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When All Roads Lead to Beijing. Assessing China's New Silk Road and its Implications for Europe

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ABSTRACT
The Belt and Road, unveiled by President Xi Jinping in late 2013, is China's most ambitious geo-economic and foreign policy initiative in decades, combining a land-based Silk Road Economic Belt and a sea-based 21st Century Maritime Silk Road which connect China to Europe. With this grandiose initiative, Beijing seeks to tackle industrial overcapacity at home and acquire political influence abroad through investment. Sitting at the end-point of the maritime Silk Road, Southeast Europe and the Mediterranean have been the main focus of investment in infrastructure projects so far. If managed successfully by both sides, China's Belt and Road could be a great opportunity for a European continent that is still struggling to recover from the crisis. What is urgently needed in Europe is a comprehensive response to China's new initiative, with the focus not only on the economy and trade, but also on the monetary and financial aspects of the Belt and Road, including discussion of the political and security implications of Beijing's inroads into Europe and its neighbourhood.

KEYWORDS
China; Silk Road; Europe; investments; infrastructure

China's new Silk Road, consisting of the Silk Road Economic Belt and the 21st century Maritime Silk Road – also known as the One Belt, One Road (OBOR), or simply Belt and Road – has begun to attract the attention of scholars and analysts since its launch in late 2013.[1] Several works have examined what the distinctive features of this initiative are, including discussion of the effects – both positive and negative – of the Belt and Road for the countries concerned.[2] Attention has been given to the domestic factors driving the mammoth project forward, including its significance in promoting the development of China's backward inland provinces and in exporting the country's overcapacity in some sectors, such as steel and construction.[3] Researchers have also emphasized the geopolitical and foreign policy aspects of China's new Silk Road – both the land-based and maritime routes – raising questions as to whether, and to what extent, the OBOR serves to expand

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[1]For an overview of the literature on OBOR, see Majumder, "*One Belt, One Road*", and Callahan, "China's 'Asia Dream'".
[2]Casarini, *Is Europe to benefit*; Cooley, *New Silk Route;* Godement *et al., One Belt, One Road;* Zhao, *China's new Silk Road*.
[3]Amighini and Berkofsky, *Xi's policy gambles;* Huang, "The new silk road initiative".

Beijing's sphere of influence in Eurasia while countering US policies in the Asia Pacific.[4] A number of studies have focused on China's new Silk Road in Central Asia, South East Asia and the Middle East, examining whether the sums invested can be compared – in terms of significance for these regions – to America's Marshall Plan in Europe after World War Two.[5] The impact of OBOR for the European continent has received much less attention. Yet, in recent times, a few scholars and policy analysts have discussed how the Old Continent should respond to China's new initiative.[6]

This article aims to contribute to the debate on the implications of OBOR for Europe, asking whether – and to what extent – the European Union (EU) can benefit from China's Belt and Road initiative. In the first part, the study pieces together a comprehensive picture of the main projects and initiatives under implementation, focusing on the land-based and maritime linkages between Chinese industrial zones and ports and the Old Continent, to show how connectivity in Eurasia is taking shape. The second part examines OBOR's financial and monetary aspects, including discussion of the role that Europe is playing in support of the internationalisation of the renminbi – a process whose success has now become intertwined with that of the Belt and Road. The last section draws some conclusions on what the OBOR means for the EU and, more generally, for the future of China-Europe relations.

Ancient routes, modern connections

The Belt and Road was unveiled by President Xi Jinping in late 2013. It is China's most ambitious geo-economic and foreign policy initiative in decades, combining a land-based Silk Road Economic Belt and a sea-based 21st Century Maritime Silk Road which connect China to Europe through South East Asia, Central Asia and the Middle East, covering areas that generate 55 percent of the world's Gross National Product (GNP), and have 70 percent of the global population and 75 percent of known energy reserves. The stated aim of this initiative is to boost connectivity and commerce between China and 65 countries traversed by the Belt and Road.[7]

