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# CHINA'S ONE BELT ONE ROAD INITIATIVE AS A SUPPORT OF EU'S EUROPEAN NEIGHBORHOOD POLICY

# CHIŃSKA INICJATYWA "JEDEN PAS, JEDNA DROGA" JAKO WSPARCIE EUROPEJSKIEJ POLITYKI SĄSIEDZTWA PROWADZONEJ PRZEZ UE

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**Summary:** The article looks into prospects of closer cooperation between China and the EU in area of the two policies which are launched by the actors in question. Those policies are One Belt One Road (OBOR) and European Neighborhood Policy (ENP). It discusses the two policies and visions which are covered in the two initiatives, what is followed by indicating common elements of the two and differences in interests. The assumption is that the two: China and the EU are engaged in external aid which stimulates growth, nevertheless their initiatives are different and they offer other things to the countries which they concern. Moreover they also can be seen as mutually supplementing each other, rather than competing.

Keywords: One Belt One Road Initiative, China.

Streszczenie: Artykuł stawia sobie za cel pokazanie możliwości współpracy między ChRL i UE w dziedzinie dwóch polityk, które oba te ośrodki gospodarcze prowadzą. Te dwie polityki to: w przypadku ChRL: inicjatywa "Jeden Pas, Jedna Droga", w przypadku UE to Europejska Polityka Sąsiedztwa (skrót również od pierwszych liter nazwy polityki w języku angielskim – ENP). W artykule przedstawia się obie polityki wskazując na ich wspólne element oraz na różnice. Zakłada się, że te dwa podmioty stosunków międzynarodowych: ChRL i UE są zaangażowane w działalność pomocową dla państw trzecich. Pomoc ta ma za zadanie stymulowanie wzrostu gospodarczego i rozwoju, niemniej każdy z dwóch omawianych podmiotów ma inną koncepcję pomocy, którą świadczy na rzecz państw nią objętych. Polityki te można postrzegać jako wzajemnie ze sobą konkurujące, jednak można również zakładać, że one się uzupełniają, co łatwo jest dowieść przeliczając dziedziny wskazujące na konkurencję i uzupełnienie podejmowanych dotychczas działań.

Słowa kluczowe: Jeden Pas – Jedna Droga, Chiny.

### 1. Introduction

The number of actors on the territory of Eastern Europe and Central Asia is in an increase. A new initiative launched by China recently can be seen as a solution which competes with the European initiative or just as an additional offer which can be seen as a supplement to the current one. The article argues that the role of "One Belt One Road" (OBOR) is a supplement which can strengthen the development incentives in the region. The effects of applied solutions will depend strongly on local economic policies applied in the states in question, as they can be affected by active or passive approach of the local politicians.

In the Section 2 of the paper the One Belt One Road Initiative is characterized with enumeration of the states which are common for ENP and OBOR. Section 3 defines the interests of all participating partners showing where they are contradictive and where they have some common elements. Section 4 concentrates on giving support for some coordination of the activities within ENP and OBOR.

## 2. OBOR & ENP: Are there any commons?

OBOR is a vision of the Chinese President, Xi Jinping, which was launched four years ago in 2013. The concept was built upon historic experiences of the Silk Road which combined sea and continental routes connecting China with some Southern Asian states, European (Mediterranean) and North African markets [Lim et al. 2016]. The first links were established 120 BC and functioned until XV century with its maritime revolution of Columbus and Magellan. The historic route had an important impact on the development of countries (towns) which were on its way but it was also seen as a source of raising tensions and conflicts among the states through which it was passing by or connecting [Frankopan 2015, pp. 45–62].

European Neighborhood Policy (ENP) was launched after the historic enlargement of the EU in 2004 and was twice revised afterwards (2011, 2016) [European Union External Action]. ENP is a tool supporting democratic and market changes in the partner states of Eastern and Southern neighborhood of the EU. The recent formula of the ENP is "more for more" [Żukrowska et al. (eds.) 2017, pp. 9–15]. China offers investments without requesting additional conditions from the countries in which aid support is located. The two approaches show the main difference between the applied policies. Despite this disparity they have a number of common elements which will be indicated in this part of the study.

