The Future of the Belt and Road in Europe

How China's Connectivity Project is Being Reconfigured across the Old Continent – and What It Means for the Euro-Atlantic Alliance

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ABSTRACT

China's Belt and Road Initiative (BRI) has entered the twilight zone in the old continent, following a deterioration of bilateral relations between the EU member states and China over the last years. Italy's official exit from the BRI at the end of 2023 was a further blow to Chinese President Xi Jinping's signature foreign policy. Yet, the BRI in Europe is being reconfigured rather than being terminated. In Western Europe, the BRI is moving away from physical infrastructure projects and investment in industrial assets – the latter being increasingly protected from Chinese takeovers by both national and EU legislation – to financial and monetary connectivity. This shift is welcomed by various European actors, including some policymakers at the national level, eurozone institutions and major banks. Concurrently, most of Eastern European countries continue to promote BRI projects and seek to attract Chinese investments, suggesting that there is a two-speed Europe when it comes to China, both in terms of geography and sectors.

China | Infrastructures | FDI | Monetary policy | Europe | Italy | European Union

keywords

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The Future of the Belt and Road in Europe: How China's Connectivity Project is Being Reconfigured across the Old Continent – and What It Means for the Euro-Atlantic Alliance

by Nicola Casarini*

Introduction

Since its official launch in September 2013, China's Belt and Road vision has had a global scope. Today, 80 per cent of the United Nations' 193 member states are part of the project, including several European countries.[1] When the One Belt One Road (OBOR) or new Silk Roads – later renamed Belt and Road Initiative (BRI) – was announced, there was considerable enthusiasm in Europe for what was seen as an initiative that would foster Sino-European connectivity and, more generally, closer EU-China ties.[2] That was in stark contrast to the United States, where the BRI was perceived as a challenge to American primacy.

Europe was chosen as the endpoint of both the land-based and maritime routes. The Mediterranean Sea, previously neglected by Chinese strategic thinkers, would emerge as an increasingly important area connecting the Indian Ocean and Europe via the Red Sea.[3] It came as no surprise then that the early implementation of the BRI in Europe focused on financing infrastructure projects, in particular railways in Southeast Europe and ports in the Mediterranean.[4] This was accompanied by a surge of Chinese green-field investments, complemented by monetary linkages

[1] Shannon Tiezzi, "How China's Belt and Road Took over the World", in *The Diplomat*, 12 September 2023, https://thediplomat.com/?p=251931.

[2] As quoted in: "China-EU Special Report: Chinese Premier Li Keqiang Endorses China's Big Investment on Juncker's Plan at 10th China-EU Business Summit", in *The European Sting*, 1 July 2015, https://wp.me/p2QSHv-3j8.

[3] Xi Jinping, "East Meets West -- A New Chapter of Sino-Italian Friendship", in *Corriere della Sera*, 20 March 2019, http://www.xinhuanet.com/english/2019-03/20/c_137909586.htm.

[4] Nicola Casarini, "When All Roads Lead to Beijing. Assessing China's New Silk Road and its Implications for Europe", in *The International Spectator*, Vol. 51, No. 4 (2016), p. 95-108, DOI 10.1080/03932729.2016.1224491.

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between the People's Bank of China and European central banks through the establishment of currency swap agreements and yuan or renminbi (RMB) bank clearing whose aim was to lower transaction costs of Chinese investments.[5]

In 2015 a massive flood of Chinese BRI investments in the old continent came, with Italy as the main recipient in both absolute value and growth rate, with a 36 per cent rise in investment compared with the previous year,[6] also thanks to the acquisition by ChemChina, a state-owned Chinese company, of a 16.89 per cent stake in Pirelli, the world's fifth-largest tire maker.[7] The 7.1 billion euro deal was completed with the participation of the Silk Road Fund, a newly established state-owned investment vehicle created to promote investment in countries along the BRI.[8] In March 2019, the Italian government led by Giuseppe Conte signed a Memorandum of Understanding (MOU) on the Belt and Road Initiative with China's President Xi Jinping during the latter's state visit to Rome, thus making Italy the only G7 nation and the only founding member of the EU to officially endorse Xi's signature foreign policy project. Xi invested significant political capital in bringing Italy into the BRI and saw in the signing of the MOU a big win as it split the Western allies.[9]

While Italy and other countries in Southern and Eastern Europe were embracing the BRI, the core nations in Western and Northern Europe adopted a more critical attitude. Beginning in 2016-17, Germany and France had become increasingly wary of the BRI and of China's predatory investments. This trend would reach Europe's other countries some years later. In Italy, with the appointment as Prime Minister of Mario Draghi as Conte's successor, in February 2021, BRI projects came to a halt, and eventually Italy left the BRI altogether under the conservative government that took power in 2022.

Perceptions of China have turned negative in the West.[10] Yet, the Belt and Road is not completely doomed in Europe. Instead, China's connectivity project is being reconfigured along two axes:

- Infrastructure projects and investments under the Belt and Road are being downsized – if not stopped altogether – in Western and Northern Europe, while

[5] Alessia Amighini and Alicia García Herrero, "Third Time Lucky? China's Push to Internationalise the Renminbi", in *DWARC Policy Briefs*, No. 20/2003 (October 2023), https://chinahorizons.eu/our-research/policy-briefs/244.

[6] Joseph Percy, "Chinese FDI in the EU's Top 4 Economies", in *China Briefing*, 8 May 2019, https://www.china-briefing.com/news/chinese-fdi-eu-top-4-economies.

