THE INTERNATIONAL SPECTATOR, 2017
VOL. 52, NO. 1, 46–60
http://dx.doi.org/10.1080/03932729.2017.1261517

How China's New Silk Road Threatens European Trade

Jonathan Holslag

Vrije Universiteit Brussel

ABSTRACT

For all the promises of mutually beneficial cooperation, Chinese policy documents about the New Silk Road, also called 'One Belt, One Road', mostly testify to a strong ambition to unlock foreign markets and support domestic firms in taking on foreign competitors. This confirms China's shift from defensive mercantilism, which aims to protect the home market, towards offensive mercantilism, which seeks to gain market shares abroad. In a context of global economic stagnation, this comes as a major challenge to Europe. As China's market share grows spectacularly in countries along the New Silk Road, key European member states have both lost market shares and even seen their exports shrink in absolute terms.

KEYWORDS

China; New Silk Road; One Belt, One Road; Europe; trade, offensive mercantilism

Around 97 AD, a Chinese ambassador arrived in Ctesiphon, the imposing capital of the Parthian Empire. He planned to travel onwards to Europe to establish trade relations with Rome, but the Parthians told the diplomat that Rome was too far away, that the journey would be perilous and that the lucrative silk trade could be handled better by local traders. The envoy turned back and the Parthians remained the economic gatekeeper between Europe and Asia. This anecdote reminds us that control over trade has always been an important objective of states and empires. What matters from a political viewpoint is not so much the volume of global trade, but who benefits from it the most. However much this realist approach has been criticised by liberals for diminishing the productivity gains from a free market, economic realism has always been present and continues to shape the global economy. A polity can thus have an ideological preference for free trade, but if the economic reality goes in the other direction, it is important to come to grips with it, to evaluate its impact and to act.

This is the case with Europe, especially in a context of economic uncertainty. One could argue that European concerns about losing trade to China are misplaced. After all, with less than 10 percent of the world population, it used to have a market share of 50 percent in most countries along the New Silk Road.[1] So, China's advances could actually be a matter of fairness, of economic redistribution, a just change in the global economic order. There is no reason to dispute this, but the social and political consequences for Europe could be severe. Since the eurozone crisis, Europe is under tremendous pressure to create jobs

CONTACT Jonathan Holslag jholslag@vub.ac.be @JonathanHolslag

[1]New Silk Road is used instead of One Belt, One Road because I believe it facilitates reading. UNCTAD, *Statistical Database*: "Merchandise: Trade matrix by product groups", http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx

and defend its standard of living. The slack in its internal market makes external demand even more important. Yet, many of its export markets are stagnant as well. Between 2008 and 2014, the imports of countries along the New Silk Road barely grew. In this situation, China's trade ambitions could come as a tremendous challenge. Export competition in a market that hardly grows inevitably becomes a sort of zero-sum game. The profit of one party is the loss of the other.

This article approaches the New Silk Road, also called 'One Belt One Road' (OBOR), from a distinctly European viewpoint. It first elucidates the objectives of the Chinese government. In this regard, it seeks to enrich the debate with a review of about thirty recent policy papers issued by different government departments. These papers are important. State Council opinions and the policy papers of departments like the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) not only set out objectives, but also provide many details about how the government will pursue them: new fiscal initiatives, new financing instruments, etc. It is remarkable how transparently these objectives are spelled out in Chinese official sources, but no research has included them thus far.

Thereafter, the article assesses to what extent Europe is losing ground to China. For trade in goods, this is rather straightforward, as data to calculate evolving market shares is readily available. For trade in services, this is much more difficult because there are no comparable data. In this sector, the article combines fragmentary quantitative evidence with case studies of important tenders that involved both European and Chinese service suppliers. A third section discusses the responses of key European countries. It reconstructs their official expectations and evaluates to what extent governments have been successful in achieving gains from their participation in the New Silk Road.

As such, this article is relevant in light of the ongoing debate on Sino-European relations, arguably one of the most important trade partnerships in the world. It aspires to provide new insights to European policymakers in charge of relations with China. In this regard, it complements the work of Nicola Casarini and François Godement, who have suggested that the New Silk Road might cause more division among EU member states, and the recent work of Alexander Cooley, who has assessed its impact on Central Asia.[2] A review of the New Silk Road, as well as of the objectives and tools to advance it, is certainly significant in view of the academic debates about international political economy. The article suggests that the study of political intervention in trade should not focus solely on countries' attempts to protect themselves against trade, but also on their more offensive designs, which include assertive economic diplomacy, generous trade credits, politically guided companies, and so forth. The aim of this kind of statecraft is not to cut off globalisation, but to manipulate it; not to limit connectivity, but to pursue competitive connectivity to the benefit of certain national interests. Free trade is thus imperilled not only by defensive reflexes, but equally so by politically motivated offensive aspirations. In this case, the article suggests a shift in China's economic policy from defensive mercantilism, which aims to protect the home market, towards offensive mercantilism, which seeks to gain market shares abroad. Defensive mercantilism, marked by high import tariffs, state monopolies and significant limitation of foreign investment in so-called strategic sectors, characterised the first stage of China's economic rise in the 1980s and 1990s.[3] Since then, import tariffs have been reduced

[2]Casarini, "When All Roads Lead to Beijing"; Godement, "Europe Scrambles to Benefit"; Cooley, "New Silk Route?", 372.
[3]Nolan, *Transforming China*; Lardy, *Integrating China into Global Economy*; Yueh, *China's Growth*.

significantly and some sectors have been removed from the ‘prohibited list’ on China’s investment guidance catalogue. Meanwhile, however, export credit, export tax rebates and support for Chinese companies abroad have all increased.

