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International and Diplomatic Studies

**A preliminary assessment of China's Belt and Road Initiative
(BRI) as an economic diplomacy strategy and its impact on
national-EU political dynamism in Europe**

(Master's Thesis)

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Author's Declaration

Herewith I declare that I have written the Master's Thesis on my own and I have cited all sources.

Prague, 25 November 2018

SooSheYuan

Author's Signature

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Abstract

This research is to conduct a preliminary assessment on the Belt-and Road Initiative (BRI), an international co-operation framework proposal announced by PRC in 2013, from the perspective of Economic Diplomacy (ED) and Economic Statecraft (ES). The research focuses on the twofold political-economic impact BRI is already having both in PRC and Europe, illustrating the fact that, due to the twofold nature of BRI, it should be studied and analyzed from the perspective of Economic Diplomacy (ED) in order to sufficiently address both its political and economic impacts. However, due to the lack of mutual understanding and agreement over a wide range of complicated issues, including the lack of mutual agreement over the topic of ED and ES, the uneven level of development in ED and ES studies, mutual ignorance and misconception regarding other parties' political and economic traditions and practices, etc, BRI, in its current form and progression, is risking to become a “white elephant” project without concrete co-operation plan. In order for BRI to succeed, significant efforts and sacrifices must be made by the various actors, yet given the existing all-encompassing scope of BRI as proposed by PRC, it is unlikely that any of the party has the necessary resources and motivations to promote the initiative. Thus, BRI (in its current form) is increasingly possible to become an overly ambitious policy proposal which is unable to fulfil its proposed goals, both domestically and internationally

Keywords

Belt-and-Road Initiative, BRI, Economic Diplomacy, Economic Statecraft, EU politics, EU negotiations, multilateralism, bilateralism, hybrid policy, 一代一路, 新丝绸之路, 经济外交, 经济治国术, 欧盟政治, 欧盟协议交涉, 多边贸易, 双边贸易。

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List of Abbreviations

| | |
|------|--------------------------------------|
| ED | Economic Diplomacy |
| BRI | Belt-and-Road Initiative |
| PRC | People's Republic of China |
| SREB | Silk Road Economic Belt |
| CDB | China's Development Bank |
| AIIB | Asian Infrastructure Investment Bank |
| SP | Strategic Partnership |
| ESP | Enhanced Strategic Partnership |
| CSP | Comprehensive Strategic Partnership |
| JS | Joint Statement |
| FDI | Foreign Direct Investment |
| ES | Economic Statecraft |

Chapter 1: The Importance of this research- China's BRI as a New Economic AND Foreign Policy Strategy

1.1 Introduction

It is undisputable that China's Belt-and-Road Initiative (BRI, formerly known as One-Belt-One-Road or OBOR) is currently one of the primary focuses of China's studies in Europe. Announced by President Xi Jinping of the People's Republic of China (PRC) in 2013, it is the first dominant foreign policy announcement made by PRC since its open-door policy in 1990s. However, 5 years have passed since the initial announcement of BRI, yet there are still significant confusions and disagreements about how BRI, with all its potential economic and political impacts, should be regarded and received, especially among European political and academic circles. Consequently, these confusions and disagreements have led to Europe's failure to agree on and form a cohesive response and strategy in response to BRI's activities in Europe.

Among all the confusions and disagreements, the majority of the disagreements seem to be centred on whether BRI is part of PRC's grand geopolitical strategy to assert its political influence in the countries along the 'Silk Road Economic Belt' (SREB) with its economic prowess. In fact, the question regarding whether PRC will use its economic leverage to achieve its political purposes already raised concerns since about 10 years ago, when It was first perceived as an influential economic actor in some parts of the world (Lai, 2018, p 171). While the PRC government has repeatedly reiterated that the BRI has only the intention of enhancing economic co-operations and logistic connections among participating countries, authorities and scholars in Europe remain unconvinced, with perceptions about BRI ranging from dubious to negative.

Reasonably, a massive infrastructure project involving 68 countries on 4 continents with an intended yearly investment volume of US\$150 billion (The Economist, 2017, pp. 55-56) should raise the attentions and concerns of many state authorities. The attentions and concerns are correctly aggravated when it appears that PRC emerges to be the sole leading state of this massive infrastructure project -- the majority of the funding for BRI comes from 4 major state-owned banks and China Development Bank (CDB), all in control of PRC's state authority (Financial Times, 2017). However, adopting the arms-crossed approach towards BRI for fear

of its potential political and foreign policy implications, as most of the European states are currently doing (The Economist, 2017, p 55), would not be the ideal response from the state authorities. The sheer economic impacts of BRI would have considerable structural and systemic effects on the economies of all the participating states, without considering its political impacts. Henceforth, both the success or failure of BRI will have significant influence upon the internal and external politics of Europe, and the lack of sound and concrete understanding among European state authorities will render Europe unprepared for its impacts, regardless of whether BRI will succeed or fail.

Nevertheless, lack of knowledge and understanding about BRI is the key issue in Europe's approach towards this massive infrastructure project proposed by PRC. Many reasons and factors contribute to this lack of understanding in Europe about BRI, yet one of the most significant reasons is the fact that BRI is a hybrid of both economic and foreign policy. As such, the impacts of BRI, both in PRC and all the participating states, will always be two-folded: it would always affect both the economies and foreign policies of all participating countries. Therefore, the conventional approach of focusing on either the economic impacts or the foreign policy impacts of BRI will always be partial and incomplete, without considering the intertwined concerns in both economic and foreign policy realms.

The primary focus of this research is to establish a preliminary understanding and interpretation of PRC's Belt-and-Road Initiative (known and referred to as BRI onwards) from the perspectives of Economic Diplomacy (known as ED onwards). Due to the divergent yet inseparable concerns of BRI in economic and international relations, the author aims to demonstrate how the divergent analytical tools of ED are able to facilitate a comprehensive understanding of PRC's BRI project, with all its political and economic impacts. The author also wishes to demonstrate that the intellectual developments of ED in PRC and Europe is at a significantly uneven level, and this existing gap caused by this uneven level of development has resulted in the skewed and biased understanding and interpretation of BRI in European audience. It is the author's belief that, by understanding the economic impacts of BRI towards PRC's macroeconomics, policymakers are able to develop an accurate understanding regarding the primary concerns and purposes of BRI. This accurate understanding will prove to be useful in establishing economic relations with PRC based on equal terms, without the suspicion and scepticism of unexpected political leveraging through economic dominance on PRC's end.

