data.oecd.org/transport/infrastructure-investment.htm>

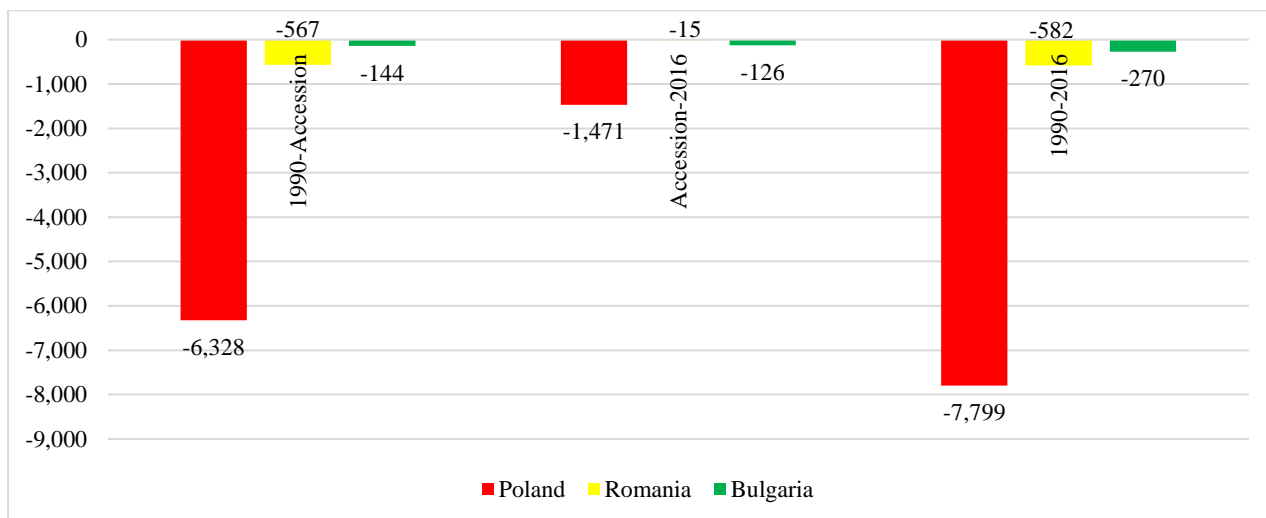
For Bulgaria, there are no available data between 1995 and 2004, so the data in Chart 19 only aggregate the value of investment between 2004-2016.

The road investments also reflected in an increase of road freight in case of Poland and Bulgaria.

According to the data provided by the World Bank, after 1989, in the ex-Soviet bloc, there was a trend of decommissioning the rails that led to large obsolete industrial facilities. Under these circumstances, between 1990 and 2016, Polish rails shortened by 7.8 thousand kilometres, while Romania`s by 582 kilometres (Chart 21). As opposed to Romania, Poland and Bulgaria moved towards road transport more efficiently, as shown in previous charts.

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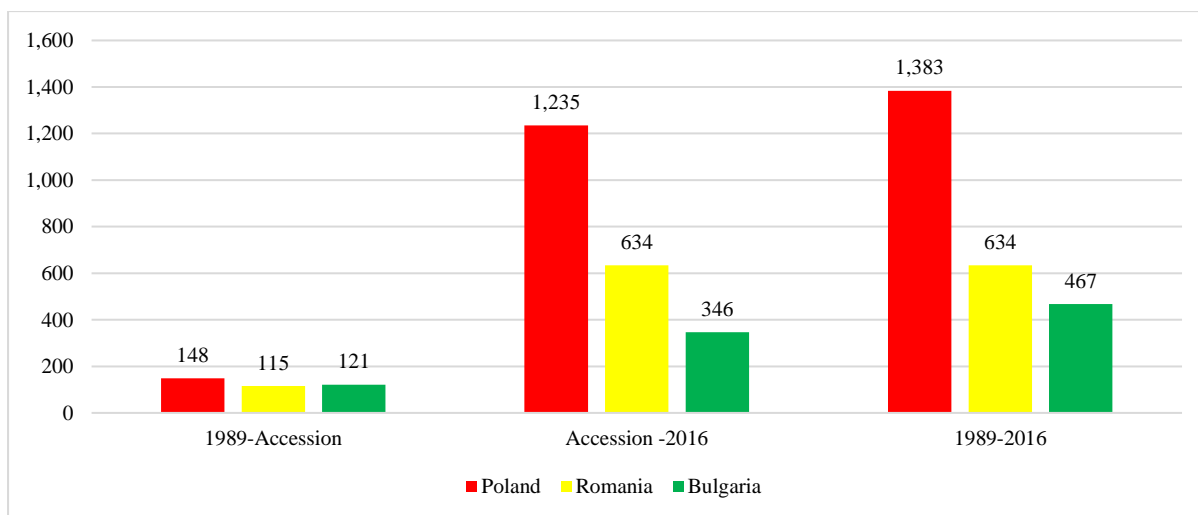
**Chart 21: Rail lines (total route-km)**



Source: Author`s calculations based on data provided by data provided by the World Bank. Retrieved from <https://data.worldbank.org/indicator/IS.RRS.TOTL.KM>

Regarding motorways, according to Eurostat, currently, Poland has a network of 1.640 km, Romania 747 km and Bulgaria 740 km.

**Chart 22: Length of motorways, kilometres**



Source: Author`s calculations based on data provided by data provided by Eurostat. Retrieved from [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=road\\_if\\_motorwa&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=road_if_motorwa&lang=en)

The progress registered by the analysed countries after joining the EU was significant, but not enough, in the case of Bulgaria and Romania, to help acquire a better LPI ranking.

## *Conclusions*

According to some historians, the trade on the Silk Road started sometime in the third century BCE, as trade between China and her neighbours (Yuezhi) started developing. Some theories say that Yuezhi was the Massagetae (Great Getae) or Gets, form the big family of the Thracians. About the gets, Herodotus wrote they were "the bravest and the justest of the Thracians". The Getae and Dacians were names applied to a single people by different observers or at different times. Their culture is sometimes called Geto-Dacian, the culture of our ancestors.

If the theories of the historians are correct, our ancestors were amongst the initiators of the Silk Road, besides the Chinese and Xiongnu.

The goods traded on the Silk Road reached the western coasts of the Black Sea and from there, through the commercial route of the Roman Empire and, in the Middle Ages, through the trade routes that included Moldovia, Wallachia, Transylvania and their northern and western neighbours.

Today, linking East Asia to Western Europe became a priority for both China and the EU. The Belt and Road Initiative, the new and comprehensive strategy to better connect Europe and Asia, and the EU-China Connectivity Platform reflect this common interest of Asia and Europe.

Each side designed and proposed trade corridors that have a certain degree of overlap. The EU has TRACECA and TEN-T and China has a range of potential corridors, of which we analysed four.

According to our calculations, the most attractive corridor connecting China to the EU is China-Iran-Turkey-EU corridor, a trade route used since the beginning of the Silk Road, as the maps reveal. That is true if we exclude both ends of OBOR Corridors, namely China and the EU.

If we add to the assessed route the points of entry in the EU, such as Poland, Romania and Bulgaria, the ranking of the corridors changes, due to the differences in LPI scores of the three countries. Thus, the New Eurasian Land Bridge ranks first, and the corridor including Iran comes second together with the one including Mongolia.

To make more attractive the central and southern corridors, Romania and Bulgaria need to improve their LPI scores at all components since the deviations compared to Poland's LPI score and components are still significant.



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Poland compensated the loss in freight transport by train by a significant increase in freight transport by road, and Bulgaria also, though to a smaller extent. Since 1989, our country lost a lot in rail freight and did not manage to offset it by an increase in road freight.

Romania ranks better than Bulgaria regarding infrastructure, logistics quality and competence, tracking and tracing and timeliness (4 out of 6), but needs to improve the scores of customs clearance and the ease of arranging competitively priced shipments.

Considering that the backbone of the northern routes, the Trans-Siberian, is one of the most used rail-lines in the world and it has already reached its total loading capacity, and the insufficient logistic capacity at the border crossing between Belarus and Poland, the central and southern corridors could be used more frequently, diversifying the options of both the EU and China, since the differences in LPI are not that significant.

The modernisation of the sectors in Romania and Bulgaria of the Orient-East and Rhine-Danube corridors should be a priority for both countries and the EU as a whole, as these routes connect the EU to Asia in both initiatives, TRACECA and OBOR.

A Chinese proverb says, “If you want to get rich, build a road first.”

## CHAPTER III. Trade connectivity

### *Current Status of Economic and Trade Development between China and Central and Eastern Europe*

Currently, given the fact that the trade policy is an exclusive competence of the European Union (i.e. the EU and not the member states legislates on trade matters and negotiates international trade agreements), there is a significantly narrow space for bilateral trade deals between EU member states in CEE<sup>81</sup> on one hand, and China on the other hand. As such, there is a much more pronounced element of regionalism in trade negotiations, than the traditional bi-lateral engagements.

Trade flows from the EU are significant in the global market, as EU-28<sup>82</sup> is currently the top player in the world trade in goods, followed closely by China and the United States. According to official statements, within the EU trade policy, China is amongst the strategic partners with whom deeper trade and investment relations are to be desired<sup>83</sup>.

EU's position in international trade will be affected by Brexit, to the same extent as the United Kingdom will suffer as well. This might decrease its competitiveness on international markets on the short to medium term, and will most likely be overrun by China in the international trade in goods.

The Council authorized the Commission to initiate negotiations for a comprehensive EU-China investment agreement on 18 October 2013. The mandate to launch negotiations on a new Partnership and Cooperation Agreement with China was approved by the Council in December 2005.

Negotiations of a comprehensive EU-China investment agreement were formally launched at the EU-China Summit of the 21<sup>st</sup> of November 2013 in Beijing. The aim of this agreement is to remove market access barriers to investment and provide a high level of protection to investors and investments in EU and China markets. It will replace the 26 existing Bilateral Investment Treaties between 27 individual EU Member States and China by one single comprehensive investment Agreement. In 2016 the EU and China negotiators reached clear conclusions on an ambitious and comprehensive scope for the EU-China investment agreement and established a joint negotiating text. The 18th round of negotiations took place

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<sup>81</sup> Central and Eastern Europe.

<sup>82</sup> European Union of 28 member states (including United Kingdom), after Brexit we should refer to EU-27.

<sup>83</sup> European Commission, *The European Union Trade Policy Presentation*, available at: [http://trade.ec.europa.eu/doclib/docs/2011/august/tradoc\\_148181.pdf](http://trade.ec.europa.eu/doclib/docs/2011/august/tradoc_148181.pdf).

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in Brussels from the 12<sup>th</sup> to the 13<sup>th</sup> of July 2018. Separate negotiations with China for an upgrade to the 1985 Trade and Economic Cooperation Agreement were launched in 2007 but have been stalled since 2011 due to divergences between the mandates and expectations of the parties. The 19<sup>th</sup> round is tentatively scheduled for 29<sup>th</sup>-30<sup>th</sup> of October in Beijing.<sup>84</sup>

In order to comply with Guobiao standards (GB) many imported products have to get the China Compulsory Certification (CCC) mark before being commercialised on the Chinese market. Beyond this certification, there are other labelling requirements that companies have to fulfil, such as having specific information on the outside packaging of the products in Chinese. When European companies are faced with the need to put local languages on their packaging, they usually prefer to simply place an additional sticker (“over-stickering”)<sup>85</sup> before exporting, instead of creating an entirely new packaging for the targeted market. When China introduced special requirements for new packaging in 2016, this posed a significant challenge to some EU exporting companies of small sizes<sup>86</sup>. China suspended labelling requirements that would otherwise affect the €680 million-worth EU cosmetics exports.<sup>87</sup>

European exporters reported a 10% increase in the number of trade barriers they encountered in 2016, and the 36 obstacles created in that year alone are estimated to have had a negative impact of €27 billion on EU exports.<sup>88</sup>

With the US imposing higher tariffs on Chinese goods, European producers will enjoy a competitive advantage over Chinese producers in the US market. Likewise, in the Chinese market, both European and Asian producers will have a competitive advantage over US producers. A substantial share of US-China trade is thus likely to be diverted to Europe, Japan, and other Asian economies close to the Chinese market. The European Union is likely to reap particularly large benefits, because it remains one of the largest trading partners of both the US and China, and because European producers are often US companies’ closest competitors.<sup>89</sup>

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<sup>84</sup> European Commission, *OVERVIEW OF FTA AND OTHER TRADE NEGOTIATIONS*, available at: [http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc\\_118238.pdf](http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf).

<sup>85</sup> *Italian cosmetics SME retains access to China*, MAP document, 2017, available at: [http://trade.ec.europa.eu/doclib/docs/2017/june/tradoc\\_155640.pdf](http://trade.ec.europa.eu/doclib/docs/2017/june/tradoc_155640.pdf).

<sup>86</sup> *Ibidem*.

<sup>87</sup> European Commission - Press release, 26 June 2017, *Report: Protectionism on the Rise, EU Successful in Countering Barriers*, available at: [http://europa.eu/rapid/press-release\\_IP-17-1765\\_en.htm](http://europa.eu/rapid/press-release_IP-17-1765_en.htm).

<sup>88</sup> *Ibidem*.

<sup>89</sup> Daniel Gros, Oct 9, 2018, „Who Wins in Trump’s Trade War?“, in *Project Syndicate*, available at: <https://www.project-syndicate.org/commentary/trade-war-winners-everyone-but-america-by-daniel-gros-2018-10>.

There are a series of success stories of EU SMEs that are successfully exporting or importing to China<sup>90</sup>, which are promoted with the goal of encouraging European SMEs to “think big” and make their trade routes at larger distances.

To some extent, regional trade agreements helped to sustain the liberalization momentum. But economists have always been sceptical about such agreements. When trade barriers are lowered for the few trading partners included in the regional agreement, producers in those countries tend to shift their attention to those partners, causing imports from other countries to decline. In other words, rather than spurring increased trade overall, regional agreements may primarily divert it: trade increases among participating countries, to their benefit, but declines for third parties, which incur (small) costs. As such, the European Union is likely to reap particularly large benefits, because it remains one of the largest trading partners of both the US and China, and because European producers are often US companies’ closest competitors.<sup>91</sup>

China's influence is much more recent, derived from the current economic context. Its economic relationship with the countries of Central and South-Eastern Europe is strengthened through structured collaboration initiatives such as the 16+1 platform launched in 2012 that includes, besides the EU's Central and Eastern European countries, the Balkan states: Albania, Bosnia-Herzegovina, Macedonia, Montenegro and Serbia.

Many EU Member States have suffered a wide range of austerity measures in the context of the economic crisis. These measures have resulted in a low level of public investment at national level. In this context, Chinese capital has been a strong attraction factor for many of the states at EU’s periphery, be it EU members (e.g. Greece, Italy) or Western Balkan countries (e.g. Serbia, Montenegro), and some of the Eastern Partnership countries (e.g. Belarus, Georgia). At EU level, FDI from China are mostly concentrated in the UK – about €15 billion, Italy – about €11 billion, France – about €9 billion and Germany – about €8 billion<sup>92</sup>. These values are gathered over the 2000-2015 timeframe. In the years after the economic crisis, FDI from China have been more focused on the countries affected by the crisis: Greece had €405 million representing Chinese investments by 2015, while Bulgaria received €222 million. Piraeus Port is a model of Chinese FDI at Europe’s periphery, whose 35-year concession was won by the Chinese COSCO Group (in 2008), who subsequently

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<sup>90</sup> *Success Stories*, available at: <http://www.eusmecentre.org.cn/success-stories>.

<sup>91</sup> Daniel Gros, *Who Wins in Trump’s Trade War?*, Project Syndicate, Oct 9, 2018

<sup>92</sup> *Rhodium Group Data Report*, available at: <https://www.merics.org/en/merics-analysis/papers-on-china/cofdi/a-new-record-year-for-chinese-outbound-investment-in-europe/>.

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acquired the majority stake of 67% (in 2012) for €368.5 million, COSCO committing to invest a total of €300 million in the first 5 years since takeover.

During a Beijing-based Belt and Road Forum for International Cooperation in May 2017, a number of Balkan states (Bosnia-Herzegovina, Montenegro and Serbia), as well as the Eastern Partnership states (Azerbaijan, Armenia, Belarus and Georgia) signed agreements on commercial and investment cooperation. Important bilateral agreements resulting from this forum are also those on agricultural cooperation and investment agreements with Serbia, the trade credit cooperation agreement with Belarus and Serbia, the cooperation agreement on education with Bosnia- Herzegovina, and China's loan for Srbija Telekom's investment project in Serbia<sup>93</sup>. Banks owned by the Chinese state are those that finance very low interest loans in infrastructure investment projects in Southeast Europe (e.g. motorways in Macedonia). These capital flows are welcome in many of the countries experiencing difficulties in securing private funding for investment projects.

If in the case of CEE countries that are member states of the European Union, the trade treaties are negotiated by the latter, in the case of the other 16+1 countries from the Balkans, bilateral trade and investment treaties continue to be negotiated by each country for itself.

***Table 6: Treaties for Bilateral Investment in the Balkan states***

Country	Total number	Western Partners		Rest of the World Partners	
		Number	Countries	Number	Countries
<b>Albania</b>	<b>36</b>	24	Switzerland, Poland, Croatia, Greece, Czech Republic, Austria, Germany, Great Britain, Holland, <b>Romania</b> , Denmark, Bulgaria, Italy, Sweden, France,	12	Malaysia, Egypt, China, Russia, Macedonia, Serbia, Republic of Moldova, Turkey, Israel, South Korea, Bosnia and

93 J. Bastian, *The potential for growth through Chinese infrastructure investments in Central and South-Eastern Europe along the 'Balkan Silk Road'* – Report drafted for the European Bank for Reconstruction and Development (EBRD) (funded by the Central European Initiative).

			USA, Hungary, Finland, Slovenia, Belgium, Luxembourg, Spain, Portugal, Lithuania, Cyprus		Herzegovina, Kuwait
<b>Bosnia- Herzegovina</b>	<b>38</b>	22	San Marino, Belgium and Luxembourg, Slovakia, Lithuania, Portugal, Denmark, France, Germany, Greece, Hungary, Switzerland, Italy, Czech Republic, Great Britain, Spain, Austria, Slovenia, Netherlands, Sweden, Finland, <b>Romania</b> , Croatia	16	Jordan, Pakistan, Iran, Albania, Turkey, Qatar, Republic of Moldova, India, Belarus, China, Macedonia, Ukraine, Kuwait, Egypt, Malaysia
<b>Macedonia</b>	<b>35</b>	20	Croatia, Poland, Switzerland, Sweden, Italy, Netherlands, Bulgaria, Slovenia, France, Germany, <b>Romania</b> , Hungary, Finland, Austria, Czech Republic, Belgium and Luxembourg, Spain, Slovakia, Lithuania, Denmark	15	Serbia, Turkey, China, Albania, South Korea, Russia, Malaysia, Taiwan, Ukraine, Bosnia and Herzegovina, India, Montenegro, Kuwait, Morocco, Iran

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<b>Montenegro</b>	<b>23</b>	15	France, Germany, <b>Romania</b> , Greece, Slovakia, Czech Republic, Austria, Netherlands, Spain, Lithuania, Switzerland, Cyprus, Denmark, Finland, Malta	8	Israel, Qatar, Serbia, Malta, Macedonia, Azerbaijan, United Arab Emirates, Republic of Moldova
<b>Serbia</b>	<b>48</b>	25	France, Sweden, Germany, Bulgaria, <b>Romania</b> , Poland, Greece, Slovakia, Czech Republic, Croatia, Austria, Holland, Spain, Slovenia, Hungary, Finland, Lithuania, Cyprus, United Kingdom, Switzerland, Belgium and Luxembourg, Denmark, Portugal, Malta, Canada	23	China, Belarus, Zimbabwe, Macedonia, Guinea, Ghana, North Korea, Ukraine, Nigeria, Turkey, Albania, Bosnia and Herzegovina, Kuwait, Libya, Israel, Egypt, Kazakhstan

*Source: unctad.org.*

***Analysis on the Trade Structure, Growth Momentum of Bilateral Trade between China and Central Europe***

In this section we explore the bilateral trade statistics and evolution between a selected number of CEE countries and China. Within the 16+1 platform, the CEE countries are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.

A recent academic article<sup>94</sup> examined the contribution of competitiveness and trade product structure to China's commercial links with ten states located in Central and Eastern Europe (CEE). A constant market share analysis for the 2002–2011 period shows that, except for Romania, both CEE states and China increased their market shares in each other's market mainly due to their improved competitiveness in intermediate goods. However, with the notable exception of Slovakia, other CEE economies and China tended to gain market shares in product groups characterized by relatively non-dynamic import demand growth. Shang et al (2016) also point out that this mismatch between the competitiveness and structure effects points to the room for an expansion of China–CEE trade.

**Table 7: China and CEE, annual trade growth (% , 2002–2011)**

<i>Annual growth (%) of</i>	<i>CEE exports to China</i>	<i>Total exports</i>	<i>Chinese exports to CEE</i>	<i>Total imports</i>
Bulgaria	47.0	19.3	29.6	16.9
Czech Republic	30.3	15.5	28.4	13.5
Estonia	33.6	17.2	26.4	13.8
Hungary	30.4	13.9	18.8	11.6
Latvia	38.6	20.2	37.6	16.0
Lithuania	45.2	19.9	33.6	17.1
Poland	27.9	18.7	28.3	16.2
Romania	11.2	18.2	28.5	17.5
Slovakia	55.0	20.7	44.5	18.5
Slovenia	21.8	12.1	37.5	12.4
CEE	30.1	17.0	27.1	15.0
China	N/A	21.6	N/A	21.8

*Source: Shang et al 2016.*

We have selected for an in-depth analysis on the evolution of bilateral trade with China the following 5 countries: Bulgaria, Czech Republic, Hungary, Poland and Romania. The criteria for this selection is that these countries have recorded the highest growth rate of their GDP in 2017, and as such could potentially constitute the most lucrative markets in CEE region. Obviously, it is not only the GDP growth that indicates the potential for trade relation, but rather a multitude of macroeconomic and microeconomic factors, but we needed a criterion to narrow this analysis of this report<sup>95</sup>.

<sup>94</sup> Shang, Y., Ponikvar, N., & Zajc Kejžar, K. (2016). „The Changing Patterns of China–CEE Trade”, in *Europe-Asia Studies*, 68 (9), pp. 1486-1505.

<sup>95</sup> An extensive version of this analysis on all CEE countries and supplementary factors could be provided upon request.