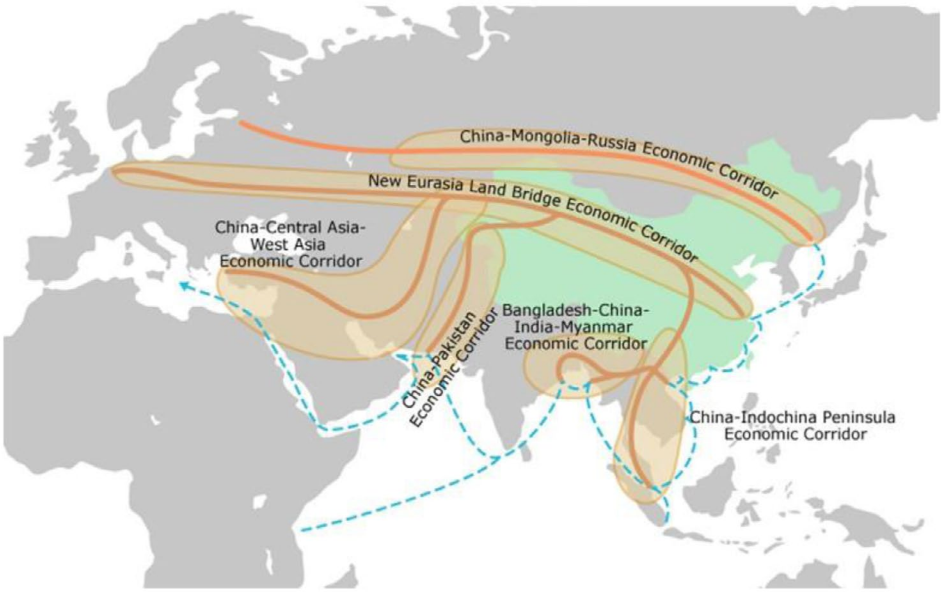
China's total financial commitment to this initiative is expected to reach USD 1.4 trillion in the coming years. Beijing has already committed around USD 300 billion for infrastructural loans and trade financing, a sum which includes a USD 40 billion contribution to the Silk Road Fund for infrastructural development and the USD 100 billion initial capital allocated to the China-initiated Asian Infrastructure Investment Bank (AIIB).

The phrase One Belt, One Road (*yi dai yi lu* in Chinese) condenses two related ideas: the first is the construction of a Silk Road Economic Belt spreading from western and inland China through Central Asia towards Europe, resonant of historical Eurasian 'silk roads' which reached their height during China's Tang dynasty (618-906). The ancient road originated from Chang'an (now Xian) in the east and, through a series of major trade routes across Central Asia, helped build commerce and cultural ties between China, India, Persia, Arabia, Greece and Rome, ending in the Mediterranean.[8]

[4]Chaturvedy, *New Maritime Silk Road;* Godehardt, *No end of history;* Hilpert and Wacker, *Geoökonomie trifft Geopolitik;* Khan, "China goes west; Szczudlik-Tatar, *China's new silk road diplomacy*; Yong, "Offensive for defensive".
[5]Jin, "The 'new silk road'".
[6]De Jonquières, *Xi Jinping's long road*; Lin, *China's new silk road*; Van der Putten and Meijnders, *China, Europe*; Schaefer, Shen and Loesekrug-Pietri, "Diplomatie mit neuen Mitteln".
[7]Chin and He, *The Belt and Road Initiative*.
[8]Summers, "What exactly is 'one belt, one road'?" and "China's 'New Silk Roads'".

With the 'belt', Beijing wants to build a new Eurasian land bridge and develop six economic corridors: China-Mongolia-Russia; China-Central Asia-Northern Europe (New Eurasia Land Bridge); China-Central Asia-West Asia; China-Pakistan; Bangladesh-China-India-Myanmar; and China-Indochina peninsula. These new land-based Silk Roads take advantage of already existing international transport routes, relying on core cities along the countries traversed and using key economic industrial parks as well as newly-developed free trade zones as cooperation platforms.

The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa



Source: http://china-trade-research.hktdc.com/business-news/article/One-Belt-One-Road/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm

The idea of a 21st century maritime Silk Road was first laid out during President Xi Jinping's visit to Southeast Asia in October 2013. The road takes inspiration from historical maritime trading routes from coastal China through the South China Sea and beyond. China's new sea-based Silk Road plans to extend these routes to continents and countries where trade volumes are currently small, but growing. In practice, it will take the form of a network of ports and other coastal infrastructure projects, dotting the map from South and Southeast Asia to East Africa and the northern Mediterranean Sea.

