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The Risks of the Belt and Road Initiative in the Construction of Eurasian Economic Corridor

Summary

In this paper author analyzes the perspective of economic cooperation between the EU and the People's Republic of China, from the angle of the potential risks that could jeopardize the implementation of the "Belt and Road" initiative. After a brief introduction, dedicated to general information about the "Belt and Road" initiative, author analyzes each of the following seven risks: the risk of EU division or disintegration, the rise of populism and trade protectionism in the US and the EU, trend of mutual sanctions between EU and Russia (as an obstacle to the Eurasian trade connectedness), the Ukrainian crisis (as a potential catalyst for geopolitical conflicts on the Eurasian soil), the problem of immigration and refugees, competition of road and maritime transport, competition of Russia and China in the construction of the Eurasian corridors. In the final part, the author gives recommendations for practical policies in order to overcome these risks.

Keywords:

Belt and Road, EU, People's Republic of China, Eurasian Economic Corridor, risk, populism, trade protectionism, sanctions, Ukraine, the refugee crisis, road and maritime transport, competition

I. A BASIC INTRODUCTION TO THE EURASIAN ECONOMIC CORRIDOR

The EU/European market has always been fundamental to the development of economy and trade of China. The EU is the No. 1 trading partner of China. With regard to the Gross Domestic Product (shorted as "GDP"), the EU is the largest economy in the world with the US and China ranking

as the second and third largest economy respectively. Needless to say, the cooperation between two powerful economies, namely EU-China cooperation, is of great significance to the economic development of China. For this reason, China has always been committed to pushing forward the construction of the Eurasian Economic Corridor, so as to facilitate the bilateral trade between two sides.

There are mainly two routes of trade from China to Europe: one is the land route named the Second Eurasian Land Bridge or the New Eurasian Land Bridge; the other is sea route called the China-Europe Land-Sea Express Passage. The land route focuses on building the CHINA RAILWAY Express which is international railway container transport operating on the route from China to Europe and along the “Belt and Road”. The CR Express was launched by the China Railway Corporation and operates according to the fixed trips, routes, timetables and runtime of the whole journey. It is definitely the important carrier for the deepening of the economic and trade cooperation between China and countries along the “Belt and Road” as well as the key to the promotion of building the “Belt and Road” Initiative. The China-Europe Land-Sea Express Passage is an important sea route between China and Europe which starts from the coastal cities in the south of China and ends at the Piraeus Port in Greece via the Mediterranean Sea. At the Piraeus Port, Chinese cargo can be directly transported to European hinterlands via the Greece-Macedonia-Serbia-Hungary Railways. The construction of both the land and sea route will lay solid foundation for the construction of the Eurasian Economic Corridor.

II. SEVEN RISKS IN THE CONSTRUCTION OF THE EURASIAN ECONOMIC CORRIDOR

In the past years, through hard work, China’s risk management on the security of the Corridor has been improved to some extent. Despite that, the “soft” risks are constantly emerging, which needs timely assessment and response. What the author emphasized in this article is that the security risks of the Corridor does not only refer to a series of real security challenges, but also include some “soft” risks with the focus of operating efficiency, quality and the general environment of global trade, etc.

Risk One: the Potential Risk of the Break-up or the Disintegration of the EU

Based on the current situation, the European integration is in lack of momentum and faces the increased risks of going backwards. As an united big market, the EU has been playing a huge role in promoting the connectivity and trade cooperation between China and Europe, and is one of the major engines for the development of European and Asian markets. If the EU, as an united market, splits or disintegrates, the cost of the cooperation between Chinese and European market will rise dramatically, which will be unfavorable to the implementation of the “Belt and Road” Initiative.