China’s motivations

The New Silk Road was officially announced by the Chinese government in 2013. Ever since, different government departments have produced a torrent of policy papers about it. To reconstruct China’s objectives, four important policy levels have to be covered. The political benchmarks are set by the President. They build on strategies of previous generations of leaders and on bottom-up input from the provinces and companies. But once promulgated, the President’s vision guides policy planning. Strategic planning is the responsibility of the State Council, which clarifies its goals in so-called opinions, and a Small Leading Group (in this case on the Development of the OBOR), which makes sporadic statements. The establishment of the Small Leading Group shows the political importance of the New Silk Road.[4] The secretariat is run by the NDRC, China’s planning bureau.[5] At the third level, individual ministries, departments like the State Administration of Sovereign Assets (SASAC), as well as policy banks, like the China Development Bank, draft their own papers to translate the guidelines into more specific projects. The provinces, finally, do the same. China is of course known for its culture of bureaucratic affirmation. Once the leader sets a benchmark, officials rush to craft papers to confirm it. This caveat notwithstanding, these documents are detailed enough to reach a better understanding of the concerns, interests and objectives behind the New Silk Road. This section reviews about fifteen such policy papers.

What emerges as the primary objective of the New Silk Road is to respond to an increasingly challenging international economic environment.[6] China is concerned about the global economic slowdown, which reduces opportunities for exporters and makes it more difficult to develop its poorer provinces beyond the coast.[7] It finds that economic distress leads to more protectionism, with countries resorting to competitive devaluation and qualitative trade barriers, as well as fiercer competition between companies.[8] China wants to stand by its firms in demanding times and defend their ground in the international market. It seeks to counter alleged protectionism and hold partner countries to the principle of free trade.[9] At the same time, it endeavours to continue to be accepted as a benign power, to foster political goodwill in partner countries and to advance its interests through economic integration and openness.

The New Silk Road is also expected to lead to better coordination between Chinese stakeholders. On the one hand, this is a matter of preventing so-called vicious competition between Chinese companies.[10] The highlighting of this problem by state media is significant, as this was set out as a core responsibility of the State-owned Assets Supervision and

[4]See NDRC,“推进“一带一路”建设工作领导小组办公室负责人就“一带一路”建设有关问题答记者问” [”Persons responsible answer reporter’s questions”], § 2. Chinese titles and text translated by the author.

[5]More specifically the Western Development Division.

[6]NDRC,“推进“一带一路”建设工作领导小组办公室负责人就“一带一路”建设有关问题答记者问”[”Responsible persons answer reporter’s questions”], § 4.

[7]Xi,“让一带一路建设推动各国共同发展” [”Let OBOR Promote Development of All Countries”].

[8]NDRC, Ministry of Commerce and Ministry of Foreign Affairs,推动共建丝绸之路经济带和21世纪海上丝绸之路的愿景与行动 [*Pushing to build the Silk Road*], § 5.

[9]*Ibid*., § 1.

[10]Zhao, “央企抱团出海已达成国家意志:可避免恶性竞争等” [”Central Enterprises to avoid vicious competition”].

Administration Commission of the State Council when it was established in 2003. Instead of competing with each other, Chinese companies now have to work together more closely to advance national interests. "Chinese companies have to strengthen synergy along the entire industrial chain."[11] Synergy implies joint bidding and alliances, with Chinese companies teaming up, for instance, to win infrastructure projects by providing the knowhow, the construction, maintenance and financing services. It entails central enterprises continuing "to carry out national strategy" and forming "a division of labour between them".[12] At the same time, the New Silk Road is supposed to improve coordination between different administrations. The Small Leading Group is critical in this regard, but provinces and even certain cities have been instructed to establish coordination mechanisms.

The third objective concerns the promotion of export of manufactured goods. Even if China eventually wants domestic demand to solve its industrial overcapacity problem, its immediate aspiration is to avoid bankruptcies by tapping into external demand. China's industrial export policy is made up of three parts.[13] To begin with, it sees the New Silk Road as an opportunity to preserve its labour-intensive manufacturing. Even if wages have increased, labour-intensive manufacturing is seen as an indispensable sector to create jobs in poorer provinces. China is thus not giving up on this sector, but that does not prevent it from encouraging its companies to produce more abroad. In this regard, the New Silk Road is supposed to support the development of so-called Chinese production chains. This involves Chinese companies building assembly plants overseas, mostly to penetrate local markets and circumvent import tariffs, while continuing to source components from producers in China. Apparel makers, for instance, are encouraged to invest in low-wage countries to strengthen their brand and increase their market share in local markets, but also to source the textile and machinery from their motherland.

Another part of the manufacturing agenda in the New Silk Road strategy is to help steel factories export themselves out of their glut. An important opinion from the State Council insists that China cannot afford to reduce steel production, but that it has to be made more competitive. It encourages the formation of large Chinese steel groups through mergers, the creation of quality standards "with greater international influence", and the use of the New Silk Road as "an instrument to promote export".[14] In a note on the relevance of the New Silk Road for steel manufacturers, the Ministry of Industry and Information Technology states that "China seeks to gradually transfer excess capacity overseas".[15] The 20,000 km of new railways in the framework of the New Silk Road, the ministry states, could create demand for as much as 85 million tons of steel. It also proposes to diversify exports to countries like Vietnam, Turkey, Iran and Saudi Arabia. These proposals are revealing, because top Chinese leaders like Li Keqiang have stated several times and promised to partner countries that the main objective of the government is to reduce industrial overcapacity.

[11] *Ibid*.
[12] *Ibid*.
[13] MIIT,"中国制造2025"应与"一带一路"无缝对接" ["China Manufacturing 2025"].
[14] State Council, "国务院关于钢铁行业化解过剩产能" [*Solution for Overcapacity in the Steel Industry*]. See also, State Council, 国务院办公厅关于促进进出口稳定增长的若干意见 [*State Council Guidance on Import and Export*].
[15] MOFCOM and MIIT, "Analysis for the steel industry".