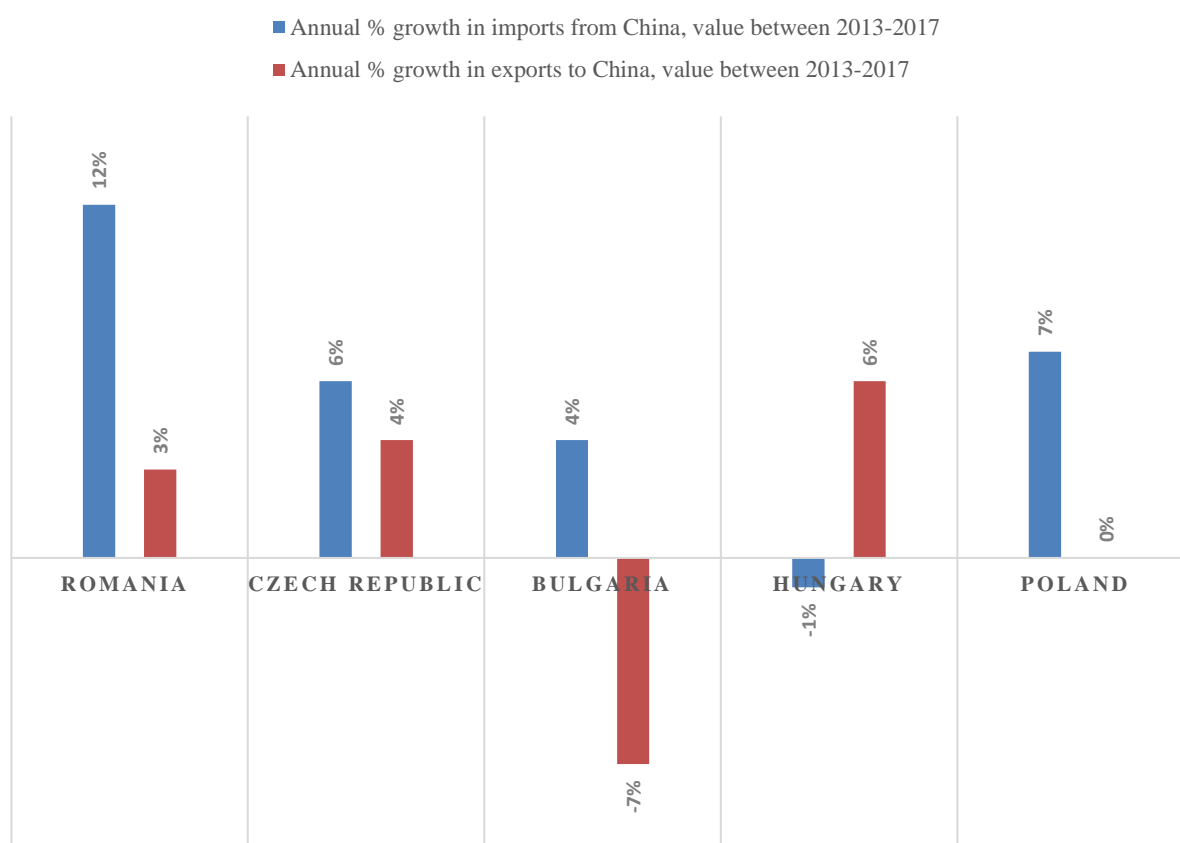


## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

Amongst the selected set of countries, we can see that Romania recorded the highest growth in its value of imports from China in between 2013 and 2017. With a 12% increase in the value of its imports from China over the reference period, it scored almost double the growth rate recorded by Poland in the same indicator—7% growth of imports value from China. Czech Republic had a similar dynamic with that of Poland, with 6% growth rate in the value of its imports, while Bulgaria recorded an overall growth rate of 4% in the value of its imports from China. Finally, Poland recorded a negative evolution with a decrease of -1% in the value of its imports from China,

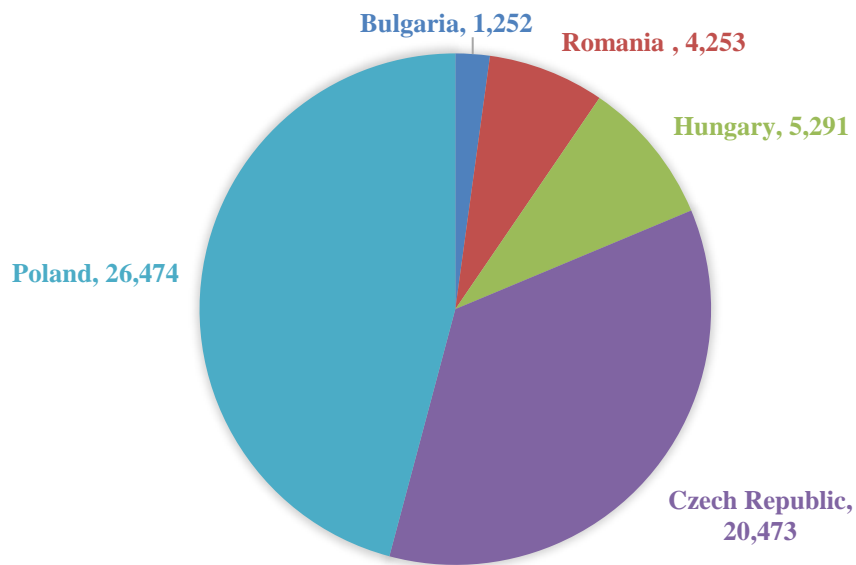
In terms of the dynamics of exports, the highest growth is recorded by Hungary, whose exports to China grew in value by 6%. Romania and Czech Republic recorded a relatively modest increase with 3%, and 4% respectively. While Bulgaria has seen its exports to China decrease by -7% in value over the reference period.

**Figure 6: Evolution of bilateral trade with China in Selected CEE countries (2013-2017)**



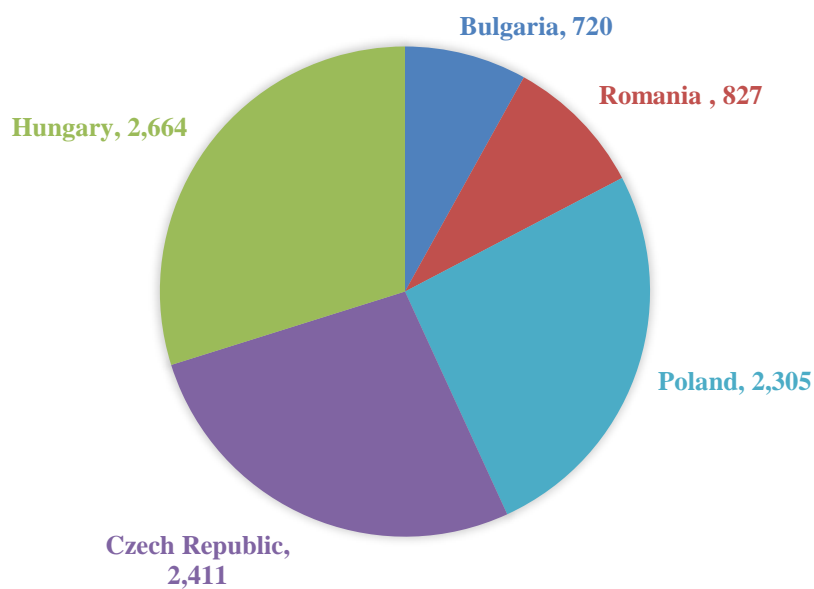
Source: adapted by the author based on Trademap data

**Figure 7: Value of imports from China in 2017, USD mil.**



Source: adapted by the author based on Trademap data

**Figure 8: Value of exports to China in 2017, USD mil.**



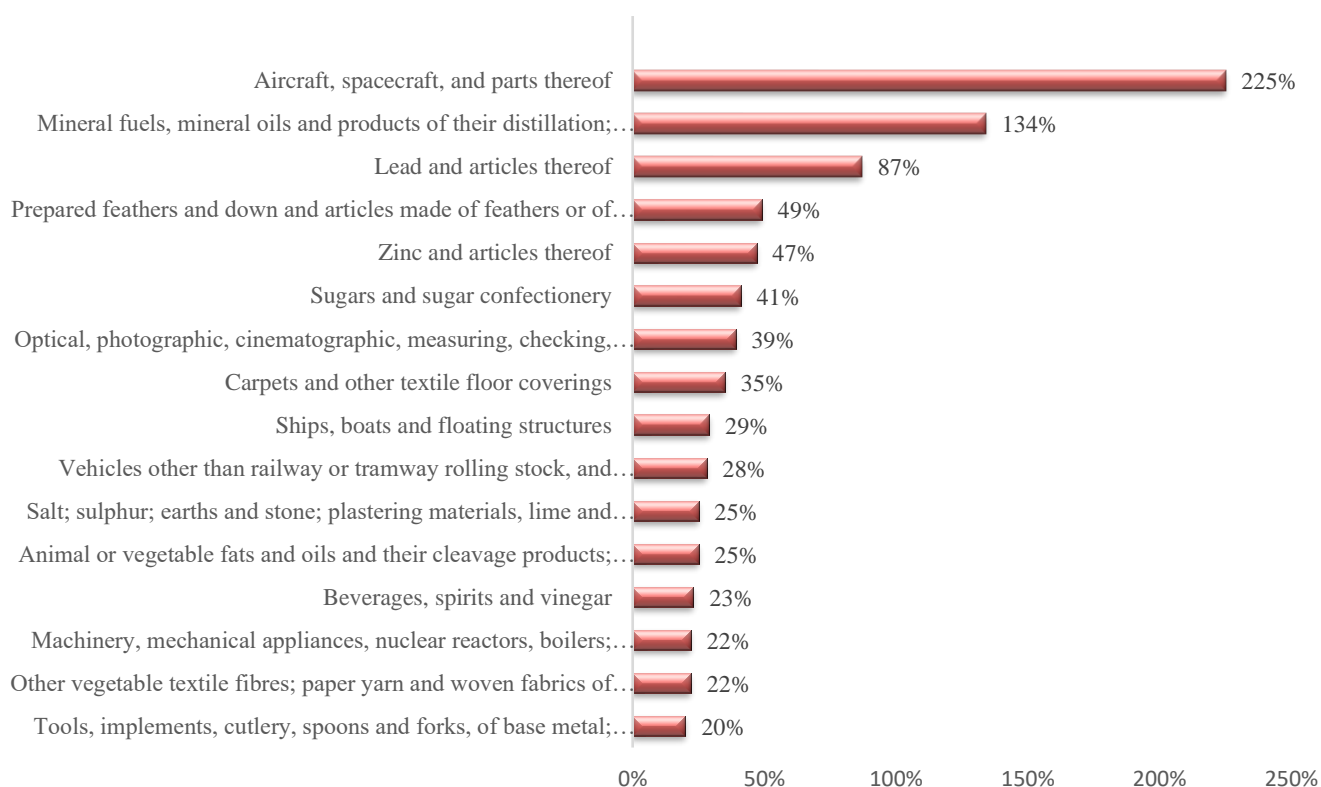
Source: adapted by the author based on Trademap data

## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

### *Growth of Imports from China in Selected CEE Countries*

According to official trade reports statistics<sup>96</sup> in 2017, Romania-China trade reached the level of approximately 5 billion USD, up 14.10% than that of 2016 over the same period of time. China is Romania's eighth largest trading partner, becoming Romania's second largest trading partner outside the EU (following Turkey ). Romania's top seven trading partners are Germany, Italy, Hungary, France, Poland, Turkey and the Netherlands. Romania's imports from China reached approximately 4 billion USD, and China was Romania's 6<sup>th</sup> largest imports source. Romania's exports to China registered approximately 833 million USD, up 22.66% year on year. China is Romania's 20<sup>th</sup> exports destination, with its ranking dropping one place compared with that of last month, mainly exporting wood products, charcoal, nuclear reactor, boiler, engineering products and electronic and mechanical products.

**Figure 9: Romania - Annual growth in the value of imports from China (2013-2017), %**



*Source: adapted by the author based on Trademap data*

<sup>96</sup> *Report on Romania-China Trade in January-December 2017*, Ministry of Commerce People's Republic of China, available at: <http://english.mofcom.gov.cn/article/statistic/lanmubb/chinaeuropeancountry/201804/20180402737148.shtml>

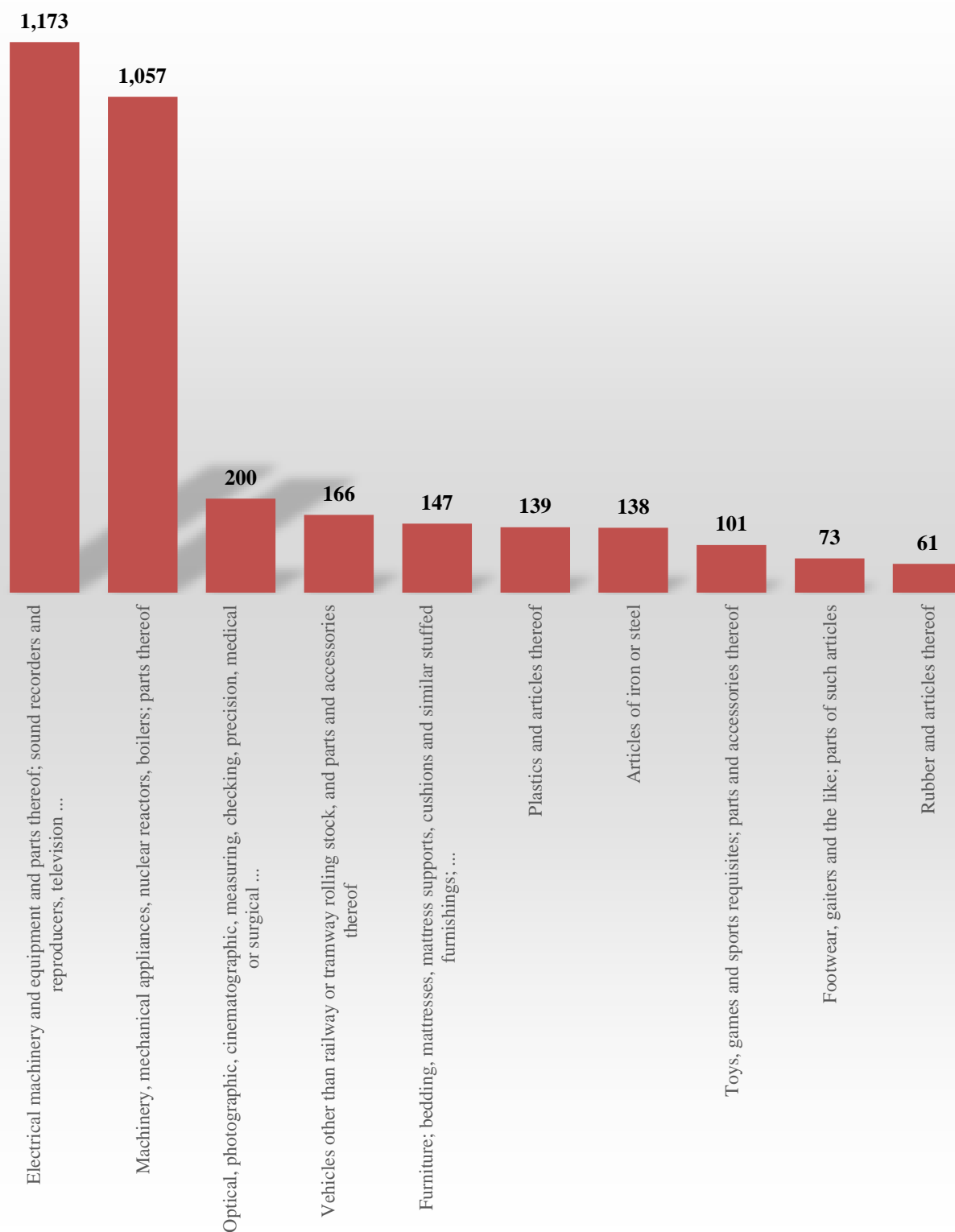
For Romania, we can see that a number of sectors have seen a significant increase in the value of imports from China in the reference period of 2013-2017. For Aircraft, spacecraft, and parts thereof, we can see an increase of 225% during the reference period. The second highest growth rate in imports value is found in the case of Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral products, with 134% higher value of imports within the reference period. The third highest increase in the field of Lead and articles thereof with 87% higher value of such imports from China in Romania in comparison to 2013.

We have selected above those sectors that scored a growth in imports higher than 20%. Amongst them, three particularly relevant in terms of total value. Triangulating the list of top growing sectors of imports in bilateral trade with China, we can see that Romania has only three of these sectors amongst its Top 10 ranking per value:

- Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof (total value in 2017 of approximately 1 bill. USD, growth rate of 22% in between 2013 and 2017),
- Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipment (total value in 2017 of approximately 200 mil. USD, growth rate of 39% in between 2013 and 2017),
- Vehicles other than railway or tramway rolling stock, and parts and accessories thereof (total value in 2017 of approximately 166 mil. USD, growth rate of 28% in between 2013 and 2017).

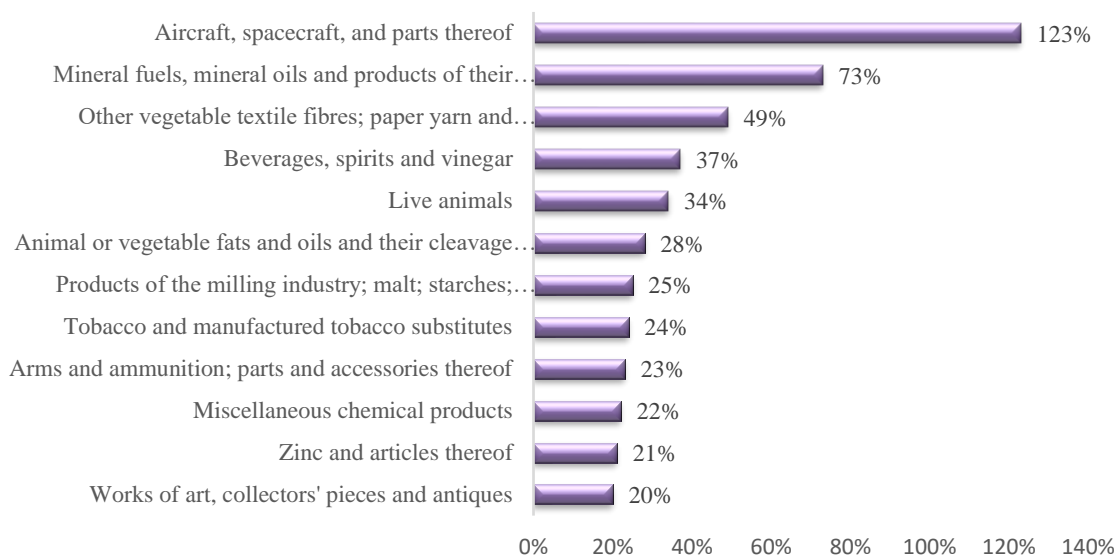
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**Figure 10: Romania – Value top 10 imports from China in 2017, USD millions**



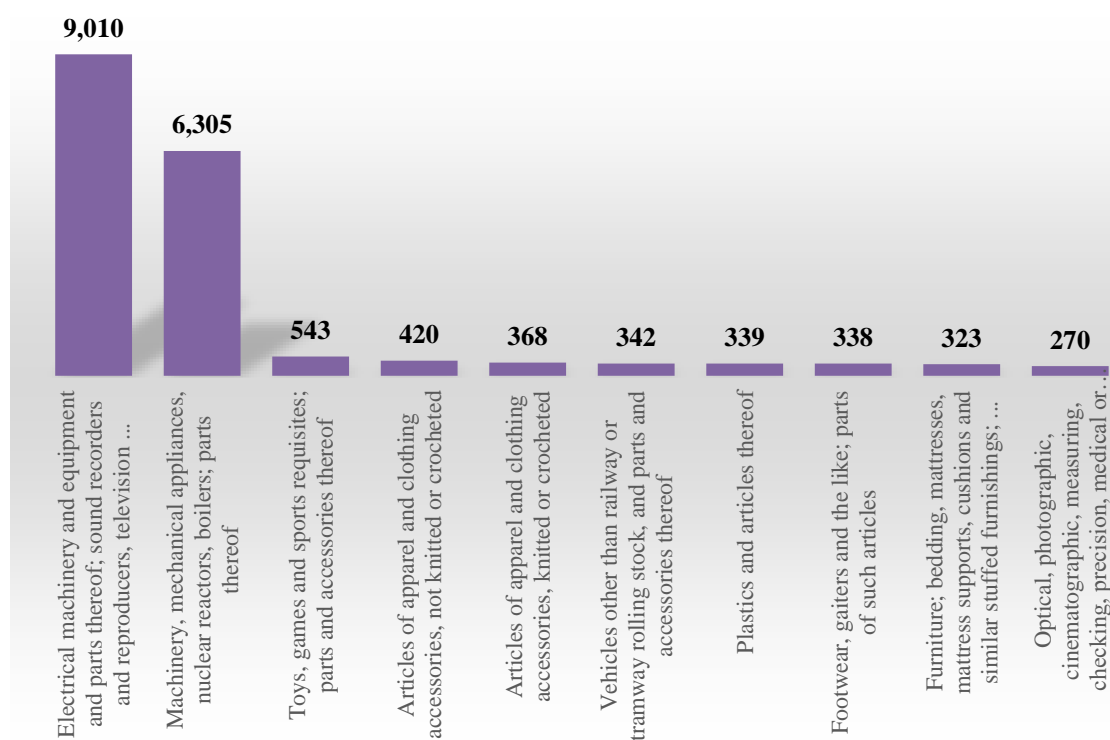
Source: adapted by the author based on Trademap data

**Figure 11: Czech Republic- Annual growth in the value of imports from China (2013-2017), %**



Source: adapted by the author based on Trademap data

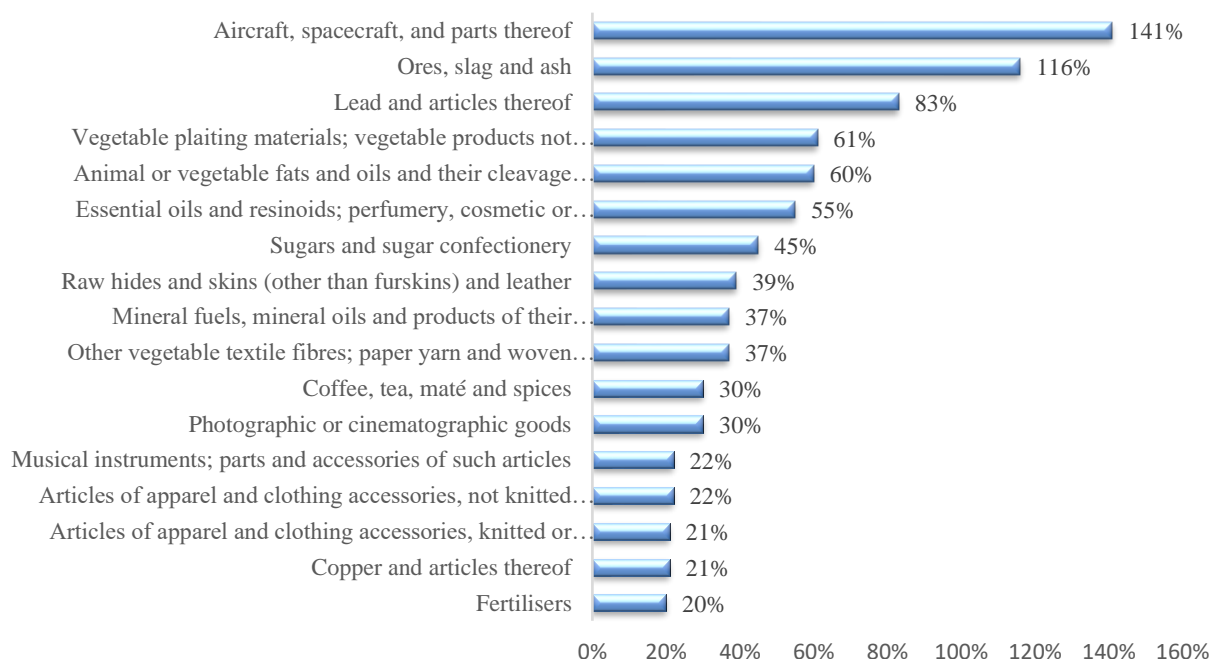
**Figure 12: Czech Republic – Value top 10 imports from China in 2017, USD millions**



Source: adapted by the author based on Trademap data

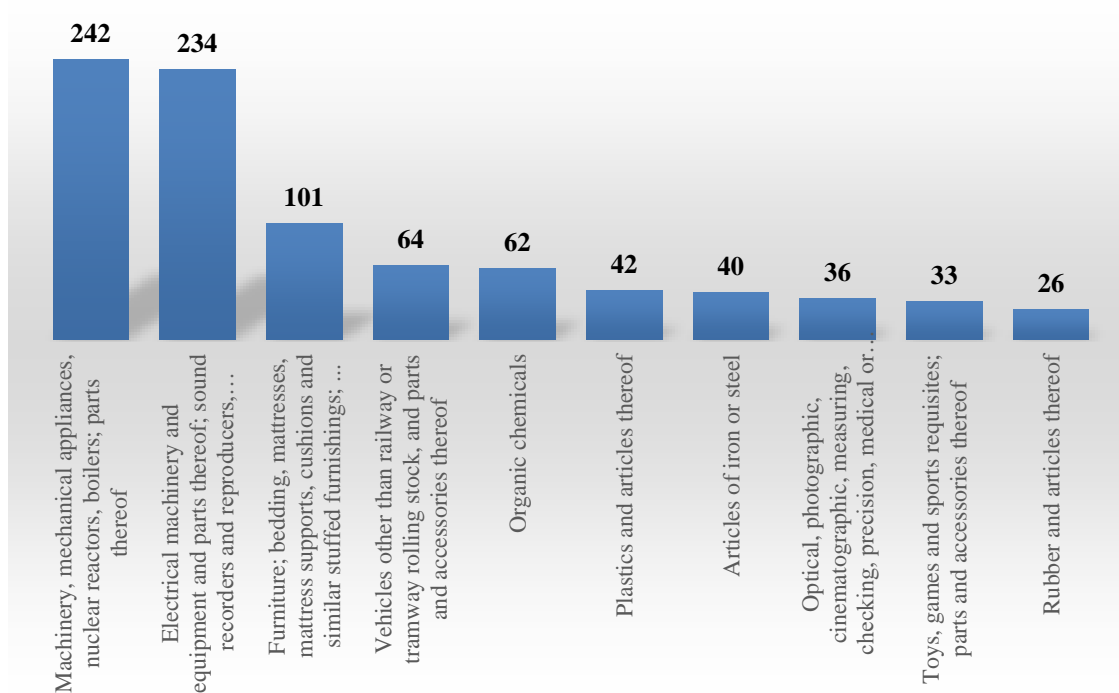
# CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

