



JUNE 2016

## Economic Diplomacy in EU–China Relations: Why Europe Needs its Own ‘OBOR’

Having failed to show a united front vis-à-vis the China-proposed Asian Infrastructure Development Bank (AIIB) in 2015, the European Union (EU) and its member states now have the chance to improve their track record of defending shared European interests. China’s flagship ‘One Belt One Road’ (OBOR) initiative in particular provides impetus to develop a strategically coordinated European economic diplomacy. Following a broad overview of the ongoing economic diplomacy dynamics at the EU level, this Clingendael Policy Brief assesses OBOR’s strategic relevance, shedding light on the key challenges and opportunities that it presents for Europe, institutionally and normatively. The EU–China Connectivity Platform is highlighted as Europe’s most advanced response to Beijing’s economic diplomacy drive. As Europe’s engagement with China goes well beyond the Platform, however, the EU and its member states need to cultivate more tools and levers to unleash their joint vision and structured response to China’s activism. This includes the formulation of clear and parsimonious goals as well as a coherent message, prioritizing feasibility over normative ambitions, and making better use of non-governmental channels.

### Putting Europe in the Driving Seat

While Europe seems to be gradually coming to terms with the benefits of a more pragmatic and joint approach to economic diplomacy, China is stepping up its effort on what is arguably one of the most ambitious geo-economic strategies ever conceived: the One Belt One Road (OBOR).<sup>1</sup> A thorough understanding of OBOR as the catch-all term for China’s economic diplomacy today is required, not just to ensure that European analysts and policy-makers use this ‘hook’

to engage Chinese actors whenever possible. It is at the same time a starting point for some useful ‘reverse engineering’ aimed at drawing lessons from Beijing’s best (and worst) practices in economic diplomacy. In doing so, we should never lose sight of the fact that OBOR is a Chinese initiative, designed to serve Chinese interests primarily. In devising European responses to it, and in order to improve the European economic diplomacy record, it is crucial to focus on policies where European actors themselves are in the driving seat.

### European Economic Diplomacy in the Making

At the EU level, activism attesting a growing awareness of the beneficial role of a comprehensive approach to economic diplomacy has now been at play for a few years. This is broadening the EU’s role in the economic field beyond trade policy to include

<sup>1</sup> While official Chinese sources are gradually replacing OBOR with the new acronym BRI (Belt and Road Initiative), this Clingendael Policy Brief will stick to the former, which is still better known to the general public.

also trade promotion, and to devise better links with other policy fields in an attempt to better secure European prosperity and stability.

2013–2014 witnessed a peak in the Missions for Growth that were spearheaded by (then) European Commission Vice-President Antonio Tajani, who explicitly sought to incorporate political objectives and the promotion of EU norms such as sustainability into such initiatives. Subsequently, EU actors have also been the main backers of improved stakeholder engagement in economic diplomacy at the European level – seeking to promote synergies between policy fields including trade, economic competitiveness and finance, sustainable development and regional stability – against intra-EU adversarial competition. In this respect, 2015 marked a watershed, given the unprecedented dynamism on the part of the European Commission – led by Directorate-General (DG) Growth and the European External Action Service (EEAS) – aimed at developing cooperation across the actors' spectrum. The Commission set out to enhance cooperation with national trade promotion organizations (TPOs), held meetings with the key European business organizations (EBOs) and established an 'inter-service group' on economic diplomacy, bringing together several commissioners with an external portfolio, the EEAS, and the European Investment Bank (EIB). As this group is currently preparing an official EU Communication, the European Parliament is also taking an interest, putting discussion on European economic diplomacy also on its agenda.<sup>2</sup>

As argued elsewhere,<sup>3</sup> a truly European economic diplomacy would yield significant positive returns to all of the actors involved, adding substantial value at both the external and the internal levels of policy-making. Externally, synergic economic diplomacy would be beneficial to private businesses by

facilitating market and finance access. Also, if properly managed, it would be a powerful foreign policy tool that could strengthen the EU's normative power via the pragmatic advocacy of the core principles underlying the existing international order, by means of diplomatic signalling and the attachment of 'positive strings' when negotiating with third countries such as China. Internally, a strengthened EU component in economic diplomacy would positively add to both economic and foreign policy by providing a valuable platform for both peer-to-peer information exchange and intelligence gathering of European companies and governments.