A final component of the manufacturing agenda in the New Silk Road strategy is to expand China's market share in high-end goods. The State Council identifies the following "new" industries: electricity, railways, shipbuilding, aviation, renewable energy, machinery, biotech, aviation and advanced machinery.[16] The New Silk Road should help to implement the 'Made in China 2025' agenda, which aspires to making China one of the most competitive high-tech manufacturers.[17] The focus is on indigenous technologies, "independent intellectual property rights" and thus to develop goods independently from mostly Western multinationals.[18] This is a clear continuation of China's previous indigenous innovation policy. In a note on the aviation industry, for instance, the government shows itself dissatisfied with the pace of modernisation, but expects the sector to become more competitive in small-body aircrafts.[19] "The encouragement of domestic purchases" as well as the diplomatic push of the New Silk Road is expected to support emerging aviation industries.[20] Regarding renewable energy, the government has a long list of large projects in Iran, Belarus, Pakistan and other countries that it wants to implement in the framework of the New Silk Road.[21]

Several government departments have targeted cross-border e-commerce as a way to help Chinese manufactures expand their export markets. In a paper on e-commerce, the State Council clearly puts export first and proposes to promote e-commerce in the framework of the New Silk Road.[22] The Ministry of Commerce specifies that e-commerce will "help expand market shares along the entire value chain from marketing to payment, from logistics to financial services and along the complete industrial chain."[23] E-commerce is considered to have several advantages. It cuts out foreign intermediaries, gives manufacturers greater profits and contributes to the development of Chinese brands.[24] In addition, if the advantage of competitive goods is combined with strong branding, it creates room for a new generation of successful online shops, like Alibaba, Jingdong, Suning, Dangdang, etc. What makes the suggestions of the MOFCOM relevant, is that policies in the sector of e-commerce also shift from protecting them at home, which led to a near-monopoly position of Alibaba, towards supporting them abroad. Those e-commerce service providers in turn could support the going abroad of other Chinese service providers, like warehouses and logistics companies, that could then rival current multinationals like DHL and FEDEX.[25]

A fourth goal is to increase China's access to natural resources. This too is not a new aspiration, but the various policy documents show that China wishes to continue to strengthen its position in commodity markets. One important target is to satisfy the growing need for

[16]State Information Center, 一带一路"的基本政策 [OBOR, The Basic Policy] § 2.4.
[17]MIIT, ""中国制造2025"应与"一带一路"无缝对接" ["China Manufacturing 2025"].
[18]State Information Center, 一带一路"的基本政策 [*OBOR, The Basic Policy]* § 2.5.
[19]State Council, 国务院办公厅关于促进 通用航空业发展的指导意见 [*Guidance on Aviation Industry*].
[20]*Ibid*. and MIIT, 中国制造2025解读之:推动航空装备发展 [*Interpreting Made in China 2025*].
[21]State Council, ""一带一路"沿线国家期待与中国在可再生能源领域合作" ["China looks forward to renewable energy"]. See also, MIIT, "一带一路"上的电力装备机会 [*Opportunities for Power Equipment*].
[22]State Council,国务院办公厅关于促进跨境电子商务 健康快速发展的指导意见 [*Guidance on E-Commerce*], §. 1.
[23]MOFCOM, "国务院办公厅关于促进跨境电子商务 健康快速发展的指我国跨境贸易电子商务发展现状及对策分析意见" ["Development of Cross-Border E-Commerce Trade"], § 1.
[24]State Council, *Guidance on E-Commerce*, and State Council Information Office, "一带一路带热跨境电子商务" ["OBOR Supporting Cross-Border E-Commerce"].
[25]State Council Information Office, *Ibid*.

food with products produced by Chinese companies overseas. Companies will be supported in acquiring farmland and setting up basic processing plants in partner countries.

Natural resources also relate to energy. The New Silk Road is supposed to consist of new or upgraded energy corridors, including pipelines to Russia, Central Asia and the Indian Ocean, and both refineries and liquid natural gas (LNG) hubs. The objective is to have more imported energy supplied by Chinese firms, which is mostly a matter of energy security, but also a way to increase their international market share – downstream and upstream.[26] The government also wants to secure minerals. It vows to map "the metallogenic belt" along the New Silk Road by means of remote sensing satellites, geologic research and a new mineral resources information system, which seems to resemble the American Geological Survey (USGS).[27] The government highlights the need to control foreign iron ore mines. It signals that Japan covers 50 percent of its iron imports with "equity ores" (that is, produced abroad by Japanese firms), whereas China only covers 8 percent.[28]

Next comes the objective to give a boost to service exports. This stems from two important concerns. On the one hand, China's domestic investment boom has reached and probably passed its peak. With domestic demand dwindling, service providers have to find alternative markets abroad. This holds in particular for companies in construction, engineering, dredging and transportation. The Vice-President of the China Communications Construction Company (CCCC), for example, said that he considered the New Silk Road as the launch of a new 'going out'. "Today Belgium and the Netherlands are the strongest and set the standards," he explained, "we want to dominate the international dredging market with our own standards."[29] At the same time, China wants to break through in so-called new services, like finance, shipping and airlines.[30] Even if it already has large companies in shipping, like COSCO, the aim in this cluster is to support traditional freighting with business services: engineering, brokerage, maritime legal services and insurance, and "to compete with today's leaders, London, Singapore and Hong Kong".[31] In aviation, the goal is to allow Chinese airlines to expand their share in important international air corridors, build regional air hubs overseas, provide services to airports, and create airport economic zones for time-sensitive industries.[32] The joint paper of the NDRC, the Ministry of Commerce, and others heralds an important change.[33] If there were already numerous papers on the export of goods, this is the first of its kind on services. It lists several concrete measures, including financial support and advanced trade agreements that liberalise trade in services.