**Figure 13: Bulgaria- Annual growth in the value of imports from China (2013-2017), %**



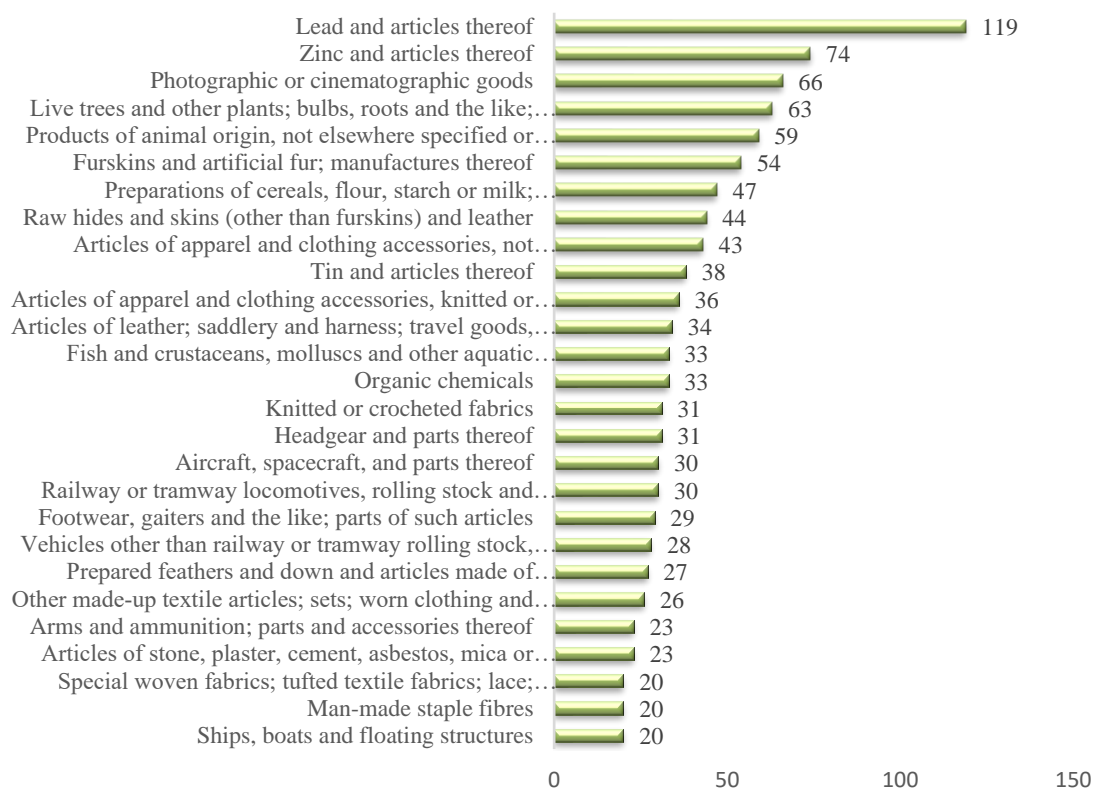
Source: adapted by the author based on Trademap data

**Figure 14: Bulgaria – Value top 10 imports from China in 2017, USD millions**



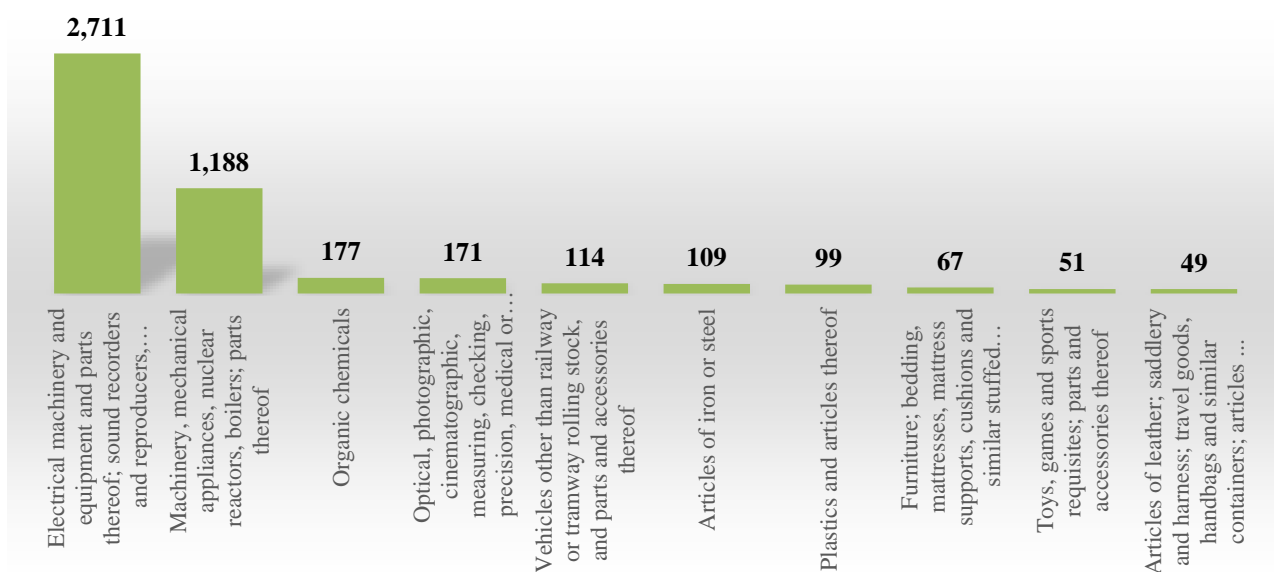
Source: adapted by the author based on Trademap data

**Figure 15: Hungary- Annual growth in the value of imports from China (2013-2017), %**



Source: adapted by the author based on Trademap data

**Figure 16: Hungary – Value top 10 imports from China in 2017, USD millions**

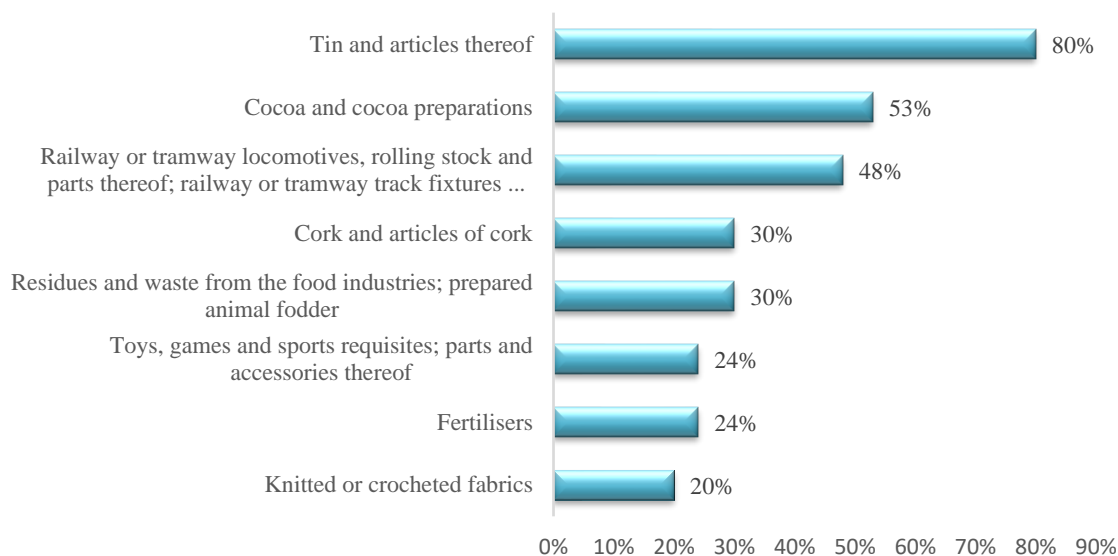


Source: adapted by the author based on Trademap data



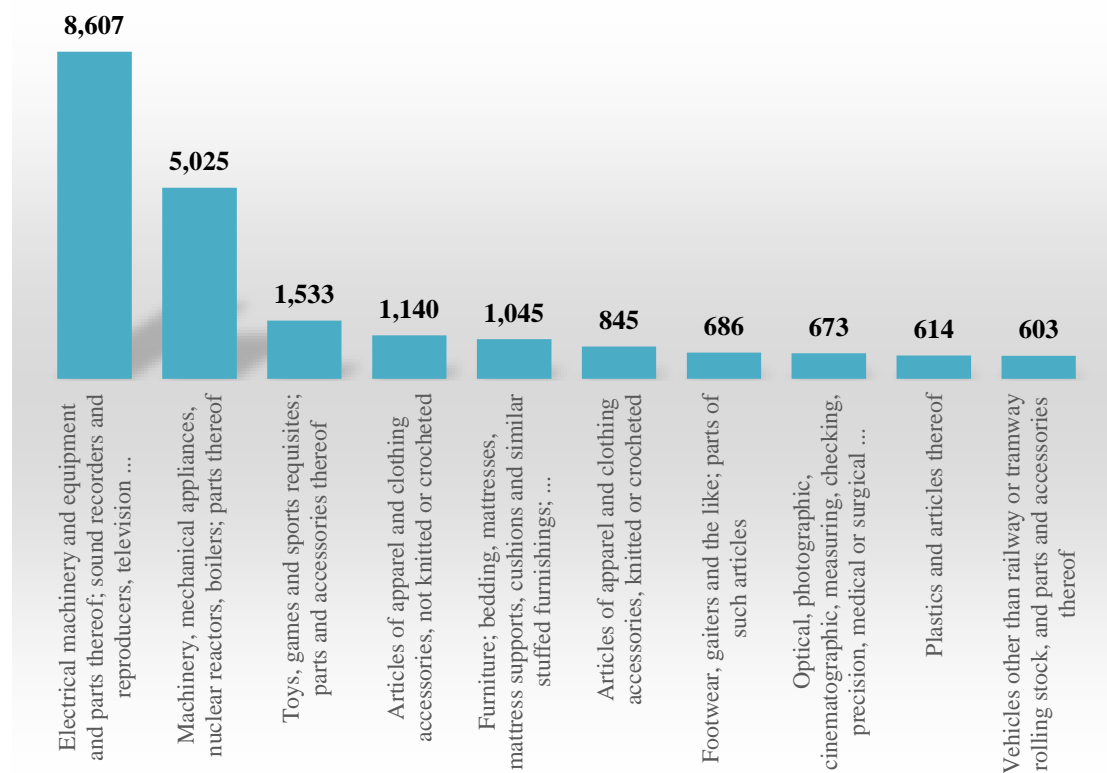
## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

**Figure 17: Poland Annual growth in the value of imports from China (2013-2017), %**



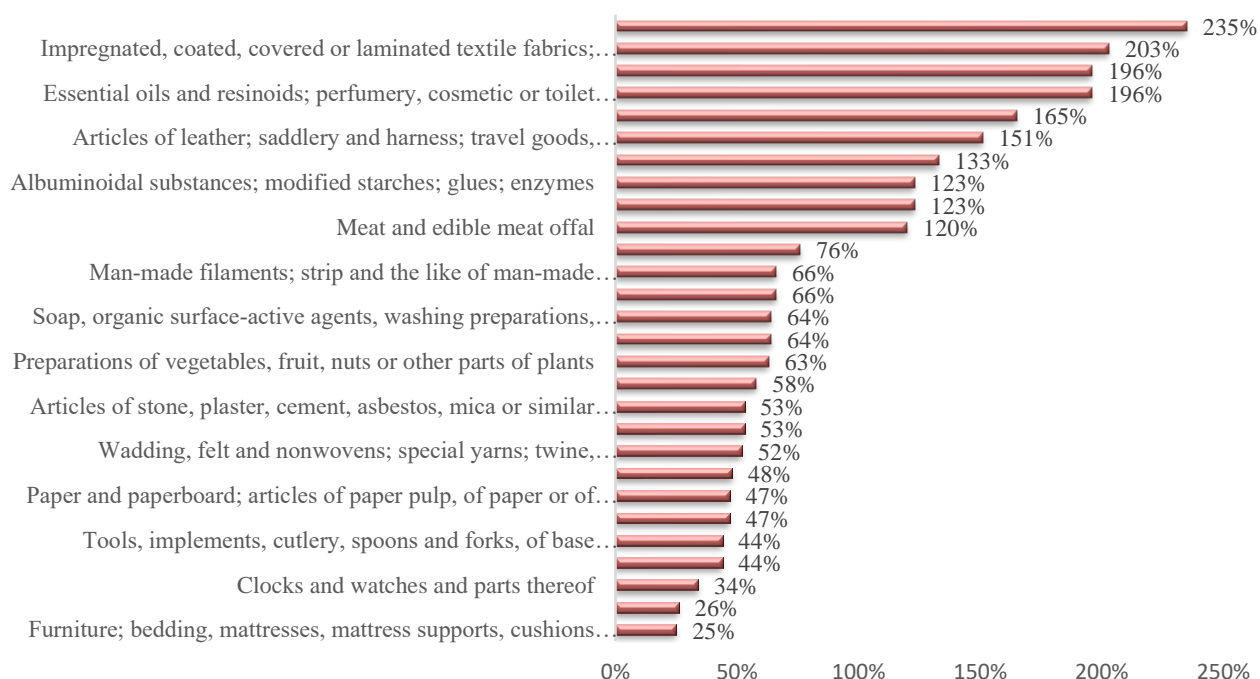
*Source: adapted by the author based on Trademap data*

**Figure 18: Poland – Value top 10 imports from China in 2017, USD millions**

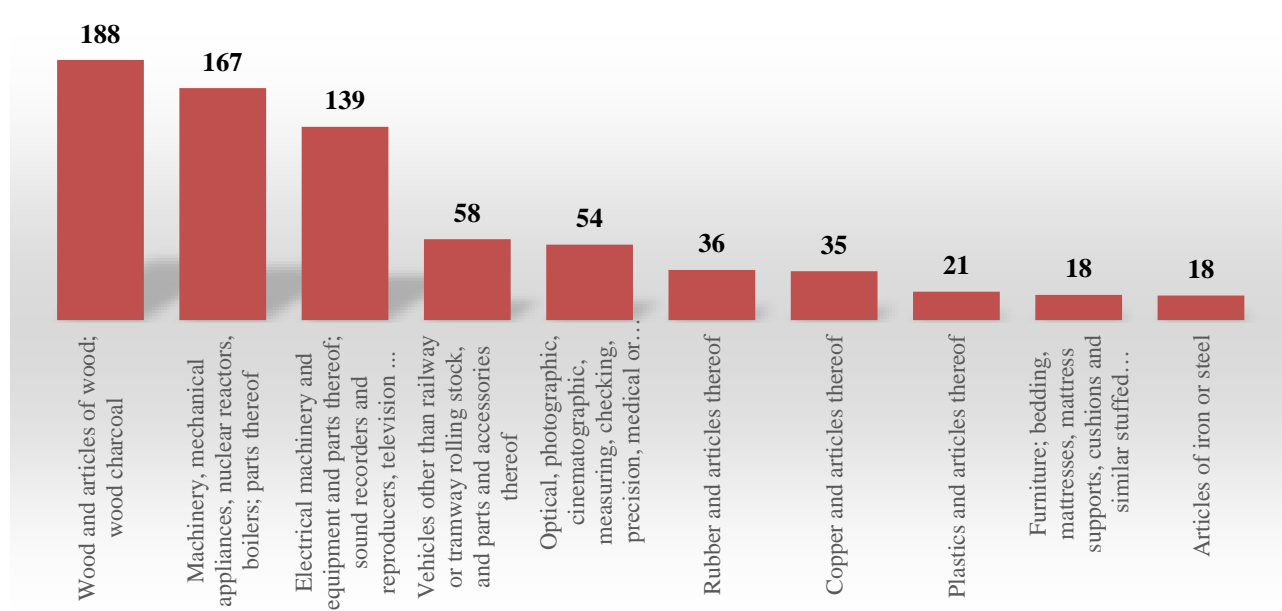


*Source: adapted by the author based on Trademap data*

## Growth of Exports to China from selected CEE

**Figure 19: Romania - Annual growth in the value of exports to China (2013-2017), %**

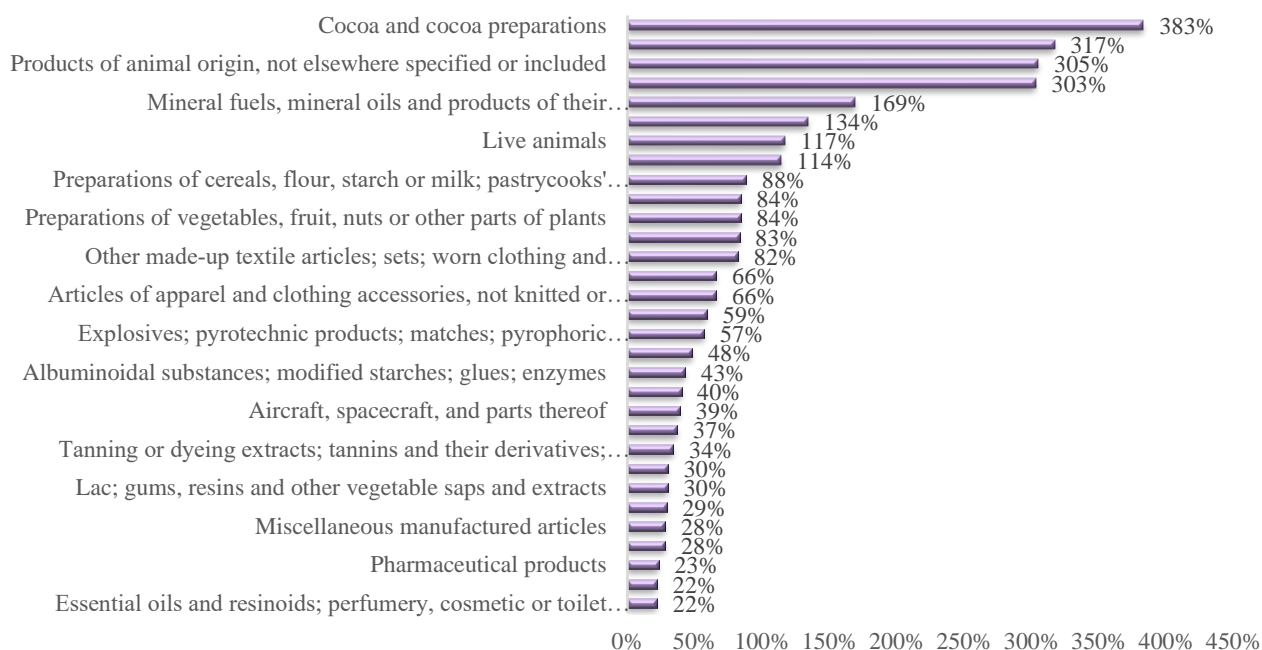
Source: adapted by the author based on Trademap data

**Figure 20: Romania– Value top 10 exports to China in 2017, USD millions**

Source: adapted by the author based on Trademap data

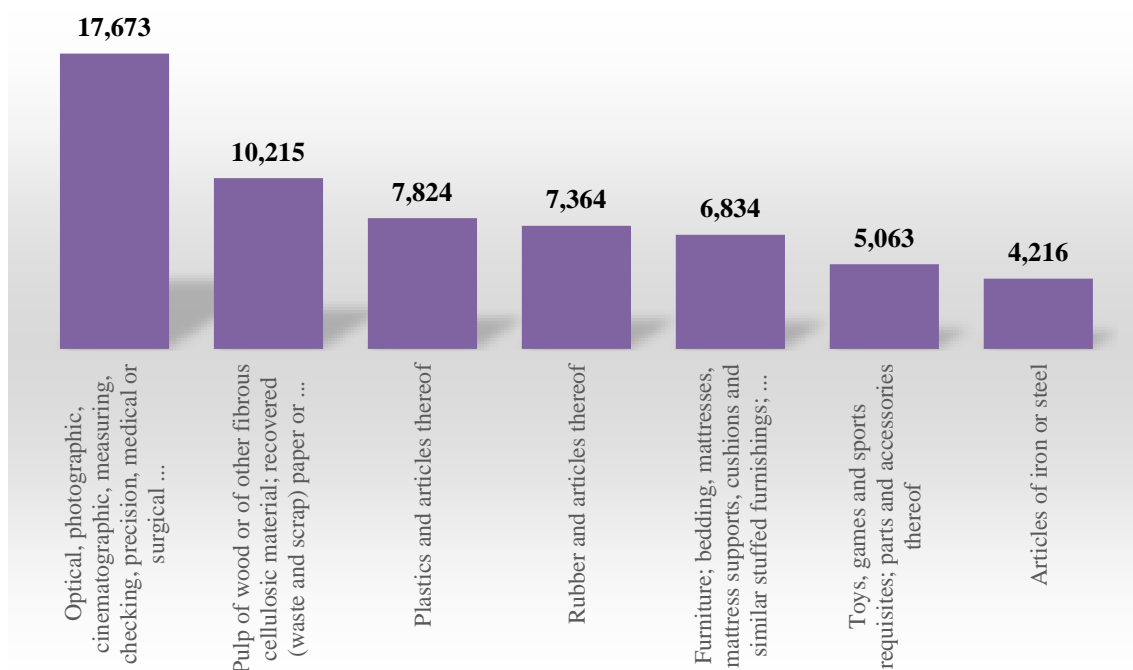
## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

**Figure 21: Czech Republic - Annual growth in the value of exports to China (2013-2017), %**



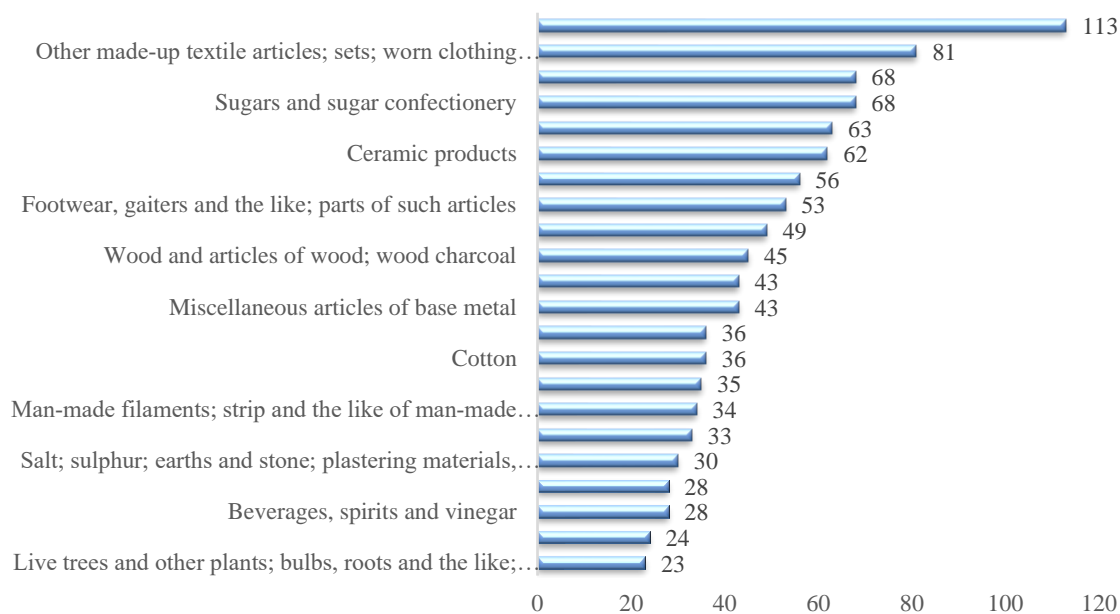
Source: adapted by the author based on Trademap data

