

Looking Backwards to Go Forwards? Europe at a Crossroads

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POLICY BRIEF

THE EUROPEAN UNION IN THE ERA OF TRADE CORRIDORS

“Contrary to the dogma of Milton Friedman and his followers, markets are never “free”, they are always manmade” (Engdahl, 2012). The essential element to build new markets is building infrastructure and for the vast landmass of Eurasia, railroad linkages are essential. The European Union which is considered the most successful regional organization and is the world’s largest trading bloc is at present faltering. Ever since the sovereign debt crisis of 2008, Europe has been deeply occupied with its internal turmoil such as the refugee crisis, terrorist attacks and the Brexit referendum. With rapid growth in world trade, the demand for trade corridors is on the rise and it is time for Europe to change its stance and play a leading role in the infrastructural development in and around the Eurasian region. Since, a rich world-wide history of prosperity and success is credited to trade corridors, enhancing the EU’s connectivity to enter new markets in Central Asia and Asia might just be the way forward. As such China’s Belt Road Initiative (BRI) which aims at building trade corridors across the Eurasian landmass might be a good forum for the EU to collaborate with.

Europe and Asia do not share a natural physical boundary and they are a part of a single land mass. As such, trade routes between Europe and Asia are not new, in fact the ancient silk route between them was one of the most significant historical trade corridors. Many have attempted to revive the ancient silk route and build new land transport infrastructures in the recent past. Especially now, the building of trade corridors across countries has become an interesting trend in international affairs. Some of the prominent attempts at building trade corridors in Eurasia are as follows:

1. NELTI: The New Eurasian Land Transport Initiative was a project undertaken by the organization of the International Road Transport Union (IRU) in 2008 in Tashkent.
2. UNECE: The United Nations Economic Commission for Europe is an international project which mainly concentrates in the assistance of trade and transportation between Europe and Asia.

3. CAREC: Central Asia Regional Economic Cooperation (CAREC) is an international program initiated in 1997 with a view of encouraging development by improving transportation facilities of the member states.

The EU too administers a project called the Transport Corridor Europe-Caucasus-Asia (TRACECA) or the Silk Route of the 21st century which aims at encouraging growth in Central Asia, Caucasus and the Black Sea region. The EU launched this project in 1993 to improve the transport corridor from Europe to China in order to foster trade. The concept behind TRACECA is similar to the one envisaged by China's ongoing BRI.

At the outset, it should be duly noted that the Silk Route was never a single route but a collection of pathways both land and maritime all over Asia (Noor:2015). China is increasing its trade across continents and is also very meticulously planning ways to enhance its formal trade relations. It has been lobbying for the Silk Road Economic Belt (SREB) with great enthusiasm, a project that will help its trade with Asia, Africa, Middle East and Europe to be easy. It has indulged itself in the construction of railway lines and has started new trains to Europe through Central Asia. It is also focusing on enhancing the sea routes to help connect with the various ports from the South China Sea to the South Pacific and the Indian Ocean through a project called the 21st century maritime Silk Road. The Maritime Silk Road (MSR) is also referred to as the Silk Road Economic Belt's "twin half" (Chan:2015). Together, the SREB and the 21st Century maritime silk road is called the OBOR project or the BRI. The MSR is China's plan for economic cooperation from the Pacific to the Baltic Sea. This project includes oil and gas pipelinesⁱ as well. This might just turn out to be a boon for the energy deficit European countries that are extremely depended on the Russian gas pipelines for the energy supplies. According to China's economic planning agency and the Commerce and Foreign Affairs ministries, the expenses of this project is going to be covered by funds from the China led multinational AIIB and the \$40 billion Silk Road Fundⁱⁱ and the New Development Bank set up by Brazil, Russia, China, India and South Africa.

The EU's response to the BRI was rather lukewarm when President Xi first announced it in 2013. Today, the idea seems to be growing on the Europeans but not fully. The EU's response to the BRI is mixed. It can be looked at from two standpoints – at the EU level and at the level of

individual countries. On paper, the BRI is just perfect for the EU as it promises growth, development and connectivity. However, in spite of the BRI being a perfect fit for the EU's own plans of reconnecting with Central Asia and Asia there are still some reservations about it and not without reason.

Europe and China are perfect examples of two opposing systems. They differ in their ideologies as well as practices. There are a lot of practical problems in doing business with China and taking into consideration its numerous allegations of unfair trade practices, issues of human rights violations and many others. As such the EU as an institution is not very inclined to collaborate with China. Aside from the ideological differences, the EU-China bilateral relations are currently not in best terms since the EU clearly showed its disapproval of China's market strategies by refusing to grant the MES status to China.

The hesitation to work with China is however seen only at the EU level. When it comes to individual member states of the EU, Europe is not too hard on China after all. Especially after the 16+1 framework¹ came into force in 2012, the central and eastern European countries are more than keen on collaborating and coordinating with China. China has also been slowly increasing its economic role in Central Asia and as mentioned in the previous section, new railway lines from China to Europe has been making the headlines frequently since 2013.