1.2 The mysterious and confusing “Belt-and-Road Initiative”

Conducting an effective analysis on PRC’s BRI is a vastly complex and challenging task. Many reasons and circumstances have contributed to this challenge, but the author has identified 3 main reasons why analysing BRI is so difficult and complicated. These three main reasons are: a) Absence of concrete definition/intention of BRI, b) Lack of concrete action plan/progress check plan, c) Lack of completed project announcement. In the following section, the author will approach the abovementioned reasons with most updated data and statistics, illustrating how these four main reasons have become the dominating hurdles for Europe to understand and assess the impact of BRI in the region.

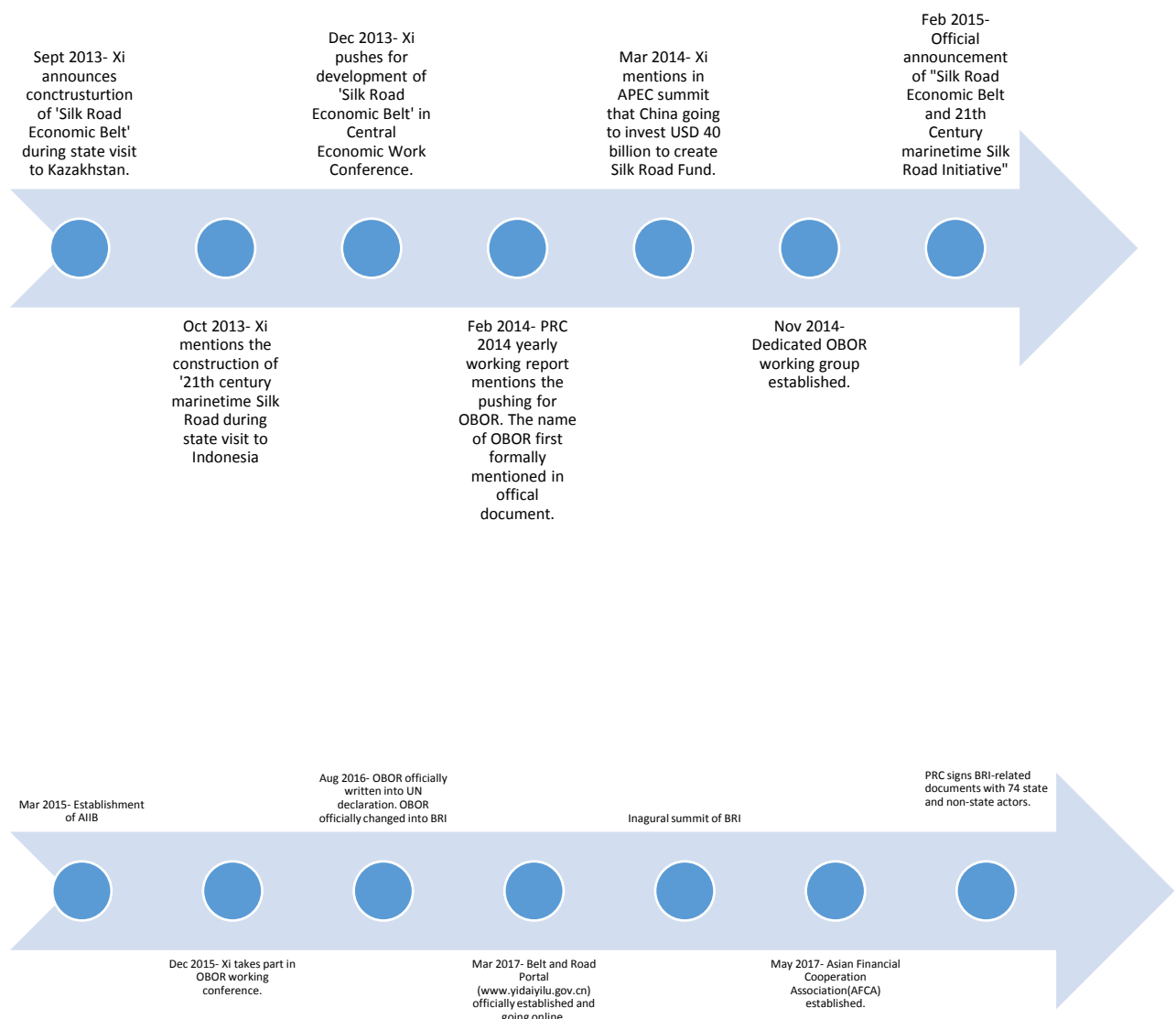
Ironically, The first reason that makes BRI difficult for European countries to understand comes not from the complicated economic and political impacts of the project, but from the fact **that BRI is a policy announcement which lacks a concrete definition and intention**, both on the European and the Chinese side. Despite the considerable volume of publication in Europe regarding BRI, the persistent lack of an agreed definition of BRI is clearly demonstrated in most of the publications. European Think-tank Network on China(ETNC)’s dedicated report on BRI in 2016 blatantly states that “no official or generally accepted definition of OBOR exists”(van der Putten, Seaman, Huotari, Ekman, & Otero-Iglesias, 2016, p 3). The official briefing of the European Parliament on BRI stated that BRI is “China’s broadly sketched vision of how it plans to boost regional intergration” (European Parliament member research service, 2016, p 1), while Maximilan Mayer notes in his edited volume on BRI that there is “certain inherent vagueness” about China’s BRI projects (Mayer, 2017, p 2). On the other hand, the lack of a concrete definition for BRI also occurs on the PRC side. The dedicated website for BRI (www.yidaiyilu.gov.cn) broadly states that BRI is a vision aimed at promoting economic and trade exchange through various economic corridors and common infrastructure development. There is no official definition of BRI announced on the website, and the approaches and geographical areas involved are either loosely mentioned or totally omitted (National Centre of Information, June 2018).

Stemming from the lack of a clear definition of BRI from all the actors involved is the **lack of a concrete action plan, or plan progress check** for BRI, or the projects involved in BRI. 2018 marks the 5-year anniversary of BRI, yet the total absence of a concrete development or action plan is still the main concern for all the actors involved. On European side, the last major news updated about actual co-operation plan with China on BRI was the bi-annual BRI

summit in 2017, while on the official timeline published on Belt and Road Portal (www.yidaiyilu.gov.cn), the progress timeline stops at September 2017, when PRC's ministry of Foreign Affairs signed the Memorandum of Understanding (MOU) of BRI with the UN economic and social council (Shang, 2017). In fact, a closer look at the official BRI progression timeline published on Belt and Road Portal reveals that, since the announcement of OBOR made by Chinese president Xi Jinping in 2013, the majority of the announced progression of BRI project remains in the realm of PRC reaching out to various countries, with the best of progression signalled by the numerous bi-lateral and multilateral MOUs signed between PRC and various actors¹ (National Centre of Information, 2018). There is a complete absence of concrete development plan, or even development proposal, about how the co-operation could be realized in actual economic or infrastructure development plans under the proposed framework of BRI.