### Success of OBOR as a Concept

Officially launched by Chinese President Xi Jinping in Kazakhstan and Indonesia in September–October 2013, OBOR has quickly grown to become the leading effort undertaken by China within its strategic goal of 'going global'. By improving infrastructural connectivity across the Eurasian and African continents (both overland and at sea), OBOR is heralded by the Chinese government as a 'harmonious and inclusive' initiative that seeks to 'promote the economic prosperity of the countries along the Belt and Road and regional economic cooperation, strengthen exchanges and mutual learning between different civilizations, and promote world peace and development'.<sup>4</sup> OBOR has been portrayed as the third milestone – following Deng's Special Economic Zones and the 2001 World Trade Organization (WTO) accession – in China's path of 'reform and opening up'. Like all foreign policy initiatives in China, OBOR reflects the overriding domestic concerns in the agenda of the Communist Party (CCP). Following the post-Mao fading out of the ideological strength of communism, the CCP has had to rely increasingly on performance to preserve its legitimacy and remain in power. Accordingly, OBOR should be understood as a domestically driven foreign policy strategy that is aimed at fostering change in the increasingly

---

2 In response to a Parliamentary question, a [debate on EU economic diplomacy](#) took place in the plenary session of the European Parliament on 8 June 2016 in Strasbourg.

3 Maaïke Okano-Heijmans and Francesco S. Montesano, 2016, 'Who's Afraid of European Economic Diplomacy?', Clingendael Policy Brief, April.

---

4 Ministry of Foreign Affairs of the People's Republic of China, 2015, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* (Beijing: Ministry of Foreign Affairs).

unsustainable Chinese economic and social model – as Chinese leaders and academics themselves admit – which is marred by production overcapacity,<sup>5</sup> environmental degradation and soaring inequalities. More concretely, OBOR promises to offer major opportunities, particularly to private actors – especially Chinese businesses, sometimes in cooperation with foreign companies – in a whole host of fields, including transportation and telecommunications infrastructure and services, risk assessment and market insight, legal services and arbitration, government relations and the energy sector.<sup>6</sup> As such, OBOR as a catchphrase captures the vast challenges and opportunities that economic diplomacy – in the broad understanding of the concept – sets out to address. Seen in this light, OBOR is an admirable initiative that should attract considerable interest, also from a non-Chinese perspective, as it manages to blend pragmatic activism based on infrastructure-building with a long-term vision, hinting at burgeoning **opportunities** on all fronts for those governments and companies choosing to partake in it. Moreover, OBOR can be seen as a welcome wake-up call to many in the developed West, stressing how high-profile vision and ambition can inspire debate and action – both from enthusiasts and critics – and thus further growth and development across countries and regions. Indeed, from a discursive standpoint, OBOR is already an unquestionable success, given how the Chinese government has managed to trigger excitement in large swathes of the globe over a ‘master plan’ that is in fact still far from defined in detail and hugely challenging to implement, thus *de facto* co-opting foreign actors into the very definition and implementation of its own (domestic) agenda.

---

5 See European Chamber of Commerce in China, 2016, *Overcapacity in China: An Impediment to the Party's Reform Agenda*, pp. 35–38.

6 Pansy Yau of the Hong Kong Trade Development Council (HKTDC), Goh Chee Kiong of Singapore's Economic Development Board, and information from other countries' trade-promotion agencies, quoted in: The Economist Intelligence Unit, 2015, 'At a crossroad: What China's new economic diplomacy means for business', p. 17.

Clearly, the seemingly all-encompassing outreach of OBOR is amplifying the variety of **conflicting interests and risks** that are faced by those choosing to engage with it. As far as **private actors** are concerned, there is a clear divergence between the agenda of big multinational corporations (MNCs) that are already established in foreign countries, and that of smaller newcomers (usually small and medium-sized enterprises (SMEs)) to those countries.<sup>7</sup> As OBOR develops in Europe, MNCs will be able to use their superior resources and outreach to balance the pitfalls of increased (and possibly unfair) competition from Chinese companies in Europe with the attraction of operating in the Chinese market (where they already have a foothold). On the other hand, SMEs lack the assets to operate on both stages, and will therefore only be confronted with one of the relevant challenges (growing competition in Europe or restrained access to the Chinese market).<sup>8</sup>