The concept of currently invented OBOR is simple: China became an important "factory of the world", this means it has goods which can be sold and are sold all over the world [Miller 2017, pp. 21–50]. Sales are meaningful on the markets with well-developed infrastructure, and people who have incomes and can turn them into effective demand for offered goods [Yiwei 2016, pp. 34–36]. Last but not least the markets should be open for trade and accessible in terms of transport and

communication. Not all markets fulfill such requirements. This means that using such criteria we can divide markets into real, genuine markets and potential ones. Those potential markets need to make effort aimed at transforming potential markets into real markets. Both ENP and OBOR are pointed to the same goal as they help to achieve that. This brings the first element which is common for the two policies and this is so despite the fact that both policies do not underline that fact and they are not coordinated one with another. By a number of politicians, scientists and some people of other professions they are seen as competing activities which try to attract countries and politicians to one of the camps or teams headed either by the Old-players or New-players.

The Old-players are states and politicians from the so-called "Old World" and they represent the so-called "Old World Order", while the "New-players" are states and politicians from the "New World" and they seem to represent the "New World Order" or "Emerging World Order". The "Old-players" are OECD members but in that group we can find a number of "New-players" which are Mexico, New Zealand or Australia. Why the mentioned three states are New-players? All are emerging markets, their development was stimulated by close economic and institutional ties with the Old-players, where such countries could be mentioned: USA and Canada in case of Mexico (NAFTA) or UK, Japan in case of Australia and New Zealand (British Commonwealth, ASEAN+6). Looking historically at the regional or interregional developments institutionalized among the groups of mentioned states we can see that all of them developed to the achieved level thanks to relations with more developed economies (trade, FDI, education, transport, common research, cultural exchange, etc.). At the same time those states were making their own effort to develop education, infrastructure, well-functioning state and administration, telecommunication. All made efforts to eliminate unfairness of the systems, bribes, introducing state of law, increasing trust towards the applied policies, solutions, legal system and its economy with its currency, reliable exchange rate policy, military power which was built in order to deter enemy from land, sea or air attack. International rankings and foreign coalitions were helpful in fulfilling such goals as countries comparing their own positions with the position of others wanted to improve their own perception in the eyes of the others.

OBOR and the ENP, the two initiatives, overlap in sense of the countries which are included. OBOR is planned to be constructed within seven corridors which embrace: (1) China, Mongolia and Russia; (2) New Eurasian Land Bridge; (3) China, Central Asia, West Asia; (4) China, Pakistan; (5) China, Indonesia; (6) China, Bangladesh, India; (7) Maritime Silk Road [Xinhua 2015]. The ENP in its Eastern Dimension covers: Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Ukraine. The Southern Dimension of ENP embraces: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Palestine, Tunisia [European Union External Action 2016] Names of states which are covered by both policies are following: in the territory of the former SU, currently the CIS states – all are included into the

OBOR. In the Southern Dimension of the ENP only a limited number of countries are included, which are: Egypt, Jordan, Syria [Xinhua 2015]. Nevertheless, there is an option that the established infrastructure and developing trade centers around the hubs (railways or sea-ports) can be seen as new opportunities for local initiatives of national, regional or global character.

In case of coalitions the goal was different as it was used as a measure which on the one hand was building interdependence between states: as they were dividing responsibilities in building security capacities sharing burdens of that process among a group of cooperating states. On the other hand, such close cooperation and interdependence was seen as an economic approach which was helping to build mutual trust and wealth as owned capital was not used entirely as defense and security spending and enabled financing of development goals. This short explanation shows that some states with thrust have spent their money on other goals, and have profited out of such approach, while the others declared that they would behave in the same way but they confined themselves to declarations and continued to spend money on defense and security not trusting the others. Lack of trust, resulting in limited support of activities linked with development, policy of power and mistrust, supported by rhetoric of aggression – all have impact on relatively poor development results what is followed by control of media and specific culture of fear towards others, who are different. All that creates on the one hand a group of open-minded people who seem to be happy with what they have and they want to devote their skills, potential and abilities to help the others. On the other hand, we have group of mistrusting people who see in friendly gestures of the others only power and power politics driven by interests of multiplying earnings and increasing their sphere of influence.