Coupled with both the lack of a concrete definition of BRI and a lack of an actual development or action plan, it should come as no surprise that there has been **no official record or significant announcement of completed project under the co-operation framework of BRI**, even five years after the announcement of the initiative. In fact, When the PRC government changed the name of the Initiative from OBOR to BRI in 2016, the official reason quoted by the Chinese official was to enable the initiative “sound more like an inclusive initiative rather than a strategy” (Stanzel, 2017). In addition, the BRI summit in May 2017 revealed that there exist significant discrepancies “between the Europeans and Beijing on the future shape of co-operations under BRI framework” (Stanzel, 2017). The two examples above shows that the BRI framework is, in essence, still at the planning and negotiation stage. Consequently, it is only natural that there has been no completed project under the framework, although it has already been 5 years since the initial announcement of the initiative.

¹ Some China observers in the West might argue that the establishment of AIIB is the most prominent development of BRI (Dollar, 2015). However, Most observers in the West would agree that BRI is only part of the planning of AIIB, and the majority of the funding for BRI projects comes from major state-owned banks of China, as reported by Financial Times on 11 May 2017 (Financial Times, 2017)



Timeline 1: Progression timeline of BRI, as published on Belt and Road Portal. (Officially in Chinese Language, translated and prepared by author).

Combining and analysing the three “lacks”, as mentioned previously, it is important to note that at this stage, various **analyses and predictions regarding BRI and all its impacts, are purely at the potential level** both in China and in the West. Despite all the media attentions, and the heightened awareness in academic and policymaking circles, the discussions and predictions in Europe regarding the initiative remains at the speculation stage, with no concrete proof to support or disprove any of the theories proposed. Under the influence of

multiple news reports and considerable volume of publications in Europe regarding the impact of BRI, it is easy to be under the (unfounded) impression that the readership has already gained sufficient knowledge about BRI, yet the facts shows that BRI, at least in the current stage, is merely an ideological construction, with no concrete plan for actual execution. Consequently, it is crucial to bear in mind that there is still considerable space for various actors to modify or assert influence over the development of BRI, in various trends and regions involved in the initiative.

1.3 The political impacts of BRI in Europe.

Although BRI was announced, and repeatedly reiterated through PRC official stance, as an geo-economic and geo-strategic framework for greater economic and trade co-operation between China and Europe, **BRI is in its current stage waging more political rather than economic impacts in Europe.** Although the economic impact of BRI is still largely discussed in potential terms, the political impact of BRI is already being discussed and addressed in real terms, and its effect felt and regarded diversely by each member state across the EU.

Among all political impacts raised by BRI in Europe, the **successful rise of serious and systematic political interests and concerns in Europe about China** is arguably the most pronounced political impact. This heightened awareness of the political impacts of Chinese presence and activities in Europe is best demonstrated in April this year, when ambassadors from 27 EU countries to PRC collectively signed a report criticizing the impacts and activities of BRI in the EU (the report was leaked to Germany's *Handelsblatt* and was not officially published) (Prasad, 2018). It remains unclear which actor engineered the almost-unanimous EU protest and criticism towards BRI, yet this is a very rare example in which the EU managed to gain the agreement of the majority of its member states on a single issue regarding China. Regardless of the uncertainty that the findings in the leaked report are based on objective and unbiased studies towards China, the fact that the EU prepared such an official protestation demonstrated the fact that the presence of China in the EU is regarded with a renewed and sufficient level of importance, both at EU level and at the national level of its member states.

Another pronounced political impacts of BRI in Europe is the **renewed willingness to establish formal and more comprehensive ties over various issues with China at state level**, especially among the non-dominating, CEE EU member states such as Czech Republic, Hungary, and Poland. The renewed willingness to establish comprehensive formal ties with

PRC is demonstrated by the fact that most of the EU member states in CEE region have concluded some forms of strategic partnership with PRC, with the majority of the partnership signed between 2013 and 2016² (Huotari, Otero-Iglesias, Seaman, & Ekman, 2015). The direct political consequence of this renewed, bilateral approach at national level is that the interests and concerns of these previously non-dominating member states has dramatically altered the context of EU-China relations, especially during the 2010-2015 period. (Huotari, Otero-Iglesias, Seaman, & Ekman, 2015, P 5). On the other hand, this increased partnership in various forms at the national level through bilateral agreement also **further complicates the already vastly complex EU-member states dynamics**, intertwining both national and EU interests with both binding legal commitments and non-binding initiative/agreement, which diverse greatly among each EU member states.

In conclusion, it is not difficult to notice that BRI, although yet to have any actual economic impacts, is already waging considerably acute political influence in the EU, due to the various bilateral agreements and partnerships concluded at state level. However, the majority of the political conclusions reached are based on predictions and speculations on the economic impacts of BRI in Europe, which is the reason why an adequate assessment of the (potential) economic impact of BRI in Europe is necessary in order to reach a complete assessment.

1.4 the (potential) economic impact of BRI

As already discussed in the second section of this chapter, it is a hugely challenging task to analyse and assess the economic impacts of BRI, especially when the fact has already been established that there is yet a concrete definition, concrete progression plan, and actual completion of projects under BRI framework. The task of determining the economic impacts of BRI is further complicated when the author are aware that all the economic influence discussed in this section is purely in speculative and potential terms. However, an actual assessment of BRI's potential economic impacts in Europe is necessary since the majority of the political decisions reached in Europe regarding BRI is based on the assessment of the economic interests in Europe. Therefore, it is the author's wish to reiterate that the economic

² The strategic partnership comes in various forms, including Strategic Partnership (SP), Enhanced Strategic Partnership (ESP), Comprehensive Strategic Partnership (CSP) and Joint-statement (JS), each seemingly different according to the dominating elements of the bilateral relations.

impacts of BRI discussed and presented in this section are speculative in nature, and are based on the historical examples of PRC's economic activities in Europe. Also, the economic impacts are referred to only when they wage actual political impacts in the process of decision-making.