[7] "Silk Road Fund Joins ChemChina in Industrial Investment in Pirelli & C. SpA", in *China Daily*, 5 June 2015, https://www.chinadaily.com.cn/business/2015-06/05/content_20923643.htm.

[8] Ibid.

[9] Giulio Pugliese, Francesca Ghiretti and Aurelio Insisa, "Italy's Embrace of the Belt and Road Initiative: Populist Foreign Policy and Political Marketing", in *International Affairs*, Vol. 98, No. 3 (May 2022), p. 1033-1051, https://doi.org/10.1093/ia/iiac039.

[10] Laura Silver, Christine Huang and Laura Clancy, "China's Approach to Foreign Policy Gets Largely Negative Reviews in 24-Country Survey", in *Pew Research Center Reports*, 27 July 2023, https://www.pewresearch.org/global/?p=52726.

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they continue in Central and Eastern European (CEE) countries.
- The Europeans have kept open the doors to the financial and monetary aspects of China's connectivity project, mainly in the form of currency swap agreements and euro/renminbi clearing hubs.

There is now a two-speed Europe when it comes to China, in terms of both geography and sectors – a dynamic that calls for a more nuanced understanding of the implications of the BRI's enduring influence in the old continent for the EU and the transatlantic alliance.

1. When the BRI reaches Southern Europe: The years of "enthusiasm"

Early reception of Beijing's connectivity project in Europe was fairly enthusiastic, focusing on the endless opportunities of Chinese investments flowing to the old continent and the prospect of jobs creation, at a time of sluggish economic growth in Europe and attempts at changing China's economic model. Beijing's connectivity project would serve the purpose of sustaining the Chinese economy, which was at the historical juncture of transitioning from export-oriented growth to a new model based on consumption and outward investment. Loans for infrastructure projects abroad were expected to contribute to upgrading the Chinese economy at a time of domestic production overcapacity and to the restructuring of various sectors, including heavy industries involved in the building and maintenance of transportation and energy infrastructure. Trade financing would serve to maintain existing – as well as find new – markets for Chinese products.[11]

Sitting at the endpoint of the Silk Roads, Europe hoped to benefit greatly from Beijing's outward economic strategy and connectivity projects. At the EU-China Summit on 29 June 2015, Jean-Claude Juncker, at the time European Commission President, called for the creation of synergies between his European Fund for Strategic Investments (EFSI) and China's Belt and Road.[12] Premier Li Keqiang replied to Juncker by making a multibillion-dollar investment commitment to the EFSI, though the precise amount was never disclosed.[13]

Southeast Europe and the Mediterranean – particularly the Greek ports – would initially be the main beneficiaries of Silk Road funds. The flagship infrastructural

[11] Nicola Casarini, "Is Europe to Benefit from China's Belt and Road Initiative?", in *IAI Working Papers*, No. 15|40 (October 2015), p. 3, https://www.iai.it/en/node/5502. For an examination of the BRI's economic and strategic drivers see Peter Cai, "Understanding China's Belt and Road Initiative", in *Lowy Institute Analyses*, 22 March 2017, https://www.lowyinstitute.org/node/8734.

[12] *EU-China Summit Joint Statement*, 29 June 2015, https://www.consilium.europa.eu/en/press/press-releases/2015/06/29/eu-china-statement.

[13] Nicola Casarini, "Is Europe to Benefit from China's Belt and Road Initiative?", cit., p. 2-3; Robin Emmott and Paul Taylor, "Exclusive: China to Extend Economic Diplomacy to EU Infrastructure Fund", in *Reuters*, 15 June 2015, http://reut.rs/1IX7LPK.

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project in the area has been the land-sea express route which directly links the port of Piraeus – one of the largest container ports in Europe – with Central and Eastern European countries, thus turning the Piraeus into a Chinese hub for trade with Europe. The project has been financed by soft loans from China's Export-Import Bank and built by state-owned China Railway and Construction Corporation and Chinese workers.[14]

Piraeus has been central in Beijing's strategy of linking China with Europe through the Mediterranean. The Greek port is, in fact, the gateway between the Middle East and the Balkans and European markets; from a Chinese perspective, it is a unique entry point into the EU. Huawei, the Chinese electronics conglomerate, opened a logistics centre in the Pireus in 2013, followed by the June 2014 signing of a 2 billion euro deal between Greece and China to build new container ships and bulk carriers, financed by the China Development Bank, to serve the Greek port.[15]

The most important Chinese company involved in the Piraeus port is COSCO – a state-owned, Hong Kong-listed company that is China's biggest dry bulk carrier and liner carrier – which obtained a 35-year concession from the Greek government to operate two container terminals. The deal, which carried a nominal value of 4.3 billion euros for the whole period, required COSCO to make substantial investments in Terminal II and to build a new section of Terminal III. In September 2013, COSCO agreed to invest an extra 230 million euros to increase capacity, prompting then Greek Prime Minister Antonis Samaras to call the Piraeus Container Terminal project the most important investment in Greece.[16]

Chinese shipping companies also had a well-established presence in the Italian ports of Naples and Genoa, where both COSCO and the China Shipping Company had invested heavily. Beginning in 2015, the attention of Chinese leaders would turn to the Italian ports in the northern Adriatic Sea – ports that became the focus of the March 2019 Memorandum of Understanding on the BRI between China and Italy. By focusing on infrastructure projects on land and sea, China was seeking to build better connectivity as well as acquire political influence in the areas interested by the Belt and Road. Chinese investments would represent a great opportunity for the old continent – particularly some cash-strapped governments of the periphery – to obtain financial capital.