# 3. Interests of the players

Who are the main players? Who are the partners in the two policies? The main players are China and the EU with the member states. Partner countries are states included into the two initiatives. Not repeating the names of the states once more for the EU those are the countries which are covered by the neighborhood policy, what means that it includes most of the Eastern states which directly border with the EU on the east and in the south, and states which border with the EU indirectly, across the Mediterranean Sea. The countries covered by ENP in its Southern dimensions are in majority the former colonies or dependencies of the Old-EU Member States. This fact is worth mentioning as often the citizens from former colonies have special privileges as far as education or studies are concerned, what is also followed by specific approach to permits of stay in the EU or specific countries of the EU. The solutions here do not include permanent stay but usually temporary stay without work-permits. The EU coordinates some of the solutions concerning movement of people within the Schengen Agreement. Not all EU members are part of the Schengen

Agreement. 22 states are in the Schengen Area with the exception of Bulgaria, Croatia, Cyprus, Ireland, Romania and the UK. There are 4 additional participants of Schengen who are associated states with the EU. Those are: Switzerland, Norway, Liechtenstein, Iceland [European Commission 2017b].

Are the interests of the main players here contradictive or they can be seen as complementary? The answers here can bring different opinions supporting contradictions and growing tensions or the opposite showing that there is a common interest of the main players [Morrison 2015]. Both China and the EU are in the process of deep changes. China approaches the problem of further economic reforms which can stimulate high growth followed by changes in the Chinese society which moves towards a more consumer-oriented model. China has also started to play an important role internationally, what started in the region but since that moment that role has spread on global scale including not only the Old-World but also the New one (Latin America, Africa, Central Asia and Eastern Europe) [Kroeber 2016, p. 233]. China is on a verge of ending old (reforms) and making decisions concerning the new reforms. The main question here is how strongly the political corset limits the scope of economic reforms and is it high time for political reforms at this point? Europe is facing a number of new challenges: continuation of relatively low growth rate, euro crisis, immigration crisis and Brexit. Specific question can be addressed to the EU budget which has to be framed in the new 7-year perspective which starts after 2020. The EU financing is closely linked with the choice of one of the five scenarios for Europe, which were presented in Rome on the 60th anniversary summit [European Commission 2017d]. Some of the mentioned problems are of internal character, others have external connotations. Likewise in China, where international aspects are gaining importance but at the same time hot issues to decide are of national character. China is aware of the fact that OBOR needs financing and the planned infrastructure expenditures go far beyond the national capacities of one state, despite the size of its current account surplus and size of the currency reserves accumulated within years. External debt of China is estimated at \$14 207 HML in 2016 [Trading Economics 2017]. Internal debt of China in 2014 was estimated at 200% of the GDP [China's debt-to-GDP... 2014], while according to the official sources it is only 40% of the GDP1. China has initiated Asia Infrastructure Investment Bank which was able to attract already 56 states, while 24 are seen as perspective members. The countries represent the region but also include (20 states outside the region). The initiate entered into force in 2015 it is financially supported by the World Bank (1/2 of the capital) and Asian Development Bank, accumulating capital worth \$100 billion [BBC 2015].

One can ask a question why should the main players bother having internal problems? Why should they add to that what they already have to face and shoulder

<sup>&</sup>lt;sup>1</sup> In March 2016 the official estimates of Chinese debt were reaching ¥ 28 trillion (US\$ 4.3 trillion). This is an equivalent to about 41% of GDP.

– additional problems carrying additional costs? The answer is simple, without solving the regional, or subregional problems – the scale and scope of internal problems of the two Main Players: China and the EU, can increase. Secondly, both players need additional incentives to act. China has to look for new locations of capital, changing internally the structure of its own production, where people start to earn more what in turn limits price competition which helped for quite a long time to obtain relatively high rates of growth. Now China has to look for new suppliers of components to keep the production, stimulate consumption and pay the debts. Europe at the same time needs incentives to liberalize the internal market, to finish building the capital and banking union. There is the need to decide which of the five scenarios will be the most effective for the EU's member states: (1) continuation; (2) nothing else but the internal market; (3) those who want to do more, do more; (4) doing less but more effectively; (5) doing much more but all together.