Among various complicated economic issues in the EU-China relations, two major concerns are actually related to the BRI framework: a) the actual investment in improving infrastructure in EU member states, b) the further deepening of Chinese's diversified FDI in the EU following the increased connectivity brought by BRI. For the ease of discussion in this section, the author proposes to employ the broadest definition of BRI as “**a joint-venture cooperation framework proposed by PRC to improve connectivity of participating countries through various infrastructure building/improvement projects**”. Although improving infrastructure connectivity is only the first phase of BRI by PRC official definition, yet judging by BRI's current progression, the project still remains its formation stage hence the author intends to discuss and present BRI's actual and potential economic impacts in its current form as a project aims at improving Europe's infrastructure quality and connectivity.

As already noticed by some EU analysts, investment in infrastructure in most EU member states has been in decline since the 2008-09 Eurozone crisis (Zachariadis, 2018). The direct result of this gradual decline in infrastructure investment means there has been a pan-European need in the improvements and upgrades of EU infrastructure. Judging from the announcement time of BRI by President Xi Jinping, it is not difficult to conclude that the early enthusiasm shown on the EU side towards BRI was supported with the intention that the proposed BRI would bring the much needed upgrades to EU infrastructure, with the help of Chinese investment.

However, if building/improvements to intra-European infrastructure was what European Union wishes to achieve through BRI, a quick glance at the investment into the transport infrastructure of BRI-participating states in Europe shows that the promotion of **BRI has thus far not yet brought the anticipated investment into infrastructure improvement to these states**. OECD investment statistics from 2012 to 2016 shows that the increased investment into the transport infrastructure investment is not unanimous among all BRI-participating states in Europe. In fact, a closer look at the yearly investment into transport infrastructure of these states shows that more than half of the BRI-participating states in Europe have witnessed an investment decrease into transport infrastructure **AFTER** BRI has been announced. As a project which enthusiastically promotes connectivity through joint-effort

projects on infrastructure improvement, this finding clearly contradicts the announced intention of BRI, which leads to legitimate doubt from various EU member states regarding PRC sincerity in promoting the joint effort to improve transport infrastructure in Europe.

| <i>Countries</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> | <i>2015</i> | <i>2016</i> |
|------------------------|-----------------|-----------------|------------------|------------------|------------------|
| <i>Austria</i> | 1 688 000 000.0 | 1 648 000 000.0 | 1 567 000 000.0 | 1 549 000 000.0 | 1 523 000 000.0 |
| <i>Belgium</i> | 1 333 431 630.0 | 1 200 786 096.0 | 1 107 978 558.0 | 1 005 993 900.0 | 959 083 669.0 |
| <i>Bulgaria</i> | 114 019 838.0 | 123 734 533.0 | 167 195 010.0 | 301 155 537.0 | 301 155 537.0 |
| <i>Croatia</i> | 61 824 419.0 | 183 137 617.0 | 130 720 666.0.0 | 60 021 014.0 | 44 329 418.0 |
| <i>Czech Republic</i> | 381 534 889.0 | 334 664 758.0 | 454 245 019.0 | 1 164 925 783.0 | 681 496 031.0 |
| <i>Denmark</i> | 915 795 696.0 | 996 124 915.0 | 1 159 371 688.0 | 1 308 422 492.0 | 1 185 026 997.0 |
| <i>Finland</i> | 450 000 000.0 | 605 000 000.0 | 643 000 000.0 | 567 000 000.0 | 537 000 000.0 |
| <i>France</i> | 5 381 000 000.0 | 7 808 000 000.0 | 6 823 000 000.0 | 6 224 000 000.0 | 5 244 000 000.0 |
| <i>Germany</i> | 3 930 000 000.0 | 4 210 000 000.0 | 4 420 000 000.0 | 4 750 000 000.0 | 4 840 000 000.0 |
| <i>Greece</i> | 177 000 000.0 | 96 000 000.0 | 180 605 281.0 | 218 499 115.0 | |
| <i>Hungary</i> | 472 418 139.0 | 623 201 662.0 | 626 656 305.0 | 701 286 716.0 | 323 165 093.0 |
| <i>Italy</i> | 4 238 000 000.0 | 4 103 000 000.0 | 4 742 000 000.0 | 2 861 000 000.0 | |
| <i>Poland</i> | 430 896 446.0 | 262 800 505.0 | 53 052 933.0 | 340 441 809.0 | 326 565 221.0 |
| <i>Portugal</i> | 86 000 000.0 | 71 000 000.0 | 120 000 000.0 | 177 000 000.0 | 79 000 000.0 |
| <i>Romania</i> | 117 763 173.0 | 208 856 606.0 | 277 659 024.0 | 321 920 274.0 | 262 091 387.0 |
| <i>Slovak Republic</i> | 216 000 000.0 | 324 000 000.0 | 276 000 000.0 | 295 500 000.0 | 131 600 000.0 |
| <i>Spain</i> | 5 350 000 000.0 | 2 710 000 000.0 | 3 042 000 000.0 | 2 631 000 000.0 | 1 682 000 000.0 |
| <i>Sweden</i> | 1 329 895 368.0 | 1 104 098 029.0 | 1 187 437 479.0 | 1 387 674 381.0 | 1 177 526 856.0 |
| <i>United Kingdom</i> | 8 765 858 710.0 | 8 426 353 038.0 | 10 094 250 992.0 | 14 327 356 749.0 | 13 578 355 111.0 |

Yearly Infrastructure Investment by key EU countries 2012-2016, In Euro. Source: OECD database. Accessed 26 March 2018.

The second concerns, and arguably the more dominant concern from the EU regarding BRI, is the increased ease for diversified Chinese investment to enter European markets following the increased trade and economic connectivity brought by BRI. It is speculated that this increased ease in trade and investment will consequently **contribute to the “regrouping effect” of EU member states according to their highly diversified economic profile**, which would lead to the disintegration of the EU along diversified economic models.

Although this concern is currently proposed from a long-term perspective, and it is still premature to determine if this impact will actually realize in long terms, there are already early signs of this so-called “economic regrouping trends” at Chinese deliberation following the foreign direct investments (FDI) patterns of PRC into the EU. Between 2010 and 2016, the total volume of Chinese investment into the EU has surged from EUR 1.6 billion to EUR 35 billion (Seaman, Huotari, & Otero-Iglesias, 2017, p 9). Following the dramatically increasing volume of total investment is the trend that Chinese investments have been deepening and expanding rapidly into various industries, ranging from technology know-how, to establishment of high brands’ tradings, or simply access for Chinese goods into European market (Seaman, Huotari, & Otero-Iglesias, 2017, p 10). The fact that PRC is following a more than ever flexible approach to Europe has already been noticed and proposed in the earlier ETNC report in 2015, in which it is proposed that PRC’s diversified approach toward individual EU member state is based on PRC’s strategic interest in the region, and those interests do not always coincide with the agenda of the EU in the region (Huotari, Otero-Iglesias, Seaman, & Ekman, 2015, p 7). In current circumstances, given the fact that economic prowess is the best diplomatic tool of PRC, the potential that PRC does possess the capabilities to assert its political agenda with its economic influence seems more likely to realize.