Several policy documents mention the need to diversify Chinese investments abroad.[34] China has continued to generate large surpluses on the current account and thus also to expand its foreign exchange reserves. These are important resources to invest abroad. Yet,

[26]NDRC, 认真落实一带一路战略 积极推进能源国际合作 [*OBOR to Promote International Energy Cooperation*].

[27]Ministry of Land Resources, 地质调查服务国家重大战略 [Geological Survey Serves Important National Strategy].

[28]MOFCOM and MIIT, "Analysis for the steel industry", § 2.1. and 4.1.

[29]"专访中国交建副总裁孙子宇" ["Interview with Vice-President of CCCC Sun Ziyu"]. *21st Century Business Herald*. 15 October 2015.

[30]NDRC, MOFCOM, MFA, 推动共建丝绸之路经济带和21世纪海上丝绸之路的愿景与行动 [*Pushing to build the Silk Road*]; and Ministry of Transport,综合运输服务十三五发展规划 [*Implementation of Integrated Transportation Services*].

[31]Shanghai International Shipping Centre,上海国际航运中心建设蓝皮书 [*Shanghai International Shipping Centre Blue Book*].

[32]China Civil Aviation Authority, "民航带路一带一路国际化进程" ["Civil aviation leads in internationalization"].

[33]NDRC, MOFCOM, MFA, *Pushing to build the Silk Road*.

[34]State Information Center, *OBOR, The Basic Policy* § 2.1; and NDRC, MOFCOM, MFA, *Pushing to build the Silk Road*.

overseas investment is also pushed by the fact that return on investment at home has fallen significantly, mostly because of oversupply. The New Silk Road is expected to coincide with growing Chinese direct investments – investments with the aim of ownership, in sectors like high-tech, machine building, culture, entertainment and so forth. Yet, China has also signalled its wish increasingly to take minority positions in foreign companies through portfolio investment. Finally, the government has made it clear that it wants to continue to invest in the form of loans and other credits, for instance, to support contractors securing projects, and to support foreign customers buying 'Made in China' goods.

Lastly, the New Silk Road is about political influence. On the one hand, policy documents are remarkably progressive. In line with the previous narratives about good neighbourhood policy, peaceful development and win-win cooperation, they state that the New Silk Road is about gaining confidence, mutually beneficial partnerships and a stable, benign environment. The government also states that it seeks to win soft power by promoting corporate social responsibility and the idea of an ecological civilisation, implying more sustainable growth; by respecting local customs and laws; and by making its trade pacts more "inclusive".[35] On the other hand, though, the government in many of its statements about the New Silk Road brings up the challenge of the US rebalance to Asia and US-led trade initiatives, like TTIP and TPP, which exclude China.[36] Although none of these statements explicitly presents the New Silk Road as a means to compete with American trade schemes, the academic community has embraced this matter as the linchpin of its debate and their ideas have been published widely by state-owned media. The question academics ask is not so much whether the New Silk Road is a response to the economic statecraft of others, but how China can compete. Some scholars argue that China should steer clear of unequal partnerships and a regional order that consists of a centre, China, and a periphery that consists of the rest of Asia.[37] One scholar interestingly refers to a division of labour with China as the industrial centre, Central Asia and the Middle East as the energy centre, and Europe as the cultural centre.[38] Others have insisted that China faces the task of maximising its "economic frontier" and thus of building its own sphere of influence.[39]

Nothing in the New Silk Road Policy heralds a turnaround or an important innovation with respect to previous policies. The New Silk Road is a continuation of earlier initiatives, like the Go-West policy, promulgated in the late nineties to boost growth in China's landlocked provinces, the going-global policy, meant to support so-called global champions in expanding their presence in foreign markets, and all sorts of other efforts to establish closer economic relations with Asian, African and European countries. The New Silk Road is thus largely a slogan, a confirmation of China's long-term endeavour to become a prosperous country, initially through aggressive industrial and export growth. But the objectives behind it remain important and are relevant for explaining how China shapes its foreign economic policy.

[35] Xi, "Let OBOR Promote Development", § 9; State Information Center, *Ibid*., § 6.
[36] See also a specific note on this: State Information Center,"一带一路战略风险评估及应对建议" ["Recommendations to Deal with Strategic Risks"].
[37] For instance. Zeng, "一带一路的地缘政治想象与地区合作" ["OBOR Geopolitical Imagination"], 14-19; Wang, "一带一路超越地缘政治" ["OBOR Beyond Geopolitics"].
[38] Zeng, *Ibid*.
[39] Zheng, "一带一路与中国大外交" ["OBOR and Chinese Diplomacy"].

Instruments

What China wants – that much has become clear in the previous section – is to gain more access to foreign markets, partially to externalise its overcapacity problem in manufacturing and services through exports, partially to support its companies as they climb higher up the value chain and partially to gain a market share in new sectors ranging from e-commerce to renewable energy. This is the reverse of protectionism. The New Silk Road is about competitive connectivity, about unlocking foreign markets. If China pursued defensive mercantilism in previous decades, the New Silk Road confirms the shift towards offensive mercantilism. It reflects the government's awareness that the domestic economic situation remains challenging and that the global economic environment is unstable, yet also its confidence in its ability to cope with it. But what are the instruments of this new offensive mercantilism? What tools does it plan to use to unlock foreign markets? This section presents the four most important ones: national champions, huge volumes of credit, transportation and communications, and free trade agreements.