**Figure 22: Czech Republic– Value top 10 imports from China in 2017, USD millions**



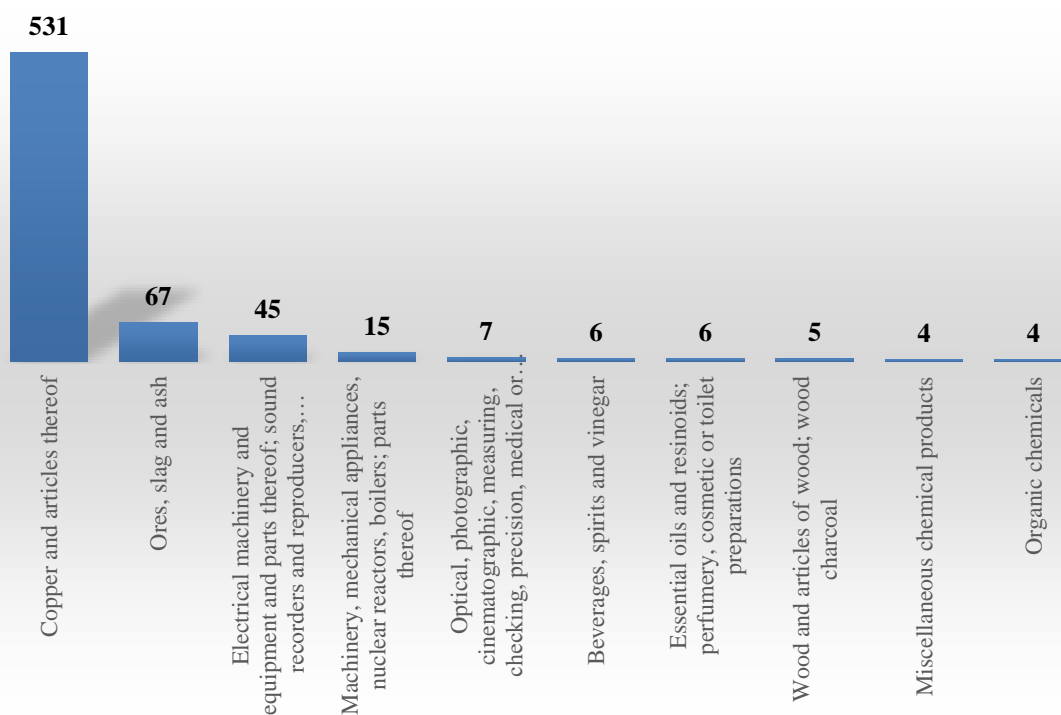
Source: adapted by the author based on Trademap data

**Figure 23: Bulgaria - Annual growth in the value of exports to China (2013-2017), %**



Source: adapted by the author based on Trademap data

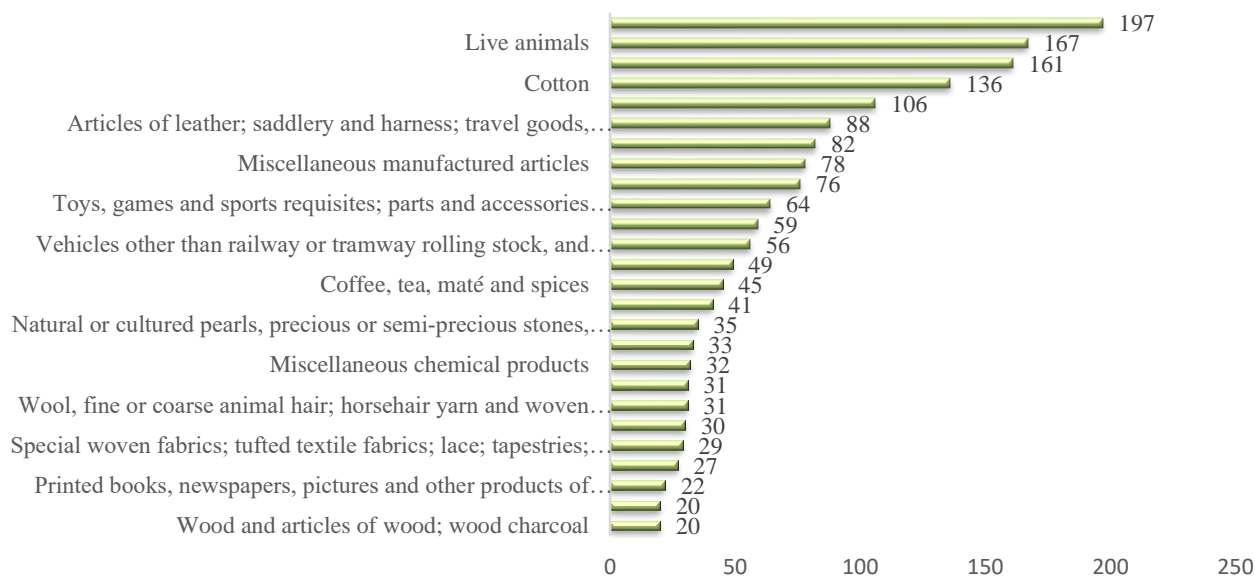
**Figure 24: Bulgaria– Value top 10 imports from China in 2017, USD millions**



Source: adapted by the author based on Trademap data

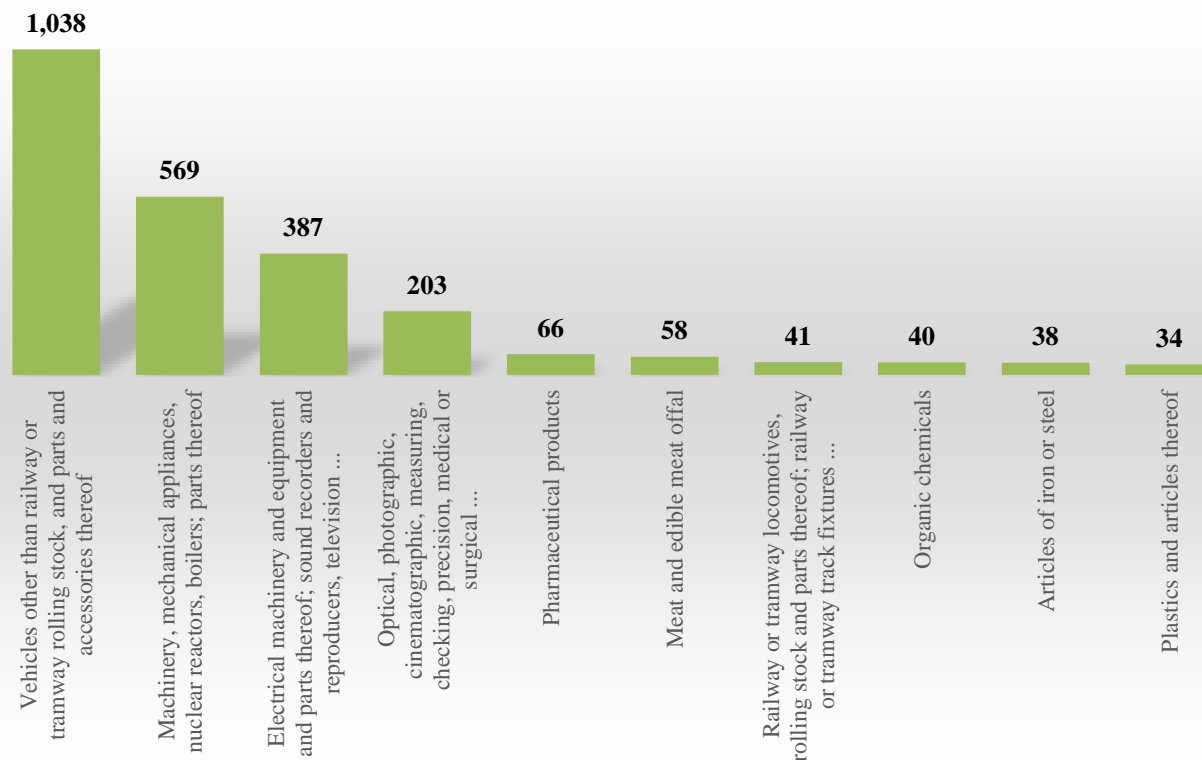
CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND  
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**Figure 25: Hungary - Annual growth in the value of exports to China (2013-2017), %**

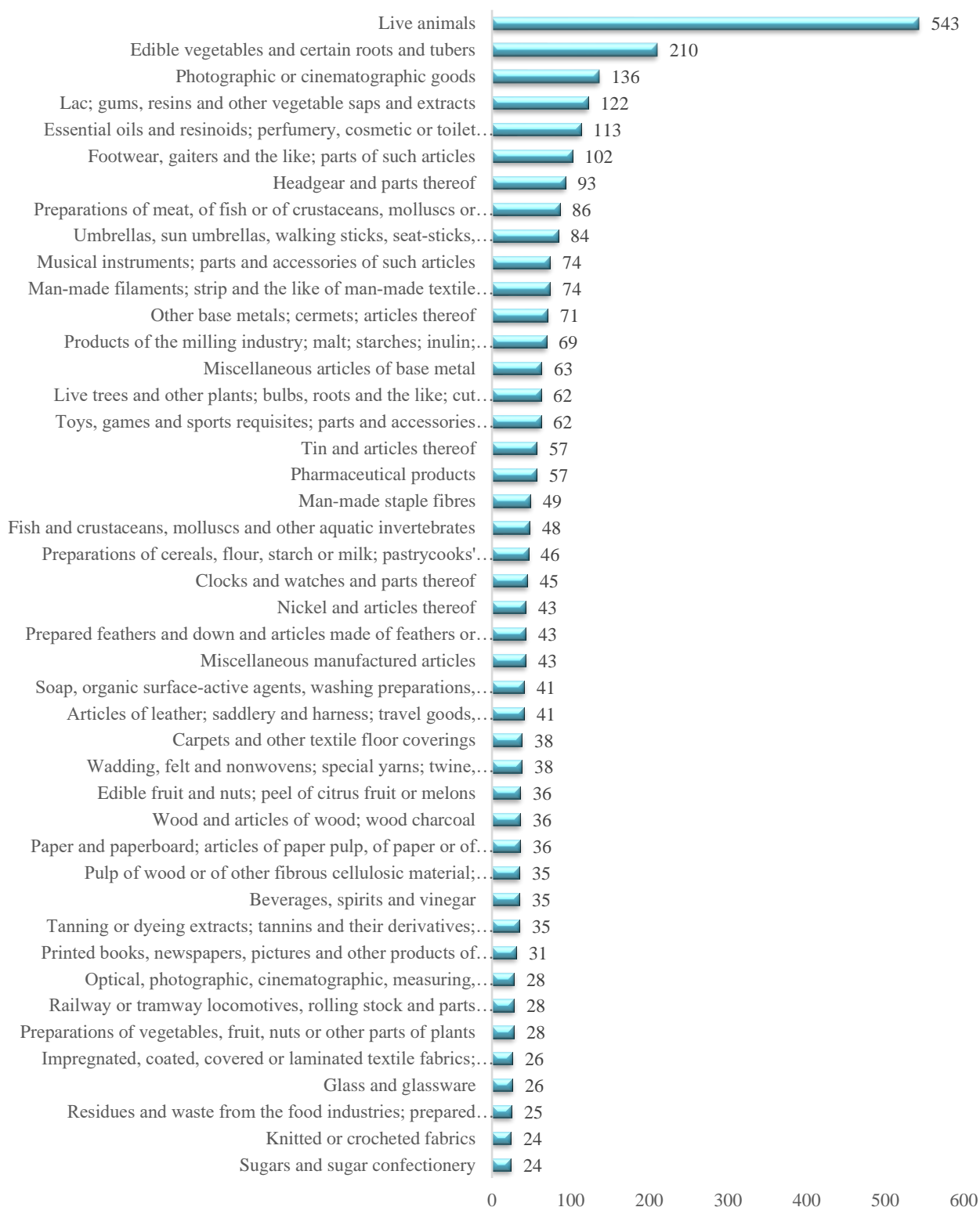


Source: adapted by the author based on Trademap data

**Figure 26: Hungary– Value top 10 imports from China in 2017, USD millions**



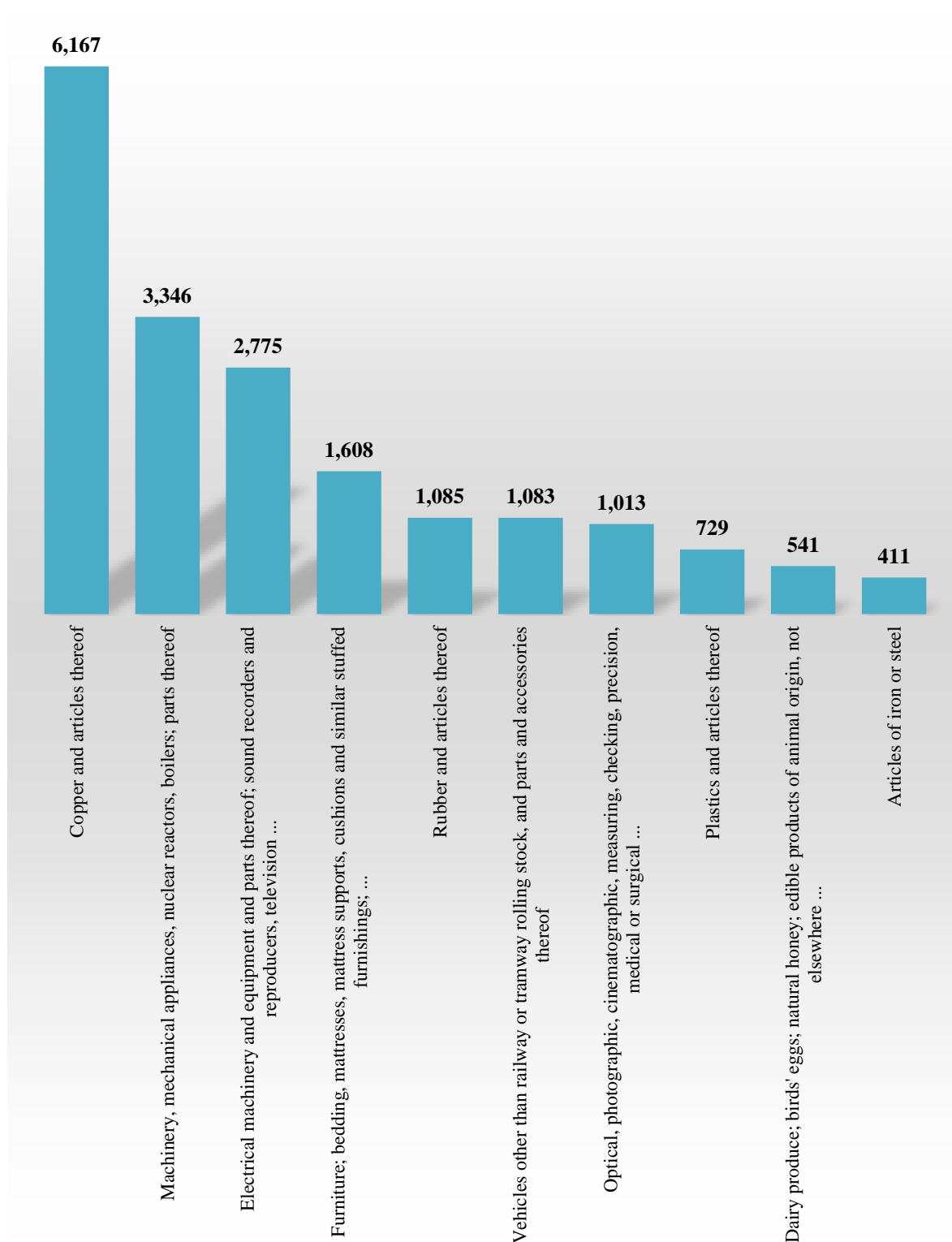
Source: adapted by the author based on Trademap data

**Figure 27: Poland - Annual growth in the value of exports to China (2013-2017), %**

Source: adapted by the author based on Trademap data

CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND  
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**Figure 28: Poland– Value top 10 imports from China in 2017, USD millions**



Source: adapted by the author based on Trademap data

### ***Analysis on the Trade Structure and Trade Elasticity in China and Central Europe***

CEE countries face a number of challenges ahead in terms of integrating their products in global supply chain so as to maintain their market shares. Additionally, within the process of further integration in the European Union, those member states such as Romania that aim to adopt the single currency, face an additional pressure on their potential trade gains. China on the other hand has become increasingly integrated into global value chains, and presents rising comparative advantages in sectors that it has traditionally dominated, such as manufacturing. This section aims to detail some of these specific considerations with the view of potential integration on both sides in global value chains.

#### *Trade specialization in CEE and China: the role of global value chains*

The revealed comparative advantage (RCA) is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows<sup>97</sup>. It is based on the Ricardian comparative advantage concept. A recent report from OECD<sup>98</sup> investigates the role played by services in global value chains (GVCs) by looking at patterns of specialization and gains in terms of productivity and employment. According to the OECD assessment of the revealed comparative advantage countries have today, China has an overall revealed comparative advantage in both manufacturing and services.

If one looks at China for example, the GVC income RCA tells a different story. The construction sector was not an industry where China had a revealed comparative advantage in exports of value-added, but it has a strong RCA because value-added from other industries ending up in final demand for Chinese construction services is now included. It is likely that inputs from the manufacturing sector, such as construction materials, are now making a significant contribution in terms of domestic value-added in addition to the value-added coming from the construction sector itself.

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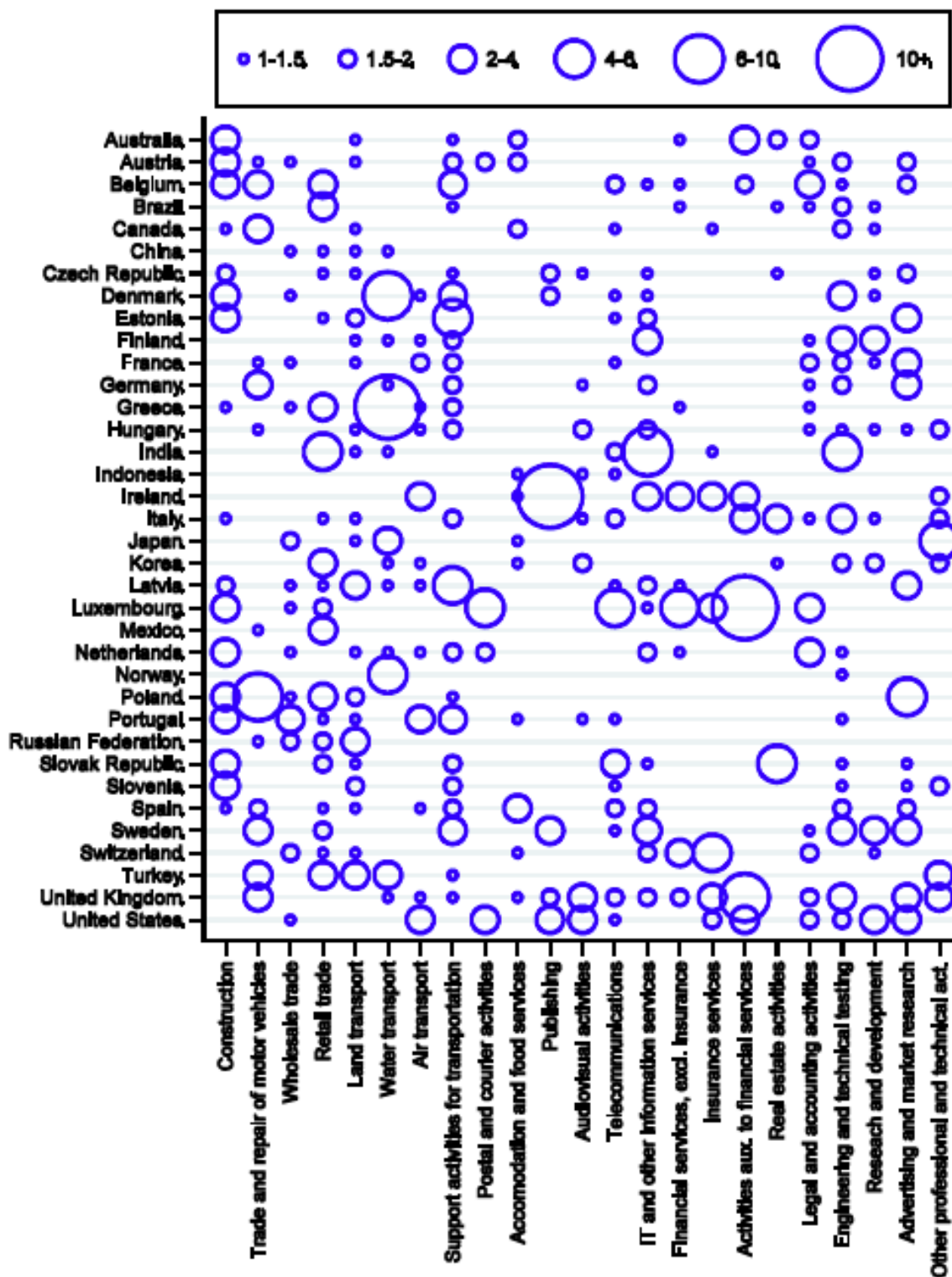
<sup>97</sup> B. Balassa, „‘Revealed’ comparative advantage revisited: An analysis of relative export shares of the industrial countries, 1953–1971”, in *The Manchester School*, 45 (4), pp. 327-344.

<sup>98</sup> S. Miroudot, and C. Cadestin, „Services in Global Value Chains: Trade patterns and gains from specialisation”, in *OECD Trade Policy Papers*, No. 208, OECD Publishing, Paris, available at: <http://dx.doi.org/10.1787/06420077-en>.



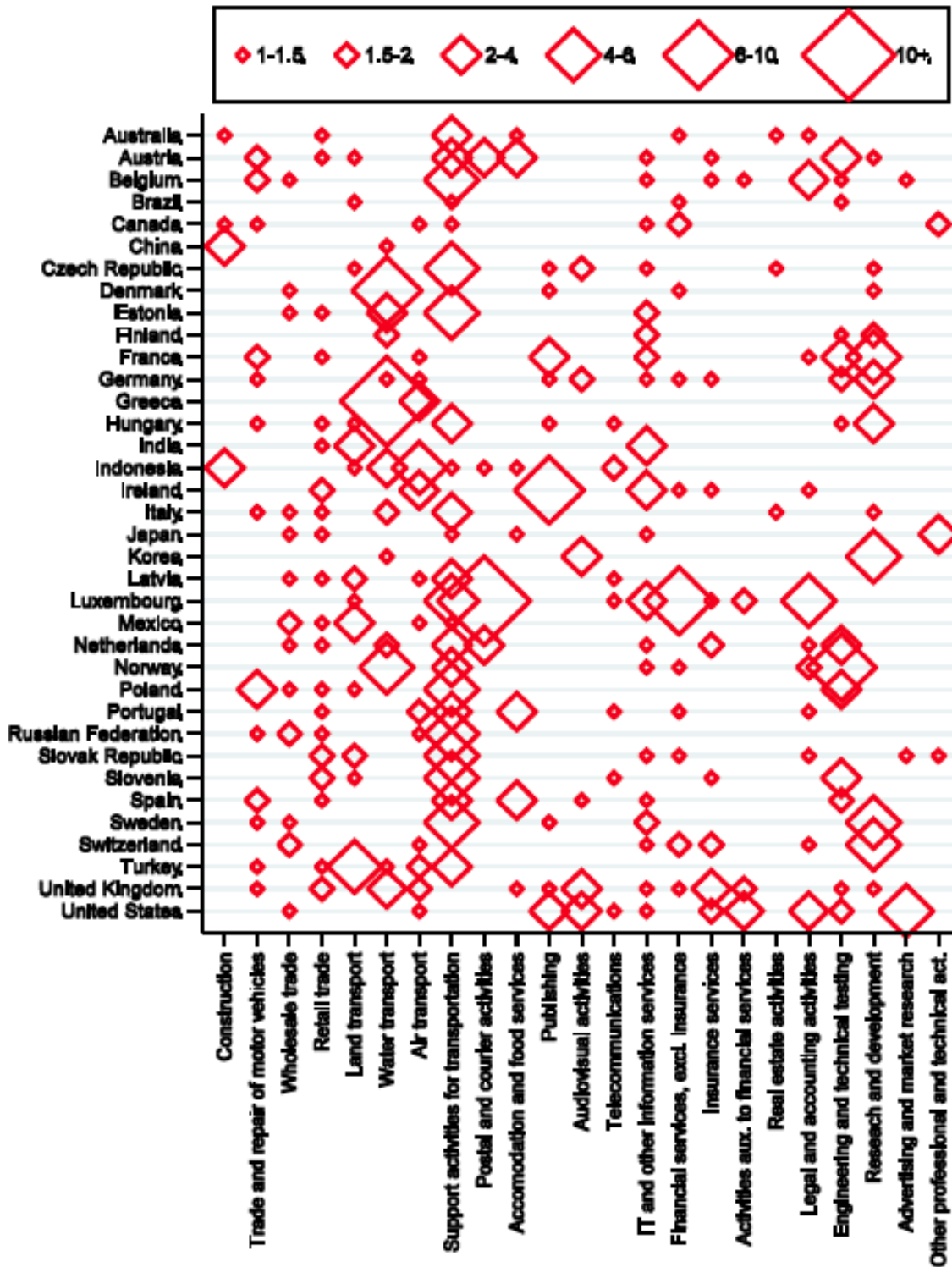
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Figure 29: Value-added export RCA in services



Source: Miroudot, S. and C. Cadestin (2017).