OBOR is not limited to physical infrastructure and commerce. President Xi Jinping has talked about "five factors of connectivity", namely policy communication, road connectivity, unimpeded trade, monetary circulation and understanding between peoples, including intellectual exchanges and flows of tourists and students.[9]

The projects related to the initiative are expected to be realised over the next three decades, culminating in 2049 – a symbolic date marking the 100th anniversary of the foundation of the People's Republic of China. The Chinese Ministry of Commerce has coined the term

[9]Fu and Lou, "Building the Maritime Silk Road", 2.

"the new 30 years" (*xin 30 nian*), a reference that puts today's China on the threshold of a third era comparable to those begun by Mao Zedong and Deng Xiaoping.[10] The catchphrase of this new era under the leadership of Xi Jinping is that of the 'Chinese Dream', intended to guide China's development in the coming decades. To achieve this, the Chinese leadership is abandoning the traditional approach dictated by Deng Xiaoping – China should lie low in the international arena and concentrate on building the domestic economy – opting instead for a more proactive stance.

Exporting China's development model

On 28 March 2015, during the Boao Forum for Asia, China's National Development and Reform Commission in conjunction with the Ministry of Foreign Affairs and the Ministry of Commerce released an "action plan" for the Belt and Road. Entitled *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*, the document sets out a vision in which Chinese-led infrastructure construction, reduced tariffs, and simplified customs administration would allow trade to flow seamlessly between China and Europe by both rail and cargo ship.[11]

The action plan takes in every conceivable goal, from improving distribution supply chains to developing trade in services to increasing food security for the countries that participate in the project. According to the document, the Belt and Road is "open to all countries, and international and regional organizations for engagement". The document "advocates peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit", "promotes practical cooperation in all fields, and works to build a community of shared interests, destiny, and responsibility featuring mutual political trust, economic integration and cultural inclusiveness".[12] OBOR appears thus to be nothing less than a Chinese call on the international community to work jointly toward a "harmonious and inclusive" world – an idea similar to the "harmonious world" proposed by former Chinese President Hu Jintao in 2005 – but much more detailed and operational.

Now at a historical juncture, the Chinese economy is transitioning from export-oriented growth to a new model based on domestic consumption and outward investment. China has passed the stage of relying on foreign investment and has entered a new phase characterised by the "going out" strategy which encourages domestic companies to invest and operate overseas. The Belt and Road, with its emphasis on infrastructural investment abroad, intends to upgrade the Chinese economy and restructure various sectors burdened by overcapacity, due in part to the massive sums that the Chinese authorities invested in infrastructure projects after 2008, including heavy industries involved in the building and maintenance of transportation and energy infrastructure. The aim is also to overcome the international slump in demand brought on by the global economic and financial crisis.[13]

With OBOR, China seeks to export its development model to other countries. The emphasis given to big, state-led projects can be seen as an extension of the infrastructure-driven economic development policy that has sustained China's growth since the reform

[10]Cohen, "China's 'second opening'", 3.
[11]China's National Development and Reform Commission, *Vision and Actions.*
[12]*Ibid*., 1.
[13]Fukuyama, "Exporting the Chinese Model".

and opening up era. This model is based on the idea that long-term economic growth can only be achieved through massive and systematic investments in infrastructure assets, in contrast with the more short-term export-driven and consumption models pursued by many developing countries in the last decades.[14]

Banking on the Silk Road

The Belt and Road initiative entails an important financial and monetary dimension. The People's Bank of China (PBOC) has designed loan schemes to support companies that transfer some of their production capacity abroad.[15] Moreover, the Chinese government has set up a number of special funds, such as the Silk Road Fund which has an initial allocation of USD 40 billion coming from the PBOC's reserves, the China Investment Corporation, the Export-Import Bank of China and the China Development Bank. Other policy lenders, such as the AIIB, the China-ASEAN Investment Cooperation Fund and the China-Eurasia Economic Cooperation Fund can also finance projects related to the Belt and Road.[16]

Beijing is also committed to boosting commerce in the areas traversed by the OBOR. This is done by creating free trade areas and eliminating non-tariff barriers, which includes speeding up and harmonising administrative processes such as customs procedures. To achieve this, China's largest policy lenders (the China Development Bank and the Export-Import Bank of China) have committed billions of dollars to trade financing which serves to maintain existing, as well as to find new markets for Chinese products. Chinese government estimates envisage that the USD 1.25 trillion worth of trade China conducted with Eurasian countries in 2013 will double by 2020.