### Europe's Response to China's OBOR

At the government level, engaging with OBOR will, once again, put under scrutiny whether the EU can be more than a collection of individualistic entities. As Beijing's OBOR-branding machinery was kicking into gear, most EU member states significantly increased their activism towards China, eagerly trying to win the prized role of 'foremost gateway' for the implementation of OBOR in Europe.<sup>9</sup> In June 2015, Hungary became the first European country to

---

7 See Nadine Godehart, 2016, 'No End of History: A Chinese Alternative Concept of International Order?', Berlin: SWP Research Paper (RP2).

8 For a detailed case study on how this plays out in the telecommunications sector, see Astrid Pepermans, 2016, 'Hoe China het Sino-Europees Telecomconflict Won' [How China Won the Sino-European Telecoms Dispute], *Internationale Spectator*, April.

9 For its part, China has not been shying away from fuelling such ambitions, openly praising EU member states' efforts and validating their claims, particularly (but not exclusively) in Central and Eastern European countries. For instance, Chinese officials have referred to Hungary as 'pioneering and exemplary', to the Czech Republic as 'a pivotal bridge in the Eurasian landmass', and to Poland as 'an important partner in implementing OBOR'.

sign a memorandum of understanding (MoU) with China on promoting OBOR. In September 2015, the United Kingdom's Foreign and Commonwealth Office (FCO), in cooperation with the China–Britain Business Council, published the first comprehensive strategic document on how London could benefit from the OBOR initiative, both by helping its private sector to jump on Beijing's bandwagon and by attracting Chinese companies to the United Kingdom.<sup>10</sup> Further complicating the puzzle, China has been actively linking up OBOR with its investment strategy in Central and Eastern Europe (CEE), whose cornerstone is the **sub-regional** '16+1' framework, which was launched in 2012. Within the 16+1, Chinese economic diplomacy has been picking up significant speed by deploying an array of tools, including a credit line worth US\$ 10 billion, branch offices of Chinese state-owned banks in CEE countries, and the China–CEE Investment Cooperation Fund. The fragmenting potential of these sub-regional dynamics are evident, in that not only do they foster a framework that is only partially overlapping – and thereby potentially conflicting – with the EU, but they also trigger internal competition *within* the framework, as members of the 16+1 seek to build stronger bilateral ties with China.<sup>11</sup> The picture presented above illustrates how engaging with OBOR can pose a threat to intra-EU cohesion. What is more, it could also jeopardize future integration plans, as it might lure candidate countries into accepting Chinese investment-oriented loans far beyond their own economic sustainability. Consider, for example, the fact that Montenegro in 2013 accepted a Chinese loan for a motorway worth approximately one-third of its gross domestic product (GDP).<sup>12</sup> Should the financial fundamentals of the small Balkan state deteriorate in

the coming years, this could prove a very dangerous undertaking, particularly in light of the need to comply with EU regulations regarding fiscal capabilities.

The **normative challenges** stemming from such enthusiastic engagement in what remains a Chinese initiative should also not be underestimated. Indeed, OBOR ticks all the characterizing boxes of Chinese foreign policy under Xi's rule: bilateralism, as evident in its emphasis on 'partnerships' rather than more multilateral alliance structures; multilateralism 'when it suits', meaning Beijing's willingness to rely on multilateral initiatives only when it is able to initiate and therefore control the process, as embodied by the growing role played by the AIIB; *fait accompli*, meaning that China tends to present other countries with 'ready-for-implementation' initiatives, without providing preliminary information or involving them in the earlier stages of the decision-making process.<sup>13</sup> Hence, by subscribing all too easily to the new trade opportunities that are offered by OBOR, EU member states run the risk of further marginalizing the multilateral, non-discriminatory and rules-based system centred on the WTO. This risks (further) undermining the cohesion of global trade governance and increasing the level of friction between the leading world economies, which is clearly not in Europe's interest.