Although the break-up or the disintegration of the EU is considered as the low probability event, it could still happen. The France’s Front National that calls for separation from EU has targeted 2017 as the year to make utmost efforts to campaign for referendum and realize French exit from the EU. The constitutional referendum held in Italy in 2016 wasn’t approved and thus the constitutional reform did not come into effect. Following that, Renzi tendered his resignation as Prime Minister, which created favorable conditions for the 2017 campaign of the Italian populist party the Five Star Movement who called on people at all social levels to oppose refugees and the European integration. Spain’s “We Can” party and Greece’s Coalition of the Radical Left have received relatively high support in the national parliamentary elections in recent two years. Germany’s populist party, the Germany’s Choice Party (AfD) has experienced a rapid growth, adding some uncertainties to the 2017 German election. Within the EU, views about a weakening EU keep on rise. The EU disintegration used to be a forbidden topic for politicians, but now it usually becomes the focus of politicians’ attention. Donald Tusk, the President of the European Council, also admits that the emotions like anti-EU, nationalism and xenophobia are running high within the EU. Worse, the number of people who still believe in policy integration falls sharply. The rise of populism and the increasing doubts for basic values of freedom and democracy also remain as major concerns.¹The EU has indeed come to the crucial moment at stake. If EU member countries don’t work together, there is a possibility that the EU would cease to exist.

¹ “United we stand, Divided we fall”, letter by President Donald Tusk to the 27 EU heads of state or government on the future of Europe, <http://www.consilium.europa.eu/en/press/press-releases/2017/01/31-tusk-letter-future-europe/>

*Risk Two Populism and Trade Protectionism Prevail
Increasingly in Europe and the US*

In recent years, the European populism is rapidly spreading throughout the Europe, which not only stands for the duel between the European Pro-Establishment Camp and the Anti-Establishment, but also reflects an unprecedented crisis of confidence encountered by the European integration. Issues such as the European debt crisis, refugee crisis and the Brexit have fueled people's doubts for the Pro-Establishment elites. Common people can hardly ever gain the benefits of European integration. Instead, they suffer from more and more unfair treatments. As a result, they grow increasingly suspicious of the mainstream parties.

The America's Anti-Establishment Representative Donald Trump was appointed as the President of the US on January 20th, 2017. His victory of the presidential election has indeed mirrored that the masses are more in favor of the anti-immigration and the politicians who raise doubts for the western mainstream values, and they hope that the new state leader will find better solutions. However, the fact that Donald Trump came into power has further stimulated the rise of the European Right-wing Populism.

The increasing popularity of the populism has made the EU more conservative with less time and power to synergize the cooperation with China, including the "Belt and Road" Initiative. The populism obviously advocates the anti-globalization and holds that the emerging countries like China must shoulder necessary responsibility and make the market opening commitments in response to the benefits they have received from the globalization. Moreover, it urges the EU to protect its own market and job positions. Under such circumstance, the EU highly votes for the trade protectionism and frequently file anti-dumping and anti-subsidy on Made-in-China products.

With the change of the US and the EU's attitude toward the globalization as well as the further spread of the anti-globalization, the trade protectionism is likely to become the biggest risk of the global economy in 2017. China has received the biggest number of the anti-dumping and anti-subsidy investigations from Europe and America in recent years. In the mid-term of 2016, the Ministry of Commerce of China reports that, throughout the world, China has received most anti-dumping investigations for 21 consecutive years and most anti-subsidy investigations for a decade. Based on the situation at the beginning of 2017, China remains to be the main target of the "Double Antis" launched mainly by the US and the EU on the trade measures taken on China. This definitely goes against the "Belt and Road"

Initiative which advocates openness, inclusiveness, free trade and more efficient globalization.

Risk Three: The Mutual Sanctions between Europe and Russia Impedes the Eurasian Trade's Inter-connectivity

On March 17th, 2014 the European Council made a formal announcement that the EU would adopt restrictive measures against actions threatening Ukraine's territorial integrity targeting 21 Russians including travel restrictions and freezing assets. Ever since then, the EU has imposed continuous sanctions on Russia, and together with the US, it tightened existing sanctions and added more sanctions against Russia. At the same time, Russia has adopted anti-sanction measures to the EU.