Figure 30: Value-added export RCA in services, by country



Source: Miroudot, S. and C. Cadestin (2017).

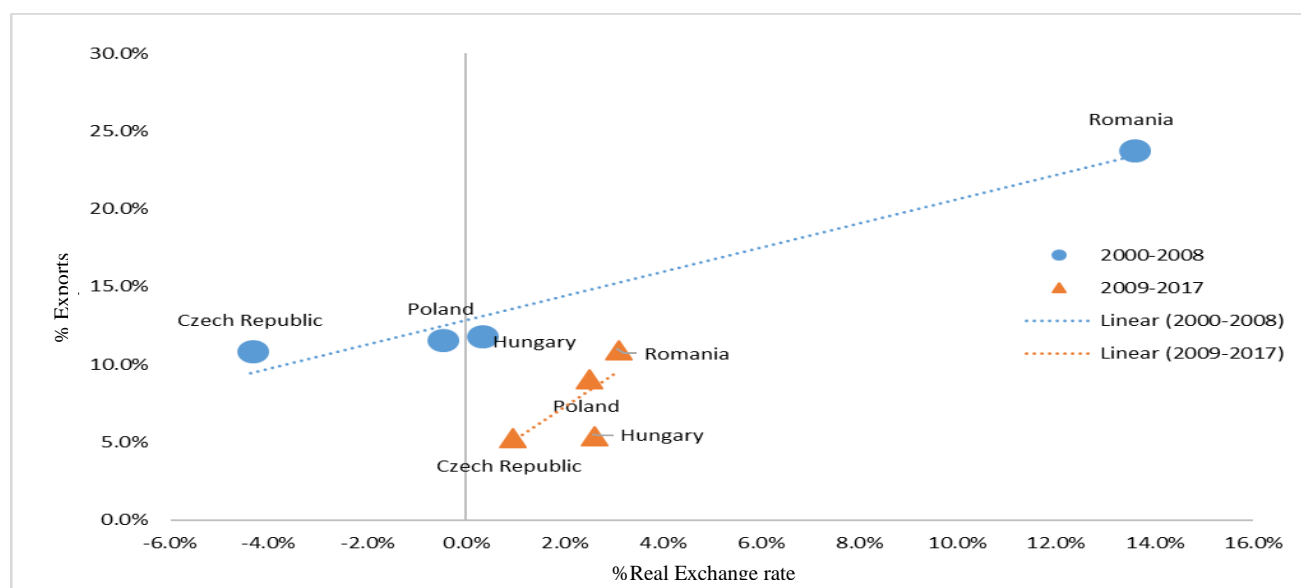
# CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

## *Challenges ahead for CEE countries: exchange rates and trade elasticity*

The CEE countries are currently faced with a dilemma in terms of potential trade gains. If they adopt the euro, their trade competitiveness might fall in the context of losing exchange rate leverages. However, should they wish to be a part of the “first-speed” Europe, some of them will most likely initiate the process of entering into the Euro Zone (i.e. Bulgaria and Romania).

A recent study from the Bucharest University of Economic Studies (ASE)<sup>99</sup> looks at the relationship between trade balances in some of the CEE countries and the variations of their real exchange rates (RER) in order to assess trade elasticity in this region. It is thus showed that in the post-crisis period the value of the trade elasticity coefficients increased significantly in Romania, Poland and Hungary, while in the Czech Republic it remained relatively constant. Overall, this development was due to the depreciation of the national currency in nominal terms, but also against the background of the reduction of the inflation differential against the euro area. At the same time, for the recovery of exports and the balancing of the trade balance, especially in the first years after the economic crisis, the exchange rate seems to have been an important tool.

**Figure 31: The relationship between the annual average change in the real exchange rate and the average annual change in exports**



Source: Ștefan (2018).

<sup>99</sup> George Ștefan, *Trade balance and real exchange rates in CEE*. Working paper

Thus, depreciation of the national currency can be considered to have contributed to the adjustment of the trade balance. Therefore, the renunciation of the exchange rate instrument when Romania will join the Eurozone will make Romania's economy more difficult to stabilize (through trade gains). This is all the more so since, in the post-crisis period, it is noted that the depreciation of the national currency contributed to the growth of exports, proving an important tool in adjusting the balance of trade balance.

Another issue for CEE countries is that of their integration into regional and global value chains. Integration in the European Union is deep on financial production and services (i.e. capital movements). The Single Market logic plays a major role in this. This is also evident from the trade that a Member State has with the other EU countries; in the case of Romania it is about 70% of the total trade. In the Eurozone, the chains are also strong in virtue of the operation of a common currency.

There are analyses of economies in Central and Eastern Europe that show a decline in net export, response to a depreciation of the course, especially where network / chain integration is strong - is the case for Visegrad Group economies compared to other European emerging economies - such as Romania, Slovenia, and the Baltic States. A recent study from the World Bank<sup>100</sup> shows the flattening of the export response function to RER in these two groups of countries between 2004-2012 and 1996-2003. This difference in net export response to the actual real exchange rate seems to be related to the level of economic development, to the insertion in some production networks.

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<sup>100</sup> A. Ahmed, M. Appendino, Mi. Ruta, "Depreciations without exports? Global value chains and the exchange rate elasticity of exports", in *World Bank Policy Research Working paper 7390*, 2015, available at: <http://documents.worldbank.org/curated/en/689841468189545684/pdf/WPS7390.pdf>.

## CHAPTER IV. Financial connectivity

### *Context*

BRI is in essence a funding project for a complex structure of infrastructure and development projects, encompassing various industries and reaching out to countries on almost all continents. The main pillars of this endeavour are the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund.

However, the issues regarding the financial perspective of the BRI are not limited to these two institutions. A brief overview of these issues leads to a non-exhaustive list, such as the following.

***Table 8: The issues regarding the financial perspective of the BRI***

Currency issues	The internationalization of renminbi
	Bilateral and multilateral settlements
	Currency swaps
	Exchange rate formation mechanism
Investment issues	The funding of B&R and opportunities for joint investment
	FDI regulations
	Overseas M&A
Capital markets issues	Regulatory requirements for capital transfers and risk management
	Mutual capital markets access
	Shares and stock (daily quotas) and bonds
Payments issues	The expansion of online payment platforms: Alipay and Wechat
	Cross-border connectivity (payments): crypto and virtual currencies
	Banks and capital requirement for asset management firms
Other:	Insurance

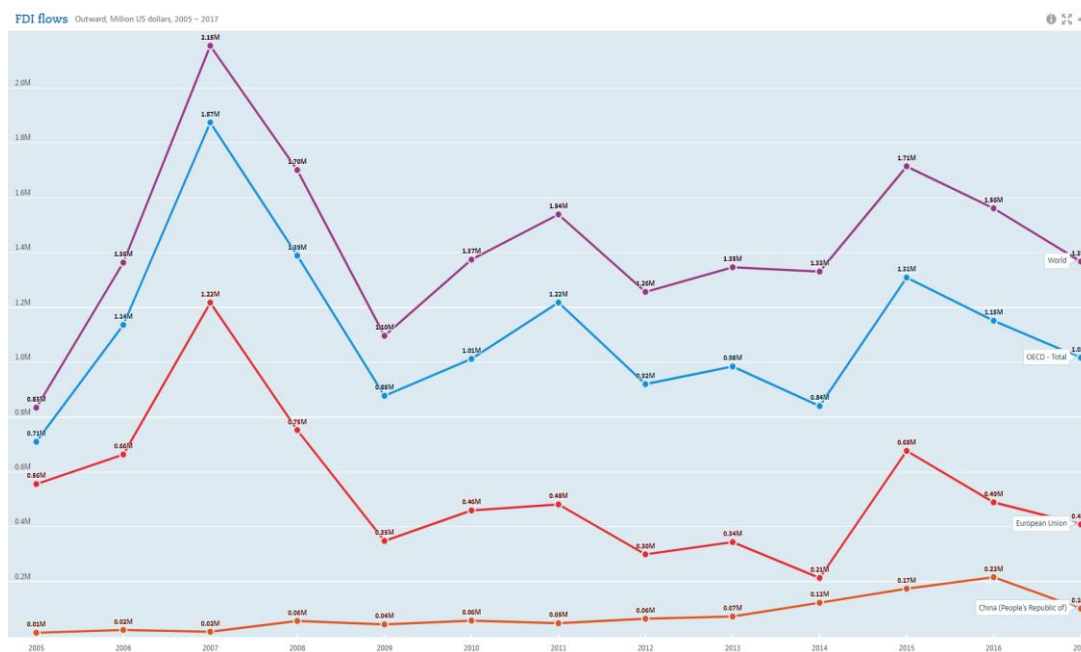
*Source: Author's own work*

The landscape increases thus in complexity and the analysis of its dynamic is ever more challenging. This briefly attempts to highlight the most relevant issues, as perceived through a European lens. The order of analysis is based on the perceived importance in the implementation of the BRI projects and requirements, as well as from a risk management perspective, the elements which have the potential to raise the most conflict.

***Investment issues. The overall global investment context for China.***

BRI is evident in the FDI outward flows at global level in the past 10 years (Figure 32). The People's Republic of China's outward investment has increased steadily over time, while the rest of the world has a more increased volatility. In terms of comparability between outward and inward (see Figure 2), the PRC is still lagging behind the European Union and the OECD, representing just a small percentage of the overall global FDI, however the trend appears to be shifting towards a growing stake of the PRC, mainly driven by the BRI. Whilst most of the FDI outflows appear to have peaked in 2006 around the time of the expansion of the European Union, the main drivers for the global FDI still are the OECD countries and the EU. There has been a slowdown in 2016 in FDI flows in PRC, due to "sluggish cross border investments"<sup>101</sup>. This particular reasons shifts the need to focus from a global perspective to a regional one, in which both the cross border actions and the Silk Road projects are increasingly relevant.

***Figure 32: FDI Flows (outward) at Global level (2005-2017)***



Source: OECD<sup>102</sup>, 2018

By the OECD definition, „Outward flows represent transactions that increase the investment that investors in the reporting economy have in enterprises in a foreign economy,

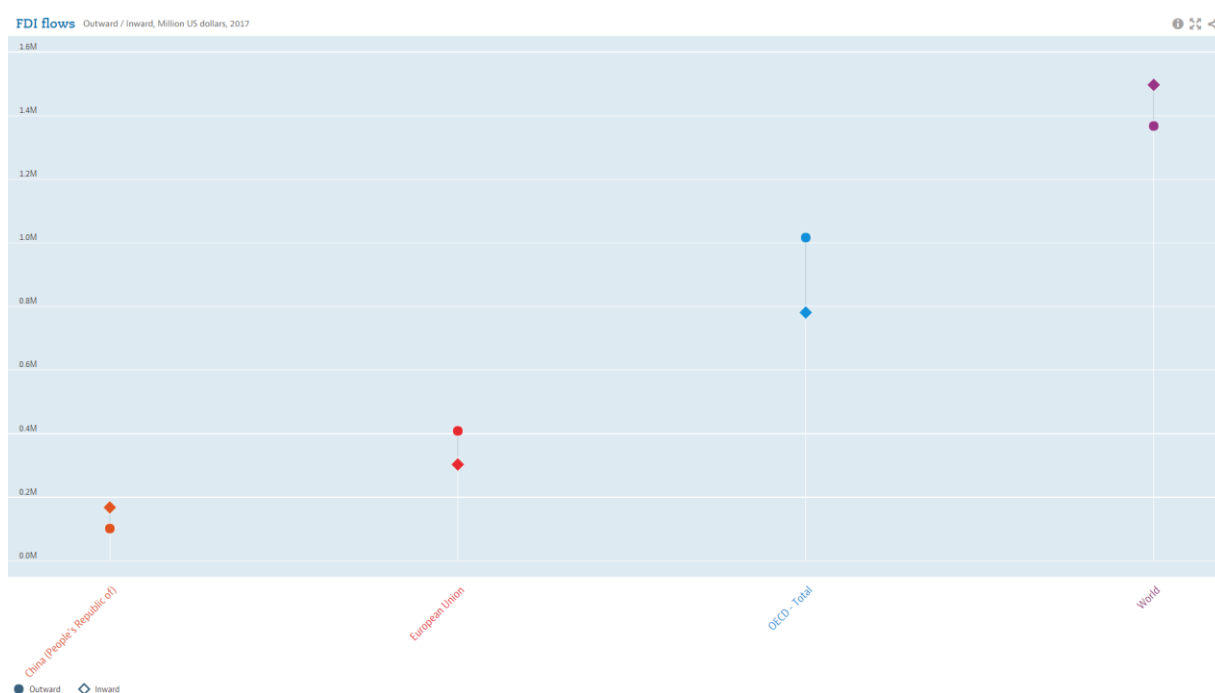
<sup>101</sup> Xinhua Silk Road Information Service, <http://en.silkroad.news.cn/2018/0104/77775.shtml>, 4 January 2018

<sup>102</sup> OECD data on FDI flows are available here: <https://data.oecd.org/fdi/fdi-flows.htm>.

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*such as through purchases of equity or reinvestment of earnings, less any transactions that decrease the investment that investors in the reporting economy have in enterprises in a foreign economy, such as sales of equity or borrowing by the resident investor from the foreign enterprise. Inward flows represent transactions that increase the investment that foreign investors have in enterprises resident in the reporting economy less transactions that decrease the investment of foreign investors in resident enterprises. FDI flows are measured in USD and as a share of GDP.”*

**Figure 33: Variable comparison between FDI flows, outward and inward, in 2017**

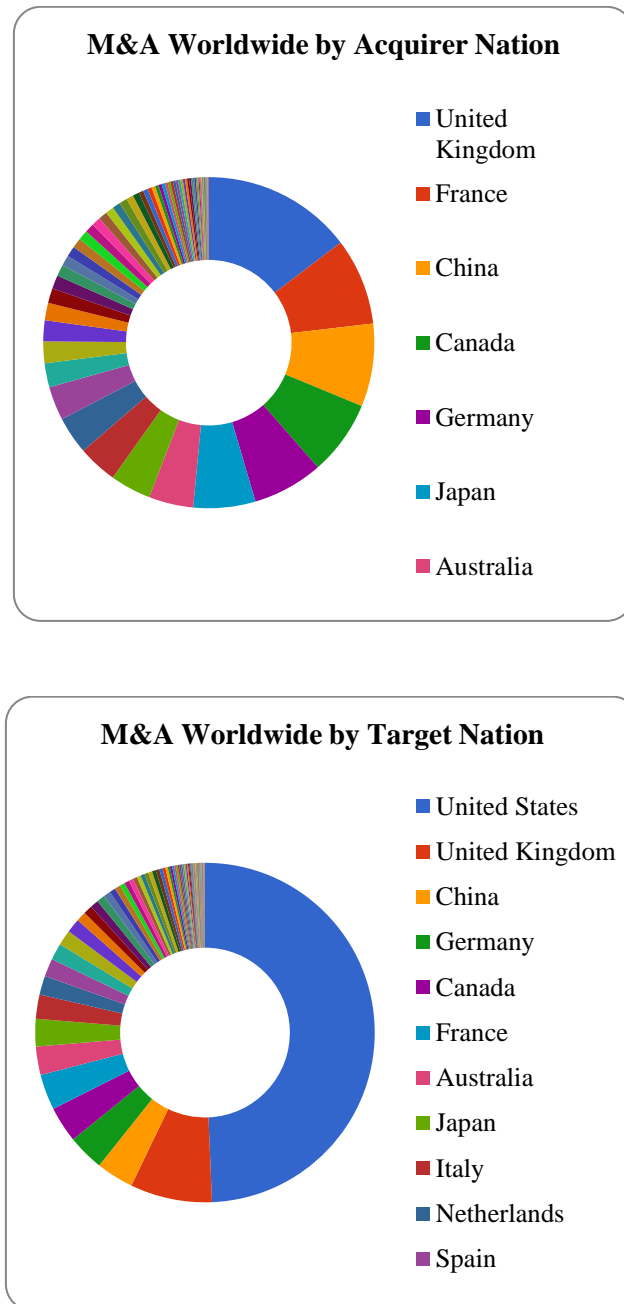


Source: OECD, 2018

This focus down approach must also be applied to the predisposition of the Chinese companies to use M&A as a know-how gathering tool and a knowledge transfer crucial element. Even if in overall FDI, PRC lags behind OECD and EU, in terms of M&A it is the third largest acquirer nation and target nation.



**Figure 34: Global M&A: target and acquirer nations, 1985-2018**



Source: IMAA Institute, 2018<sup>103</sup>

The situation is however different at regional level. A report of Bain&Company<sup>104</sup> (2018) lists China as the most important M&A driver in the South East Asia region, with a

<sup>103</sup> M&A Statistics from IMAA are available here: <https://imaa-institute.org/mergers-and-acquisitions-statistics/>.

<sup>104</sup> Chinese outbound M&A deal activity represented more than 40 percent of deals in Asia-Pacific from 2015-2017 – however share of volume decreased dramatically in 1h 2018, available at: <https://www.bain.com/about/media-center/press-releases/2018/china-mergers-and-acquisitions-report/>.



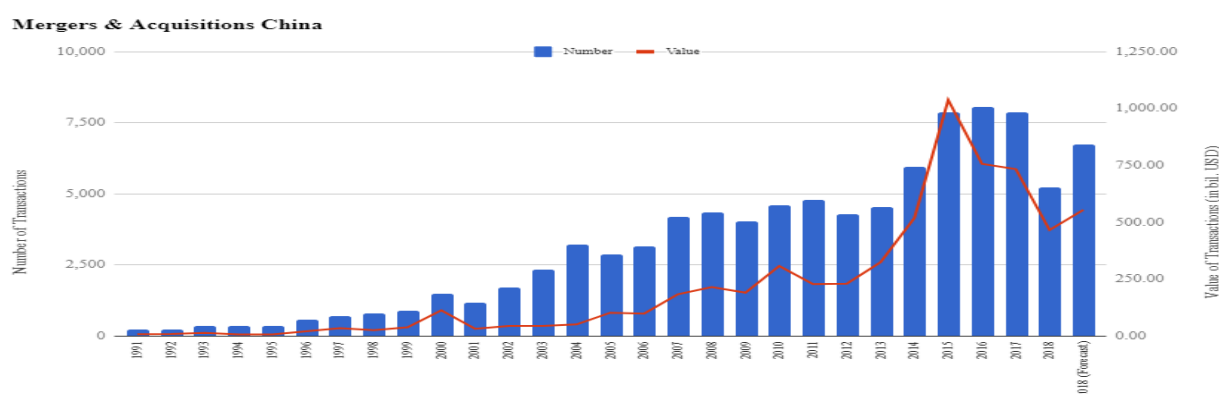
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growing share between 2015 and 2017, but with a significant drop in involvement in the first months of 2018. The decline is mostly due to a mitigation of a trade war risk, but also due to depreciation.

The regional analysis also reveals a systematization of the Chinese M&A (or FDI at large) to three different phases<sup>105</sup>: securing natural resources (particularly in Latin America, import technology (in Europe) and securing markets (both at home and abroad). This structure reinforces the idea of a Chinese long-term winning strategy, supported by a high discipline in implementation of the overall plan to reach strategic goals, which hardly any other country in the world has. Usually, the goals for a strategy in Western regimes are hindered by electoral changes and the private companies usually fail to fall behind a large national strategic plan.

Returning to the regional aspects of China's M&A, there are a few aspects to consider. The trend has been overall, in the past 30 years, ascending, with significant changes after 2005-2008, when the value of both inward and outward deals has increased (see Figure 35). There is a preference for deals made in December (the reason may be the time pressure to wrap up the year and report the total value of deals). The structure of the M&A deals between 2000-2016 appears to support the idea of outward waves of M&A, with the largest industry being financials and more than 70% of the value of the deals in that specific period coming from: financials, materials, industrials, real estate, energy and power and high tech (see Figure 36).

**Figure 35: The number of deals and value of M&A in China and Hong Kong between 1991-2018**



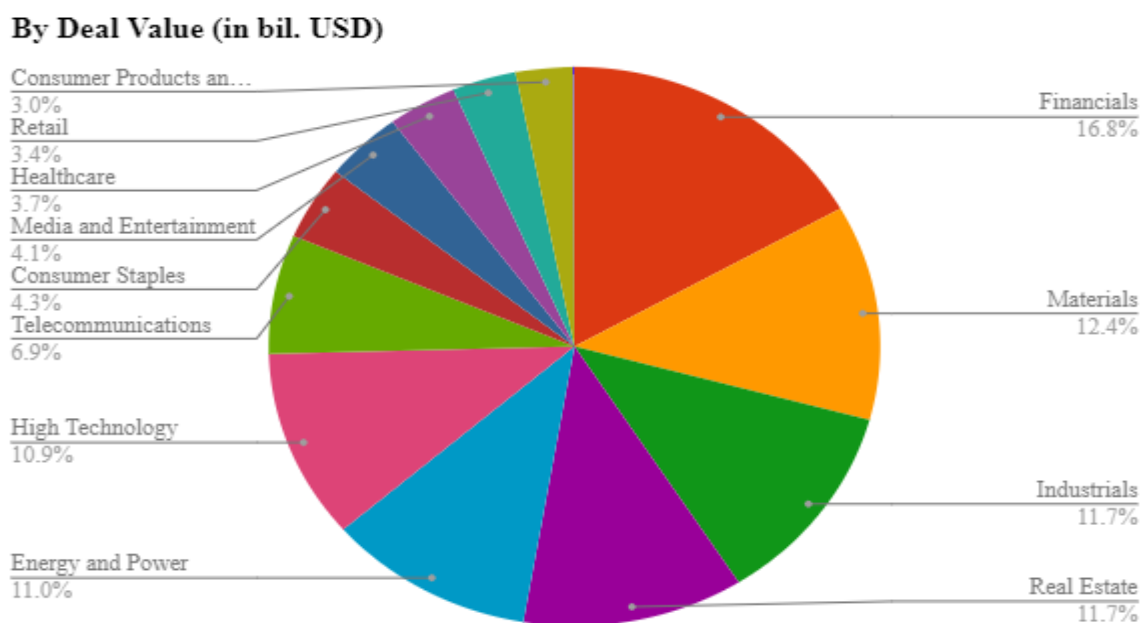
Source: IMAA Institute, 2018<sup>106</sup>

<sup>105</sup> *More Rigor Means Better Results in China's Global Pursuit*, available at: <https://www.bain.com/insights/more-rigor-means-better-results-in-chinas-global-pursuit/>.

<sup>106</sup> M&A Statistics from IMAA.