1.5 Conclusion: is BRI an Economic or Political agenda?

Thus far, the author has sufficiently discussed and proposed both the political and economic impacts of BRI. Although the political impacts of BRI are already discussed in real terms while its economic impacts are discussed in potential terms, it is obvious that the political and economic concerns over BRI are intertwined and impossible to separate. Consequently, it would be illogical to study and analyse BRI exclusively either as a political agenda or as an economic agenda. In view of the fact that both political and economic concerns are of equal importance in BRI, and that the concerns from both sides are constantly and simultaneously impacting each other, an analysis framework studying this phenomenon of twofold impacts is

necessary to reach the goal of presenting a complete case study on BRI. As such, the author believes that the **study of BRI should be regarded both as a foreign policy AND economic co-operation framework, with its political and economic impacts inclusively considered and analysed without bias**. Therefore, the author proposes the method of studying BRI from the perspective of Economic Diplomacy (ED onwards), as the analysing tools used in ED sufficiently include and address both the political and economic impacts of BRI, as well as showing how the causes from the two camps simultaneously influencing each other.

In the following chapter, the author shall discuss how BRI is regarded and analysed from the perspective of ED, and how the significant differences in ED theories from the Chinese and European sides leads to various misconceptions on both side about BRI.

Chapter 2: : Theoretical background of literature review of BRI and Economic diplomacy

As discussed in the first chapter, due to the twofold, hybrid nature of BRI, the author employs the analysing framework of economic diplomacy (ED) in order to address both the political and economic impacts raised by BRI. In this chapter, the author will be conducting a comparative study on the ED theories, demonstrating that fundamental discrepancies exist in the definitions and approaches in ED between Europe and China. Furthermore, China in general has a longer history of conducting ED and thus possess better development of ED theories. These significant differences in definitions, approaches, and levels of development ultimately contribute to the starkly different interpretations of BRI and how these interpretations has translated into conflicting perceptions about BRI.

2.1 Definition of ED: Why the Complexity and Debate?

As proposed in the first chapter, the analysing tools and frameworks of ED are introduced to the study of BRI in order to adequately address the twofold political-economic impacts of the initiative in Europe. However, a closer look at the established ED theories in China and Europe seems to reveal more issues rather than answering any of the questions which have been raised about BRI. The discrepancies of ED in East and West range from the **definitions of Economic Diplomacy (a.k.a economic statecraft, more on this later), differences in the goals of ED on both sides, approaches to the conducts and designs of ED at state level, and the vastly different challenges ED on both sides are facing.** Nevertheless, through studying the complex divergence of ED on China and Europe sides, it is the author's belief that the differences will assist in understanding the complexity of BRI as an ED, and how the vastly different approaches to ED actually fuel the discrepancies on the interpretation of BRI. In the following sections, the author is approaching the ED discussion from the four aspects listed above, showing how differences in these 4 aspects contribute to the conflicting interpretation of BRI.

2.2 Western ED Definition, and its debate

The first question to raise in the discussion of ED is whether there is a clear distinction between Economic Diplomacy (ED) and Economic statecraft (ES). According to Stephen Woolcock, the broad definition of ED is “the decision and negotiations of core issues affecting

international economic relations” (Woolcock & Bayne, 2013, p. 386). He specifically distinguishes ED from ES by arguing that the focus of ED is on the process of negotiation with the goal of establishing mutually beneficial economic establishment and order. Therefore, the focus of ED is on the process of establishing and maintaining economic order through negotiations. ES, on the other hand, refers to the use of economic leverages to pursue and achieve political or strategic goals (Woolcock & Bayne, 2013, pp 386-387). Therefore, the focus of ES is on utilizing national economic strength as tools for political purposes. Woolcock’s definition on ED and his separation of ES from ED is generally accepted in the discussion of ED in Europe and in the West in the sense of “negotiations for economic relations”, although there exist alternative definitions which competes with this definition³, there is general agreement that ED should be distinguished from ES in academic discussions.

However, it is essential to note that **the scopes and approaches of ED differ greatly among various schools of IR**. While liberalists like Woolcock and Bayne distinguish various related concepts such as commercial diplomacy, trade diplomacy and financial diplomacy from ED (Woolcock & Bayne, 2013, pp. 391-394), realists like Lee and Hocking believe these related concepts are the sub-categories of ED and all these related concepts belongs to a larger category named as “Catalyt Diplomacy” (Lee & Hocking, 2017, p 7). Accordingly, the approaches towards ED, the scope and level of influence, as well as the dominant forces/actors in ED differ greatly. While liberalists generally adopt a institutional and systematic approach towards ED , realist prefers to have states as dominating actors in ED and prefers a strategic approach in ED negotiations.

On the other hand, in the ED in Europe, the design, negotiation, and execution usually involves a range of state and non-state actors competing for influence in the policymaking process (Woolcock & Bayne, 2013, pp 389-390). Such a big range of actors usually mke the process of ED policymaking and negotiation a highly complicated and lengthy process. As such, higher effort of mediation and co-ordination are required to facilitate successful ED negotiation, and the process significantly reduces the efficiency in the conduct of ED, especially

³ According to Oxford Research Encyclopaedia of International Studies, ED is defined as “the pursuit of economic security within an anarchic international system” (Lee & Hocking, 2017). The focus is more on the defence of national economic sovereignty and the approach is more strategic.

in the context of EU policymaking as there is an additional layer of political and legal negotiation in Brussels.

The discussions and reseaches about ED began alongside the study of globalization in the 1990s, when it was first perceived and predicted that globalization has increased the interdependence of states over economic issues (Woolcock & Bayne, 2013, p 388). Consequently, ED has a relatively short history in its development of intellectual conceptualization. As a result, there is a total lack of theories when discussing ED in Europe. Prominent ED scholar Kishan S. Rana notes that “Is there a theory of ED? I am not sure. ... it seems that the best we can distill [is] from practical experience and empirical analysis...” (Rana, 2013, p 233). Furthermore, a brief review of the majority of publications in Europe reveals that the **topic of ED is still at an early stage of discussion in academic circles, and discussions regarding ED in Europe is still very much at the stage of discussing and developing the historical context of the topic**, as well as providing various observation trends regarding the topic. There is no prominent recommendation regarding how the issue should be approached and which actors should be the primary actors in ED.