Crucial in the implementation of the New Silk Road are large Chinese companies, commonly referred to as 'national champions'.[40] The Chinese government usually distinguishes between national champions or central companies, which are considered indispensable in advancing China's so-called economic security and long-term growth, and smaller firms. Central companies enjoy a disproportionate amount of financial support in exchange for loyalty to the government and are thus expected to take the lead in implementing economic policies. In a comment on the New Silk Road, a senior official of the China Development Bank put it as follows: "The bank actively serves the national economic diplomacy strategy and promotes the implementation of major projects."[41]

The most important asset, however, remains credit. This works through two mechanisms: financial repression and sterilisation. Financial repression means that important limits are maintained on the capital account. The government stimulates households to bring their savings to Chinese banks, which, in turn, lend it cheaply to Chinese companies. The transfer from households to companies amounted to USD 4.5 trillion in 2015.[42] This allows companies to expand and modernise their production capacity much faster than foreign competitors.

Sterilisation means that the central bank converts the foreign currency earned from its trade surplus into renminbi and sends a large part of the foreign currency back out of the country through different forms of investment. It has become an important objective of China's monetary policy to diversify these foreign investments. Initially, the bulk of China's foreign investment was in US government debt, but there has been a shift towards the government debt of other countries, as well as towards export credit, concessional loans and lending to Chinese companies in foreign currency to support acquisitions overseas. Those forms of investment allow the government to influence its trade flows much more and to gain influence over its partners. From a strategic viewpoint, after all, it is more rewarding to make a large number of smaller borrowers depend on Chinese investment then to make

[40]NDRC,"推进"一带一路"建设工作领导小组办公室负责人就"一带一路"建设有关问题答记者问" ["Responsible persons answer reporter's questions"].

[41]"助力开放发展 服务"一带一路"" ["Helping Open Services in OBOR"]. *International Business Daily*, 4 March 2016. http://www.cdb.com.cn/rdzt/gjyw_1/201603/t20160307_2805.html

[42]People's Bank of China, *Database, Sources and Uses of Funds*, www.pboc.gov.cn.

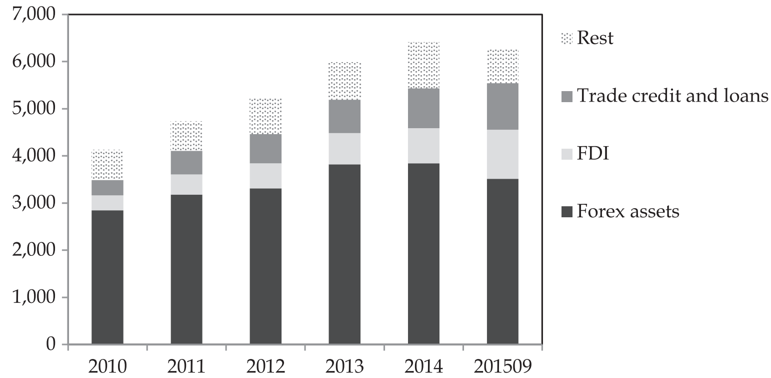

Figure 1. Composition of China's foreign investment (USD billion).
Source: Calculations based on China Foreign Exchange, State Administration of Foreign Exchange (SAFE). End-year position except for September for 2015, given the unavailability of end-year data.

China overly dependent on one large borrower which just happens to be its main adversary – the United States.

Before specifying the use of credit in the context of the New Silk Road, let us briefly review China's investment position abroad. In 2015, China is reported to have had USD 6.3 trillion investments in foreign assets, including USD 3.6 trillion in foreign exchange reserves, 1 trillion in foreign direct investments, 1 trillion in trade credits and loans, and 260 billion in portfolio investments. Between 2013 and 2015, the share of foreign exchange reserves has decreased slightly, whereas the share of direct investments and trade credit and loans has increased. The main conclusion to draw from these data is that Chinese foreign investment still overwhelmingly serves exports and that, by comparison, the outsourcing of manufacturing activity remains almost negligible. In 2015, Chinese direct investments in manufacturing only amounted to USD 53 billion, less than one percent of its total foreign investment, and still less than half of the volume of direct investment in mining and energy-related activities abroad.

So then, how exactly is credit supporting the development of China's New Silk Road? First, the main institutions that manage China's overseas investment must be identified. In this regard, a distinction has to be made between multilateral institutions in which China participates and national financial institutions. This immediately reveals Beijing's preference for a national approach. In 2015, China contributed about USD 13 billion to the subscribed capital of the World Bank and USD 30 billion to the subscribed capital of the Asia Infrastructure Investment Bank (AIIB). Especially the AIIB is supposed to support China's New Silk Road, but China's contribution to this institution pales in comparison to its national credit lines. Again, there are two ways to approach these national credit lines. One can start out from the creditors, or one can start out from the financing vehicles, that is a host of funds dedicated to specific regions or sectors. From an institutional viewpoint, the China Development Bank (CDB) appears to be the main creditor. In 2015, it reported to have lent USD 127 billion to projects related to the New Silk Road. This already exceeds the AIIB's contribution fourfold. The CDB is followed by the Exim-Bank, with a credit of USD 100 billion to relevant projects, and the China Investment Corporation (CIC), covering another USD 50 billion, the state-owned investment group China International Trust and Investment Corporation (CITIC) providing USD 60 billion, the Industrial and Commercial Bank of China (ICBC), providing USD 31 billion, and the Agricultural Bank of China, delivering another USD 30 billion.[43] This overview is not exhaustive. There are many more banks in China, but these six alone thus provided close to USD 400 billion in credit to countries along the New Silk Road in 2015.