The BRI has certainly brought about a surge of Chinese investments in the old continent. According to the China Global Investment Tracker, a joint project of the American Enterprise Institute and the Heritage Foundation, China invested nearly

[14] Nicola Casarini, "Is Europe to Benefit from China's Belt and Road Initiative?", cit., p. 3; Dragan Pavlićević, "China's Railway Diplomacy in the Balkans", in *China Brief*, Vol. 14, No. 20 (23 October 2014), https://jamestown.org/?p=13844.

[15] Nicola Casarini, "Is Europe to Benefit from China's Belt and Road Initiative?", cit., p. 4.

[16] Ibid.,p. 4-5. COSCO, *The Inauguration of the Expansion of Pier III of PCT Successfully Convened*, 23 January 2015, http://web.archive.org/web/20150202084701/http://en.cosco.com/art/2015/1/23/art_773_68531.html.

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164 billion US dollars in Europe between 2005 and 2016. During that same period, it invested 103 billion US dollars in the United States. According to the Rhodium Group, a New York based consultancy, Chinese FDI in the EU increased by almost 50 times in only eight years, from less than 840 million US dollars in 2008 to a record high of 42 billion US dollars (35 billion euros) in 2016.[17] Although Chinese investments in the EU were still comparatively low, they would evolve rapidly and increasing at unprecedented growth rates in Southern Europe. The BRI facilitated the growth in Chinese investment largely because of the Chinese government's "reduced restrictions on outbound investment and policies to encourage companies to look overseas for acquisitions".[18]

2. Focus on Italy

In 2014, Italy became the recipient of a sudden flow of calibrated investments by the People's Bank of China which acquired 2 per cent of several strategically important companies, including energy giant Eni, electricity producer Enel, carmaker Fiat-Chrysler (now part of the Stellantis group), telecommunication company Telecom Italia, insurer Generali, and investment bank Mediobanca.[19] These purchases were a strong message from Beijing that seemed to have a positive impact on Italian public perceptions of China. Between spring 2014 and spring 2015, the Pew Research Center registered a 14 per cent increase in favourable Italian public views of China, much higher than in Germany (at +6 per cent) and France (+3 per cent).[20] In April 2015, Italy joined the Asian Infrastructure Investment Bank (AIIB) as a founding member, along with the United Kingdom, Germany and France. That year, a massive flood of Chinese BRI investments in Europe followed, with Italy as the main recipient, with a 36 per cent rise compared with the previous year.[21]

[17] Nicola Casarini, "A European Strategic 'Third Way?' The European Union between the Traditional Transatlantic Alliance and the Pull of the Chinese Market", in *China International Strategy Review*, Vol. 4 (2022), p. 91-107, https://doi.org/10.1007/s42533-022-00095-1; Thilo Hanemann, Mikko Huotari and Agatha Kratz, "Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies", in *MERICS Papers on China*, 6 March 2019, https://merics.org/en/node/160.

[18] Jerker Hellström, *China's Acquisitions in Europe: European Perceptions of Chinese Investments and Their Strategic Implications*, Stockholm, Swedish Defence Research Agency, December 2016, p. 4, https://www.foi.se/en/foi/reports/report-summary.html?reportNo=FOI-R--4384--SE.

[19] Nicola Casarini, "Italy", in *Coercion, Capture, and Censorship: Case Studies on the CCP's Quest for Global Influence*, Washington, International Republican Institute, 2022, p. 29, https://www.iri.org/?p=22130; Enrico Fardella and Giorgio Prodi, "Existential Alternative for Europe? The Belt and Road Initiative and Its Impact on Europe", in *Russia in Global Affairs*, No. 2/2018 (April-June 2018), p. 167, https://doi.org/10.31278/1810-6374-2018-16-2-164-176; Liam Moloney, "China Central Bank Buys Stakes in Eni, Enel", in *The Wall Street Journal*, 27 March 2014, https://www.wsj.com/articles/SB10001424052702304688104579465482022981014.

[20] Enrico Fardella and Giorgio Prodi, "Existential Alternative for Europe?", cit., p. 167; Richard Wike et al., "Globally, More Name U.S. Than China as World's Leading Economic Power", in *Pew Research Center Reports*, 13 July 2017, https://www.pewresearch.org/global/?p=38491.

[21] Nicola Casarini, "Italy", cit., p. 29.

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Together with a surge of investments, there came an increased interest by EU policymakers to foster ties with Chinese leaders. For instance, Italy's former Prime Minister Paolo Gentiloni, who led a centre-left coalition government between December 2016 and June 2018, attended the first BRI Forum for International Cooperation in Beijing in May 2017. Gentiloni was the only leader of a G7 country and of a big EU member state to participate.[22] Among the supporters of China's connectivity project there was former Prime Minister and former President of the European Commission Romano Prodi, an active supporter of Chinese investments in Italian ports on the northern Adriatic Sea and a frequent keynote speaker at conferences and workshops with Chinese investors and Italian authorities.[23] Italy's participation in China's infrastructure projects was also endorsed by Italy's President of the Republic Sergio Mattarella. During his state visit to China in February 2017, he declared that "Italy will actively respond to China's initiative and be part of this plan".[24]

The positive image of the BRI put forward by some influential political and corporate leaders would create the conditions for the signing by then Prime Minister Conte of the MOU on the Belt and Road Initiative during XI's state visit to Rome on 22 March 2019. The deal raised alarm bells in Washington and created uneasiness in Brussels, Berlin and Paris, as it occurred on the same day as the European Council (held on 21-22 March) was seeking to fashion a common approach towards China. While in Italy and in Southeast Europe the BRI was enjoying positive reception, in other parts of the old continent the perception of China's infrastructure project was rather negative.