Given the size and scope of the Belt and Road initiative and the huge sums committed so far, some commentators have described the OBOR as a 21st century 'Chinese-style' Marshall Plan. Chinese officials and academics maintain, however, that the Belt and Road is different in that it is an 'open cooperation' platform, while the Marshall Plan placed harsh political conditions on the countries it covered and excluded pro-Soviet European countries, something which led to the division of Europe. OBOR, instead, is not an alliance – and comes with no political strings attached. It is presented as an unconditional plan to assist in the development of China's neighbours and partners along the Silk Road. More than security concerns, the emphasis is put on economic considerations and the realisation of infrastructure.[17] Even the countries of South East Asia, some of which have territorial and maritime disputes with China, have welcomed the Belt and Road for the potential benefits that this initiative could have for infrastructure development in the region.[18]

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[14]On this point, see the last report by the World Bank on trade logistics in the global economy, *Connecting to Compete 2016*.
[15]Ding, "Innovation on financing".
[16]Esteban and Otero-Iglesias, *What are the prospects?*
[17]Swaine, "Chinese views and commentary".
[18]BDO, "One Belt One Road". The South China Sea, encompassing an area from the Karimata and Malacca Straits to the Strait of Taiwan of around 3,500,000 square kilometres, is currently in the spotlight as territorial and maritime tensions steadily increase among riparian countries. China, Vietnam, the Philippines, Taiwan, Malaysia and Brunei all have competing claims. China has backed its expansive claims with island-building and naval patrols. The Obama administration has sent military ships and planes near disputed islands, calling them 'freedom of navigation' operations to ensure access to key shipping and air routes. The area's importance largely results from one-third of the world's shipping sailing through its waters and the fact that it is believed to hold huge oil and gas reserves beneath its seabed. No wonder the area is a priority target for China's 21st Century Maritime Silk Road.

Implementation

The implementation of the first projects related to the Belt and Road began in Central Asia in March 2014, when Chinese Premier Li Keqiang and Kazakh Prime Minister Karim Masimov oversaw the signing of 33 deals worth USD 23.6 billion, including projects in the steel, non-ferrous metals, sheet glass, oil refining, hydropower and automobile industries.

After Kazakhstan, Beijing turned to Pakistan where Chinese investments have been flowing massively. The China-Pakistan Economic Corridor (CPEC), first announced during Xi Jinping's state visit to Islamabad in April 2015, is a crucial component of the Belt and Road, as well as China's largest overseas investment project to date with an estimated value of USD 46 billion. It consists of extensive investments in Pakistan's transport, telecommunications and energy infrastructure which will eventually extend about 3,000 km, linking the southwestern Pakistani port of Gwadar to the city of Kashgar, in China's northwestern Xinjiang province.[19]

The China-Pakistan Economic Corridor is instrumental for opening up new routes to the resource rich Middle East via the Arabian Sea. To this end, Islamabad has extended an invitation to Teheran to join the CPEC initiative, which includes plans for an Iran-Pakistan gas pipeline.

The Chinese see Iran – considered a bridge between Asia and the Middle East – as a key element for the success of the Belt and Road initiative. Xi Jinping was the first head of state to visit Iran after the lifting of sanctions on 16 January 2016. During his visit, the Chinese President announced plans to build a high-speed railway for both passengers and cargo connecting the two countries. The prospected 3,200 km rail link, run by the state-owned China Railway Corporation (CRC), would begin in Urumqi, the capital of Xinjiang Province, and end in the Iranian capital, Teheran. Along the way, it would stop in Kazakhstan (Almaty), Kyrgyzstan (Bishkek), Uzbekistan (Tashkent and Samarkand) and Turkmenistan (Ashgabat). The line would be complementary to the existing railway network in the region, which however runs mostly southeast to northwest toward Moscow.