Russia and CEECs are two critical junctures of Eurasian continent; therefore, the mutual sanctions between Europe and Russia have severely affected the inter-connectivity of trade in Eurasia, and caused disturbance to the realization of unimpeded trade in the construction of the "Belt and Road". For instance, due to the Russia's sanctions on the EU, the agricultural products imported from Poland can not be delivered to China by the CHINA RAILWAY Express through the Eurasian Land Bridge. At the macro level, whether the tension between Europe and Russia can be alleviated could have profound impacts on the further connectivity of Eurasia and the progress of the construction of the Eurasian Economic Corridor. So far, the newly-elected President of the US, Donald Trump has the intention to alleviate ties with Russia. In addition, some CEECs also wish the EU to lift sanctions of trade on Russia as soon as possible. However, the opinions within the EU are divided on this matter. If the mutual sanctions between Russia and the EU remain unresolved in short term, the construction of the "Belt and Road" will have to face with the risks of "there are links between Eurasian continent but poor connectivity".

Risk Four: The Ukraine Crisis Triggered the Geopolitical Conflicts of Eurasia

The Ukraine Crisis broke out in late 2013, which made the geopolitical conflicts and tensions between Russia and the West aggravated. Some CEECs such as Poland and the Baltic States have upgraded their defenses by introducing the power of NATO to confront Russia, and Russia responded the same. Currently, European countries are generally pessimistic towards the prospect of the Ukraine crisis in the way that they believe that the Ukraine

crisis will become a tricky and unresolved geopolitical crisis of Eurasia in the short run. The influence of the geopolitical confrontation on the connectivity of Eurasia is quite evident as the constant conflicts in the region aggravate the investment environment. Some CEECs including Poland call for China to resolve the geopolitical conflict by exerting policy pressure upon Russia based on its need of promoting the “Belt and Road” Initiative.² As a matter of fact, China will not interfere with Russia’s domestic and foreign policies. Apart from that, the Ukraine crisis is by no means accidental, and it would be unfair to point the finger wholly at Russia. After all, the America and the EU’s continuous expansion eastwards and strategic pressing on Russia also give rise to the crisis.

On January 31st, 2017, the east of Ukraine resumed war with another round of conflicts. At present, there is hardly any sign of complete alleviation of the Eurasian geopolitical conflict. In that case, the “Belt and Road” Initiative has to proceed and progress while facing geopolitical tensions.

Risk Five: The Problems of Immigration and Refugees Haunt Europe and the Balkans

The Balkans play an essential role in the construction of the sea route between China and Europe, but the region is geopolitically sensitive and extremely vulnerable to the geopolitical unrest. The relationship between some Balkans is problematic and suffers from the refugee crisis. In addition, some Balkans are in lack of economical and social stability. Meanwhile, the Balkan region is accessible to the refugees, facing serious challenge of refugee flows. Turkey has constantly suffered from violent terrorist attacks, which makes it hard for the EU to rely on Turkey for refugee resistance. The sea route in construction passes many Balkans including Greece, Serbia, Hungary and Macedonia, and will most probably involve Turkey which is struggling with terrorism, refugee crisis, ethnic groups’ contradictions and domestic political instability. Due to the external threats, the security and stability of the Balkans are in great peril, which will in turn affect the layout and the progress of the “Belt and Road” construction in Eurasia.

² “EU adopts restrictive measures against actions threatening Ukraine’s territorial integrity”, Council of the European Union, Brussels, 17 March, 2017, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/141603.pdf

Risk Six: The Competition between Road Transport and Sea Transport

The China-Europe Land-Sea Express Passage bears 98% of the total transportation of Sino-EU trade products and consists of two routes of ocean transportation: the first route starts from Asian base ports and reaches European base ports via South China Sea, the Strait of Malacca, the Indian Ocean, the Red Sea, the Suez Canal, the Mediterranean Sea, the Strait of Gibraltar, the Atlantic Ocean and European base ports; another route connects Asian base ports with European base ports through South China Sea, the Indian Ocean, the Cape of Good Hope, the Gulf of Guinea and the Atlantic Ocean. The sea transportation has several merits including convenient customs clearance that only requires two transport documents, high loading of containers and low transportation cost. The disadvantages of the sea transportation are relatively long distance and time of transportation.³The road transport including the CHINA RAILWAY Express is more time-efficient than the sea transport, but the price is much higher with more complicated process of customs clearance.