To summarise, the discussion and debate about the issue of ED is still at an early stage in Europe. A short history of development, numerous competing definitions, various schools of thoughts towards the topic of ED, and the consequent differences in approaches has rendered the discussions of ED in Europe complicated and without a cohesive approach. Furthermore, the existence of a range of influential actors makes the process of ED policymaking and negotiation a lengthy and complicated process in Europe and such complexity has costed ED the valuable efficiency needed to respond to economic issues. These conditions have rendered Europe ill-prepared in facing any issue related to ED. In relations to PRC’s BRI as an Economic Diplomacy, Europe as a single unity seems to exude a sense of panic when facing its arrival. Such phenomenon will be discussed in details in the next two sections.

2.3 Chinese ED Definition, and its challenges.

The discussion and development of ED in China follows a distinctively different path from the ones in Europe. The fact that Marxism-Leninism has been the dominating intellectual principle of PRC statecraft determines that economic issues are THE dominant issues in governance in China. A closer look at the development of ED in PRC reveals that ED has a highly cohesive development in PRC since 1990s. Various advantageous conditions including

the combination of political and economic issues in governance, and the actual experience of conducting economic diplomacy/statecraft in East Asia has enabled PRC to be the more sophisticated actor compared to Europe.

Beginning with the definition of ED, the term Economic Diplomacy is generally translated as 经济外交(jing ji wai jiao)⁴ and widely agreed in Chinese academic literature. However, a closer look at the Chinese definition of 经济外交 (jing ji wai jiao) reveals that Economic Diplomacy (ED) and 经济外交 (jing ji wai jiao) have totally different definitions. Translated from Chinese Language, 经济外交 (jing ji wai jiao) is broadly defined as **“defence and realization of states’ strategic purposes through the means of external economic strategy.”** Under this definition, 经济外交 (jing ji wai jiao) is a political activity conducted by the states and belongs to the study of international relations” (Ren, 2015, p 107). Prominent Chinese scholar in 经济外交(jing ji wai jiao) such as Song Guoyou also points out that **“it is economic activities conducted by the states in order to realize diplomatic purposes”** (Song, 2015, p 24). From this definition, it is not hard to notice that **the definition of Chinese’s “经济外交” (jing ji wai jiao) is closer to the definition of Economic Statecraft (ES) in Europe.** Although in recent years, Chinese scholars have realized this definition discrepancy and argue that “Economic Diplomacy” is the accurate translation for 经济外交 (jing ji wai jiao), while Economic Statecraft should be translated as 经济治国术 (jing ji zhi guo shu)⁵(Zhang, 2013, p 52), yet the fact that **economic activities conducted by the state is still very much regarded as political activities in essence on Chinese side.**

Structural advantages in the economic policymaking of PRC also enable PRC to be a more effective actor in its ED policy. Due to the fact that PRC adopted planned economy approach for its macroeconomics since its establishment in 1949, state remains the dominant actor in PRC’s economic policy even today and still exert high level of influence over economic matters. Consequently, Chinese ED is conducted in a system under which state remains as

⁴ In Chinese Language, the generally accepted definition of 经济外交 (jing ji wai jiao) is “diplomatic activities conducted by the states in order to realize states’ economic purposes.” (roughly translated from Chinese)

⁵ There is no generally accepted definition for 经济治国术(jing ji zhi guo shu) in Chinese Language. In Chinese Language, “jing ji wai jiao” and “jing ji zhi guo shu” are generally regarded as the same entity and both terms are used interchangeably in Chinese academic publications. This distinction exists more in English-language academia and was first noticed by Chinese Economic scholar Zhang Xiao Tong.

single dominant economic actor while other actors function as complimentary members. As a result, PRC's ED is a more effective policy in terms of design, negotiation and implementation. The design and negotiation of Chinese ED requires significantly shorter time and the policy implementation is executed with a higher level of cohesiveness compared to Europe.

By comparison, PRC also possess higher level of experience in the conduct of ED/ES. As presented by Christina Lai, PRC already has occasional experience of executing effective ES with its neighbouring countries such as North Korea, Japan and the Philippines over territorial disputes in the 2000s (Lai, 2018, pp 170-171). Moreover, she also states that China possess a diverse range of tools of ES "ranging from termination of supply to suspension of export materials, and trade restrictions on import goods, [therefore] a systematic understanding of the strategic nature of China's foreign policy is indeed an important research topic for both academia and policy worlds (Lai, 2018, p 182). Chinese Scholars like Wu also confirms that PRC's ED has been designed and conducted with clear purposes since Deng Xiaoping's 'Open Door' policy in late 1970s and the purposes of PRC'S ED has always be redesigned and remodelled according to the current needs of the state (Wu, 2008, p. 11)

Despite being the more sophisticated actor in ED, PRC is also facing a new set of challenges to its ED strategy following its emergence as an prominent economic actor in international society. To begin with, PRC is not totally imune to international law and pressure from international society due to the fact that PRC is member to various international such as UN, WTO, IMF, World Bank, etc. These membership means that PRC has obligations to fulfill as stated in the various treaties concerning international economic order. Prominent Chinese ED scholars also concede that PRC is currently facing a transition period in which its ED policies can no longer solely consider its domestic economic needs, but also to include the mutual benefits of other actors following PRC's increasing prominent economic ties with the rest of the world (Zhang, 2014, pp 83-84) (Wu, 2008, p 13). Under this circumstance, PRC is beginning to realize the interdependent nature of its national economy with the international economic order, and the "limits Chinese domestic economy is posing on the state to become an economic great power" (Zhang, 2014, p 85).

To summarize, PRC is comparatively the more effective actor in conducting ED. The development of ED in PRC follows a vastly different path of development and the discussion of economic issues is always inseparable from political issue in PRC context. As a result, the design of PRC's ED is significantly more purposeful, and its structural advantages have enabled

PRC to be a more effective and and cohesive executor of ED policies. In addition, the longer history of conducting ED/ES and a wider range of ED/ES tools enable PRC to be the more sophisticated actor in ED when compared to Europe. However, despite being the more sophisticated actor in ED, PRC is also facing the transition period of changing its ED from serving solely domestic purposes to the support and maintenance of international economic order following its emergence as a prominent economic actor in international society.