[19]Alam, "China-Pakistan Economic Corridor".

Yet, the proposed Urumqi-Teheran high-speed rail link faces major hurdles. The single-line railway could easily turn into a target for extremists or militias. It might also be very difficult to realise, since it is supposed to stretch across many unstable countries in Central Asia, such as Kyrgyzstan and Uzbekistan.[20] To hedge against potential setbacks, Beijing is building a parallel route northward.

China is providing soft loans to build the Trans-Caspian International Transport Route that will connect China with Ukraine through Kazakhstan, Azerbaijan and Georgia. The route includes ferry crossings of the Black and Caspian Seas, bypassing Russia.[21] Once completed, the Trans-Caspian route will move approximately 300,000-400,000 containers by 2020, connecting with the China-Turkey intermodal corridor inaugurated in December 2015.

There is now a seamless connection between Lianyungang, a city in China's northeastern Jiangsu province, and Istanbul. The Lianyungang-Istanbul corridor takes around 14 days to transit Central Asia, using some of the facilities of the Trans-Caspian International Transport Route, but with the option for immediate freight forwarding by truck to any Turkish city.[22] The rail corridor is expected to generate USD 2.5 trillion in annual trade within the next ten years, and is expected to be expanded to connect Taiwan with Europe via China, thereby linking the Pacific Ocean with the Atlantic Ocean across the Eurasian continent.

If road and rail networks are the key feature of the land-based Silk Road Economic Belt, in the maritime component – the 21st Century Maritime Silk Road – ports and cargo ships play a major role. As the world's largest exporter and second-largest importer, China has some of the world's biggest container ports and controls a fifth of the world's container fleet mainly through giant state-owned lines. Since the shipping corridors between East Asia, Europe and Africa are expected to become even busier in the next years, a new generation of huge ships that are almost half a kilometre long will dominate the seas, bringing benefits to the ports able to service them. In this context, it becomes essential for China to own and run ports.

Beijing is financing – and building – a network of ports and other coastal infrastructure projects stretching from South and Southeast Asia to East Africa and the Mediterranean Sea. COSCO, China's biggest shipping line, has taken minority stakes in terminals in Antwerp, Suez and Singapore and a majority stake in Piraeus Port in Greece, where it is building a dock that can handle mega-ships. China Merchants Holdings International has invested massively in Colombo (Sri Lanka) and has stakes in the ports of Gwandar (Pakistan) and Djibouti. The security of sea lanes is therefore becoming a strategic priority for China, whose military has recently been granted the right to build logistic facilities in Djibouti, astride the critical maritime route from the Chinese mainland to its vital European markets, via Suez and the Mediterranean. The military base in Djibouti is expected to contribute to anti-piracy operations in the area, protecting China's strategic assets and cargo ships directed towards (or coming from) the ports of Southern Europe.

The Belt and Road reaches Southern Europe

Sitting at the end-point of the maritime Silk Road, Southeast Europe and the Mediterranean have been the main focus of OBOR investments so far. The flagship infrastructural project

[20] Zhang, *Building the Silk Road*.
[21] Karimova, "Ukraine offers to use".
[22] Lin, "Erdogan's neo-Ottoman vision".

in the area is a land-sea express route which will directly link the port of Piraeus, one of the largest container ports in Europe for which Chinese shipping giant COSCO has a 35-year concession, with at least six to eight Central and Eastern European countries, turning it into a Chinese hub for trade with Europe. The €2.2 billion project is financed by soft loans from China's Export-Import Bank, and will be built by the state-owned China Railway and Construction Corporation. Work on the line began at the end of 2015 and should be completed by 2017.[23]

The 370 km railway between Belgrade and Budapest will significantly improve transport of passengers and goods, cutting travel time between the two capitals from eight hours to less than three. China is also committed to upgrading Greece's railway system, focusing on the northern route to Macedonia through Thessaloniki and the Macedonian railway line that would connect Greek lines to the upgraded north-south route in Serbia and the Hungaro-Serbian High-Speed Railway.[24] Concurrent with these investments in the Greek and Macedonian portions of the line are Chinese plans to upgrade both railway and road infrastructure from Bar through Montenegro to the Serbian border. Once all the projects are completed, the high-speed rail connection will extend all the way from Piraeus to Budapest. A double track between the Mediterranean Sea and the Danube River will thus enable trains to reach a speed of up to 200 km per hour. By reducing shipping times, the new line will make Chinese products more competitive in the European market, helping to offset rising production costs at home.