Both the road transport and sea transport have pros and cons. Some cargoes can be delivered by either land or sea transport, which intensifies the competitions between two modes of transportation over supply of goods. There has always been such kind of competition between the CHINA RAILWAY Express and the China-Europe Land-Sea Express Passage due to the shortage of goods. From my perspective, this issue should be addressed through the active coordination of governments and guilds. In addition, the collaboration between road transport and sea transport is the general trend of the China Europe corridors construction.

Risk Seven: The Competition between China and Russia on the Construction of Eurasian Corridors

When it comes to the construction of Eurasian corridors, Russia is committed to developing the Siberian corridor which is also called the First Eurasian Land Bridge. China is concentrating on exploiting the new Eurasian Land Bridge, namely, the Second Eurasian Land Bridge. As the country of origin and cargo distribution on the Second Eurasian Land Bridge, China will not seek far as transporting the Sino-Europe commodities through the First Eurasian Land Bridge. The Second Eurasian Land Bridge is definitely the intercontinental railway framework of the Silk Road Economic Belt.

³ The speech from the Polish Foreign Minister Witold Waszczykowski at the Chinese Academy of Social Sciences on 25 April, 2016.

The strength of the First Eurasian Land Bridge are as follows: to begin with, the freight time is predictable due to the fact that the railway gauge of CIS countries (the Commonwealth of the Independent States) is the same with that of Finland with no need of replacement. Secondly, after the containers get loaded at the Vostochny Port of Nakhodka, the arrival time at each stop along the route and the consuming time for the whole journey will be accurately calculated. Besides, Russia, Kazakhstan and Belarus have formed a customs union to simplify the process of customs clearance. The Second Eurasian Land Bridge, on the other hand, is also advantageous and well-received due to the relatively short distance and low cost of railway transport. Specifically, compared with the First Eurasian Land Bridge, the Second Eurasian Land Bridge makes the distance between China and Central Asia above 1000 kilometers closer. Also, the short-distance (around 1000 kilometers) inter-country transportation has relatively low cost.

Russia has always regarded the exploitation of the First Eurasian Land Bridge as the basic national policy aimed at driving the economic development of the Far East. It not only targets the Second Eurasian Land Bridge as the main competitor, but also adopts various measures to expand the influence of Russian railways in the development of Asia-Europe logistics. Firstly, by making full use of multilateral platforms such as the CIS Railway Transport Commission, Russia actively pushed the CIS countries to use unified railway standards based on Russian railways in order to monopolize market of railway equipment in Central Asia. Secondly, Russia established the "Wide Rail Gauge Alliance" through the international cooperative mechanism of 1520 mm gauge railways. Based on this, Russia joint hands with Kazakhstan and, Belarus to set up the united transportation company while taking charge of the Asian part of the Eurasian Railways. Thirdly, Russia proposed to establish a joint venture rail company (Trans-Eurasia Logistics) with China, Germany and Kazakhstan, so as to build the Russia-oriented Eurasian logistic chain of railway container transport. All these actions of Russia have added competitive pressures to the promotion of connectivity of the Second Eurasian Land Bridge by China.⁴

China still needs to prevent Russia from taking apart the China-Europe freight trains. As a matter of fact, some China-Europe freight trains such as the trains departing from the northeast of China run through the First Eurasian Land Bridge while others travel via the Second Eurasian Land Bridge. So far the unified identity of the freight trains has only been realized in

⁴ Xiao Yang, China Europe Land and Sea Express Passage and the Balkan Nexus of the "Belt and Road" Logistic Network, *Journal of Contemporary International Relations*, no. 8, 2015.

several provinces in China instead of the whole country. Therefore, competitions are quite frequent over the transport routes and the supply of goods all round the country, which makes it possible for Russia to adopt the “divide and rule” strategy towards China.

III. POLICY SUGGESTIONS

This article offers a series of principled solutions to some fundamental and pressing issues, and is expected to explore effective countermeasures seriously.