2.4 Comparing the two versions of ED, and some observations

A brief comparison of the two versions of ED reveals that significant differences exist between the European and Chinese model of ED. These difference ranges from fundamental differences in the economic models to inequality in the actual strength and experience in conducting ED. In these differences, PRC possesses the overwhelming advantages as the more effective and sophisticated actor of ED. Its planned economy model enables itself to be the more effective and experienced executor of ED, and it also possess better range of ED tools. On the other hand, Europe has significantly less ED tools compared to PRC due to the fact that Europe is in essence a capitalist free market. Therefore, economic and market activities are not in the control of state actors but in numerous actors whose agenda might not be harmonious with state actors' purposes. The existence of a much wider range of actors render negotiation and mediation necessary in producing effective ED in Europe, and these negotiations cost Europe as a single entity valuable efficiency in responding to economic issues. Under this circumstance, the design and negotiation of ED is a totally asymmetric situation between PRC and Europe under which PRC has better advantages and position to lead the negotiation while Europe's position is rendered reactionary to PRC's proposal.

However, PRC also faces the issue of inexperience in the form that its current and future ED design needs to take the obligation of maintaining international economic order into consideration. Due to PRC's relatively new arrival in international economic order, it has yet to fully understand the effect of interdependence in linking PRC's domestic economy with international market. In this respect, PRC does need the advice and experience of Europe, and from these mutual needs, Europe could be the partner PRC needs in conducting the so called "new model of Chinese ED as great power" as the EU is the 2nd largest trading partner of PRC.

2.5 Conclusion

Thus far, the author has sufficiently argued and presented the fact that the European and Chinese model of ED are highly incompatible in numerous aspects. The lack of cohesive and mutual agreed definition of ED, with inclusion of the elements of Economic Statecraft(ES), uneven level of development, differences in goals and purposes, and the differences in the range of tools has rendered the negotiation of ED between PRC and Europe an asymmetric negotiation, with PRC as the more sophisticated actor. However, it would be premature to argue that PRC's ED has arrived in Europe with clear and well-designed agendas as PRC is also undergoing a transformation period in its ED policy designs in which PRC must adapt to its new role as an important actor in maintaining crucial international economic order. Its inexperience as an international economic actor, and its lack of understanding of the interdependence effect on its domestic market makes PRC a rather clumsy actor at current stage. In this respect, Europe has the potential to be the partner PRC needs in ED as Europe is currently the 2nd largest trading partner of China.

Chapter 3: The Overview- What do we Know about BRI until Now?

This chapter functions as a concise summary of established knowledge and understanding about BRI until current time. It attempts to employ the ED analysis framework discussed in the previous chapter, indicating that while the political impacts of BRI has been sufficiently

addressed, its economic impacts remain largely neglected in European academic studies, and given that most actual projects under BRI are still at formation stage, it is still premature to determine its economic impacts without actual successful co-operation, and whether or not PRC is attempting to establish alternative international economic order.

3.1 The heavily political interpretation of BRI

The only fact about BRI on which all scholars from East and West can agree is that BRI is the most ambitious economic and foreign policy announced by PRC to date. As discussed in chapter 1, a prominent policy announcement involving 68 countries on 4 continents, with an economic great power as the leading actor of the project, will undoubtedly have massive economic and political impacts upon all parties involved. Furthermore, BRI has successfully attracted sufficient attention from states and investors alike due to the fact that it has addressed “the acute need across Eurasia and adjacent regions for infrastructure investments” (Cooley, 2016, p 2). Consequently, a project like BRI which prioritizes the much-needed infrastructure development on all four continents in its first stage will naturally attract serious studies and considerations from all actors involved.

Unfortunately, the analyses and interpretations of BRI in Europe remain largely political at current stage. As Cooley blatantly indicates, “Global reactions to OBOR and preliminary studies have tended to focus on either its geopolitical implications or its likely developmental consequences” (Cooley, 2016, p 2). The official briefing of the EU on BRI uses 3 quarters of a page addressing the political and strategic impacts of BRI while using only one paragraph of 7 lines addressing its economic impacts (European Parliament member research service, 2016, pp 2-3). Mayer also declares in his dedicated edited volume on BRI that “the central question is how China’s expanding economic influence will transform the global political landscape” (Mayer, 2017, p 2).

This biased focus on the political impacts of BRI while largely neglecting its economic impacts has already determined that the current understanding of BRI is largely skewed and incomplete in Europe. BRI was principally designed and planned by PRC as an economic policy, and its primary goal is to address various economic issues and needs (although whether these economic needs are domestic or international remains a doubt). A solely political interpretation of BRI will ignore all its economic inspirations, which leads to the failure in

identifying the primary inspirations behind the designs and modifications of the initiative which are meant to address economic issues.

This misplacement of analysis focus, coupled with the lack of a thorough understanding of ED topics in general (as discussed in Chapter 2), means that Europe is ill-prepared, and lack accurate and comprehensive knowledge when responding to the arrival of BRI in Europe. As such, depending on the sub-topics each study effort is focused on, the formation of perspectives and the resulting policy recommendations will remain partial, conflicting and inconclusive. Until a comprehensive understanding and knowledge base about PRC's economic model is formed in Europe, Europe is likely to continue in failing to address the primarily economic inspirations behind BRI.

3.2 Flexibility of BRI in Europe

Another aspect of BRI which seems to confuse European observers equally is the seemingly elusive nature of BRI. Since the announcement OBOR in 2013, studies about BRI have lamented the lack of a concrete definition, framework and scope of BRI on which systematic studies can be based. While PRC offers no official definition on BRI, ETNC dedicated report about OBOR openly states that “no official or generally accepted definition of OBOR exist” (van der Putten, Seaman, Huotari, Ekman, & Otero-Iglesias, 2016, p 3). While Kadir Pethiyagoda from Brookings Institute defines BRI broadly as “China's infrastructure project” (Pethiyagoda, 2017, p 1), the European Union (EU) perceives BRI as “China's regional integration vision” (European Parliament member research service, 2016, p 1). To a certain extent, the numerous definitions offered by various studies has managed to capture some of the essence of BRI project, yet on the other hand, none has managed to comprehensively categorize the magnitude and depth of the impacts of BRI.

A brief study into the diplomatic models engaged by PRC in Europe for the past 5 years may offer some insights into the approaches PRC is engaging in BRI. Surprisingly, Chinese experts on EU politics such as Wang Hongyu regards PRC as the weaker party in negotiating ED-related issues. Wang acknowledges that the multilateral, multi-level institutional characteristics of EU politics has to be taken into considerations when PRC negotiates its ED policy with the EU. Furthermore, Wang interprets that “the complex and institutional setups resulted from multilateralism and federalism of EU politics has enabled the EU to conduct an easy defence on key EU issues. However, this complex institutional setup also makes EU unable

to conduct any pro-active economic and foreign policy strategy (Wang, 2014, pp 94-96) While it remains a question to what degree these highly accurate observations regarding EU politics is known in Chinese decision maker circles, it can already be safely concluded that, to a certain degree, PRC has already learned of, and acknowledges that dealing with the multilateralism and federalism setup of EU decision-making mechanism is a crucial part in conducting successful ED with Europe.