How to strike the right balance and take advantage of the opportunities presented by OBOR without succumbing to its potentially divisive challenges? First and foremost, the EU and its member states need to step up their game in order to foster win-win coordination. Specifically, they should incentivize network synergy with China in a proactive fashion, by developing more initiatives of their own that are aimed at increasing their steering power *vis-à-vis* Beijing's economic dynamism. In this regard, while a certain degree of normative flexibility is necessary, the EU (and its member states) should not shy away from actively promoting its values-based agenda for global

---

10 China–Britain Business Council and the FCO, 2015, [One Belt, One Road: A Role for UK Companies in Developing China's New Initiative](#).

11 Jakub Jakobowski, 2015, *China's Foreign Direct Investment within the '16+1' Cooperation Formula: Strategy, Institutions, Results*, OSW Commentary, November.

12 "Authors' interview with a DG MOVE official". See also online at [Government of Montenegro](#).

---

13 Unpublished paper presented by Charlie Parton, senior EEAS official, at Chatham House, London, 29 September 2016.

(economic) governance. This should not be done via lofty rhetorical efforts, but rather by pragmatically prioritizing engagement in areas that match China's longer-term interests. The issue-based plurilateral approach that has been taken in response to the standstill in the WTO Doha Development Round negotiations – by means of various sectoral agreements such as on trade in services (TISA), environmental goods (EGA) and government procurement (GPA) – while continuing negotiations on an EU–China Comprehensive Investment Agreement, is a good example of what we could term 'pragmatic upholding'. If this is an element of a European economic diplomacy towards China, we are on the right track.

## Waking up to the Challenge?

Perhaps unsurprisingly given the challenges outlined above, EU member states' response to OBOR has so far been characterized by a relatively cautious, wait-and-see approach by most governments.<sup>14</sup> Although some are more responsive than others, using OBOR as a way to promote better ties with Beijing, actions hardly surpass the rhetorical level. Some governments simply lack the capacity to assign officials with the task of actively keeping track of OBOR, and the MoUs on OBOR that some Eastern European countries signed with Beijing are lacking in substance. Of the EU countries, Greece has become most actively involved in OBOR because of the port of Piraeus (now largely in the hands of a Chinese state-owned company), but the Greek government has not been entirely consistent in its support for Chinese investments over the past few years. The Sino–French investment in British nuclear energy and Britain's official support for business opportunities in third countries are both OBOR-related, but hardly add up to an active and consistent British attempt at giving OBOR a central role in UK–Chinese relations. Germany had its big

---

14 This paragraph draws on the authors' informal discussion with Frans-Paul van der Putten, Senior Research Fellow at Clingendael and chair of the New Silk Road Working Group of the European Think Tank Network on China (ETNC).

OBOR moment when German Chancellor Angela Merkel and China's President Xi Jinping met at Duisburg port in 2014, but any follow-up has been scant. Finally, the Dutch initiative to discuss OBOR between a group of government and public-sector representatives as well as researchers – the so-called Silk Road Platform – aims to create a basis for a coherent response by the Dutch government to OBOR, but this remains a work in progress.

## The Connectivity Platform

Given this highly diverse picture at the national level, analysis of the value-adding potential of the 'flagship' EU-level initiative that seeks to engage with China's economic diplomacy dynamism is of major interest. The **EU–China Connectivity Platform** (CP), which was launched in September 2015, is an initiative undertaken by the European Commission that seeks to enhance synergies between China's OBOR initiative and the EU's connectivity initiatives such as the Trans-European Transport Network (TEN-T) policy.<sup>15</sup> As such, the Platform aims to promote cooperation in areas such as infrastructure, equipment, technologies and standards. With the Directorate-General for Mobility and Transport (DG MOVE) and the EEAS as overall coordinators, and including a variety of other EU services – such as those responsible for trade; entrepreneurship and small and medium-sized enterprises; economic and financial affairs; taxation; and neighbourhood and enlargement negotiations<sup>16</sup> – the Platform is a decidedly Brussels-based endeavour. While its centralized nature could certainly add to the CP in terms of coherence and efficiency, the lacking involvement so far of the member states – crucial for effective output and ultimately the success of any EU initiative – is a liability that requires major attention.

---

15 European Commission, 2015, *Investment Plan for Europe Goes Global: China Announces its Contribution to #investEU*, press release, 28 September.

16 For example, DG TRADE leads on procurement, export credit and investment talks, etc; while DG GROW (the Directorate-General for the Internal Market, Industry, Entrepreneurship and SMEs) takes the lead on GPA.