It needs to be reiterated that these credits are not all the result of the New Silk Road policy. Some credit lines existed before, but they all fit in the New Silk Road policy and are certainly encouraged by it. As for the vehicles used, first, there is the Silk Road Fund, established in 2014 with institutions like the CDB committing a total of USD 40 billion in credit.[44] Thus far, the fund has invested about USD 1 billion in a Russian gas project, USD 1.7 billion in a hydropower project in Pakistan and USD 46 million in a Serbian steel factory. In addition, President Xi Jinping announced a USD 60 billion investment fund for Africa and a USD 10 billion infrastructure fund for Southeast Asia. Data about the allocations of these funds is not available, but all loans extended from these funds are negotiated on a bank-to-company or a bank-to-country basis. As far as these banks report their credit facilities, their main targets are projects in energy and infrastructure.

Infrastructure brings us to a third means to unlock foreign markets: transportation and communications.[45] Building roads, railways and pipelines to neighbouring countries has been an objective since the nineties. Yet, the New Silk Road has given it new impetus. The number of trade corridors identified in the framework of the New Silk Road is impressive. Starting from the southeast, these include a railway connection with Vietnam, a high-speed railway to Laos, both part of a more comprehensive north-south corridor to Southeast Asia; a transport corridor to Myanmar and Bangladesh; the famous Karakorum Corridor to Pakistan; two corridors to Central Asia, one departing from Kashgar and one from Urumqi; a coal trade corridor to Mongolia; and an energy corridor to Russia's Siberia. Besides these continental corridors, China has led the development of numerous ports and port sections: Sihanoukville in Cambodia, Kyaukpyu in Myanmar, Chittagong in Bangladesh, Hambantota in Sri Lanka, Gwadar in Pakistan, Duqm in Oman, Port Sudan in Sudan, Bagamoyo in Tanzania, Lamu in Kenya, Koper in Slovenia, Kumport in Turkey, Tallinn in Estonia, Klaipėda in Lithuania, Burgas in Bulgaria, and Piraeus in Greece. Under the New Silk Road policy, these 'hard' connections will be complemented by new 'soft' connections. China has agreed with Thailand to build an internet land link from Thailand to Russia and from Thailand to Vietnam. It has agreed with Kazakhstan on the development of a high-capacity telecom land link from Hong Kong to Europe, with Pakistan on a new land cable link across the border, and with Myanmar on an international submarine cable link in the Gulf of Bengal.

National champions, trade credit, and new connections are flanked by a fourth important tool: free trade agreements. The State Council has announced a more "proactive" free

[43] Lei, "已设立直投公司 中投业务与亚投行互补" ["Our company has investment coordination"]; "工行深入推进一带一路金融服务" ["ICBC Advances One Belt One Road Financial Services"], ICBC online, 23 November 2015. http://www.icbc.com.cn/icbc/工行风貌/媒体看工行 ; "中信银行联合中信集团旗下相关公司召开支持一带一路" ["CITIC Bank Holdings to support One Belt and One Road"]. CITIC online,. 1 July 2015. http://www.group.citic/iwcm/null/null/ns:LHQ6LGY6LGM6MmM5NDkzOTU0ZTUzMjgzZjAxNGU1MzNjOTYzZTAwMjIscDosYTosbTo=/show.vsml

[44] http://www.silkroadfund.com.cn/

[45] Ministry of Transport, *Implementation of Integrated Transportation Services*.

trade agreement strategy linked to the New Silk Road.[46] This comes with a greater willingness to negotiate comprehensive agreements, agreements which, in addition to trade in goods, include services, investment, government procurement, intellectual property, etc. The government has indicated that free trade agreements should support the objective of establishing free trade zones in all neighbouring countries so as to build "a peripheral market"(§ 4). Whereas China long had a defensive interest in opening trade in services, this has now become an offensive interest in trade in engineering, logistics, e-commerce, and finance (§ 8). Free trade agreements are supposed to promote Chinese standards, for instance in product safety, environmental protection, electronic commerce and government procurement negotiations (§ 9). The State Council has also vowed to strengthen its capacity and increase the expertise of its officials to negotiate trade agreements, as well as to streamline the cooperation between different departments. Important initiatives in this regard are China's proposal to upgrade the free trade agreement with ASEAN members, the initiative to negotiate free trade agreements with Sri Lanka and the Gulf Cooperation Council, and feasibility studies for possible agreements with Nepal, the European Union, Moldova and India.

Consequences for Europe

If the New Silk Road has one important new ambition, then it is the desire to integrate all China's previous trade initiatives in order to make its trade policy more efficient and prevent different actors from undermining each other when they go abroad. The New Silk Road confirms China's focus on access to raw materials and on exports. Given the weakness of its domestic demand, it wants to continue to export labour-intensive manufactured goods, but it now also wants to expand its market share in high-end manufactured goods and different services. The foreign exchange reserves resulting from China's trade surplus need to be invested in a way that gives China more influence on the international market. The papers relating to the New Silk Road also reveal that the government anticipates that if its domestic economy becomes stronger, consumer demand picks up and companies become more competitive, it wants an orderly outsourcing of manufacturing activities. Labour-intensive factories must be replaced by capital-intensive high-tech producers and the labour-intensive manufacturing that is relocated to other countries must become part of Chinese production chains. In other words, China wants to have a Chinese alternative to today's multinationals. The New Silk Road, finally, shows that the Chinese government wants to set the terms of trade and determine technical standards to the benefit of its companies.

This all adds up to a very ambitious offensive mercantilist strategy. China understands that its economy remains vulnerable, but it is confident that it can manage this, not by closing its door to the international market, but by manipulating openness. China's offensive mercantilism is about promoting free trade, while national companies still benefit from staggering amounts of credit and different forms of trade support. It is about making partner countries more connected to the Chinese economy than to competing economies, like the United States, the European Union and Japan. Such competitive connectivity involves new networks of communication, transportation, but also harmonisation of rules and standards. China's offensive mercantilism seeks to promote a form of economic harmony that is in fact

[46]State Council,国务院关于加快实施自由贸易区战略的若干意见 [*Opinions on Accelerating FTA strategy*].