3. The darkening of the BRI: The years of "pushback"

Beginning in 2016-17, a growing number of scholars and policy makers begun to criticise the BRI and China's allegedly predatory investments in Europe, and argued in favour of more conditionality in EU-China relations.[25] In the same vein, the European Parliament, a number of national legislatures and some political forces within EU member states stepped up criticism of the Chinese regime and its trade practices, in particular China's lack of reciprocity. The main complaint was that Beijing limited foreign investment in its domestic market for almost all sectors. European businesses consequently faced difficulties in entering the market, while

[22] Nicola Casarini, "Italy's Belt and Road Romance Is Coming to an End – But This Need Not Damage Ties with China", in *China-US Focus*, 8 September 2023, https://www.chinausfocus.com/foreign-policy/italys-belt-and-road-romance-is-coming-to-an-end-but-this-need-not-damage-ties-with-china.

[23] Nicola Casarini, "Italy", cit., p. 29-30.

[24] Nicola Casarini, "Italy's Belt and Road Romance Is Coming to an End", cit.; He Wei, "Italian President Backs Belt and Road Initiative", in *China Daily*, 24 February 2017, https://www.chinadaily.com.cn/world/2017-02/24/content_28342684.htm.

[25] Janka Oertel, "The New China Consensus: How Europe Is Growing Wary of Beijing", in *ECFR Policy Briefs*, 7 September 2020, https://ecfr.eu/?p=2853.

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Chinese companies often received help from the government through subsidies or simpler procedures. Foreign companies – particularly those with recognised brands and technologically advanced products – were increasingly required to share their expertise before they were allowed into the market at all. European investors routinely pointed out the regulatory and administrative burden that foreign companies would have to face in China.

The acquisition of Kuka, a listed German robotics manufacturer, by the Midea Group, a Chinese-listed home appliances company, at the end of 2016[26] – part of a larger trend characterised by the rapid increase in Chinese takeovers of European companies – fuelled concerns among experts and policymakers over a wide range of issues,[27] including: (i) Chinese predatory investments; (ii) negative strategic implications for individual EU member states and the EU as a whole; (iii) links between the Chinese Communist Party and the investing enterprises, including concerns that the growing "military-civil fusion" strategy under Xi would seamlessly channel European technology to the Chinese army; (iv) lack of reciprocity in terms of limited access for European investors to the Chinese market.

Growing imbalances between Europe and China and the association of the BRI with predatory investment contributed to the emergence of increasing negative views of China's connectivity project. This led France, Germany and Italy to ask the European Commission in February 2017 to rethink the rules on foreign investment in the EU. The result was the adoption of a screening mechanism that intended to help the European Commission and the member states to evaluate whether a foreign investor was controlled by a third country government.[28] This was clearly aimed at Chinese state-backed enterprises.

Another setback in Europe-China relations came with the publication of two policy documents that would definitively put an end to the enthusiasm vis-à-vis China's BRI experienced in previous years. The first one was the paper on China issued in January 2019 by the Federation of German Industries (BDI), which argued in favour of a more assertive position vis-à-vis Beijing on trade and investment.[29]

The second paper was published by the EU in March 2019. In it, Brussels made a shift towards a more assertive – and defensive – approach, calling China an "economic

[26] Papiya Basu, "Midea Completes Acquisition of German Robot Maker Kuka", in *S&P Global Market Intelligence*, 8 January 2017, https://www.spglobal.com/marketintelligence/en/news-insights/trending/GJozjWvrKhepx0Jql2SsHw2.

[27] Jerker Hellström, China's Acquisitions in Europe", cit., p. 4.

[28] European Parliament and Council of the European Union, *Regulation (EU) 2019/452 of 19 March 2019 Establishing a Framework for the Screening of Foreign Direct Investments into the Union*, http://data.europa.eu/eli/reg/2019/452/oj.

[29] Federation of German Industries, "Partner and Systemic Competitor – How Do We Deal with China's State-Controlled Economy?", in *BDI Policy Papers*, January 2019, https://english.bdi.eu/publication/news/china-partner-and-systemic-competitor.

competitor" and a "systemic rival promoting alternative models of governance".[30] In the document, the EU accused China of withholding its domestic market for its national champions and restricting European companies' access to it; subsidising domestic competitors; and failing to protect intellectual property rights. In the same vein, the European Council of 21-22 March 2019 voiced harsh criticism on issues ranging from the BRI and Chinese investments into the bloc, to the challenge posed by Beijing state-backed companies to Europe's competitiveness and prosperity.[31]