The largest outbound completed deals are the acquisitions of EDF Energy-UK by Investor Group (PRC) for 6.9 billion Euro in 2010, Repsol YPF Brasil SA by China Petrochemical Corp (PRC) for 5.2 billion Euro (2010), Xstrata Peru SA by MMG South America Management (HK) for 5.2 billion Euro (2014), Strategic Hotels and Resorts Inc (US) by Anbang Insurance Group Co Ltd (PRC) for 5.6 billion Euro (2016), Standard Bank Group Ltd (South Africa) by ICBC (PRC) for 3.9 billion Euro (2009) and General Electric Co-Appl Bus (USA) by Qingdao Haier Co Ltd (PRC) for 4.1 billion Euro (2016). There are larger transactions listed as pending such as Hilton Worldwide Holdings Inc (USA) by HNA Tourism Group Co Ltd (PRC) or Ingram Micro Inc by Tianjin Tianhai Invest Co Ltd (PRC). In the case of Hilton, HNA Tourism became a major shareholder in 2016, but announced in April 2018 a potential exit<sup>107</sup> via the sale of more than 75% of their share. This potential exit comes after a series of acquisitions the parent company of HNA Tourism (a conglomerate with interests in various industries from aviation to financials) has made (over 50 billion in 2 years), which have led to the need for restructuring.

**Figure 36: The Deal Value of China and Hong Kong M&A between 2000-2016 – by industry**



Source: IMAA Institute, 2018<sup>108</sup>

<sup>107</sup> China's HNA to sell Hilton stake in secondary offering, available at: <https://www.reuters.com/article/us-hilton-worldwide-secondary-offering-hn/chinas-hna-to-sell-hilton-stake-in-secondary-offering-idUSKBN1HG1KX>.

<sup>108</sup> M&A Statistics from IMAA.

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In terms of inbound deals (TOP 10 in terms of value in the past 20 years), the main partners are Singapore and the United States: Investor Group (Thailand) takeover of Ping An Insurance Group Co (PRC) – 7.2 billion Euro (2012), Bank of America Corp (USA) takeover of China Construction Bank Corp for 5.6 billion Euro (2005), DBS Group Holdings Ltd (Singapore) acquisition of Dao Heng Bank Group (Guoco) (HK)) – 6.4 billion Euro (2001), Mayon Investments Pte Ltd (Singapore) and AS Watson Holdings Ltd (HK) – 4.1 billion Euro (2014), QCBC Pearl Ltd (Singapore) and Wing Hang Bank Ltd (HK) -3.5 billion Euro (2014), PSA Corp Ltd (Singapore) and Hutchinson Port Holdings Ltd (HK) for 3.6 billion Euro (2006), the takeovers of ICBC (3.1 billion Euro – 2005) and Focus Media Holding Ltd (2.7 billion Euro – 2012) by US Investor groups. It is easily noticeable that from data provided by IMAA<sup>109</sup>, in the top 10 deals of the past 20 years, both inbound and outbound, there is no deal with Europe at large, or with the European Union. Securing the global markets via a rigorous and systematic approach appears to be the rule of the game for China, however there is certain volatility and risk involved in these pursuits. See here the issues regarding the Chinese investments in Zambia (with sometimes public opposition to the growing level of investments, talking about a new ‘colonization’<sup>110</sup>. Similar behaviour has been noticed in Sierra Leone, which announced in October 2018 the withdrawal from a deal that was supposed to build a 400 million \$ airport by Chinese companies<sup>111</sup>. And yet another example comes from South Eastern Europe and the volatile relation of China with Bosnia, to be detailed in the next section.

The issue may however be blown out of proportions, as China more often than not fails at transparency, allowing for its casting in the role of “big bad wolf”. That has been highlighted by Brautigam, of Johns Hopkins University, quoted by the Economist<sup>112</sup> on a study which has revealed that in the case of acquisitions of land by Chinese firms in Africa, the media reported a total of 5.5m hectares, while corroborated facts have shown only 63,400 hectares.

Starting from research into how internationally-ranked firms decide on how to place an international investment, Ramasamy, Yeung and Laforet<sup>113</sup> find that state-controlled Chinese

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<sup>109</sup> Institute for Mergers, Acquisitions and Alliances.

<sup>110</sup> Muna Ndulo, *Chinese Investments in Zambia*, available at: [http://saipar.org/wp-content/uploads/2013/09/Ndulo\\_Chinese-Investments-in-Zambia.pdf](http://saipar.org/wp-content/uploads/2013/09/Ndulo_Chinese-Investments-in-Zambia.pdf).

<sup>111</sup> *One of Africa's poorest countries has pulled the plug on a \$400 million China-funded airport*, available at: <https://qz.com/africa/1419253/sierra-leone-cancels-400-million-china-airport-loan/>.

<sup>112</sup> *What China wants*, available at: <https://www.economist.com/news/essays/21609649-china-becomes-again-worlds-largest-economy-it-wants-respect-it-enjoyed-centuries-past-it-does-not>.

<sup>113</sup> B. Ramasamy, M. Yeung, M., S. Laforet, „China's outward foreign direct investment: Location choice and firm ownership”, in *Journal of world business*, 47 (1), pp. 17-25.

firms are attracted to countries with significant natural resources and risky political environments, see Latin American and African countries. The authors argue that this is because China-controlled state-owned companies rely heavily on the relationship between the Chinese government and the host country as a basis for investment decisions. The risk of nationalization and non-repayment of contracts may be reduced if the investment is based on the support of the government of the country of origin as well as on political affiliations and links between China and other governments in developing countries. This gives Chinese companies a comparative advantage over Western companies that are less interested in getting into high-risk markets (see also O'Neill<sup>114</sup>, analysing the behaviour of state-owned Chinese companies operating in Kazakhstan).

### ***The European connection***

For 15 years, between the European Union and China there has been a Comprehensive Strategic Partnership, celebrated on July 16<sup>th</sup>, 2018 at the 20<sup>th</sup> EU-China Summit, although there is an "China-EU Trade and Economic Cooperation Agreement" since 1985.

The two partners have been striving to maintain the multilateralism globally via a High-Level Economic and Trade Dialogue focused on the economic and trade relations. Even though the EU still fails to recognize China as a functional market economy, there is acknowledgement of the 'commitments to improving market access and the investment environment, strengthening intellectual property rights and expanding imports'<sup>115</sup>.

The synergy with BRI is reinstated, particularly in terms of the 'economic, social, fiscal, financial and environmental sustainability of Europe-Asia connectivity', but the focus continues to be on principles of market rules, fairness, transparency, predictability, and open procurement, compliance with international norms and standards, intellectual property rights, binding commitments to international labour and environmental standards. The EU-China Connectivity platform (particularly relevant in transport connectivity) provides a first level of projects in need of financing, while a potential tool of the sort of the abovementioned projects is the China-EU Co-investment Fund (CECIF). Following the launch in July 2018, the European Commission has announced the first fund created under the CECIF, backed by the

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<sup>114</sup> D. C. O'Neill, „Risky business: The political economy of Chinese investment in Kazakhstan”, in *Journal of Eurasian Studies*, 5 (2), pp. 145-156.

<sup>115</sup> *Joint statement of the 20th EU-China Summit*, available at: [https://eeas.europa.eu/delegations/china\\_en/48424/Joint%20statement%20of%20the%2020th%20EU-China%20Summit](https://eeas.europa.eu/delegations/china_en/48424/Joint%20statement%20of%20the%2020th%20EU-China%20Summit).

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European Investment Fund for Strategic Investments (EFSI), China Development Bank, China's Silk Road Fund and the French Bpifrance. Cathay Capital<sup>116</sup>, as is the name of this fund, has managed to raise 600 million Euro (of an overall target of 1.2 billion Euro) for mid-sized companies with high-growth potential in Europe and China, targeted at developing innovative products in high-end industries, healthcare, consumer goods and business services. This goal strengthens the assumption mentioned earlier by Bain&Co that the investment in Europe is particularly linked to knowledge development, technology and know-how transfer.

Between EU and China there are at three major multilateral investment agreements: "International Convention for Settlement of Investment Disputes (ICSID Convention)" (settling disputes between foreign investors and recipient country), "Multilateral Investment Guarantee Agency" (MIGA Convention) (providing for political risk mitigation in international investment) and "WTO Agreement" (actually several WTO agreements regarding international investments, although not directly referring to them, such as Agreement on Trade-Related Investment Measures, General Agreement on Trade in Services - GATS, Agreement on Trade-Related Aspects of Intellectual Property Rights, Agreement on Subsidies and Countervailing Measures, SCM Agreement).

The cooperation between China and the EU is doubled by a range of BITs (Bilateral Investment Treaties) between China and the Member States – 26 such BITs exist (exception being Ireland; Belgium and Luxembourg are in one agreement – since 1984 – terminated, since 2005 – in force)<sup>117</sup>. However, the BIT with the EU should be more encompassing than the individual BITs with Member States, as most of these date from the 1980s or early 1990s (for instance, the BIT with Romania dates from the 12<sup>th</sup> of July 1994) and reflect the needs for investment both inward and outward of each country. Also, there are significant differences from one Member State BIT to another, particularly in provisions regarding dispute settlement, standards of treatment or currency exchange, all Member States BITs covering exclusively the post-entry protection of investment.

Starting 2012, there are talks about a EU-China Comprehensive Agreement on Investment (CAI), with the Council adopting the negotiation mandate for the EU Commission in October 2013 and the first round of negotiations taking place in January 2014, while January 2016 marks the launch of the specific text-based negotiations. The 20<sup>th</sup> EU-China Summit

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<sup>116</sup> *First EU-China investment fund raises 600 mln euros for mid-sized companies*, available at: [http://www.xinhuanet.com/english/2018-08/07/c\\_137373693.htm](http://www.xinhuanet.com/english/2018-08/07/c_137373693.htm).

<sup>117</sup> The website of Investment Policy Hub is available here: <http://investmentpolicyhub.unctad.org/IIA/CountryBits/42>.

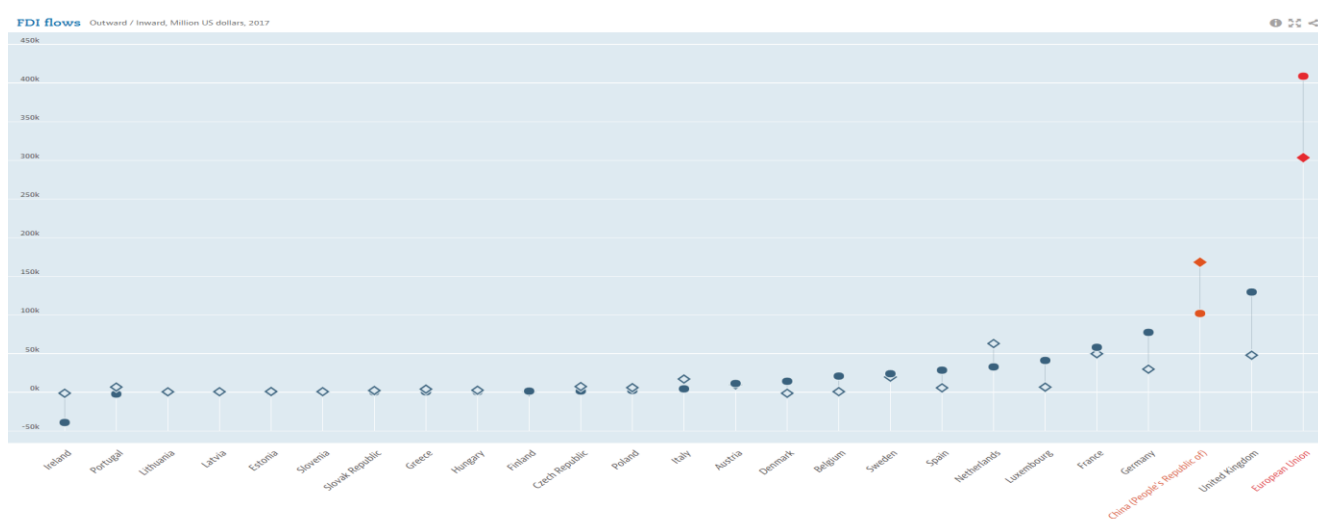
marked the first exchange of market access offers, while before, issues such as fair and equitable treatment/minimum standards of treatment, national treatment-related exceptions at the post-establishment stage, such as general exceptions and sector exclusions, licensing and authorization procedures, dispute settlement as well as EU text proposals for state-owned enterprises (SOEs) have been covered in the previous 17 rounds of negotiation.

The EU-China CAI is meant to reduce this gap, by focusing on market access provisions for the pre-entry phase (pre-entry national treatment) as well as post-entry, and also to follow the provisions of the EU investment policy as set out inter alia in the 2015 Trade for All communication.

Starting 2015, China is a direct net investor into the EU. Although the EU investment in China has decreased to less than a third from its 2013 level, as we shall see in the next analysis, the Chinese investment flows in the EU, a consequence of the BRI projects, have increased, in order to make China a net investor. The total FDI positions continue to be in the favor of the EU (168 billion Euro EU-PRC to 35 billion Euro PRC-EU).

The evolution of the FDI flows and stocks for both the EU and China is presented in Figures 6 and 7. It is easily noticeable that even with the BRI, the FDI stocks of the PRC are lower than even some EU Member States, and the flows are significantly lower than the entire EU.

**Figure 37: FDI Flows inward and outward (million USD) in China, EU and EU Member States in 2017**

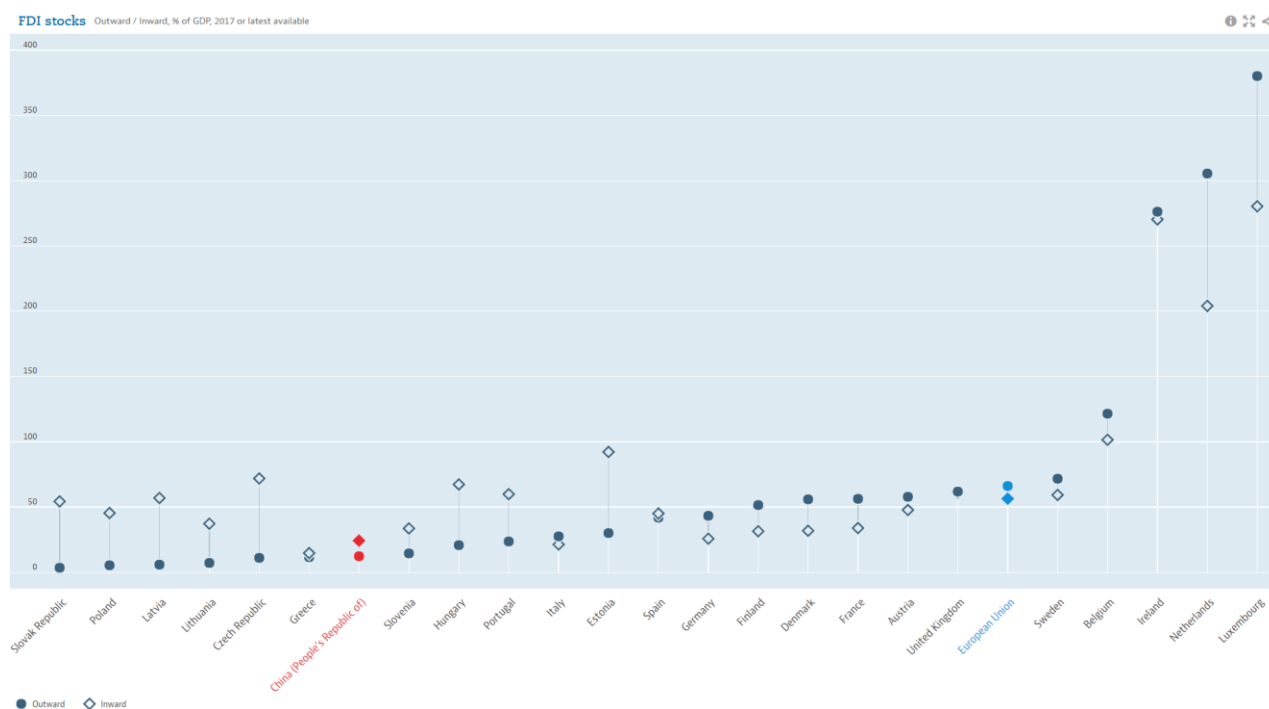


Source: OECD, 2018<sup>118</sup>

<sup>118</sup> OECD data on FDI flows.

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**Figure 38: FDI Stocks as % of GDP in China, EU and EU Member States in 2017**



Source: OECD, 2018<sup>119</sup>

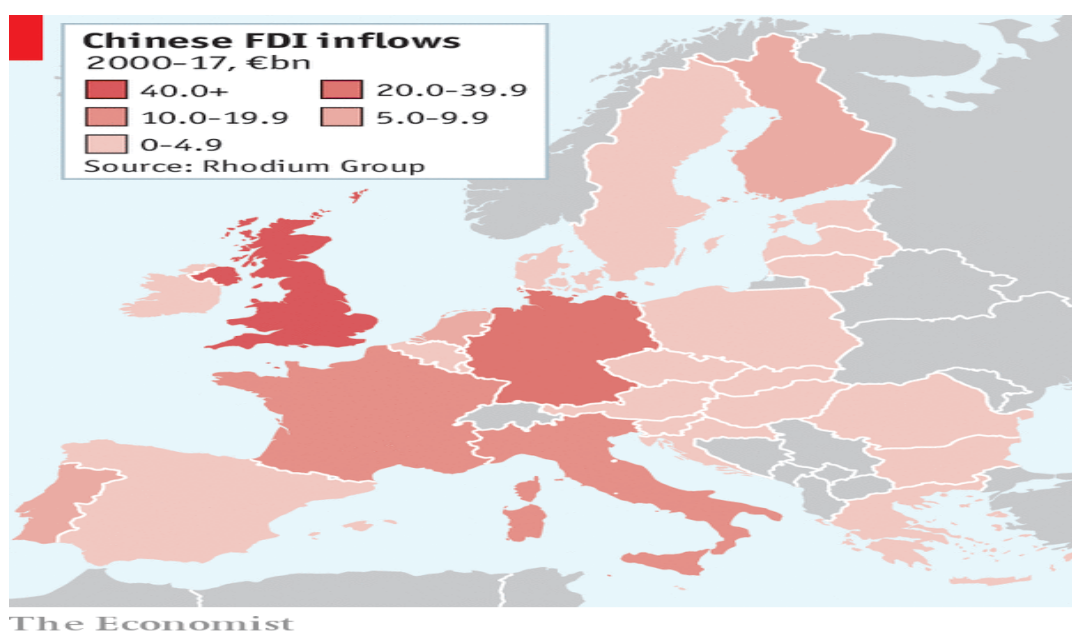
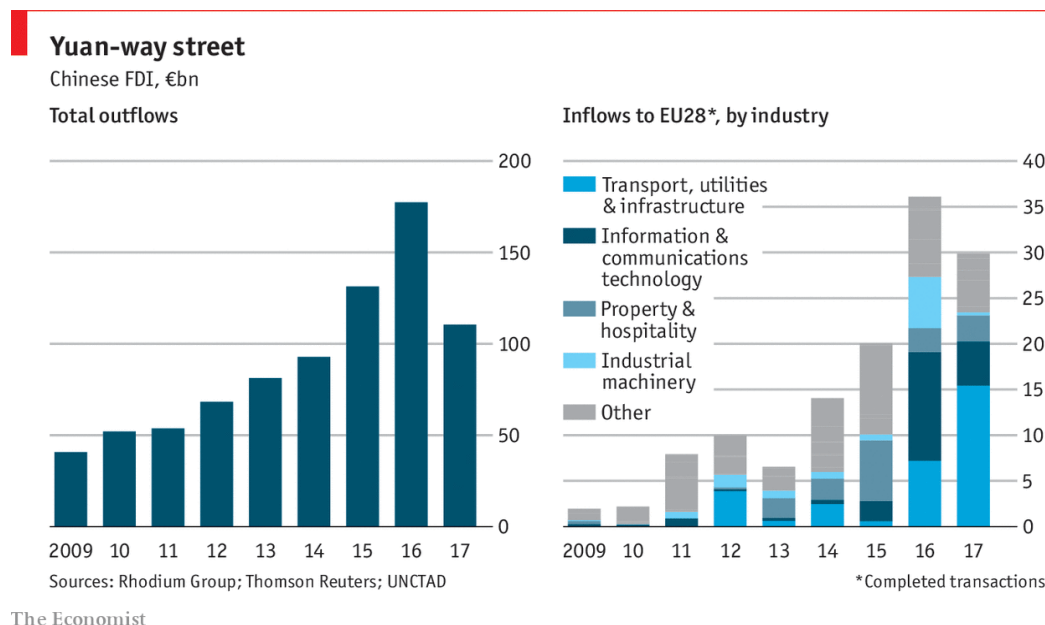
Based on the OECD definition: “The outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies. The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy. FDI stocks are measured in USD and as a share of GDP.”<sup>120</sup>

The EU28 represents almost a quarter of the Chinese FDI outflows in 2017, as shown in Figure 8, with investment almost doubling from year to year. The ongoing negotiations of the CAI and the BRI projects are the main facilitators, with experts claiming that the main reason is the geopolitical relevance of the EU as a driver for multilateralism and balance in the face of the US trial of containing the Chinese rise.

<sup>119</sup> OECD, 2018, [OECD data on FDI flows](#).

<sup>120</sup> OECD, 2018, [https://www.oecd-ilibrary.org/finance-and-investment/fdi-stocks/indicator/english\\_80ecalf9-en](https://www.oecd-ilibrary.org/finance-and-investment/fdi-stocks/indicator/english_80ecalf9-en)



**Figure 39: Chinese FDI outflows and inflows in billion Euro in CEE**

Source: The Economist, 2018<sup>121</sup>

Nonetheless, this increasing importance of China in Europe (even in the context of a slowdown in Chinese global FDI) is starting to meet with efforts, albeit still weak, to limit it, mainly in Germany and France.

<sup>121</sup> Chinese investment in Europe is increasing, available at: <https://www.economist.com/graphic-detail/2018/10/10/chinese-investment-in-europe-is-increasing>.



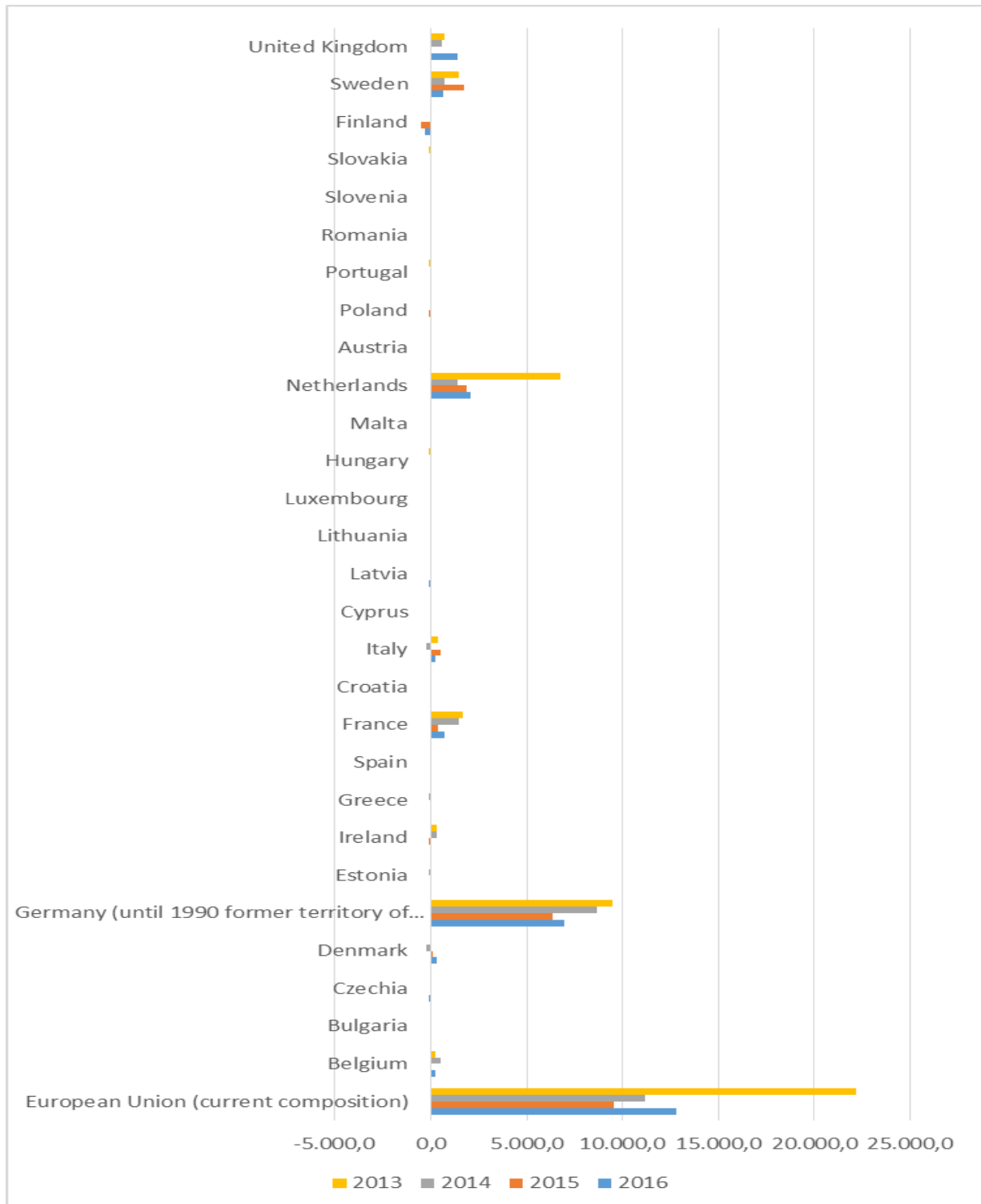
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A key partner for China in Europe has been the United Kingdom, with a push from George Osborne in the early 2010s. This partnership is also visible in the governance of the Asian Infrastructure Investment Bank, with the British representative as first Vice President and Corporate Secretary. The relation between the two countries is bound to increase in view of the Brexit.