Table 1. Imports of forty countries along the New Silk Road from Chinese and European suppliers (USD billion).

	2008	2009	2010	2011	2012	2013	2014	Change
France	120	93	101	114	107	106	106	-14
Germany	333	241	273	325	303	308	307	-26
Italy	103	75	80	94	91	95	94	-9
Netherlands	86	68	76	84	83	85	86	0
Poland	36	26	29	35	36	39	38	+2
Rest EU	476	341	391	474	443	485	475	-1
China	278	227	306	380	410	464	528	+250

Source: UN Comtrade. Retrieved from: http://comtrade.un.org/

an economic hierarchy. While partner countries can gain from exporting raw materials, tourist services and, in the longer-term, labour-intensive goods, China wants to dominate new strategic industries with high value-added.

This strategy is a tremendous challenge for Europe. China's new push for trade comes at a moment when economic growth along the New Silk Road is stalled. Between 2008 and 2014, the imports of European goods and services of countries along the New Silk Road only grew by two percent annually, compared to 19 percent annual growth between 2000 and 2008. Between 2008 and 2014, Europe's exports to Silk Road countries decreased by USD 25 billion, whereas China's exports grew by USD 250 billion. So, even in absolute terms, Europe lost significantly. In relative terms, Europe's market share decreased from 38 to 30 percent; while China's market share increased from 9 to 16 percent. Disaggregating this trade, Europe's loss of market share was the most dramatic in high-tech goods. In this sector, its market share dropped from 62 to 30 percent, whereas China's market share increased from 15 to 26 percent. All major EU member states have suffered from this evolution. Between 2008 and 2014, France, Germany and Italy saw their exports to Silk Road countries decrease in absolute terms, -12, -6 and -9 percent respectively. All five countries also saw their market shares decrease.

For trade in services, it is impossible to calculate precise patterns, as comparable data are not available. China consistently reports contracted projects, mostly in construction, engineering, power and telecommunications. The European Union reports exports of services, which is a much broader category, and detailed service exports for a select number of countries. Between 2008 and 2014, China's turnover of contracted projects along the New Silk Road almost doubled from USD 30 billion to USD 57 billion. For the countries with detailed figures available,[47] China appears to have gained a larger market share. For trade in both goods and services, these losses were incurred in only the first three years after the launching of the New Silk Road. In other words, this is just the beginning. If the New Silk Road proves successful, trade losses will become far larger.

Besides the commercial losses, the New Silk Road also undermines Europe's political influence. If the internal weakening of the European Union has already damaged Europe's position, China's economic charm offensive will complicate the situation even more. As the New Silk Road destroys Europe's external market, it decreases the prospects for recovery in

[47]Turkey, Russia, Egypt, India, Iran, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Data refer to construction, telecom and services to mining and industry. Eurostat, http://ec.europa.eu/eurostat/data/database.

the eurozone. If some relatively weak members of the eurozone are hoping that their export competitiveness can be increased by social and fiscal sacrifices, China's offensive mercantilism, its generous use of credit and massive export support make that less likely. The failure of these countries to expand their exports could exacerbate tensions between the members of the eurozone, making it more difficult for centre parties to resist Euroscepticism, and thus indirectly contributing to the further fragmentation of the European Union.

Internal cohesion is also weakening because China actively exploits the divisions between the member states and the short-sightedness of their leaders. This is taking place in different ways. First, China mollifies member states' leaders by buying government bonds. Apart from Germany, this has usually been in small quantities. Externalising public debt relieves some of the economic difficulties in the short term, but it is no solution in the long-run. Second, China presents its exports of cheap goods and services as an opportunity for the leaders of member states to prop up the purchasing power of their citizens. This is, again, true in the short term, but in the longer run, artificially cheap imports damage European companies and, hence, diminish the prospects for sustainable recovery. Third, China uses the New Silk Road to curry favour with domestic interest groups in member states, like port companies, retailers, financial institutions and transportation firms. Those sectors, as a result, lobby for good relations with China and against a tougher trade policy. Yet, however large these sectors might be, they are hardly helpful in reducing the current account deficit of their country and building a competitive industrial base. All these temptations distract government leaders from the one and only important measure of a favourable economic partnership, that is, balanced trade on the current account.

Conclusions

China presents its New Silk Road to Europe as an opportunity for mutually beneficial cooperation and for incrementing economic exchanges between the two ends of Eurasia. Openness and free trade figure prominently in its official discourse. Yet, a closer look at documents, plans and programmes prepared by different Chinese government departments reveals that the New Silk Road serves a strategy of offensive mercantilism. Offensive mercantilism implies that China is shifting from protecting its industries in domestic markets to supporting them in their penetration of foreign markets. This entails a renewed effort to bring relief to the manufacturing sector, which remains plagued by overcapacity, by promoting the export of goods. Another objective is to boost service exports, in contracting, for instance, but also in sectors that are relatively new for China, like finance and dredging. Securing access to energy and raw materials also remains an important goal, as well as diversifying foreign investments, and reorienting them from foreign government debt towards the acquisition of strategic assets, including high-tech companies. At the same time, China seeks to use the New Silk Road to gain political influence.

Immense credit lines remain the most important instrument for advancing the New Silk Road, alongside large national companies, more political coordination and ambitious infrastructure projects. For all the promises of win-win cooperation, the New Silk Road does not bode well for the European Union. Whereas Chinese exports to countries along the New Silk Road have grown rapidly, important European countries, like France, Germany and Italy, have seen their exports decrease.

Notes on contributor

Jonathan Holslag teaches international politics at the Vrije Universiteit Brussel.

References

Casarini, N. "When All Roads Lead to Beijing. Assessing China's New Silk Road and its Implications for Europe". *The International Spectator* 51, no. 4 2016.