Chinese goods are currently shipped through the Suez Canal, then in a wide loop through the Mediterranean, the Bay of Biscay and the English Channel to ports on Europe's north-western coast, including Rotterdam, Antwerp and Hamburg, from where they are dispatched by road and rail to inland cities. Once the Balkans projects are completed, Chinese products will go from the Suez Canal, which recently doubled its capacity, directly to Piraeus to be loaded onto trains, cutting transit times from roughly 30 to 20 days.

Piraeus is central in Beijing's strategy of linking China with Europe through the Mediterranean.[25] When Chinese Prime Minister Li Keqiang visited the Greek port in June 2014, he called it "the pearl port" of the Mediterranean Sea.[26] After winning the privatisation tender to operate 67.7 percent of the port, which was formerly controlled by the Greek government but had to be put up for sale in 2016 in accordance with the terms of Greece's €86 billion bailout agreement with the International Monetary Fund, the European Commission and the European Central Bank, COSCO now plans to double Piraeus' container traffic.

Chinese shipping companies also have a well-established presence in the Spanish ports of Barcelona and Valencia and the Italian ports of Naples and Genoa. Yet, the Chinese government is also eyeing Italian ports in the North Adriatic whose strategic significance has increased after the opening of the new Milan-Zurich transalpine rail link, representing an alternative route for shipping goods from the Mediterranean into the markets of Northern Europe. The North Adriatic Port Association (NAPA), a consortium of the ports of Venice, Trieste and Ravenna supported by the Italian government, is seeking to challenge the Greek port of Piraeus by attracting – and servicing – the huge Chinese cargo ships that reach the Mediterranean Sea via the Suez Canal.

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[23] Pavlićević, "China's Railway Diplomacy".
[24] Pavlićević, "China, the EU".
[25] Van der Putten, *Chinese Investment*.
[26] Xing, "Li charms dock workers".

The NAPA consortium plans to create an offshore/onshore docking system by building a giant multimodal platform off the coast of Venice to service China's giant ships. Onshore, the project includes building five terminals: three in Italy (Marghera, Ravenna and Trieste), one in Slovenia (Koper) and one in Croatia (Rijeka). Some Chinese companies have already committed to invest in this initiative, in particular: the port authorities of Shanghai and Nongbo; the CCCG Group (the world's sixth largest infrastructure company) and the Industrial and Commercial Bank of China.

The Italian ports in the North Adriatic will be connected to the new transalpine railway that was inaugurated in June 2016 after completion of the San Gotthard tunnel between Italy and Switzerland. Improvement of another tunnel in Lötschberg, which should be completed by 2020, will allow trains to run from Zurich to Milan in two and a half hours, further cutting down travel time between Italy and Northern Europe, in particular along the Genoa-Rotterdam and Venice-Rotterdam corridors through the Alps.[27]

By focusing on infrastructure projects on land and sea linking the Mediterranean ports with North Europe, China seeks to acquire political influence in the areas traversed by the Belt and Road, by targeting investments in some cash-strapped countries of Europe's periphery, in particular in the East and South. These governments have so far largely welcomed Beijing's inroads into their markets.

Chinese investment in Europe

Europe has clearly become the preferred destination for Chinese investors. According to the China Global Investment Tracker, between 2005 and 2016, China invested nearly USD 164 billion in Europe (including non-European Union countries). During the same period, it invested USD 103 billion in the US.[28]

The Rhodium Group found that between 2000 and 2014, Chinese companies spent €46 billion (USD 52 billion) on 1,047 direct investments (greenfield projects and acquisitions) in the EU-28 countries, with the vast majority of the transactions coming after 2009. The United Kingdom received the biggest share of that amount, with a total of €12.2 billion (USD 13.8 billion), followed by Germany with €6.9 billion (USD 7.8 billion) and France with €5.9 billion (USD 6.7 billion). In 2015, however, ChemChina's acquisition of Pirelli – a deal which was partially backed by the Silk Road Fund – put Italy in the top position.[29] Since 2014, Eastern and Southern Europe have become the top destination for Chinese investment in infrastructure projects.