The election of US president Joe Biden in November 2020 certainly contributed to reinforcing the EU's toughening position on China, as the new US administration would seek to involve the European allies into a Washington-led containment policy towards Beijing. The pushback towards China's Silk Roads was nowhere more evident than in Italy, which had just signed the MOU on the BRI. The government of Draghi (February 2021-October 2022) would put clear limits to BRI's projects. In more than one occasion, Draghi made use of a specially created legal mechanism – the so-called "golden power" – to halt or delay acquisition of Italian companies active in strategically critical sectors (technology, cyber, energy etc.) by Chinese firms.[32] In addition China would fail to acquire stakes in the port authorities of Genoa and the various ports in the northern Adriatic Sea (Trieste, Venice and Ravenna) that formed the backbone of the MOU.[33] Unlike the case of the port of Piraeus in Athens, where the Chinese state-owned COSCO secured the right to operate parts of the port in 2008, then acquired 51 per cent of the Greek state-owned operator in 2016, and finally increased its stake to 67 per cent in October 2021, Beijing has been unable to extend its reach over the ports in northern Italy, in particular those of Genoa and Trieste most coveted by COSCO.[34]

The arrival of a nationalist-conservative coalition led by Giorgia Meloni in September 2022 accelerated the process of blocking BRI's infrastructural projects and Chinese acquisitions of industrial assets considered of strategic significance. In June 2023 the Italian government used specific legislation to block ChemChina, Pirelli's largest stakeholder, from taking control of the tire making giant.[35] The

[30] European Commission, *EU-China – A Strategic Outlook* (JOIN/2019/5), 12 March 2019, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52019JC0005.

[31] Nicola Casarini, "US-China Trade War: Why the EU Should Take Sides and Favour the Rules-based Order", in *IAI Commentaries*, No. 19|47 (July 2019), p. 4, https://www.iai.it/en/node/10650; Jing Men, "The Chinese Perspectives on the EU's Policy towards China", in *IAI Papers*, No. 23|22 (October 2023), https://www.iai.it/en/node/17732.

[32] Beatrice Gallelli, Francesca Ghiretti and Lorenzo Mariani, "Introduction", in Beatrice Gallelli and Francesca Ghiretti (eds), *The Belt and Road Initiative in Italy. Five Case Studies*, Bern, Peter Lang, 2023, p. 13-25, https://www.peterlang.com/document/1321488.

[33] Francesca Ghiretti, "The Maritime Belt and Road: Italian Ports", in Beatrice Gallelli and Francesca Ghiretti (eds), *The Belt and Road Initiative in Italy*, cit., p. 27-45.

[34] Nicola Casarini, "Italy's Belt and Road Romance Is Coming to an End", cit.

[35] Amy Kazmin and Silvia Sciorilli Borrelli, "Italy Strips China's Sinochem of Its Influence as Pirelli's Largest Investor", in *Financial Times*, 18 June 2023, https://www.ft.com/content/d69554c0-0252-4ef1-81a4-c3699ead4a54.

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acquisition of Pirelli in 2015 had become a powerful symbol of China's investment inroads into Europe[36] and of the opportunities that the BRI would entail for cash strapped governments and companies. By halting ChemChina's aspirations, the Meloni government dealt a major blow to Chinese interests in the old continent. In December 2023, Italy officially exited the BRI.[37]

Italy is not the only European country to have turned its back on the BRI. Since 2021, anti-China sentiment has also been growing in some CEE countries with which China had tightened ties. Czechia, Slovakia, and in particular the Baltic countries have changed tack dramatically finding that the economic benefits coming from China are not as great as they had expected. In August 2022, Latvia and Estonia followed Lithuania in abandoning the so-called 16+1 grouping, a format between Beijing and CEE countries established in 2012 as a platform for cooperation on infrastructure and development projects.[38] The forum delivered little to nothing in terms of infrastructure development; besides, they were furthermore concerned about Xi's ever closer relationship with Russian President Vladimir Putin, exemplified by the declaration on the "partnership with no limits" released during the Beijing Winter Olympics in early February 2022. Russia's invasion of Ukraine in February 2022 and the decision by China to side with Moscow has exacerbated tensions between China and CEE countries states.

4. Two-speed Europe

Support for Chinese-funded infrastructure projects is, however, still alive in parts of Eastern and Southeast Europe, including the Western Balkan states that are not yet part of the EU. Serbia and Montenegro have received large amounts of BRI investments in recent years. In January 2023, a new 1 billion US dollars Chinese-funded highway outside the Montenegrin capital was officially opened. The most notable case is, however, Croatia which is a full member of the EU. Zagreb "is host to the Chinese Southeast European Business Association and has actively courted Chinese investments in critical infrastructure, including ports and the EU-funded and China-built Peljesac bridge, the first example of subsidised Chinese firms beating out European firms for EU-funded projects in Europe."[39]

[36] Nicola Casarini, "How to De-Risk from China: Lessons from Italy", in *The Diplomat*, 14 February 2024, https://thediplomat.com/?p=261121.

[37] Aurelio Insisa, "Timing Is Everything: Italy Withdraws from the Belt and Road Initiative", in *IAI Commentaries*, No. 23|67 (December 2023), https://www.iai.it/en/node/17915.

[38] Milda Seputyte and Ott Tammik, "Baltic States Abandon East European Cooperation with China", in *Bloomberg*, 12 August 2022, https://www.bloomberg.com/news/articles/2022-08-11/baltic-states-abandon-eastern-european-cooperation-with-china.