China Civil Aviation Authority. "民航带路一带一路国际化进程". ["Civil aviation leads the way for the 'One Belt One Road' in the process of internationalization"] Beijing, 17 March 2016.

Cooley, A. "New Silk Route or classic developmental cul-de-sac?" *PONARS Eurasia Policy Memo* 372. 2015.

Godement, F. "Europe Scrambles to Benefit from China's 21st-Century Silk Road". *Global Asia* 26 September 2015.

Lardy, N. *Integrating China into the Global Economy*. Washington DC: Brookings Institution Press, 2004.

Lei B. "已设立直投公司 中投业务与亚投行互补" ["Our company has set up investment business coordination in complementarity with the AIIB"]. *21st Century Business Herald*, 28 March 2015.

Ministry of Commerce (MOFCOM). "国务院办公厅关于促进跨境电子商务 健康快速发展的指我国跨境贸易电子商务发展现状及对策分析意见" ["The Development of Cross-Border E-Commerce Trade: Situation and Measures"]. Beijing, 3 June 2016.

MOFCOM and MIIT. "国务院关于钢铁行业化解过剩产能", "An opportunity analysis for the steel industry in the 'OBOR' Strategy". Beijing, September 2015.

Ministry of Industry and Information Technology (MIIT). "一带一路"上的电力装备机会 [*Opportunities of the OBOR for Power Equipment*]. Beijing: MIIT, 27 May 2015.

MIIT. 中国制造2025解读之:推动航空装备发展 [*Interpreting Made in China 2025: Promoting the Development of Aviation Equipment*]. Beijing: MIIT, 25 May 2015.

MIIT. "中国制造2025"应与"一带一路"无缝对接" ["China Manufacturing 2025 and OBOR should be seamless"] Beijing, 24 May 2015.

Ministry of Transport. 综合运输服务十三五发展规划 [*Implementation of Integrated Transportation Services Under the Thirteenth Five-Year Plan*]. Beijing: Ministry of Transport, 2016.

Nolan, P. *Transforming China*. London: Anthem Press, 2004.

National Development and Reform Commission (NDRC). 认真落实一带一路战略 积极推进能源国际合作 [*Implementing the OBOR Strategy Actively to Promote International Energy Cooperation*]. Beijing: NDRC, May 2015.

NDRC. "推进"一带一路"建设工作领导小组办公室负责人就"一带一路"建设有关问题答记者问" ["Responsible persons in charge of the OBOR development of the Leading Group of the Development of the OBOR answer reporter's questions on various issues"]. Beijing, 29 March 2015.

NDRC, MOFCOM), Ministry of Foreign Affairs (MFA). 推动共建丝绸之路经济带和21世纪海上丝绸之路的愿景与行动 [*Pushing to build the Silk Road Economic Belt and the 21st Century Maritime Silk Road through vision and action*]. Beijing: State Council, March 2015.

Shanghai International Shipping Centre. 上海国际航运中心建设蓝皮书 [*Shanghai International Shipping Centre Blue Book*]. Shanghai: SIS, June 2015.

State Council. 国务院办公厅关于促进 通用航空业发展的指导意见 [*General Guidance on the Promotion of the Aviation Industry*]. Beijing: Guo Fa, June 2016.

State Council. *Opinion of the State Council on the Solution for Overcapacity in the Steel Industry*. Beijing: State Council, 4 February 2016.

State Council. "一带一路"沿线国家期待与中国在可再生能源领域合作". ["China looks forward to work with countries along the 'One Belt One Road' in the Field of renewable energy"]. Beijing: State Council, 8 December 2015.

State Council. 国务院关于加快实施自由贸易区战略的若干意见 [*Several Opinions of the State Council on Accelerating the implementation of the FTA strategy*]. Beijing: State Council, December 2015.

State Council. 国务院办公厅关于促进进出口稳定增长的若干意见. [*State Council Guidance on Promoting the Steady Growth of Import and Export*]. Beijing: State Council, August 2015.

State Council. 国务院办公厅关于促进跨境电子商务 健康快速发展的指导意见 [*State Council Guidance on the Promotion of Cross-Border E-Commerce*]. Beijing: State Council, June 2015.

State Council Information Office. "一带一路带热跨境电子商务" ["OBOR Supporting Cross-Border E-Commerce"]. Beijing, 1 June 2015.

State Information Center. "一带一路战略风险评估及应对建议" ["Recommendations for OBOR to Deal with Strategic Risks"]. Beijing, June 2016.

State Information Center. 一带一路"的基本政策 *[OBOR, The Basic Policy]*. Beijing: SIC, March 2016.

Wang, Y. "一带一路超越地缘政治". [OBOR Beyond Geopolitics] *People's Daily* 24 June 2016.

Xi J. "让一带一路建设推动各国共同发展" ["Let OBOR Promote the Common Development of All Countries"]. Statement at Politburo Meeting, 30 April 2016. http://www.gov.cn/xinwen/2016-04/30/content_5069523.htm

Yueh, L. *China's Growth: The Making of an Economic Superpower*. Oxford: Oxford University Press, 2013.

Zeng X. "一带一路的地缘政治想象与地区合作" ["OBOR Geopolitical Imagination and Regional Cooperation"]. *World Economics and Politics*, January 2016.

Zhao, L. "央企抱团出海已达成国家意志:可避免恶性竞争等" ["Central Enterprises Have the National Determination to Avoid Vicious Competition in Going Overseas"], *People's Daily*, 24 June 2015.

Zheng Y. "一带一路与中国大外交" ["OBOR and Chinese Diplomacy"]. *cpc.news*, 18 February 2016. http://cpc.people.com.cn/n1/2016/0218/c191095-28134578.html