China does not show signs of slowing its investment push. At the EU-China Summit in June 2015, European Commission President Jean-Claude Juncker called for the creation of synergies between his European Fund for Strategic Investments (EFSI) and China's Belt and Road initiative.[30] Premier Li Keqiang replied by making a multibillion dollar investment commitment to the EFSI.[31]

[27]Franck, "La Suisse inaugure", 18.
[28]China Global Investment Tracker, *interactive map*. http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map/china-global-investment-tracker-interactive-map.
[29]Casarini, "Chinese firms' spending spree".
[30]EU-China summit, *Joint Statement*.
[31]Keynote speech by H.E. Li Keqiang at the 10th EU-China Business Summit, 29 June 2015 (translated). http://www.eu-china-business-summit.eu/content/uploads/2015/07/CHN-BS-sp290615-Translated-speech-of-H.E.-Premier-Li-Keqiang.pdf. See also Emmott and Taylor, "Exclusive: China to extend".

Policymakers in Brussels and Beijing are currently identifying appropriate cooperation mechanisms between Xi's Belt and Road and Juncker's Fund. Ideas presented so far include the establishment of a China-EU joint investment fund to support project shareholding, joint contracting and co-financing.[32] Infrastructure projects in Southeast Europe and the Mediterranean are likely to become the first concrete examples of this enhanced Sino-European connectivity.

Monetary links

The banking sector is also set to benefit from OBOR. As the Chinese initiative moves forward, it is becoming increasingly urgent for Beijing to increase the share of its currency in trade financing, monetary transactions and foreign exchange reserves in order to facilitate Chinese outbound investment and to lower transaction costs. The internationalisation of the renminbi (the Chinese currency, also called yuan) has become crucial for the success of China's new Silk Road.

The PBOC has fostered closer monetary links with European central banks which have added – or are considering adding – the Chinese currency to their portfolios, often at the expense of the dollar, as growing trade ties and a growing number of reforms by Beijing are leading reserve managers to view the renminbi as a viable reserve currency.[33] In October 2013, for instance, the PBOC and the European Central Bank (ECB) signed a bilateral currency swap agreement for a sum of €45 billion (RMB 350 billion), the largest ever signed by Beijing outside the region.[34] In October 2014, the United Kingdom raised RMB 3 billion via a landmark offshore sovereign yuan bond and kept the proceeds in its foreign exchange reserves rather than converting them into dollars. Moreover, in November 2014, the ECB discussed whether to add the Chinese yuan to its foreign currency reserves.[35] Finally, during the state visit of Xi Jinping to the United Kingdom in October 2015, China chose London to issue its first overseas renminbi sovereign debt.[36]

The PBOC has also designated a number of offshore renminbi hubs. These are yuan clearing banks – known as RMB Qualified Foreign Institutional Investors (RQFII) – the majority of which are in Europe, in places like London, Frankfurt, Paris, Luxemburg, Prague, Budapest and Zurich. Growing Sino-European monetary ties largely explain the decision by the UK, followed promptly by Germany, France and Italy, to become founding members of the Asian Infrastructure Investment Bank (AIIB), despite US pressure to stay out.

George Osborne and Jim O'Neill, respectively the UK Chancellor of the Exchequer and the Commercial Secretary to the Treasury, explained their decision to push for closer monetary links with Beijing: "the future prosperity of [the UK] depends on us strengthening our relationship with the world's next superpower".[37] However, opening up Europe's doors to the "next superpower" has political implications.

[32]Ministry of Foreign Affairs of PRC, "Li Keqiang Meets with Vice President".
[33]For more details on renminbi trading hubs and the Renminbi Internationalisation Index (RII), a figure that describes the renminbi's usage proportion in global trade, see Lau *et al*., *Offshore Renminbi: Anchoring Confidence*.
[34]Domanski, "China signs second-biggest swap".
[35]Riecher and Black, "ECB Said to Weigh". See also Casarini, *China's Financial Footprint*.
[36]Kynge and Parker, "China set to choose London", 1.
[37]Osborne and O'Neill, "It's in Britain's interest". See also Byrne, *Turning to Face the East*.