Europe represents different level of development from China. Solutions in both markets differ one from another, what is also followed by institutional arrangements, laws. All those differences result in different tools which protect both markets but also show that both markets have different interests. Both want to change structures of their economies into more effective ones, what helps to acquire bigger added value, resulting in growth of wealth of their citizens. Both are engaged in stimulation of development in external markets. Support to those markets differs. The EU helps to build democracy and market mechanism. China develops infrastructure, helps to establish factories, supplies with goods and will continue to invest. The interests here are clear – both players are not competing but supporting each other. When laws and institutions in a ENP partner state will be reliable – China has bigger chances to profit on its investments in that particular market. The vision of OBOR can be compared with the vision of integrated Europe shown in the Treaties of Rome, in which one whole chapter was devoted to transportation, pointing to the need to bring peripheries closer to the center, connecting them with the center. Today we have multidimensional methods of bringing the peripheries close to the center and this is not limited only by costly development of rails, as it includes whole ICT. Nevertheless communication, information and access to it are one thing, another is: bringing physically goods from one spot to another.

China is engaged in bringing electricity to a number of countries and this means also clean electricity, renewable sources, using wind-mills or cellular batteries, etc. Without electric power there is limited access to ICT [Gardiner 2017]. EU prepares the ground for sound investments for China, what other interests it has? EU accepts and takes advantages from imports coming from Asian economies if they only meet the standard requirements: quality, sanitary, technological, medical, safety, etc. This means that on the one hand we need more law harmonization, while on the other, more institutional common arrangements, followed by external control. Both the EU and China are interested in the development of the markets which are covered by the two initiatives, as development means political stability, growth, increase in wealth

and friendly relations with the neighbors. Both Players are in favor of the Climate Change goals which were decided in Paris [Harvey 2015]. Both China and Europe have their economic interests in those newly emerging markets, the interests are not seen as contradictive but complementary and supportive.

What are the interests of countries which are covered by the two initiatives, can they be happy as partners, if so, why? Should not they be bothered by being manipulated by the big players? Are they just being exploited within the big goals and interests of the Big Players? Such and similar questions have always been asked. The answer is relatively simple: what other options are available? What type of scenarios can be drawn taking into account the other options? Are such scenarios showing better solutions, meaning quicker and better changes or slower and rather cosmetic, superficial ones? Having answered those questions one has to look closer at the Players who offer their hand with some support. Here another set of question comes in to everyone's mind: how successful were (are) those helpers in changing their own markets, systems, standards of living? Europe had a long period of quick growth, standards of living are high. They were attractive for those who were outside the grouping and they have shared their capital, ideas, expertise to change others. The positive picture of the EU is broken by Brexit but at the same time Brexit brings a number of arguments for being in the EU than out of the EU. The European integration has changed successfully such economies as Ireland, Spain, Portugal and the countries that accessed in 2004 and after. China is a new model illustrating a success story of economic development and change. It has increased standards of living for its people. High rates of growth have brought about this economy to the high position on the world list of biggest GDP. Despite the mentioned faults and challenges both Players have their success they can be proud of and they do not impose on Partners solutions which could be seen by them as disadvantageous.

# 4. Can main actors play together?

This is a big challenge for the big actors: can they play together? Theoretically they can but each of them is used to play individually, without engaging external bodies into the game, sharing plans, coming with a compromise and coordination agreement. This is so, despite the fact that the two main actors we are talking about in this paper play together in different situations, specific conditions, and in frames of institutional structures. This is the case in G-20, UN and its branches such as IMF, World Bank, WTO. This was the case with the mentioned earlier Paris Climate Change Agreement. Not always do they act together in the mentioned structures what can be illustrated by the WTO agreement which is under negotiations and concerns liberalization of services among the signatories who are in number of 23. This is in TiSA (Trade in Service Agreement) negotiated within the WTO. Who is in? There are such markets as: Australia, Canada, Chile, Taipei China (Taiwan), Colombia, Costa Rica, the European Union, Hong Kong China, Iceland, Israel, Japan, Korea, Liechtenstein,

Mauritius, Mexico, New Zealand, Norway, Pakistan, Panama, Peru, Switzerland, Switzerland, Turkey and the USA. From this group the EU, until now, has no free trade agreement with four states: Turkey, Israel, Chinese Taipei and Pakistan [European Commission 2017c]. The mentioned markets have 70% of world trade in services. As can be seen China is not included what can be interpreted that the country is mainly interested in liberalization of the trade in goods as it produces goods not services which are offered for export. This fact can be interpreted as additional argument concerning different interests or limited competition as far as realization of interests is concerned.