The main contender, Germany, has seen interest sparked in high tech firms, and a raising trade flow, with China becoming the largest trading partner for Germany for two consecutive years (2016 and 2017) and the two-way investment with more than 40 billion US dollars. The efforts to limit the Chinese involvement have appeared particularly after the interest in competitive advantage generating industries, as is the case with high-tech in Germany and vineyards in France.

The structure of the flows and stocks, as well as M&A, however, reveals an interesting image. Eurostat provides data for FDI outward, which reveals that the most important partner for China in the EU in this respect is Germany. In Figure 39 is presented the Net FDI outward in 2013-2016 for Member States and overall EU in relation to China, except Hong Kong as partner. The structure for 2016 in Member States is in Figure 40. For the most important partners, the evolution for Manufacturing and Services in outward FDI is presented in Figure 11. It is easily noticeable that Manufacturing goes from being 6 times larger than services in 2013 in these “core partner” countries to being almost at par in 2016, reinforcing yet again the idea that Europe is to China a source for knowledge rather than products. No data is provided in Eurostat for Net FDI inward.

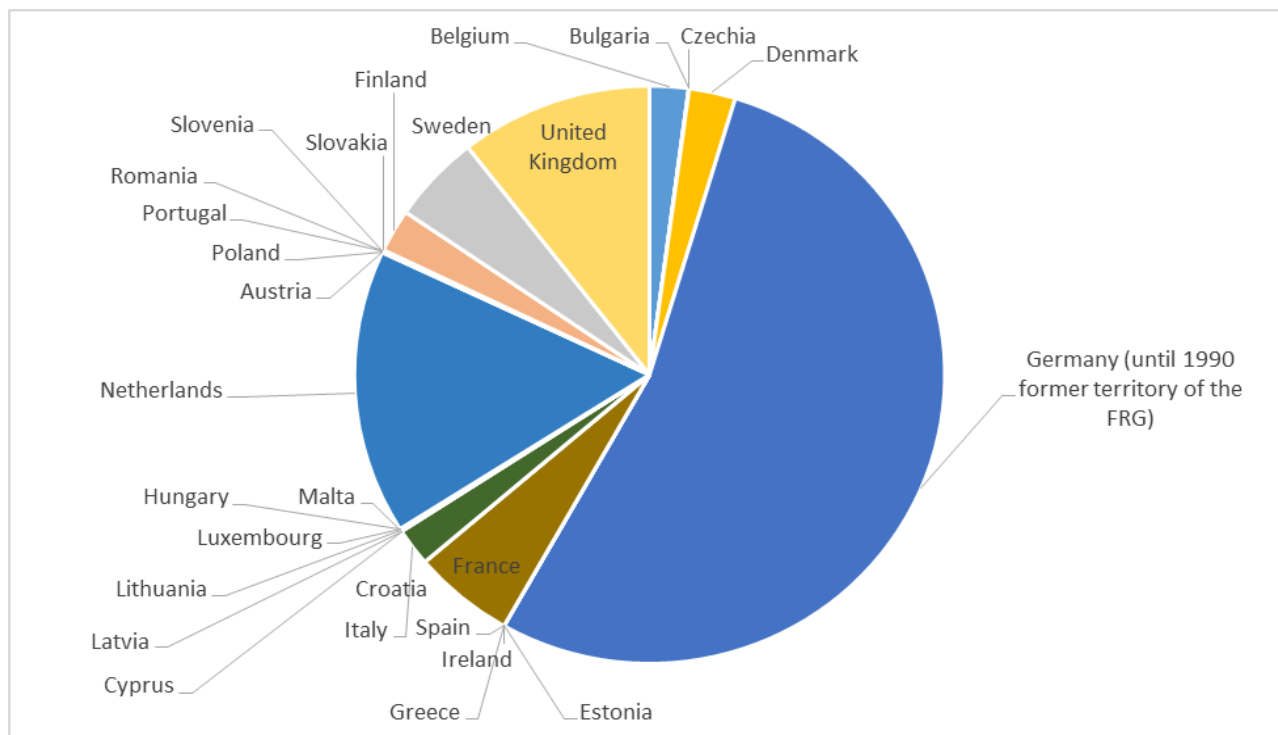
**Figure 40: EU direct investment flows, breakdown by partner country and economic activity - All FDI activities, Net FDI outward, Total, Direct investment abroad (DIA), partner: China except Hong Kong, between 2013-2016**



Source: Author's own based on Eurostat data: [bop\_fdi6\_flow]

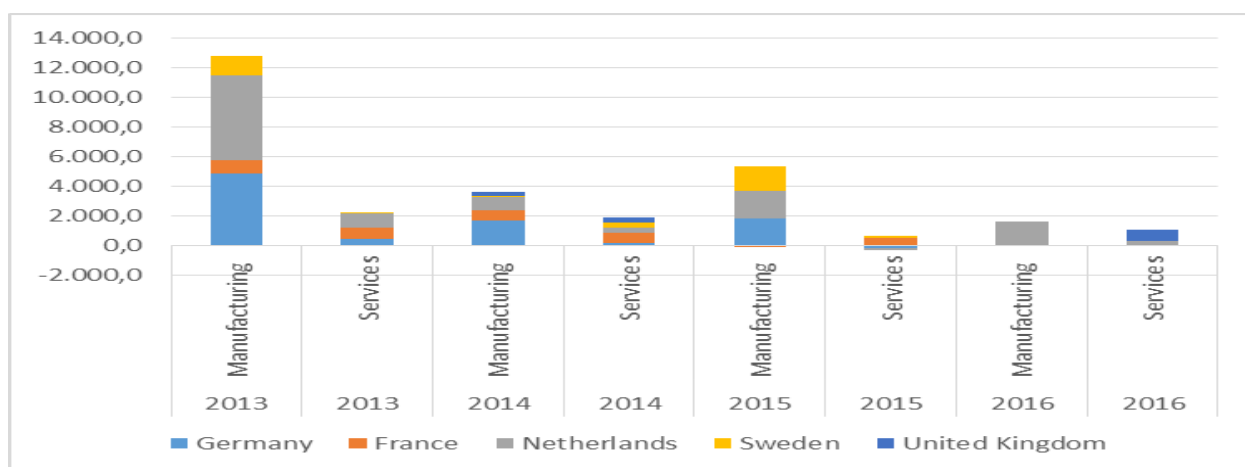
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**Figure 41: EU direct investment flows, breakdown by partner country and economic activity - All FDI activities, Net FDI outward, Total, Direct investment abroad (DIA), partner: China except Hong Kong, in 2016**



Source: Author's own based on Eurostat data: [bop\_fdi6\_flow]

**Figure 42: EU direct investment flows, breakdown by partner country and economic activity – Manufacturing and Services, Net FDI outward, Total, Direct investment abroad (DIA), partner: China except Hong Kong, in 2013-2016**



Source: Author's own based on Eurostat data: [bop\_fdi6\_flow]

The share of EU-targeted transactions in the total number of Chinese outbound cross-border M&As increased in 2017 to more than 29 % compared to 28 % in 2016. The share of

EU-targeted transactions in the number of all completed Chinese inward acquisitions was around 10 % in 2017<sup>122</sup>.

The link between China and Europe is not solely EU-based. There are significant developments in South Eastern Europe, particularly in the Balkans, with focus on infrastructure and making use of the wave of privatizations throughout the region in the post-communist years. The plans (in various stages of development) include an airport, a nuclear plant and smart city in Bulgaria, a railway Belgrade to Budapest, two nuclear reactors in Romania<sup>123</sup>. However, high volatility and political risk are linked to these investments as well, similarly to Africa or Latin America. The latest news supporting this statement comes from Bosnia and Herzegovina, with the announced withdrawal on September 2018 of Gezhouba Group and Guandong Electric Power Design Institute and Dongfang Electric Corporation Limited from the construction of the Elektroprivreda BiH thermal power plant in Tuzla. The Bosnian national electric power company took a 700 million euro loan from China's Exim bank for the plant, in what was hailed to be the largest post-war investment in the country. However, the construction failed to get approval from the Parliament of the Federation of Bosnia and Herzegovina<sup>124</sup> before the Oct 7 national elections, in order for the deal to be finalized.

Nonetheless, the economic 16+1 connection between China and the countries in Central and Eastern Europe is considered highly relevant for the BRI, in terms of trade and in which concerns investment issues. From the beginning of the 16+1 project in Warsaw in 2012, the cooperation has developed, with constantly increasing trade between the parties, and a total investment planned of 10+ billion Euro, Bosnia lists more than 100 projects, highlighting its importance and the relevance of the aforementioned withdrawal of the Chinese companies. But there are projects in the dozens in Slovakia (11), Hungary (47), Poland (8), and Latvia (10), in high-value added industries, such as metal manufacturing, the automotive industry, electronics and mechanical engineering, chemical, textiles, and ICT<sup>125</sup>. The investments work in an ecosystem rigorous and systematic approach, with companies such as Ningbo Westrail Supply Chain Co., Ltd., the operator of the China-Europe freight train, acquiring upstream and downstream companies in the supply chain in CEEC, such as CIS, the Polish Logistics

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<sup>122</sup> *Commision Staff Working Document on the Movement of Capital and the Freedom of Payments*, available at: <https://ec.europa.eu/info/sites/info/files/2018-capital-market-monitoring-analysis.pdf>.

<sup>123</sup> Mladen Lakic, Martin Dimitrov, Filip Rudic and Ana Maria Luca, *China's Balkan 'Gifts' Come With Strings Attached*, available at: <http://www.balkaninsight.com/en/article/china-s-balkan-gifts-come-with-strings-attached-03-19-2018>.

<sup>124</sup> *Ibidem*.

<sup>125</sup> *"16+1 Cooperation" of China and CEEC elevate B&R cooperation to new heights*, available at: <http://en.silkroad.news.cn/2018/0620/99738.shtml>.

## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

company, or establishing upstream and downstream facilities, such as the warehouse in Warsaw<sup>126</sup>.

### *Other issues*

The financial flows in the possibility of a Chinese-US trade war are to be affected as there is a probability for China to use its currency as a tool to mitigate the effects of the trade conflict. However, there are declarations from October 2018<sup>127</sup>, highlighted by the International Monetary Fund as well, which state that the probability is extremely low to non-existent, as China does not plan to engage in competitive devaluation. Nonetheless, the highly volatile trade environment fostered by the US President, Donald Trump, and the planned meeting in November 2018 with the Chinese President, Xi Jinping, may give new insights into the approximation of a like possibility. The evolution of the Euro in connection to the Yuan Renminbi in case of a competitive devaluation is subject to such a risk, especially since the link is not highly stable, as evidenced by the next figure.

**Figure 43: The Evolution of the Exchange rate between the Euro and the Chinese Yuan Renminbi (CNY) between 1 January 2013 to 20 October 2018**



Source: European Central Bank, 2018<sup>128</sup>

This risky financial environment outlook is further complicated by the technological innovations which may lead to disruptions in the global structure. The Chinese Alipay (created

<sup>126</sup> Two-way investment between China and Germany exceeds USD40 bln, available at: <http://en.silkroad.news.cn/2018/1015/114607.shtml>.

<sup>127</sup> China Won't Use Yuan as Tool to Deal With Trade War, Yi Says, available at: <https://www.bloomberg.com/news/articles/2018-10-13/china-won-t-use-yuan-as-tool-to-deal-with-trade-war-yi-says>.

<sup>128</sup> The exchange rate is available here: [https://www.ecb.europa.eu/stats/policy\\_and\\_exchange\\_rates/euro\\_reference\\_exchange\\_rates/html/eurofxref-graph-cny.en.html](https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-cny.en.html).

by Alibaba Group Holding Ltd. in 2004) and Wechat (created by Tencent Holdings Ltd. in 2005) constitute alternative payments systems which currently account for more than half of the consumer goods sold in China (as of 2016, according to Aite Group)<sup>129</sup>. This boost is connected to the increasing number of global transactions via payments systems such as the ones provided by PayPal Holdings Inc., Apple Inc. and Alphabet Inc.'s Google, which represent a significant competitor to the traditional banking system, a relevant lobbyist worldwide, but particularly in the US and Europe. The relevance of banks is highlighted by the declarations in September 2018<sup>130</sup> of The Commission Vice President for Euro and Social Dialogue, who is also in charge of EU's Financial Stability, Financial Services and Capital Markets Union, Valdis Dombrovskis, who talks about the importance of the resilience of the European banks, the efforts of both EU and China to support a secure and sustainable global financial system.

Another risk for the financial connections between Europe and China comes from the decrease in individual spending of Chinese customers for luxury brands<sup>131</sup>. More related to trade, but also linked to the Chinese M&A in luxury brands, the slowdown in luxury brands consumption, due to a stronger enforcement of regulations and to a potential trade war, may actually facilitate the acquisitions of European luxury brands by Chinese companies. The most relevant example in this regard is the “shopping spree” by the Chinese textile company Shandong Ruyi Group, which has acquired in 2018 Bally International, a high-end leather accessories brand, from European investment fund JAB Holdings, following British heritage brand Aquascutum in 2017, and who also owns French fashion group SMCP, fabric specialist Taylor & Lord, and Harris Tweed manufacturer Carlway Mill<sup>132</sup>. A similar continuous M&A development strategy has been implemented by Fosun (the owner of Club Med), who is in the process to takeover Lanvin (as of February 2018), after investments into Folli Follie (Greece), St. John (US), and potentially La Perla (Italy). Baccarat (luxury crystal maker – France) has been acquired in 2017 by Fortune Fountain Capital (PRC), while BCBG Max Azria is partly owned by Global Brands Group (PRC), House of Fraser (a renowned UK brand) is owned by Sanpower since 2014, Buccellati (Italian jewelry) by Gangtai Group.

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<sup>129</sup> *Why China's Payment Apps Give U.S. Bankers Nightmares*, available at: <https://www.bloomberg.com/graphics/2018-payment-systems-china-usa/>.

<sup>130</sup> *Interview: Senior EU official calls for close EU-China cooperation in financial service*, available at: [http://www.xinhuanet.com/english/2018-09/12/c\\_137463690.htm](http://www.xinhuanet.com/english/2018-09/12/c_137463690.htm)

<sup>131</sup> *Europe's Biggest Luxury Brands Are Nervous About China*, available at: <https://www.bloomberg.com/news/articles/2018-10-18/europe-s-biggest-luxury-brands-are-nervous-about-china>.

<sup>132</sup> *Chinese consumers continue to drive global luxury M&A*, available at: <http://www.ejinsight.com/20180524-chinese-consumers-continue-to-drive-global-luxury-m-and-a/>.

### ***Conclusions***

To conclude, the Belt and Road Initiative is solely a piece of the puzzle, with experts claiming that it would be unrealistic to use it to “build an alternative world order”<sup>133</sup>.

The positioning of the EU at the crossroads between its traditional ally, the United States, the growing importance of China in the region and the increasing collaboration due to common projects and investment, is at times awkward, particularly in light of its own inner struggles, such as Brexit. Even in this context, countries such as the United Kingdom and France have not joined the plethora of Memoranda of Understanding signed with China for BRI projects. The reasons are both geopolitical and common sense, linking to the more than apparent lack of transparency of the Chinese party. This issue, transparency, alongside sustainability are lynchpins of the Sino-European collaboration, with the EU struggling to maintain its current standards for business in view of a disrupting approach by China. And this ever-changing landscape is even more affected by the contraction of Chinese FDI, the high probability of a trade war, the shifting technology and consumer behavior.

There is an increasing need of a two-way investment flow (predicted by KPMG in their 2018 China Outlook, as follows: “based on China’s current FDI and ODI trends, we expect that China will soon emerge as both the second largest destination for inbound investment, as well as the second largest source of outbound investment”) in order to prove that this “new paradigm of globalization”<sup>134</sup>, for which BRI is a key component, is not the dawn of a Chinese hegemony.

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<sup>133</sup> *China’s new world order ‘unrealistic’ if built on belt and road alone, senior US diplomatic observer says*, available at: <https://www.scmp.com/news/china/diplomacy/article/2166159/chinas-new-world-order-unrealistic-if-built-belt-and-road-alone>.

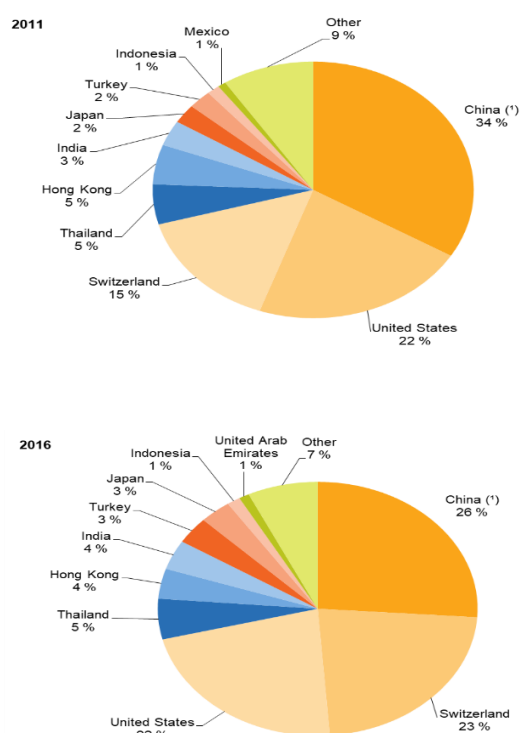
<sup>134</sup> *China Outlook 2018. A new era, a new paradigm of globalisation*, available at: <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2018/03/china-outlook-2018.pdf>.

## CHAPTER V. People to people connectivity

### *Cultural issues*

The People's Republic of China represents the most important partner in terms of extra-EU imports of cultural goods (according to Eurostat, in 2016). The importance is diminishing (from almost one third in 2011 – in films, videos, video games and consoles, 39% if we consider Hong Kong as well) to leave way to Switzerland and the United Arab Emirates. The EU collaboration in terms of international trade of cultural goods is clustered: according to Eurostat: “the EU’s top 10 partners accounted for 93 % of its cultural imports”<sup>135</sup>, therefore the game is played with these ten countries, and actually with the US, Switzerland, China (bringing almost 70% of the imports).

**Figure 44: Extra-EU Imports in Cultural Goods – per trading partner, 2011 and 2016**



Source: Eurostat, 2018, Culture statistics - international trade in cultural goods

<sup>135</sup> Culture statistics - international trade in cultural goods, available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Culture\\_statistics\\_-\\_international\\_trade\\_in\\_cultural\\_goods#Main\\_EU\\_partners\\_in\\_cultural\\_trade](https://ec.europa.eu/eurostat/statistics-explained/index.php/Culture_statistics_-_international_trade_in_cultural_goods#Main_EU_partners_in_cultural_trade)



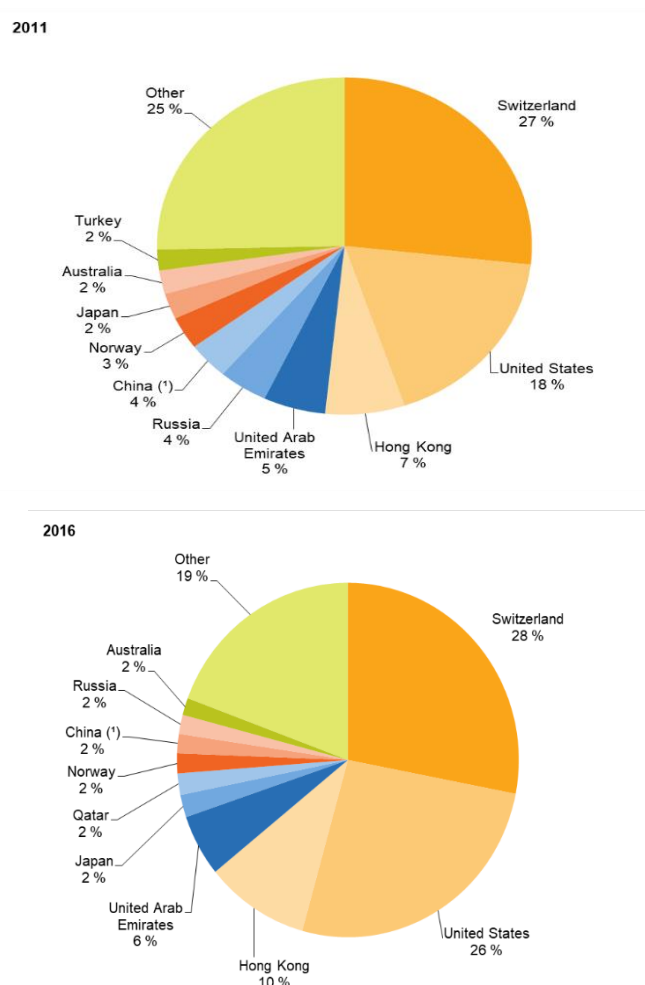
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Extra-EU cultural goods imports does not seem to follow the growing relevance of China in connection to the European Union in trade and investments. This underlines, yet again, the feeling of unbalanced development in this relationship.

The lack of equilibrium is more obvious when we look at the Extra-EU exports in cultural goods, where China's relevance is minimal and diminishing (4% in 2011 to 2% in 2016, although there is a growth in Hong Kong, so overall PRC+HK – 11% in 2011 to 12% in 2016).

This is also due to the fact that most of the cultural goods which may represent an interest to the Chinese buyer is as a matter of fact produced by a luxury company owned by a Chinese investor group (or company) (see takeovers of European luxury producers – in the Financial Perspective).