[39] Jeffrey Lightfoot and John Kay, "Authoritarian Investment in Southeastern Europe Is a Security Threat. Here's what NATO can do", in *New Atlanticist*, 13 June 2023, https://www.atlanticcouncil.org/?p=652015. See also Nina Pejič, "Many a Mickle Makes a Muckle: Chinese Corrosive Capital in Croatia", in *CEIAS Working Papers*, August 2021, https://ceias.eu/?p=5646.

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Other CEE countries that continue to look favourably to China's BRI include Bulgaria, Romania and Hungary. These states sent high-level delegations to the third Belt and Road Forum (BRF) held in Beijing on 17-18 October 2023. The Bulgarian National Association for the Belt and Road – an organisation which includes both active and former politicians – came to the Forum with a detailed list of projects that was given to Chinese authorities for approval. The previous month, Bulgaria had hosted a two-day conference on the 10th anniversary of the BRI with the aim to boost closer cooperation between Bulgaria/EU and China. Deputy Economy and Industry Minister Nikolay Pavlov declared that "China is a strategic partner for Bulgaria and the EU, as well as within the Belt and Road Initiative for cooperation between China and the countries in Central and East Europe".[40]

The Hungarian delegation at the BRF in October 2023 included the governor of the central bank, an avowed enthusiast of the BRI,[41] who signed an agreement with the People's Bank of China to increase the amount of currency-swaps. Although the overall amount of the currency swap was not revealed, it is possibly Europe's largest, suggesting that Hungary wants to become a top destination of Chinese investments in the old continent.[42] On 22 December 2023, Chinese automaker BYD announced plans to establish an electric-vehicle manufacturing plant (the biggest in Europe with a production capacity of 200,000 vehicles per year) in the Hungarian city of Szeged, near the border with Romania and Serbia, along the Budapest-Belgrade-Skopje-Athens railway, which is the BRI's flagship project in Eastern Europe.[43]

There is thus a two-speed Europe when it comes to China's BRI. Many Central and Eastern European countries continue to promote Beijing's connectivity projects and seek to attract Chinese investments, while most Western European governments have put limits to the BRI and to Chinese takeovers of European companies.[44] All Europeans, however, have opened doors to Chinese monetary ambitions, a dynamic in full display at the last Belt and Road Forum in Beijing. The BRF was attended by more than twenty heads of state and government, mostly from the Global South.[45] High-level policy makers and former heads of state and government from CEE countries – including Serbia, Montenegro, and Bosnia

[40] Dimitrina Solakova, "Sofia Hosts Conference on 10th Anniversary of Belt and Road Initiative", in *Bulgarian News Agency*, 13 September 2023, https://www.bta.bg/en/news/economy/521937.

[41] "Hungary Central Bank Governor: China-proposed BRI 'Clear Success'", in *Xinhua*, 27 September 2023, http://english.scio.gov.cn/beltandroad/2023-09/27/content_116715074.htm.

[42] Márton Losonczi, "Hungary Committed to Becoming Region's Top Destination for Chinese Investors, Minister States in Shanghai", in *Hungarian Conservative*, 6 November 2023, https://www.hungarianconservative.com/?p=19063.

[43] Justin Spike, "China's BYD to Build Its First European Electric Vehicle Factory in Hungary", in *AP News*, 22 December 2023, https://apnews.com/article/4c4754f43703d061e1dc02516be0c14a.

[44] Nadia Clark, "The Rise and Fall of the BRI", in *Asia Unbound*, 6 April 2023, https://www.cfr.org/node/246069.

[45] Simina Mistreanu, "Here Are the Key Leaders Joining the Belt and Road Forum and Their Wish Lists to Beijing", in *AP News*, 17 October 2023, https://apnews.com/article/b248ad6f710bfcf9aea62e916239a37d.

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and Herzegovina, all candidates for membership of the EU – did attend the BRF, together with high-level representatives of European banks.[46] During the Forum, China's policy banks signed a series of yuan-denominated loan contracts with foreign lenders, many of which from EU countries.[47]

5. Sino-European monetary connectivity

Since the launch of the BRI in 2013 a major goal of the Chinese leadership has been to increase the renminbi's share in trade, monetary transactions and foreign exchange reserves to facilitate Chinese outbound investment and lower transaction costs.[48] In the last decade, the Belt and Road and renminbi internationalisation have proceeded in lockstep, as each reinforces the other.[49] As in the case of infrastructure projects and investments, the European continent has been the main target for promoting the financial and monetary elements of the BRI.

China's monetary ambitions have been met with interest across the Old Continent, including by eurozone member states. Beijing has traditionally backed Europe's own monetary ambitions and supported the eurozone during the euro-crisis of 2010-12.[50] The first BRI projects landed in Europe at the end of 2013, when peripheral countries of the eurozone, including Greece and Italy, were reeling from the effect of the sovereign debt crisis.

Furthermore, many Europeans share China's concern about the increasing tendency by the United States to weaponise the dollar. Several European companies,

[46] The author attended the Third Belt and Road Forum (BRF) in Beijing in October 2023 and witnessed the participation of several high-level participants from CEE countries as well as representatives from major banks, including (among the others): HSBC (UK), BNP Paribas (France), Banca Intesa (Italy), Deutsche Bank (Germany), OTP Bank (Hungary), ZABA Bank (Croatia's largest bank owned by the Italian UniCredit group).

[47] "China Ramps Up Yuan Internationalisation under Belt and Road Initiative", in *Reuters*, 19 October 2023, https://www.reuters.com/news/picture/china-ramps-up-yuan-internationalisation-idUSKBN31J0C2.

