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(INTA) for the public hearing on

**EU-China Trade and Investment Relations  
in a post-covid world**

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## Understanding the Belt and Road Initiative

Since its inception, in 2013, China's Belt and Road Initiative (BRI) has been perceived through many optics, from an infrastructure project, to a Marshall Plan, or more recently, a geopolitical long-term masterplan or even a debt trap. This wide variation of perspectives is understandable considering that the Chinese government never really defined the BRI, in order to dispel misconceptions. On the contrary, it has preferred to maintain it as a loose and diffuse framework for a wide variety of actions, while expanding it from its initial Eurasian area of focus to Latin America, the Arctic region and even outer-space.

Seven years ago, in his speech in Astana that put forth the Silk Road Economic Belt<sup>1</sup>, which was presented as the terrestrial part of the Belt and Road, Chinese president Xi Jinping described five goals, which were later formulated as: policy coordination, connectivity of infrastructure and facilities, unimpeded trade, financial integration and people-to-people bonds<sup>2</sup>. This way, China created the possibility for a broad initiative covering numerous fields, but also left an open door for interpretation and misconceptions. Contrary to these stated goals, the BRI was soon described in the West as a grand infrastructure project to connect Eurasia. China contributed to such misconceptions by publishing a map that presented two long routes, one terrestrial and one maritime, connecting China with Europe<sup>3</sup>. On the other hand, it tried to correct such a misconception by changing the official English name of the initiative from One Belt, One Road, to the current Belt and Road. Yet the picture has remained hazy.

The BRI can be defined as many things. For some US experts, the BRI is a masterplan used by China to gain influence over other countries and establish itself as the world's dominant power. For some European ones, the BRI is largely an infrastructure project. For Chinese experts, the BRI is perceived as China's positive contribution to the world and a way to improve the global governance.

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<sup>1</sup> Foreign Ministry of the People's Republic of China, 2013. *Promote Friendship Between Our People and Work Together to Build a Bright Future*. Fmprc.gov.cn, Available at: [https://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/zjyh\\_665391/t1078088.shtml](https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zjyh_665391/t1078088.shtml) [Accessed 29 October 2020].

<sup>2</sup> State Council of the People's Republic of China, 2015. *Full text: Action plan on the Belt and Road Initiative*. English.gov.cn. Available at: [http://english.www.gov.cn/archive/publications/2015/03/30/content\\_281475080249035.htm](http://english.www.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm) [Accessed 29 October 2020].

<sup>3</sup> Shannon Tiezzi, 2014. *China's 'New Silk Road' Vision Revealed*. The Diplomat. Available at: <https://thediplomat.com/2014/05/chinas-new-silk-road-vision-revealed/> [Accessed 29 October 2020].

But according to my research over the past years, the BRI is just a branding strategy for China's foreign policy and overseas investments and projects<sup>4</sup>. This is both a strategy of the central government to brand numerous investments and projects as part of the Belt and Road, but has also become a strategy for Chinese companies to promote their projects under the BRI umbrella in order to easier obtain funds, approvals or endorsements from central, provincial or local Chinese government institutions. This perspective of the BRI as a branding strategy is supported by the numerous pre-existing overseas projects and investments that have been rebranded as BRI after 2013, the silent expansion of the BRI as a global initiative in 2017<sup>5</sup>, the absence of an institutional framework for the BRI, even though China inaugurated a BRI Summit in 2017<sup>6</sup>, the lack of a coherence in the initiative and the lack of follow-up of many memoranda of understanding signed by China with foreign countries, signaling that the signing itself was the main goal. For example, 18 EU member states have signed BRI MoUs with China, including all member states from Central and Eastern Europe (CEE), but it is extremely difficult to identify completed BRI projects in these countries. Romania was one of the first European countries to sign such an MoU, in 2015, yet five years later, there is no BRI project or investment in Romania, even though China considers Romania a BRI country.

These aspects are important in guiding the future EU strategy regarding China. When Italy signed a BRI memorandum in 2019, there was widespread criticism in Brussels and a number of Western capitals, ignoring the lessons of Central and Eastern Europe on the lack of follow-up to such MoUs. The BRI is not a strong, coherent and disruptive initiative that can jeopardize the EU, but a way to brand Chinese overseas initiatives and promote a positive image of China's overseas involvement. Simply joining the BRI, through the signing of a non-binding MoU generates no concrete consequences for the signing state. The example of the 17 Central and Eastern European members of China's 17+1 initiative, all of whom signed BRI MoUs, is again illustrative. Even though they were interested in strengthening their economic and commercial ties to China, which motivated their initial embrace of the BRI, most of them have become disillusioned by China and the fact that

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<sup>4</sup> Andreea Brinza, 2018. *Redefining the Belt and road Initiative*. The Diplomat. Available at: <https://thediplomat.com/2018/03/redefining-the-belt-and-road-initiative/> [Accessed 29 October 2020].