The first ‘formal’ working group meeting of the CP, which took place in February 2016, highlighted a remarkably broad yet structured agenda.<sup>17</sup> Alongside more technical issues pertaining to financing cooperation and facilitating border crossing, two items should be highlighted. The first is the substantial focus on infrastructure planning – that is, discussion on how to achieve the highest possible level of synergy between the EU and China. This takes place not only in a defensive sense – that is, ensuring that Chinese actions do not undermine EU initiatives such as the TEN-T<sup>18</sup> – but also investigates opportunities for possible cooperation, including in third countries. Second, emphasis is placed on the need to foster better understanding of the EU’s regulatory framework, including on public procurement, competition policy, and on environmental and technical standards, with the EU’s aim being to ensure compliance with EU regulations, not only within the EU but – ideally – also in its neighbourhood. As hinted at above, this more normative angle is of paramount importance in order to minimize OBOR-related risks and, in the longer run, to spur China towards greater systemic conformity.

The Connectivity Platform has quickly grown to become a procedural centrepiece of EU–China relations, serving as the default venue for discussions on the broader relationship between Brussels and Beijing. Working-level meetings continue and will soon be complemented by high-level meetings involving the EU Commissioner. Among EU officials, there seems to be widespread agreement on the relevance of the CP as a way for the EU to defend shared interests of the member states. Such relevance plays out in two main ways. First, the Platform should serve as a powerful tool for intelligence-gathering with regard to China’s ongoing and foreseen investment plans. Second, it should also be used as a signalling platform – that is, as a way to get consolidated European standpoints across, hence communicating

how the economic diplomacy ‘game’ should be played in Europe. This includes the push for opening up the Chinese market itself, especially in the fields of public procurement, food and services. With regard to this second point, it is worth restating how the objective of getting China to conform with EU norms and standards is very explicit, and has already been featuring in bilateral discussions for quite some time.<sup>19</sup> This is now more challenging than before, as China unfolds more initiatives – of which OBOR, the AIIB and the BRICS nations’ New Development Bank<sup>20</sup> are exemplary – that aim to change the norms of global economic and political governance to a form that better suits China’s own interests and its view of itself as back to its rightful position at the centre of the world. Additionally, as several EU officials have pointed out, the challenge is made even more complex by the lack of transparency and generalised reticence to share information on the scope and scale of planned investments displayed by the Chinese side.

Finally, the Connectivity Platform’s potential to advance the foreign policy side of EU economic diplomacy – another crucial area of added value – should not be underestimated. Proactively developing a platform that is devoted to strengthening trade and investment with China provides a boost to the EU–China strategic partnership. At the same time, this sends a clear message to Russia that its (geo)political unreliability is making it an undesirable partner. The EU thus engages other actors also as a way of reducing its dependence on Moscow and worsening the Kremlin’s already growing international isolation.

### Developing More Tools

A European economic diplomacy strategy towards China should, however, be about more than the CP. As with any strategy

---

17 *1st Working Group Meeting of the EU–China Connectivity Platform: Results and Prospects*, 5 February 2016, PowerPoint presentation received by the authors from an official at DG MOVE.

18 [See online.](#)

---

19 Authors’ interviews with officials from DG MOVE and DG NEAR (the Directorate-General for Neighbourhood and Enlargement Negotiations), 4 and 19 February 2016.

20 The New Development Bank is a multilateral development bank established in 2015 by the so-called BRICS states – that is, Brazil, Russia, India, China and South Africa.

towards a key partner, Europe should pursue clear and parsimonious goals, prioritising feasibility over normative ambitions – that is, choose and focus, as a general guideline. The EU delegation to China plays a significant role in devising such policies and in ensuring consistent exchange of information between European and local players, including in the realm of economic diplomacy. In this light, the current drafting of economic diplomacy guidelines for EU diplomats – including in China – is promising.<sup>21</sup>

In communicating with Chinese counterparts, it is crucial to ensure that all EU actors convey a coherent message. The ambition should be to have high-level representatives from the EU member states do the same. Engagement should focus on issues of concern to the Chinese themselves and on issues that make for European business opportunities. These include food security, smart green urbanization, social healthcare and sustainable development, especially pollution control.