[48] Nicola Casarini and Miguel Otero-Iglesias, "China's Trend towards De-Dollarisation and the Role of the EU", in Sylvie Bermann and Elvire Fabry (eds), *EU and China between De-Risking and Cooperation: Scenarios by 2035*, Jacques Delors Institute Reports, No. 126 (November 2023), p. 74, https://institutdelors.eu/en/publications/eu-and-china-between-de-risking-and-cooperation-scenarios-by-2035; Lorenzo Bencivelli and Michele Savini Zangrandi, "The Internationalisation of the Chinese Renminbi and China's Digital Currency Plans", in *IAI Papers*, No. 23|08 (April 2023), https://www.iai.it/en/node/16857. On the internationalisation of the RMB see also: People's Bank of China, *2022 RMB Internationalization Report*, September 2022, http://www.pbc.gov.cn/en/3688241/3688636/3828468/4601761/index.html; Bank of China, *White Paper on RMB Internationalization. RMB along the 'Belt and Road*, November 2015, https://pic.bankofchina.com/bocappd/rareport/201511/P020151109382840816047.pdf.

[49] Bora Ly, "The Nexus of BRI and Internationalization of Renminbi (RMB)", in *Cogent Business & Management*, Vol. 7, No. 1 (August 2020), Article 1808399, https://doi.org/10.1080/23311975.2020.1808399.

[50] Nicola Casarini and Miguel Otero-Iglesias, "Europe's Renminbi Romance", in *Project Syndicate*, 4 April 2016, https://prosyn.org/TqwqtAe.

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including French bank BNP Paribas – the largest banking group in Europe (by assets) – were fined for not submitting to Washington's extraterritorial legislation, leading Governor of the Bank of France François Villeroy de Galhau to openly call for the euro "to challenge" the dollar.[51]

Europe is the world's largest trading power and has well-developed individual capital markets (even accounting for the lack of a capital market union). Since the entry into circulation of the euro in 1999, the EU has stepped up efforts to develop the global role of its currency. In a 2018 Communication entitled *Towards a stronger international role of the euro*, the European Commission stated that strengthening the international role of the euro would "provid[e] market operators across the globe with additional choice and making the international economy less vulnerable to shocks linked to the strong reliance of many sectors on a single currency".[52]

Chinese leaders have traditionally viewed the euro as an important element for the creation of a multipolar currency system and declared their support for the European common currency on many occasions. Moreover, China's central bank has diversified its foreign exchange reserves – the world's largest – so that it now holds over one-third in euros and slightly more than half in dollars. In turn, the Europeans have been supportive of an increased role of the Chinese currency in the world economy.

Following a surge of Chinese investments under the banner of the BRI, several European countries have established renminbi bank clearings (also called offshore hubs) where the Chinese currency can be traded. The fact that offshore renminbi hubs have emerged in Budapest, Frankfurt, Luxembourg, Madrid, Milan, Paris and Prague indicates Europe's willingness to promote the use of the Chinese currency.

In the same vein, most of Europe's central banks have accepted China's currency as a viable reserve and signed swap agreements with the People's Bank of China – a trend that benefits both sides. Through these currency swaps, Chinese companies can settle their payments using euro or renminbi to avoid exchange risks, while European businesses can make renminbi payments using clearing banks located in almost all EU member states.

Moreover, financial centres, stock exchanges trading Chinese securities and market-connect mechanisms linking to Chinese exchanges have emerged in various European countries. Germany is at the forefront of Europe-China financial links. Based in Frankfurt, the CEINEX is a joint venture established by Shanghai Stock Exchange, Deutsche Börse Group and China's Financial Futures Exchange.

[51] Martin Arnold and Claire Jones, "France's Central Banker Calls for Euro to Challenge US Dollar", in *Financial Times*, 4 June 2019, https://www.ft.com/content/12beb4e6-86c7-11e9-97ea-05ac2431f453.
[52] European Commission, *Towards a Stronger International Role of the Euro* (COM/2018/796), 5 December 2018, p. 5, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52018DC0796.

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It is the first dedicated trading venue for China- and RMB-related investment products outside of mainland China. Its mission is to establish a centralised marketplace for trading, risk management and asset allocation for China-related or RMB-denominated financial products in Europe.[53]

France is developing a similar connection between Euronext Paris and the Shanghai Stock Exchange. During the China-France High Level Economic and Financial Dialogue held in December 2021, the two sides launched the France-China Cooperation Fund with the involvement of China Investment Corporation, BNP Paribas and Eurazeo (a leading global investment group) to boost the Fund's role as a cross-border investment platform and promote the use of the renminbi among French businesses.[54]

According to the Swift-produced RMB Tracker, Europe is second only to Hong Kong when it comes to global cross-border renminbi transactions.[55] To be sure, the gap between the two is still massive: by the end of 2023 Hong Kong had cleared 80 per cent of renminbi-denominated payments and Europe just around 10 per cent. However, there is every reason to think that Europe's market share will continue to rise[56] on the back of their persistently strong bilateral trade relationship. China remains the largest source of imports for the EU, which in 2022 bought 626 billion euros' worth of goods and services from China, around 20.8 per cent of its total imports (contributing to a staggering 400-billion-euro trade deficit).[57]

In this context, the use by European actors of China's Cross-Border Interbank Payment System (CIPS), an alternative to the Western-dominated Swift, is expected to grow. Of the 1,300+ financial institutions connected to the CIPS, more than two hundreds are based in Europe, including some large banks such as BNP Paribas, Deutsche Bank, HSBC and Intesa Sanpaolo. The European banks connected to the CIPS tend to clear renminbi funds used to finance infrastructure projects under Beijing's BRI, but the scope of their renminbi-denominated services keep expanding.[58] For instance, Intesa Sanpaolo – the only Italian bank that has so far received the Silk Road Award[59] – is expanding its renminbi-clearing operations as part of its connection with China's CIPS, in line with a broader trend among

[53] Nicola Casarini and Miguel Otero-Iglesias, "China's Trend towards De-Dollarisation", cit., p. 80.