<sup>5</sup> Andreea Brinza, 2018. *Redefining the Belt and Road Initiative*. The Diplomat. Available at: <https://thediplomat.com/2018/03/redefining-the-belt-and-road-initiative/> [Accessed 29 October 2020].

<sup>6</sup> Andreea Brinza, 2019. *China can replace Belt and Road bilateral deals with multilateral cooperation*. Nikkei Asian Review. Available at: <https://asia.nikkei.com/Opinion/China-can-replace-Belt-and-Road-bilateral-deals-with-multilateral-cooperation/> [Accessed 29 October 2020].

past promises haven't become reality. Thus, even though they signed BRI memorandums, CEE countries have taken the lead in Europe in signaling their desire to restrict Huawei's participation in their 5G networks, a very sensitive subject for Beijing. Almost all 17+1 members have signed MoUs with the United States committing themselves to such 5G restrictions. This trend has been motivated not just by disillusionment with China, but also by what I called the "Russian factor"<sup>7</sup> — the fear in many CEE countries of the threat posed by Russia and their dependence on US and NATO security guarantees. This illustrates the difference between binding commitments and real organizations, such as the EU and NATO, and the lack of a multilateral institutional framework and non-binding MoUs, as is the case of the BRI.

As it has been presented by China, the Belt and Road Initiative was also supposed to facilitate unimpeded trade, though there have never been signs that China would want to use the BRI to promote free trade agreements. Nonetheless, many infrastructure projects branded as BRI could be seen as trade facilitators, until they are analyzed closer.

One of the most visible parts of the BRI in the first years of the initiative were the rail routes between China and Europe, used for commerce as a quicker alternative to maritime transport. These routes were nicknamed the "Europe-China express" or the "Iron Silk Road". Yet they existed before the BRI and aren't a real success story. The use of old railroads to export products from China to Europe began in 2012, when the American company HP began using trains to transport products from its factories in Chongqing to Duisburg in Germany<sup>8</sup>. As this model proved efficient, China adopted and expanded it, branding it as part of the BRI. The number of routes connecting Chinese and European cities expanded to over 50<sup>9</sup>. For HP, a shorter delivery time for expensive products helped profitability, but for many other companies the increase in costs compared to maritime trade isn't appealing. Thus most of the routes inaugurated by China are unprofitable and operate only thanks to local government subsidies, each local government in China having

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<sup>7</sup> Andreea Brinza, 2020. *How Russia Helped The United States Fight Huawei In Central And Eastern Europe*. War on the Rocks. Available at: <https://warontherocks.com/2020/03/how-russia-helped-the-united-states-fight-huawei-in-central-and-eastern-europe/> [Accessed 29 October 2020].

<sup>8</sup> Keith Bradsher, 2013. *Hauling New Treasure Along the Silk Road*. The New York Times. Available at: <https://www.nytimes.com/2013/07/21/business/global/hauling-new-treasure-along-the-silk-road.html> [Accessed 31 October 2020].

<sup>9</sup> Xinhua, 2017. *Over 6,200 train trips made between China, Europe in 6 years*. Xinhuanet.com. Available at: [http://www.xinhuanet.com/english/2017-12/26/c\\_136852817.htm](http://www.xinhuanet.com/english/2017-12/26/c_136852817.htm) [Accessed 31 October 2020].

an incentive in establishing such a route in order to signal its participation in the BRI<sup>10</sup>. The routes are thus more of a PR tool to enhance the BRI's profile than a trade tool based on market demand. The Chinese government pumps a lot of money in these routes that are sometimes hosting shadow trains — trains that run empty on their return trip from Europe to China. As mentioned before, these routes are advantageous for China to improve the BRI profile and create an alternative to the maritime route, but they haven't increased Europe-China trade and most of them aren't profitable or sustainable. China never invested in modernizing the old tracks being used on these routes or building new ones, so their existence isn't a consequence of the BRI.

When it comes to rebranding existent projects, the most successful example is probably the Port of Piraeus. In 2008, Chinese company COSCO acquired the operating license for Pier II of the Port of Piraeus for a period of 30 years, later expanded to 35 years<sup>11</sup>. At the same time, COSCO received permission to built another pier, Pier III. Because Piraeus under COSCO management was a very successful story, but also because Greece was forced to sell state companies after the sovereign debt crisis, in 2016 COSCO also acquired a 67% stake in Pier I<sup>12</sup>. By then, the Port of Piraeus was already described as a BRI project. The Port of Piraeus was a market-driven investment by COSCO later placed under the BRI umbrella, not a project planned by the Chinese government as part of the Belt and Road.

When the Chinese government did have a BRI vision regarding Piraeus (a railway route to connect Piraeus with Central Europe) it never came to life. The BRI flagship in Europe is probably the Budapest-Belgrade railway, which was proposed in 2013, soon after the BRI's inauguration. It was initially envisioned as a high-speed rail, but this plan was abandoned because of the prohibiting costs, with the two governments settling for a speed of under 200 km/h<sup>13</sup>. The Budapest-Belgrade railway is part of the "China-Europe Land-Sea

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<sup>10</sup> Andreea Brinza, 2017. *China's Continent-Spanning Trains Are Running Half-Empty*. Foreign Policy. Available at: <https://foreignpolicy.com/2017/06/05/chinas-continent-spanning-trains-are-running-half-empty-one-belt-one-road-bri/> [Accessed 29 October 2020].