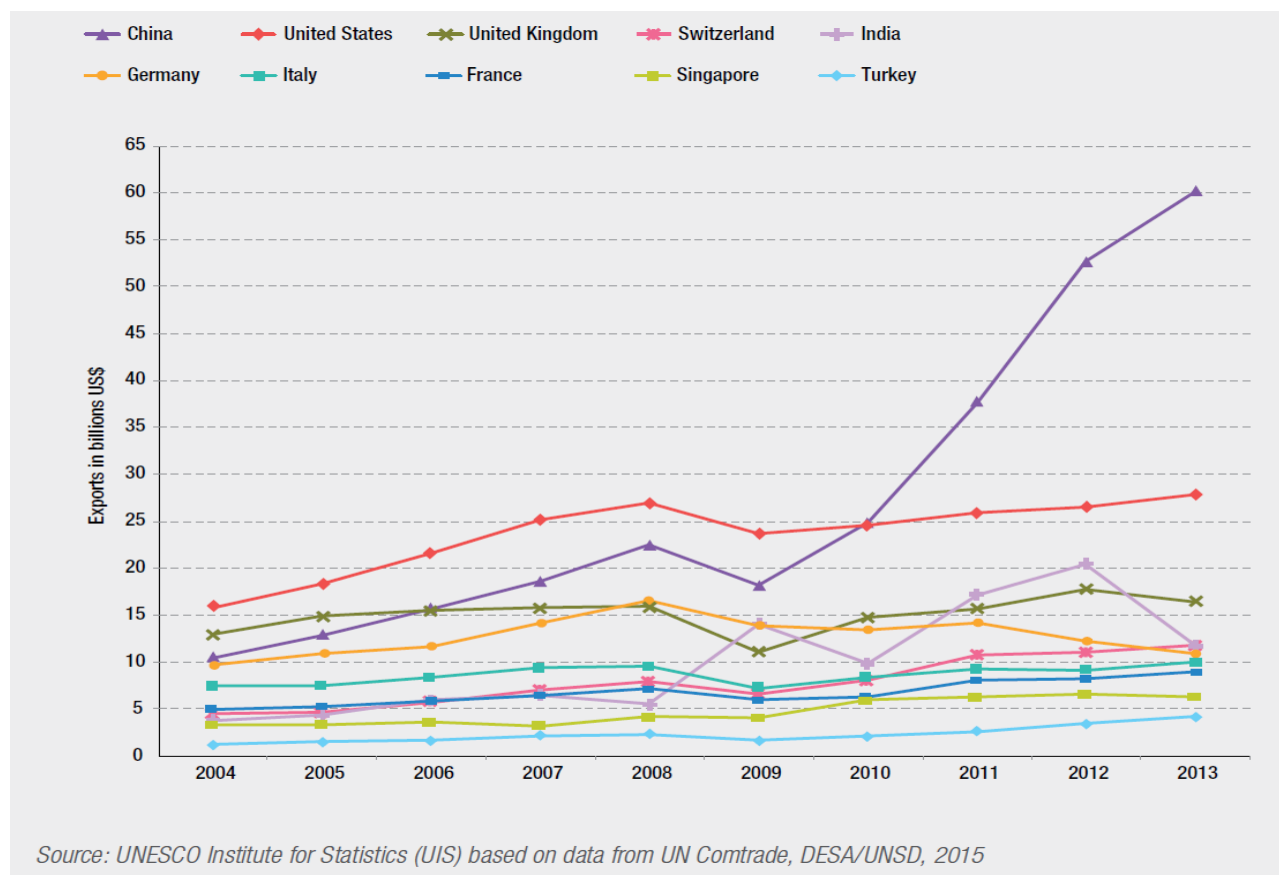
**Figure 45: Extra-EU Exports in Cultural Goods – per trading partner, 2011 and 2016**



Source: Eurostat, 2018, Culture statistics - international trade in cultural goods

China is a net exporter of cultural goods and the global leader (in an UNESCO 2016 report) there is a mention that it exports 10 times as much as it imports<sup>136</sup> and that growth is exponential.

**Figure 46: Top 10 leading exporters in cultural goods from 2004 to 2013, according to UNESCO**



Source: UNESCO, 2015

It is obvious that this exponential growth is not directly linked to BRI, as it has occurred prior to the launch of the project. However, the need for balance remains in the context of the BRI. There is a noticeable shift in this regard, as the PRC has diversified its number of partners from which it imports cultural goods, but still almost two thirds of all imports come from 10 partners and 40% come from Asia. This preference for nearby partners is evident in terms of exports as well. Almost one half of the Chinese exports of cultural goods goes to Asia, which

<sup>136</sup> *The Globalisation of Cultural Trade: A Shift in Consumption. International flows of cultural goods and services 2004-2013*, available at: [http://uis.unesco.org/sites/default/files/documents/the-globalisation-of-cultural-trade-a-shift-in-consumption-international-flows-of-cultural-goods-services-2004-2013-en\\_0.pdf](http://uis.unesco.org/sites/default/files/documents/the-globalisation-of-cultural-trade-a-shift-in-consumption-international-flows-of-cultural-goods-services-2004-2013-en_0.pdf).

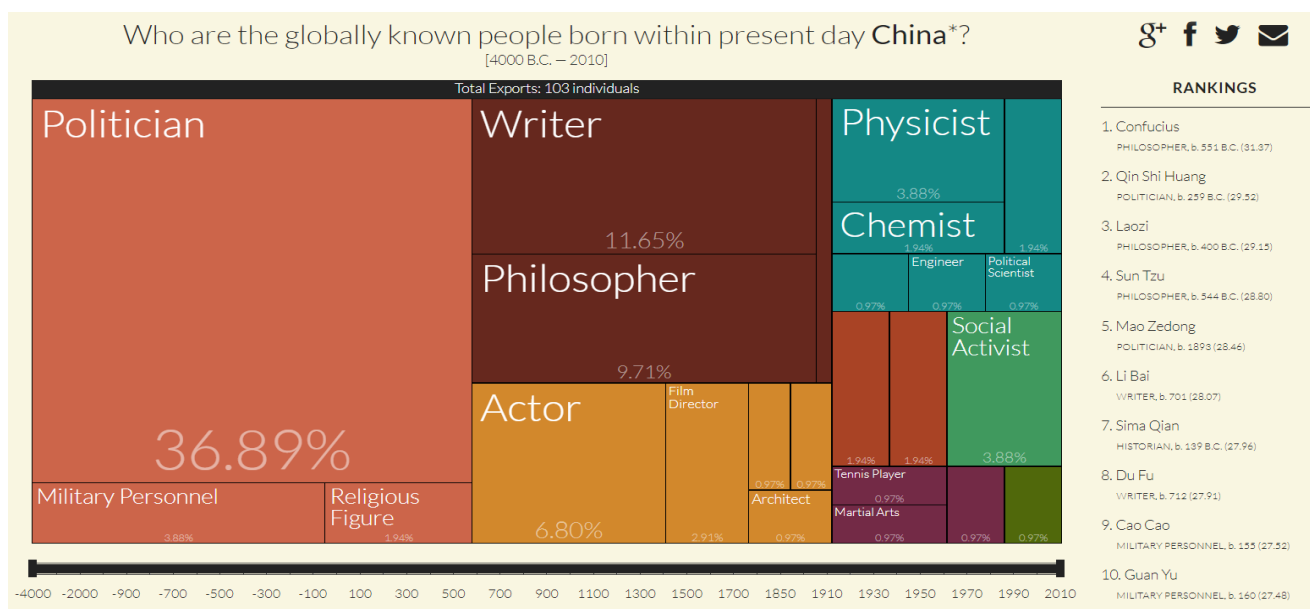
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fits the BRI specifications. The main partner outside Asia is the United States (mostly due to video games), with an increasing value of imports from China, but a decreasing share.

In terms of cultural services, that is heritage and recreational services, licenses to reproduce and/or distribute related / audiovisual products, artistic related services, news agency services, audiovisual services, architectural services, advertising, computer services, China is “not on the map”. It does not list among the top 15 importers or exporters. This is a relevant statement, as the connection of peoples takes place via cultural interactions: movies and art are crucial ambassadors to a people at global level and the current trend in cultural services does appear to support the global cultural historic relevance of China.

A shift in perception in terms of China as a true source of culture and knowledge instead of as a purveyor of disregard for intellectual property rights (even in the context of growing measures, see IPKEY<sup>137</sup>) is needed, particularly in relation to the United States of America. And cultural services are a key component in this regard. Another interesting aspect of the Chinese exports in terms of culture is portrayed by the following visualization, with the most important Chinese people globally being Confucius, Qin Shi Huang and Laozi.

**Figure 47: Globally known people born within China – 4000 BC – 2010**



Source: Pantheon, 2018, [http://pantheon.media.mit.edu/treemap/country\\_exports/CN/all/-4000/2010/H15/pantheon](http://pantheon.media.mit.edu/treemap/country_exports/CN/all/-4000/2010/H15/pantheon)<sup>138</sup>

<sup>137</sup> IP Key China website is available at: <https://ipkey.eu/en/china>.

<sup>138</sup> A. Z. Yu et al., *Pantheon 1.0, a manually verified dataset of globally famous biographies*. Scientific Data available at: [http://pantheon.media.mit.edu/treemap/country\\_exports/CN/all/-4000/2010/H15/pantheon](http://pantheon.media.mit.edu/treemap/country_exports/CN/all/-4000/2010/H15/pantheon).

A relevant element in terms of the cultural trade between the EU and China is the growing need of a common platform. Such a tool is the EU-China Cultural and Creative Industries (CCIs) platform: announced in 2011 within IPR2 - a partnership project between the European Union and the People's Republic of China on the protection of intellectual property rights in China. There is not a significant cultural cross-pollination between the two global entities: not enough joint projects to expose culture to the larger public, even if both EU and China consider cultural heritage and contemporary art and architecture as critical tools to promoting and defining identity and attracting tourists. Moreover, in the People to People context one must consider the very relevant language barrier: even in 2011<sup>139</sup>, in a mapping of the relations between the EU and China, is noticed a “the lack of qualified translators (especially from Chinese to target language) is a bottleneck for the go-global drive of Chinese culture (especially Chinese books)”, which is also noticeable in the lack of knowledge of other relevant cultural figures than the ones listed in Figure 4.

To conclude, the importance of cultural exchanges is obvious. It has been highlighted by its becoming the ‘third pillar’ of the formal relationship between EU and China in 2012 and by the need for a ‘civilizational partnership’, as proposed by President Xi Jinping in 2014.

There is need for growth and need for balance and equilibrium in these exchanges, with both partners positioning themselves as millennia-old equal civilizations.

### **Tourism issues**

The first element to consider in this brief analysis is the fact that 2018 has been designated by the two sides as the ‘China–EU Tourism Year’. This comes after a growing flow of touristic services in the past years, with China becoming a more and more popular travel destination for EU citizens and the European Union a net exporter of this kind of services in relation to the PRC. In 2015, there were 3.43 million Chinese visitors to EU countries, with approximately 2,200 Euro consumption per capita.

This growing partnership is expected to further increase<sup>140</sup>, even in the context of visa regimes. In 2016 (the latest data provided by the Eurostat), China was 8<sup>th</sup> in terms of non-EU

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<sup>139</sup> *Mapping the Cultural and Creative Sectors in the EU and China: A Working Paper in support to the development of an EU-China Cultural and Creative Industries` (CCIs) platform*, available at: <https://www.cultureinexternalrelations.eu/cier-data/uploads/2016/08/Mapping31.pdf>.

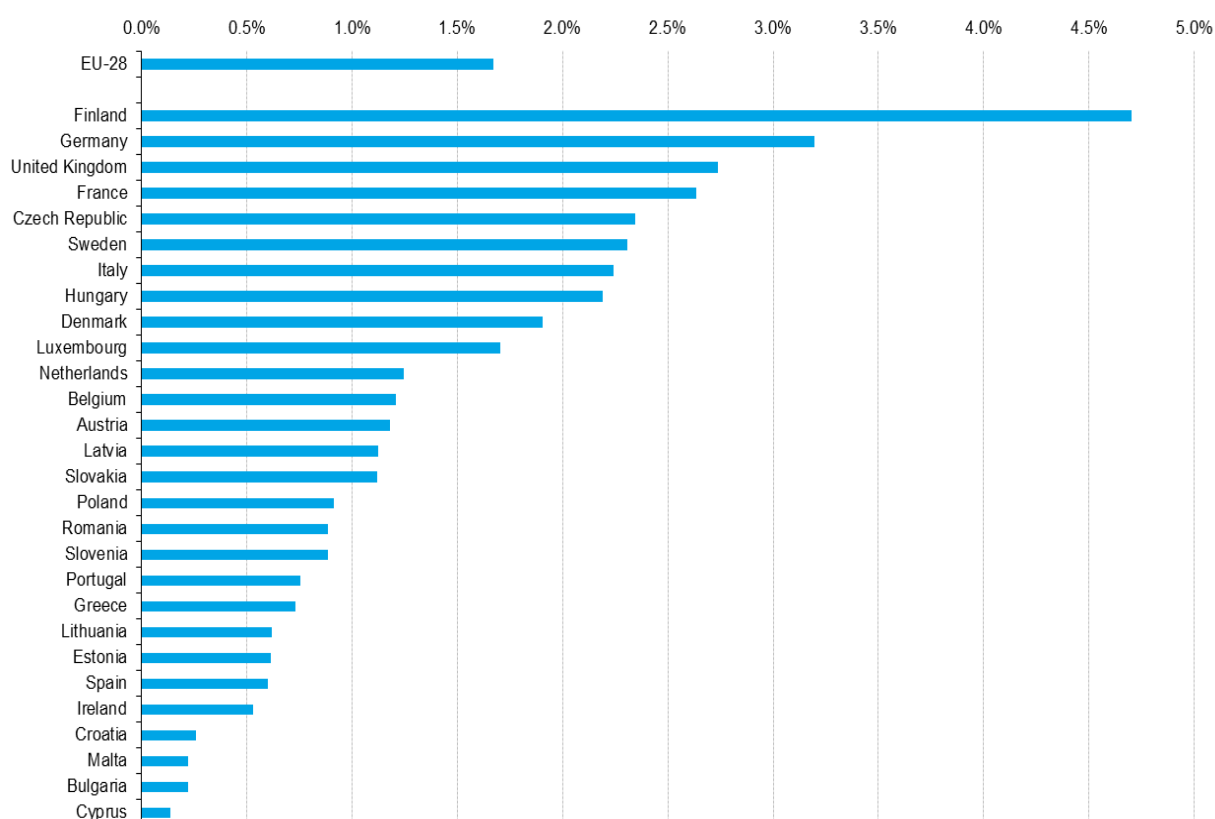
<sup>140</sup> *EU–China Economic Relations to 2025 Building a Common Future*, available at: [http://bruegel.org/wp-content/uploads/2017/09/CHHJ5627\\_China\\_EU\\_Report\\_170913\\_WEB.pdf](http://bruegel.org/wp-content/uploads/2017/09/CHHJ5627_China_EU_Report_170913_WEB.pdf).

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destinations for EU citizens, following the United States and other countries neighbouring the EU, such as Switzerland, Turkey, Norway or Russia. The Chinese tourists spend in the EU more than triple the number of nights nowadays than 10 years ago, with approximately 25 million nights in 2016. Europe represents 11-13% of the total number of outbound trips of Chinese tourists and is second after the neighbouring Asian countries. It exports 7 billion EUR in travel services and imports from China only 3 billion, and this a post-2008 development, until then the EU being a net importer.

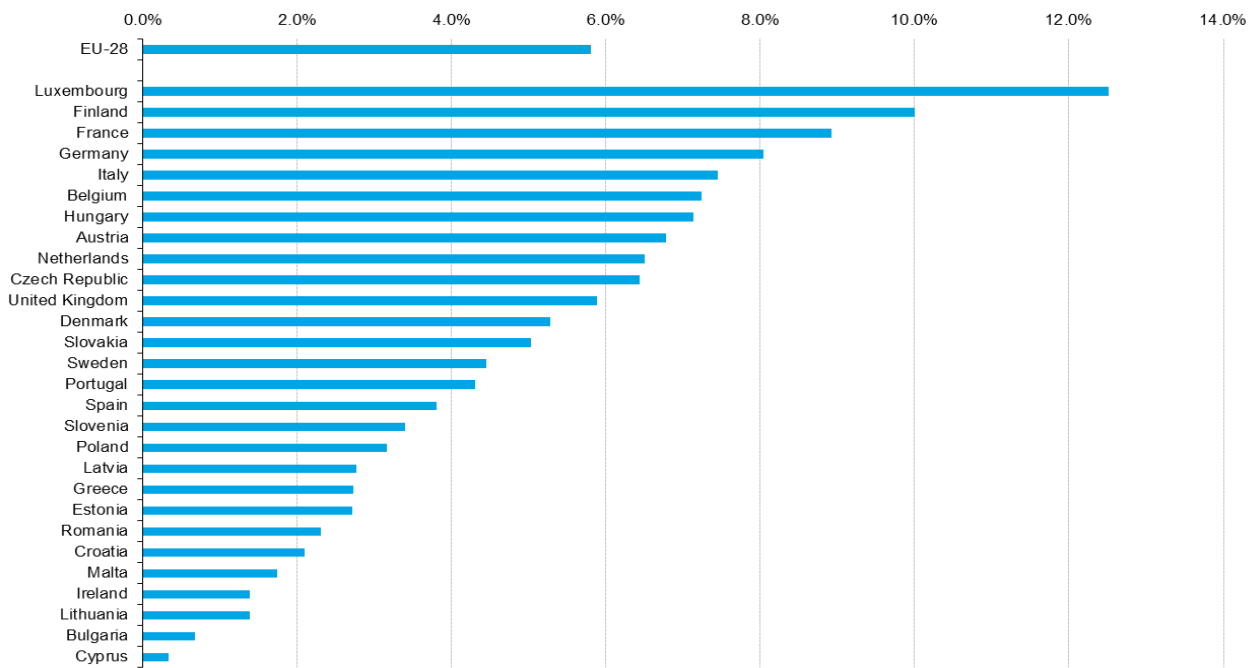
Even if the most important travel flow in the EU is represented by its own citizens, moving across borders for tourism and leisure, the largest number of nights by non-EU travellers is brought by Asian countries, with China accounting for 1.7 % of all nights spent in EU-28 countries by non-residents. Out of the total number of nights spent by non-EU tourists, Chinese account for 6%, with Luxembourg as preferred destination, as shown in the next figures.

**Figure 48: Nights spent by Chinese tourists of the total nights spent by non-residents, 2016 (%)**



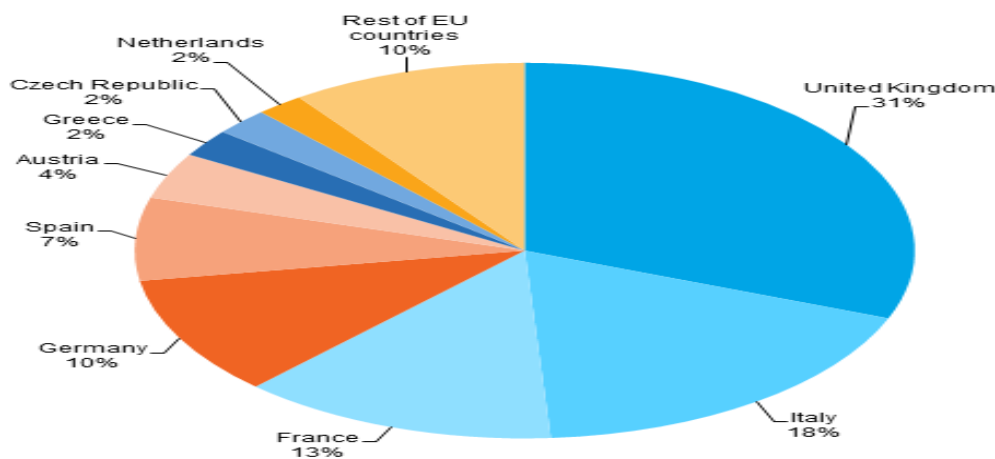
Source: Eurostat, 2018, <https://ec.europa.eu/eurostat/web/tourism/data/database>

**Figure 49: Nights spent by Chinese tourists of the total nights spent by guests from outside the EU, 2016 (%)**



Source: Eurostat, 2018, <https://ec.europa.eu/eurostat/web/tourism/data/database>

**Figure 50: Tourism nights spent by residents of China in EU-28, 2016 (%)**



Source: Eurostat, 2018, <https://ec.europa.eu/eurostat/web/tourism/data/database>

## CONNECTIVITY-RELATED PROJECTS IN EUROPE AND CHINA: OPPORTUNITIES AND CHALLENGES TO INCREASED SYNERGIES

The Chinese traveller to the EU has certain characteristics<sup>141</sup>:

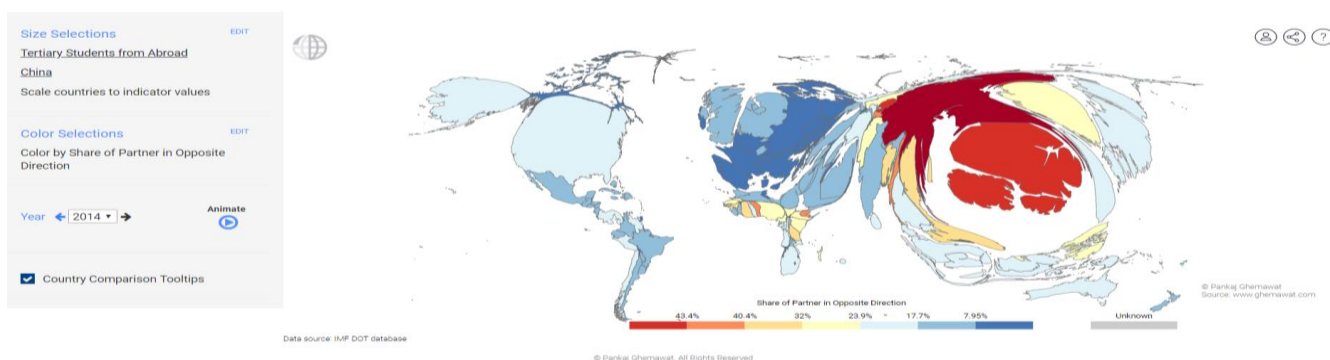
- Middle income;
- Favouring only four EU countries: the UK, Italy, France and Germany (see Figure 50);
- Subject to influence by social media and personalities (such as Chinese influencers);
- Interested in „Instagram-worthy” travels;
- Focused on the perception of peers in relation to the places visited;
- Impacted by online channels;
- Dependent on Wi-Fi.

These characteristics shape a need for European tourism to cater to these preferences, by focusing on the provision of services which target this particular type of traveller.

### *Education issues*

The last pillar of the P2P connectivity is linked to education. Here again there is an imbalance, with Chinese students accounting for more than 30,000\$ spent per student in the EU in 2015. There were about 300,000 Chinese students studying in Europe in the same year, as also shown in the following visualization.

**Figure 51: Tertiary Students from abroad, China comparison to the World**



Source: Pankaj Ghemawat, 2018, <https://ghemawat.com/><sup>142</sup>

<sup>141</sup> <https://publications.europa.eu/en/publication-detail/-/publication/bda9c8a2-4c43-11e7-a5ca-01aa75ed71a1/language-en/format-PDF>

<sup>142</sup> The website of Pankaj Ghemawat is available here: <https://ghemawat.com/>.

A Bruegel report from 2017<sup>143</sup> notes that there are more than 80 bilateral educational cooperation agreements signed between China and EU countries, with the PRC bringing about a quarter of the total number of overseas students in a cohort. In response, the imbalance is obvious. Only 45,000 EU students study in China, in spite of the support from the Chinese government via scholarships (3,000 are under these conditions).

As in the case of tourism, the UK is a favourite destination for study (more than one third of the students go there), which makes it a sensitive topic in the context of Brexit, and the potential for a sudden reduction in education cooperation post-2019.

The efforts of the Chinese government to facilitate educational connectivity are significant, and not necessarily balanced by a similar effort by EU policy-makers. All EU official languages (24 of them) are studied in China, yet Chinese is not a top language learned in the EU. The same Bruegel report mentions: 574 cooperative EU educational institutions and projects in China, 160 Confucius Institutes in Europe and 293 Confucius Classrooms (620,000 students enrolled). However, this seems to be not enough in terms of cooperation, with more linkages needed than the Confucius Institutes, particularly in the context of Brexit.

Language or cultural studies should not be the only area, as there is a growing need to cross-cultural teams in research in other topics (such as the Sustainable Development Goals). However, this type of teams is limited by the “non-tariff barriers” of visas, language, IP rights, attitudes and cultural differences.

There is a need for consideration of reciprocal multi-year and multiple-entry visas between the EU and China (mirroring the case of the 10-year multiple-entry visa with the US), there is a need for engagement of the Chinese diaspora in Europe, for joint cultural and educational impactful projects, and the BRI proposes the needed context.

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<sup>143</sup>*EU–China Economic Relations to 2025 Building a Common Future*, available at: [http://bruegel.org/wp-content/uploads/2017/09/CHHJ5627\\_China\\_EU\\_Report\\_170913\\_WEB.pdf](http://bruegel.org/wp-content/uploads/2017/09/CHHJ5627_China_EU_Report_170913_WEB.pdf)



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