Mutual relations between China and the EU are relatively close and developed, they are institutionalized, what results in regular EU-China summits. The last one took place in June 2017 in Beijing. It brought 30 conclusions pointing out the areas of closer cooperation for the two Players. The decisions on cooperation are seen as initiatives which deepen China-EU Comprehensive Strategic Partnership [XinhuaNet 2017]. It was stated that bilateral EU-China cooperation is gaining importance. Both Partners cooperate in strengthening the "purposes and principles of the UN Charter", what is followed by "safeguarding the WTO rules and fostering an open world economy". Common interests are balanced while the EU is committed to One-China and China supports the EU integration. This can be translated into EU's support for 13th Five-Year Plan, while China thus could support the European effort of growth. regulatory reform and investments. Both parties seem to be committed to China-EU 2020 Strategic Agenda for Cooperation [European Union External Action Service 2013], which was approved in 2013. Representatives of the both parties meet on adhoc expert consultations on different issues which include terrorism, extremism and remaining security issues<sup>2</sup>. There are some moves made connecting Chinese initiative of OBOR and the European Investment Plan. The EU declares participation in coinvesting of the Chinese Project. Moreover, there are plans to establish a China-EU Joint Investment Fund<sup>3</sup>. Partners have also declared cooperation with G-20 and other summits where moves are made in direction of inclusive, sustainable, balanced growth. They also agreed to work together on WTO Ministerial Conference planned to take place at the end of the 2017 in Buenos Aires. Their cooperation also includes such institutional structures as High-Level Economic and Trade Dialogue (HED). The 7<sup>th</sup> meeting of HED is planned before the end of 2017.

The long list of mutual activities consists among others: Joint Communiqué that was signed between the Chinese Ministry of Commerce and the DG for Agriculture and Rural Development of the EU on of the Agreement on Cooperation and Protection of Geographical Indications;<sup>4</sup> resolving the problem of steel trade frictions in bilateral

 $<sup>^2</sup>$  An agreement was signed on  $19^{\text{th}}$  April 2017 between the Ministry of Public Security of China and Europol.

<sup>&</sup>lt;sup>3</sup> The Partners commit themselves to push forward multilateral cooperation in the development institutions such as Asian Infrastructure Investment Bank, the EBI and EBRD.

<sup>&</sup>lt;sup>4</sup> The two partners expressed intensions to bring to an end the carried out negotiations till the end of 2017, declaring that they will publish agreed conditions for opposition in June 2017.

consultations by introducing China-EU Steel Trade Mechanism; administrative arrangements for Intellectual property Cooperation Project (IP Key China), based on agreement for EU-China Dialogue which is aimed at overcoming violation of the intellectual property rights (IPR). Other topics and agreements embraced such issues as: EU-China Connectivity Platform; customs cooperation concentrated on customs regulations and eliminating illegal trade; boosting cooperation in area of cyber issues with engagement of China-EU Cyber Taskforce, the China-EU Digital Economy and Cyber Security Expert Working Group. The list included some issues which were already mentioned like the 2015 Paris Agreement or energy policy and energy standards which are framed in the China-EU Roadmap on Energy Cooperation/Work Plan for 2017–2018. Cooperation also lists circular economy, forest laws, collaborative research, water-dialogue, aviation safety, tourism, entrepreneurship, etc.

The list of cooperation initiatives towards which the EU and China are committed and plan to work together embraces some internal issues linked with the EU and reforms which are launched in the integration-grouping, they also cover some internal problems which are carried in China. On top of that they included closer cooperation and coordinated stand-points in international frames, of which some where enumerated above. Finally, they also included activities which were done by the two partners on bilateral level or multilaterally.

The two Main Players as we call them in this paper have a number of goals which they can solve together in cooperation and they undertake attempts to do it. The Partner countries can try to cooperate together, coordinating their moves in reaction to the undertaken activities. Cooperation in their case will eliminate antagonism which can arise when they will become suspicious without informing each other on their planned activities.