<sup>11</sup> Andreea Brinza. 2016. *How a Greek Port became a Chinese Dragon Head*. The Diplomat. Available at: <https://thediplomat.com/2016/04/how-a-greek-port-became-a-chinese-dragon-head/> [Accessed 29 October 2020].

<sup>12</sup> Andreea Brinza. 2016. *How a Greek Port became a Chinese Dragon Head*. The Diplomat. Available at: <https://thediplomat.com/2016/04/how-a-greek-port-became-a-chinese-dragon-head/> [Accessed 29 October 2020].

<sup>13</sup> Andreea Brinza, 2020. *China And The Budapest-Belgrade Railway Saga*. The Diplomat. Available at: <https://thediplomat.com/2020/04/china-and-the-budapest-belgrade-railway-saga/> [Accessed 29 October 2020].

Express Route,” with the Chinese government aiming to expand it to Piraeus so that trade between China and Europe can flow easier through Piraeus and then towards Central and Western Europe on land. But, seven years later, the Budapest-Belgrade railway is still just a plan: it has encountered multiple delays and the construction in Hungary hasn’t even begun. Construction in Serbia started only last year. Moreover, this project isn’t even a 100% Chinese project, as a Russian company is building a 44 km section of the 184 km length of the Serbian part of the railway<sup>14</sup>. The railway might be finished in 2025, but the expansion towards Piraeus might never happen.

These three BRI stories in Europe highlight a few lessons about the Initiative. Many projects existed before the BRI or would have happened without it. Those that are market-driven, like the Port of Piraeus, are profitable and successful. Those that aren’t driven by market opportunities are less successful or don’t even come to life. Nonetheless, they are still useful for China, to enhance the BRI brand, though sometimes they can end up spoiling the brand, as is the case of the Port of Hambantota in Sri Lanka that gave rise to the narrative of debt traps. The BRI has been less successful in promoting trade, as it isn’t used for free trade negotiations, nor has it enhanced infrastructure to facilitate trade.

## **How the pandemic could influence trade and investment between China and Europe**

Although the most visible and damaging mark the pandemic left on China was the spike in its negative perception around the world, on the long run, this pandemic has the potential to also influence manufacturing and trade patterns. Because of the SARS-CoV-2 pandemic, there is greater attention in Europe focused on the level of dependency of China and how important it is to produce goods locally. But putting this goal into practice will be a difficult task, because while the CEE region has the capacity to replace the Chinese workforce based on costs, it lacks infrastructure, factories, technology and know-how.

The best example in supporting this assertion is the case of car manufacturer Dacia-Renault. Dacia, a Romanian company established during the communist era and later acquired by Renault, is Romania’s largest exporter. Recently, the company unveiled its first

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<sup>14</sup> Andreea Brinza, 2020. *China And The Budapest-Belgrade Railway Saga*. The Diplomat. Available at: <https://thediplomat.com/2020/04/china-and-the-budapest-belgrade-railway-saga/> [Accessed 29 October 2020].

electric car, Dacia Spring. It won't be built in Romania, but in China. The Romanian factory doesn't have the technology and expertise to produce Dacia Spring and modernizing the factory would cost more than simply using Renault's existing facility in China<sup>15</sup>. Moreover, China, which has become a leader in electric cars, offers the supply chains and the conditions that will enable Dacia-Renault to produce and then ship the cars to Europe as soon as possible<sup>16</sup>.

This story shows how difficult it is to change production patterns, when companies are driven by economic, not political, calculus and search for the most advantageous manufacturing price and conditions. Today, thanks to its combination of production costs and extensive local supply chains, China still remains the best choice for building many products, despite the setbacks that the pandemic created.

Just as China's Belt and Road Initiative has achieved successes when pursuing market driven projects and encountered setbacks in unprofitable projects, the EU should focus on shaping economic incentives and changing the economic calculus if it wants to diminish its import dependency on China, which will take time, investments and resources.

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<sup>15</sup> Vlad Barza, 2020. *Dacia confirmă că mașina electrică va fi produsă în China. De ce a fost numită Spring?*. Hotnews.ro. Available at: <https://economie.hotnews.ro/stiri-auto-24356339-dacia-confirma-masina-electrica-produsa-china-fost-numita-spring.htm> [Accessed 29 October 2020].

<sup>16</sup> Vlad Barza, 2020. *Dacia confirmă că mașina electrică va fi produsă în China. De ce a fost numită Spring?*. Hotnews.ro. Available at: <https://economie.hotnews.ro/stiri-auto-24356339-dacia-confirma-masina-electrica-produsa-china-fost-numita-spring.htm> [Accessed 29 October 2020].