There are various railway lines that run through Eurasia branching out at different locations and at present, almost all the railway lines are initiated by big multinational companies, specially between Europe and China. The new Silk Road is a railway route which links China and Germany through Kazakhstan, Russia, Belarus and Poland. The route which runs through Kazakhstan is sometimes called Second Eurasian land bridge (Engdahl, 2012).

Additionally, China's top state-owned enterprise is building a high-speed railway line between Belgrade and Budapest. Another infrastructural project in Europe by China is the Greek harbor controlled by the China Ocean Shipping Company (COSCO) which successfully acquired 51 percent of the port authority. This helps China's MSR ambitions. The various infrastructural project in Europe in collaboration with China show that the European countries do see China as a

¹ The 16+1 framework refers to different arrangements and mechanisms between China and sixteen Central and Eastern European countries that were formed after the historic visit of Premier Wen Jiabao's to Poland in 2012.

likely partner and that there are instances where there was not much regard for the European Commission's opinion. In fact, Hungary is still under investigation for violations of the EU's transparency requirements in public tenders in relation to projects (Corre, 2017).

At the EU level, there is no progress though. There is still no bilateral investment treaty between the EU and China and the EU has not published a unanimous response to the BRI still. While Italy, Spain, Hungary, Greece and Poland were represented by their presidents in the BRI summit earlier in May, the EU was represented by the European Commission's vice President. Out of the EU's twenty-eight member states, ten countries were present for the first Belt Road Forum summit. This is a problem for the EU because there is already a lot of policy related muddle within the EU and member states are going out on their own to do business with China. This tends to weaken the already faltering union. Such divisions happened in the past too due to China like when Britain went against the union and the US to join the AIIB.

Apart from the European Countries, there are many other countries trying to gauge China's BRI. While India altogether skipped the BRI summit breaking its long indecisiveness on the issue, Russia and Pakistan had an informal meeting during the summit in Beijing. In fact, President Putin was given a lot of importance throughout the conference. Altogether there were twenty-nine heads of governments present in the forum. As for BRI, Europe's cooperation is important for its success.

Not only are countries divided in their responses to the BRI but there is a division within the countries amongst the various stakeholders. For instance, cities, provincial governments, large companies, have been the most active in engaging in the BRI. These are actors who have a direct stake and they mainly believe that the BRI would bring new economic opportunities by attracting more trade and investment from China as well as opening up new markets in places such as Central Asia and Africa.

Local governments where the railway line has already started such as Duisburg and Hamburg in Germany and Madrid in Spain and Amsterdam and Rotterdam in Netherlands perceive the BRI in a much favorable light. Very recently, in mid-June a new rail link was designed to provide an alternative to maritime and air services from the northern Italian town of Mortara with the capital

of Sichuan province, Chengdu. This service is seemingly a blessing for the fashion, food, automobile and hi-tech industries (Capuzzo, 2017). German rail company DB Cargo will run the service in Europe, which will be largely dedicated to transporting cars at first. The people of Mortara consider this as a huge opportunity. Earlier in April, 2017 the first freight train from United Kingdom to China (London to Yiwu) departed carrying products such as vitamins, baby products and pharmaceuticals. This only proves how the countries are not going to hesitate to join the BRI as long as their partnership with feeds their economic interest.

Since the EU is already faltering due to issues such as the sovereign debt crisis, the refugee crisis, the Brexit referendum and other various policy related muddles amongst the member states, it should proactively work towards maintaining its integration by increasing the possibilities economic development especially amongst its lesser richer countries. It should take advantage of China's initiative and negotiate the BRI's plans to equally suit its needs so as to maintain a win-win situation. Of course, there are longstanding issues between the EU and China, issues that may not be resolved for a very long time such as the issue of arms embargo, the issue of granting MES to China, the issue of the US influence on the EU's decision making and many more. Given their opposing ideological backgrounds the EU and China may not be able to see eye to eye on many important matters but this in no way suggests that collaboration between them should be clouded with these long-standing issues. As two of the world's strongest economies, both the parties are competent enough to work around their disagreements and cooperate with one another for the betterment of the entire Eurasian region. In both the EU and China have already started cooperating on some of the world's biggest problems like terrorism and climate change. This is a refreshing development and it will be in the best interest of all if the EU could come up with an unanimous dialogue responding to the BRI.

ⁱ Chinese proposals to develop Kunming Railway that will connect China-Singapore and other countries in Southeast Asia, as also the recently commissioned oil and gas pipelines and and proposed railway line connecting the Rakhine coast of Myanmar with Kunming, underscore this thinking. The MSR proposal, thus, compliments such infrastructural initiatives and enables landlocked south-west China to access markets in Southeast Asia. Available in <http://www.idsa.in/journalofdefencestudies>

ⁱⁱ The Silk Road Fund Co Ltd was established in December 2014 in Beijing, after President Xi Jinping announced the creation of the \$40 billion fund in November.

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