Until now China and the EU are both important partners in trade of goods, services and FDI transfers. China in 2016 was the EU's first partner in imports and second partner in exports [European Union 2017a]. The shares of China in the EU trade were 20.2 and 9.7%, respectively. Annual average rate growth in the period 2012–2016 was 4.2% in imports and also 4.2% in exports. The period 2015–2016 brought about a slight fall of the rates of growth: in imports -1,8% and in exports -0,2%. The EU has a negative balance in trade flows with China which reached its pick in 2015 closing with  $\epsilon$  –180,283 mio. In 2016 the deficit in bilateral trade was smaller, reaching  $\epsilon$  –174,385 mio. The EU has positive balance in trade with China as far as services are concerned. In 2014 the balance of FDI was also positive but turned to negative in 2015. Looking into the structure of the traded goods, one can say that the bilateral trade between EU and China is dominated by manufactured goods and this domination is seen on both sides of the partners trade structure. In case of the EU it is 96.5%, while in case of China it is 83.5%.

<sup>&</sup>lt;sup>5</sup> The list of topics here included: improving customs clearance facilitation, enhancing harmonization of transport technical rules and standards, enhancement of cooperation in low-carbon and smart transportation, cooperation in investments, upgrading banking systems and financing.

Imports				Exports				Total trade			
Partner		Value Mio €	% World	Partner		Value Mio €	% World	Partner		Value Mio €	% World
World		1 435 956	100	World		1 930 251	100	World		3 366 207	100
1	EU28	188.379	13.1	1	USA	352.077	18.2	1	EU28	498.766	14.8
2	South Korea	143.813	10.0	2	EU28	310.397	16.1	2	USA	474.638	14.1
3	Japan	131.470	9.2	3	Hong Kong	265.604	13.8	3	Hong Kong	280.977	8.3
4	Taiwan	126.549	8.8	4	Japan	117.100	6.1	4	Japan	248.569	7.4
5	USA	122.561	8.5	5	South Korea	86.562	4.5	5	South Korea	230.376	6.8
6	Australia	63.355	4.4	6	Vietnam	56.049	2.9	6	Taiwan	163.665	4.9
7	Malaysia	44.308	3.1	7	India	53.695	2.8	7	Australia	97.740	2.9
8	Brazil	41.022	2.9	8	Singapore	42.865	2.2	8	Vietnam	89.645	2.7
9	Switzerland	36.220	2.5	9	Taiwan	37.116	1.9	9	Malaysia	79.927	2.4
10	Thailand	34.937	2.4	10	Malaysia	35.619	1.8	10	Thailand	69.535	2.1
1	EU28	188.379	13.1	2	EU28	310.387	16.1	1	EU28	498.766	14.8

**Table 1.** Total goods: top trading partners in 2016 for China

Source: [European Commission 2017].

Statistics show that both EU and China are important trade partners one for the other and that their interests should be seen as less competing and more replenishment each other. The list also shows some other states which with time passing could join the initiatives or offer some additional actions asking to join them. Those states are USA, India, Australia, New Zealand and Japan. It could be also UK, when the final divorce with the EU is over or there is a change of attitude in the country after second thoughts on Brexit.

This part of the study was showing the number of areas where the main actors try to cooperate and coordinate their moves. This includes also the mentioned policies of OBOR and ENP.

### 5. Conclusions

The study was conducted in order to show that both actors/players such as the EU and China can cooperate together on projects which at the first sight have little in common but with deeper analysis one can find not only mutually complementing interests but also approval of the partners covered by the visionary policies of OBOR and ENP. The study was formulating several questions concerning interests of the two big Players in the team: China and the EU as well as states which show interest in the two projects as they bring to them prospects of better life, development and predictability in laws, institutions and politics. The two big Players are in process of changes, those changes are different in both cases but at the same time they are not so much exhausting for China and the EU to be concentrated on internal affairs solely, leaving the external matters to live with their own lives and dynamics. Moreover, a number of bilateral statements made by China and EU show how the

two can work together solving internal problems and how they can cooperate – coordinating their moves on international playground. The paper presents the two visions and policies in which one is conducted by a regional organization which consists of 28 states, while the second is built by one state, which emerged into an economic success story recently. The first center represents successes in the past as far as growth and development are concerned, it has also meaningful practice in supporting development of thirst countries. The first center offers expertise and capital but also attaches certain conditions to its offer. The second center offers changes and support without additional infringements.

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