[54] Ibid.; *China-France Joint Fact Sheet on the 8th High Level Economic and Financial Dialogue*, 13 December 2021, http://fr.china-embassy.gov.cn/fra/zfzj/202112/t20211214_10469626.htm.

[55] SWIFT, *RMB Tracker*, https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/rmb-tracker-document-centre.

[56] Nicola Casarini and Miguel Otero-Iglesias, "China's Trend towards De-Dollarisation", cit., p. 80.

[57] Arendse Huld, "EU-China Relations – Trade, Investment - and Recent Developments", in *China Briefing*, 4 April 2023, https://www.china-briefing.com/news/eu-china-relations-trade-investment-and-recent-developments.

[58] Nicola Casarini and Miguel Otero-Iglesias, "China's Trend towards De-Dollarisation", cit., p. 80.

[59] Intesa Sanpaolo, *Intesa Sanpaolo First Foreign Wealth Manager in China through Own Subsidiary*, 29 December 2019, https://group.intesasanpaolo.com/en/newsroom/news/all-news/2019/wealth-management--intesa-sanpaolo-first-foreign-bank-licensed-i.

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European banks that are betting that the Belt and Road's next chapter will be all about the yuan.[60]

Europe's financial institutions increasingly view the renminbi as a stable currency, part of the Special Drawing Rights (SDR) of the International Monetary Fund (IMF), an artificial reserve currency that includes the US dollar, the euro, the British pound and the Japanese yen. The Europeans unanimously backed the decision by the IMF in December 2015 to include the renminbi in the SDR, in stark contrast to Washington, which has been consistently opposed to it on the grounds that the Chinese currency does not yet meet the criteria of a reserve currency status.[61]

Some of Europe's large companies have begun using the renminbi for their transactions with China. For instance, in April 2023 France's TotalEnergies and China National Offshore Oil Corporation completed Beijing's first purchase of imported liquefied natural gas, a transaction that was settled in renminbi through BNP Paribas and the Shanghai Petroleum and Natural Gas Exchange.[62] The deal came a few days before the state visit of French President Emmanuel Macron – a strong advocate of EU "strategic autonomy" – to China, where he declared that, when it comes to EU-China trade, "Europe must [...] reduce dependence on the U.S. dollar".[63]

Would the converging monetary interests between China and the eurozone have occurred if the BRI had not been there? Probably so. Yet, the Belt and Road has undeniably provided the broader framework for the strengthening of Sino-European monetary ties.

Conclusion

From the enthusiasm of the early years, the old continent has become wary of China's connectivity project, which has been associated with Chinese predatory takeovers of European companies and with growing trade imbalances. Italy is the European country that more clearly symbolise this change of attitude: while in March 2019, the Conte government signed an MOU on the BRI, in December 2023

[60] Diana Choyleva and Dinny McMahon, "Belt and Road's Next Chapter Will Be All about the Yuan", in *Nikkei Asia*, 25 October 2022, https://asia.nikkei.com/Opinion/Belt-and-Road-s-next-chapter-will-be-all-about-the-yuan.

[61] Nicola Casarini, "Europe Oscillates Between the U.S. and China", in *China-US Focus*, 30 June 2022, https://www.chinausfocus.com/finance-economy/europe-oscillates-between-the-us-and-china; "China Yuan 'Quite a Ways' from Reserve Currency Status -Lew', in *Reuters*, 29 September 2016, https://www.reuters.com/article/idUSKCN11Z28Z.

[62] Xu Yihe, "TotalEnergies and CNOOC Complete First LNG Transaction in Chinese Currency", in *Upstream Online*, 30 March 2023, https://www.upstreamonline.com/lng/2-1-1427282.

[63] Jack Phillips, "Macron Says Europe Should Reduce Dependence on US Dollar after Meeting with China's Xi", in *NTD*, 10 April 2023, https://www.ntd.com/macron-says-europe-should-reduce-dependence-on-us-dollar-after-meeting-with-chinas-xi_912375.html.

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the national-conservative coalition led by Meloni officially exited Xi's signature foreign policy project. Yet, China's BRI in Europe is not coming to an end, but it is rather being reconfigured. In Western Europe, the BRI is moving away from physical infrastructure projects and investment in industrial assets – the latter being increasingly protected from Chinese takeovers by both national and EU legislation – to financial and monetary connectivity, which is welcomed by various European actors, including some policy makers at the national level, eurozone institutions, and major banks. Concurrently, most of Eastern European countries continue to promote BRI projects and seek to attract Chinese investments, suggesting that there is a two-speed Europe when it comes to China, both in terms of geography and sectors. Going forward, there is need for a more nuanced understanding of the implications that the BRI's enduring influence in the old continent can have for EU unity and the transatlantic alliance.

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