In order to bolster coherence and consistency, European economic diplomacy will benefit from greater strategic understanding of EU–China relations among European policy-makers and politicians, as well as from more regular exchanges between leading scholars and entrepreneurs in Europe and China. To this end, greater resources should be invested in more frequent and structured meetings between European officials dealing with China and members of the European Parliament. Separately, the EU should promote more enduring people-to-people exchanges between leading European scholars and entrepreneurs and Chinese (future) leaders, including track-two dialogues on the sidelines of all official summits and perhaps even meetings of CEOs with leaders themselves. Such efforts serve to create more ‘lines of communication’, which will serve to strengthen the flow of information in both directions and to stabilize the relationship in difficult times. The European Chamber of Commerce has served as

a valuable unofficial diplomatic channel between Europe and China for some years already, and should be cherished as such. Its efficiency and effectiveness are strengthened by the broad remit of its 43 working groups and forums, which deal not only with trade matters but also with ‘horizontal’ issues such as business ethics, intellectual property rights and corporate social responsibility. Chinese actors appear to be well aware of the importance of the chamber as a communication tool; European actors, however, are lagging behind and stand to gain from better interaction with it.

## Conclusions

This cursory overview of the added value brought by European economic diplomacy also helps to highlight the general relevance of a pragmatic approach to policy-making, even (or especially) when pursuing normative goals. Indeed, comprehensive economic diplomacy initiatives should be undertaken using a results-driven sectoral – that is, thematic – approach. Pooling resources along the private–public and national–EU axes is Europe’s best shot at reaping short-term economic results while simultaneously striving to promote its longer-term normative agenda, and is therefore vital for ensuring the EU’s continued global relevance in an age of power shifts.

The development of the Connectivity Platform as an increasingly crucial framework in the EU’s dealings with China offers promising evidence of the growing awareness of the added value that pragmatic and coherent economic diplomacy initiatives can bring to both economic and foreign policy-making. In doing so, in addition to the more substantial side of its added value, the CP succeeds in avoiding the trap of using Chinese vocabulary and slogans that risk diverting us from the underlying reality – namely, that OBOR is designed to serve Chinese interests. However, the CP still requires some work if it is to become a real catalyst of European interests. First, it needs to develop in a more inclusive sense, particularly with regard to the EU member states, which are largely oblivious of its existence and activities at this stage. Moreover, more emphasis should be given to strengthening its pragmatic

---

21 Statement by European Commissioner Jyrki Katainen in the European Parliament on 8 June 2016; and informal communication with an EEAS official.

and sectoral nature, since – as seen above – this is the most viable way for the EU to uphold its liberal values and, eventually, potentially to have any meaningful normative impact on China. This is all the more relevant if any progress is to be made with regard to the currently severe imbalances in the relationship in terms of exchanging information and transparency, for instance on planned projects.

While the CP, as an EU initiative, undoubtedly constitutes a step in the right direction, it is

still a relatively narrow bilateral undertaking that is separate from the many developing areas of EU–China economic relations.

The need thus remains for the EU and its member states to develop more tools, as well as a broader, more comprehensive economic diplomacy strategy wherein the key tenets should be applied to all future engagements. Considering the need to develop a European response to OBOR, starting with a coherent European economic diplomacy policy towards China, would surely help Europe on its way.

## About the Clingendael Institute

The Netherlands Institute of International Relations ‘Clingendael’ aims to enhance and deepen knowledge and opinion shaping on issues related to international affairs. The Institute realizes this objective through its research, training and consultancy for national and international parties. The Institute publishes reports and policy briefs, holds numerous conferences and publishes the digital magazine *Internationale Spectator*. Every year Clingendael offers a wide spectrum of courses and programmes, training hundreds of diplomats, civil servants, and other professionals from all over the world. For further info, please view: [www.clingendael.nl](http://www.clingendael.nl)

### Follow us on social media

 @clingendael83

 The Clingendael Institute

## About the authors

**Francesco Saverio Montesano** is Research Assistant at the Netherlands Institute of International Relations ‘Clingendael’ in The Hague.

**Maike Okano-Heijmans** is Senior Research Fellow at the Netherlands Institute of International Relations ‘Clingendael’ in The Hague.