Firstly, the macro issues and micro issues should be wisely handled and properly balanced

We must pay close attention to the risks in the construction of the Eurasian corridors, strengthen relative research at both macro level and micro level, and adopt flexible and targeted measures based on the situation of each country and the condition of each matter. At the macro level, we must attach great importance to the European integration, the European populism and trade protectionism, the Eurasian geopolitical crisis and refugee crisis, and make analysis and assessment on the trade environment and the development prospect of geopolitics of Eurasia and the world, so as to enrich our knowledge on the risk-aversion of the “Belt and Road” Initiative. At the micro level, we need to focus on the attitudes that EU member states and candidate countries hold towards the “Belt and Road” Initiative, and adopt flexible measures based on the situation of each country. Meanwhile, we must have a clear understanding of the specific challenges faced by the “Belt and Road” construction, and provide targeted solutions according to the conditions of each matter.

Secondly, neither plans nor market should be neglected

With regard to the layout of the “Belt and Road” in Eurasia, we must underline the market-orientation while make the best of executive powers. Some hold the view that the construction of the “Belt and Road” won’t be sustainable if without the market-orientation, which is debatable. As neo-liberalism is encountered with dilemma and crisis, national administration has played an increasingly prominent role in the deployment of major strategies. Considering the China’s national conditions, we must make good use

of the administrative forces while placing great emphasis on the fundamental role of market, give full play to the strength of plans in allocating resources, pooling wisdom and improving efficiency, and have good top-level design for the “Belt and Road” Initiative. Besides, we should find out the difficulties faced by the Initiative, adjust methods innovatively and explore solutions actively, enhance rationality of the system and the supply of resource by effectively combining plans and market, so as to push forward the “Belt and Rod” Initiative properly.

Thirdly, there should be reasonable competition and effective cooperation between the sea transport and the land transport

In the process of building the China-Europe corridors, both the sea transport and the land transport have pros and cons, and they should be chosen based on the delivery requirements of goods rather than the will of local governments. In order to sustain the development of two transport means, there should be reasonable competition and effective cooperation between the sea transport and the land transport. To give full play to the advantages of the sea-land multimodal transportation not only promotes the basic role of market, but also maintains the security of China’s trade corridors.

For instance, the CR Expresses could attract more high-value-added freight that used to be delivered by sea transport within limited time and the air freight with enough delivery time. The sea transport, however, should be used to deliver those with relatively low added value and sufficient delivery time. As for the goods that can be carried either by sea transport or by land transport, the sea-land multimodal transportation is a better and possible choice that leads to the reasonable and effective division of labor in the Eurasian transport market.

It should also be noted that to unify the identity of the freight trains is only the first step to tackle certain issues in the operation of the CR Express such as the low efficiency, financial subsidy and insufficient supply of goods. There are bigger challenges ahead which should be approached through continuous and ever-strengthened coordination among all trains within China and between the sea transport and land transport throughout the world.

Fourth, China’s competition and collaboration with Russia is the prerequisite for consolidating the China-Russia strategic cooperation.

The connectivity of trade in Eurasia is not only beneficial to China, but also in the interest of Russia. Where there are overlapping interests, there are fierce competitions. Russia competes with China over the China-Europe corridors for both economic and geopolitical interests. For such kind

of competition, China should take the dominant influence of Russia in Eurasia into consideration. As long as there are shared interests, China should adopt pragmatic attitude to build strengths by learning from Russia and integrating into the Russian market, compensate for weaknesses by taking advantage of Russian market, and gradually establish a firm foothold in the Eurasian transport market. After all, the ties can only be built upon strength rather than tolerance, and it is the strong competitiveness that wins the real partnerships.

Finally, we should embrace risks and challenges with confidence and preparations

In spite of so many difficulties and challenges in the construction of the “Belt and Road”, we should always be confident towards the Initiative by constantly enriching its connotation.

The implementation of the “Belt and Road” in perilous Eurasia is in itself an effective way to spread the core values, the development path and the system of China. Under the circumstance of the global turmoil and the sluggish economic growth, the neo-liberalism is gradually losing to the populism and trade protectionism which are prevailing in western world, suggesting that western countries’ appealing to the world by advocating openness and freedom has gone into reverse. In contrast, China is facing rare opportunities of development. And for that we should manage the outside expectations towards the “Belt and Road” Initiative, make China’s ideas and voice heard, and endeavor to gain the upper hand in the competition of two regimes and two ideologies.