Will Europe benefit from China's Belt and Road?

While there are undoubtedly great economic opportunities, China's Belt and Road initiative presents the EU with a major political challenge. There is the risk, in fact, that a scramble for Chinese money could further divide EU member states and make it difficult for Brussels to come up with a common position vis-à-vis Beijing. Furthermore, China's economic penetration into Europe could lead to a populist backlash. For instance, the fact that the port of Piraeus is now entirely in Chinese hands could accentuate the view that China is a political and commercial threat to EU member states, particularly in Belgium, Germany and the Netherlands, whose big container ports face a tough new competitor.

Some European critics worry that the OBOR lacks transparency rules and that the opaque financing deals may threaten the competitiveness of European companies. Indeed, China requires that infrastructure works financed by its soft loans be carried out, mainly, by Chinese companies, as in the case of the Hungaro-Serbian high-speed railway or Terminal II of Piraeus. This raises the question of reciprocity. While Chinese companies find an open-door environment in Europe, it is quite difficult – if not impossible – for a European company to succeed in winning a contract to build infrastructure projects in mainland China.

The question of reciprocity is closely linked to one of the thorniest issues in Sino-European relations: market economy status (MES). A provision in China's WTO accession agreement that allows other countries to treat it as a non-market economy will expire in December 2016,[38] potentially requiring the EU to begin drafting new trade legislation by the end of the year. Granting Beijing MES would make it easier for Chinese companies targeted in WTO anti-dumping cases to defend themselves. While Beijing argues that MES should be granted automatically in December 2016 under the terms of its WTO accession agreement, some EU member states maintain instead that this is not automatic, since China is not yet a market economy. It meets, in fact, only one of the five criteria set out by the European Commission for concession of MES status.

There are growing concerns in Europe that, through the Belt and Road initiative, China is seeking to tackle industrial overcapacity at home by dumping or exporting goods priced below production costs, risking thus to bring entire industrial lines across Europe to their knees. If the EU were to designate China a market economy, it would then be impossible for Brussels to strike back against unfair export practices with countervailing tariffs. There is, therefore, growing opposition in Europe to granting China market economy status, especially from manufacturing industries that see themselves as vulnerable.

Finally, closer Sino-European monetary ties may strain relations with the US. Europe is playing an important role in the internationalisation of the Chinese currency, a move that directly challenges the global status of the dollar.[39] Beijing has traditionally looked at the euro as the only serious counterbalance to the dollar and, consequently, has come to support the eurozone politically, divesting away from the dollar and into the euro in earnest in recent years. Today, euro-denominated assets represent more than one-third of China's total foreign currency reserves, the world's largest. US policymakers are, therefore, watching closely to see whether the EU is able to strike a balance between the historic transatlantic bond and China's pull on Europe.

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[38] Bendini and Barone, *Trade and economic relations*.
[39] Casarini and Otero-Iglesias, "Europe's Renminbi Romance".

Conclusion

If managed successfully by both sides, the Belt and Road initiative could offer a great opportunity for a continent that is still struggling to recover from the crisis. Beijing has faith in Europe's economy, as demonstrated by the multibillion euro investment commitment from China to Juncker's European Fund.

What is urgently needed in Europe, though, is a comprehensive response to China's new Silk Road, with the focus not only on the economy and trade, but also on monetary, financial, political and security issues. For instance, as projects on the Belt and Road traverse some of the territories used by the refugees fleeing the Syrian conflict and other war-torn societies, the stability of these regions should be a matter of priority for China as well. Brussels and Beijing have, therefore, a strategic interest in joining forces and contributing to bringing stability and prosperity to Europe's neighbourhood – without relinquishing, however, those norms and practices that Europe has long fostered.

It will be a success for both Beijing and Brussels if, by 2049, when the Belt and Road is supposed to be fully realised, all the routes connecting Europe with China traverse peaceful zones.

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