With this backdrop in mind, the interpretation of PRC's recent years' approaches towards Europe through establishing high volume of bilateral agreements at national level re-emerges with an alternative interpretation which departs from European's traditional understanding of this approach. The mainstream and dominating understanding of PRC's approaches through establishing numerous bilateral agreements is that this approach will have divisive impacts upon EU politics, although the primary cause of this division "stems more from deficiencies within Europe than from a deliberate Chinese Strategy" (Huotari, Otero-Iglesias, Seaman, & Ekman, 2015, p 5). However, as Wang indicates, fully adapting to the federalism and multilateralism of EU politics through adopting an all-encompassing, "grand bargaining" diplomatic approach which adequately addresses negotiations at every layer within EU is the key to PRC successful ED negotiation with the EU (Wang, 2014, pp 97-98).

Based on PRC's 'grand bargaining' approach toward Europe, the previously presented 'elusive nature' of BRI might actually re-emerge as less elusive. In principle, backed by PRC's solid economic strength, China is seeking to position itself as an influential actor in various key issues at all levels affecting EU politics and economy, with the hope that its positions as an influential actor in various key issues might serve to present itself as a key mediator in the negotiations of ED with the EU. These efforts do not serve to divide Europe, but in contrast all part of PRC's "grand bargaining" diplomatic approaches addressing the complexity of EU politics. The crucial lesson to learn from this finding is that PRC's every single effort in Europe must be analysed and interpreted in the wider context instead of studying any single strategy as "transactional strategy". Faced with the rigid legal and political setups of EU politics, PRC relies on its high flexibility in policymaking and its ability to adopt pro-active approaches to negotiate its ED with the EU.

Under this flexible, proactive context, The author believes that BRI should be understood as a basic guiding principle which only serves to loosely define the directions and models of co-operation while leaving details of concrete co-operation to actual negotiations. In

this circumstances, Europe must recognize and acknowledge PRC's willingness to negotiate in the details of actual co-operation projects in order to design a mutually beneficial model of co-operation. As CSIS also indicates, "BRI is a long-term plan [with] many of its projects still in their planning phases... This makes the success of the first wave of projects all the more crucial" (CSIS, 2017). If the EU can successfully position itself as the practical, pragmatic partner in designing and realizing the various projects in this initial stage of BRI, this has the potential for Europe to earn itself the status of trusted strategic partner in economic co-operation in PRC's following stage of strategic advancement.

3.3 Establishment of New Economic Order?

Yet another prominent perception regarding PRC's intention behind BRI is that PRC is seeking to use BRI in order to undermine the current West-dominant international economic order, which stems from the Bretton-Wood system established after WWII. This argument has gained increasing attention and debate in recent years in the western world following the establishment of BRICS, AIIB and SCO as these acts are consistently interpreted at PRC's effort to develop a contesting international economic order (Nicholas, Feb 2016, pp 9-10) (Ghiasi & Zhou, 2017, pp 6-7). However, as already discussed in the first section of this chapter, the author believes that this argument is generally based on a heavily political interpretation of BRI, without considering the domestic economic impacts of BRI in PRC. This form of argument actually stems from the fact that Western academic studies have traditionally divided the discussion of states' political and economic affairs due to its pursuit of free market economy. Consequently, the resulting analyses and policy recommendations tend to be a biased, with the focus on either the economic OR the political impact of a certain policy, without attempting to address the "cause-and-effect" relations between the two camps.

However, the author believes that, when studying PRC's policy making strategy, it is of crucial importance to recognize that PRC regards both political and economic affairs as state responsibility and the two categories are constantly considered as a single entity in PRC's policymaking consideration. Due to PRC's unique economic model which is a mixture of planned economic and free market economy, the state will always have decision-making power over certain economic issues, while at the same time, Chinese economy is also not immune to international free market influences due to its greatly increased relations with the international market in the past 30 years.

Under this analysing framework, the argument that PRC is purposefully using BRI as a foreign policy tool to establish a contesting international economic order would appear as a seemingly daft assumption. A closer look at the publications which hold the opinion that BRI is to establish alternative economic order shows that these studies mostly stems from politic-focused or security-focused studies, and the recommendations made are mostly focusing on countering the political impacts⁶. On the other hand, Think-tanks in Europe which have a more economic-based research perspective would propose the alternative view that it is still too early to discuss and determine if PRC is making a deliberate effort in creating or shaping an alternative economic order due to the various structural and systematic issues raised from China's economy (Hilpert & Wacker, June 2015, pp 5-6). However, this economic-focused perspective of research has thus far not yet gained academic and political prominence in Europe, with the majority of this economic-based studies concentrated in Germany.

3.4 Conclusion

In this chapter, the author has addressed and elaborated the current knowledge level of BRI in Europe in general, illustrating that, due to the highly unbalanced and highly different approaches towards the ED topic between China and Europe, the majority of analyses and studies in Europe tend to be heavily focusing on the political impacts of BRI, while largely ignoring the potential economic impacts, which is actually the primary focus of PRC behind BRI.

As BRI was designed as primarily an economic initiative by PRC, flexibility is the key feature and will remain the key feature of BRI in short-to-medium term as PRC needs the flexibility in order to adjust the development of the initiative in order to suit China's domestic economic needs. From this perspective, it would be vain to push for a concrete definition from PRC side as BRI is designed merely as a looses framework of potential co-operation. If Europe is able to recognize and acknowledge PRC's needs of help in shaping the details of this co-operation

⁶ This is author's own observations after studying a considerable volume of think-tank publications and researches on BRI-related topics by looking up the research focuses of the think-tanks on each publication. Prominent examples includes Nicholas' "China and Global Economic Order", Ghiasy and Zhou's "The Silk Road Economic Belt", etc.

framework, BRI does appear to have the potential of shaping new model of co-operation between Europe and PRC.

However, in order to realise the abovementioned potential of co-operation, significant switch of focus from politics to economic is needed on the study of BRI in Europe. Thus far, the study of BRI in Europe remains heavily political, with substantial studies with economic focuses based in Germany as an exception.

Chapter 4: What do we NOT know about BRI

This chapter addresses the less-discussed economic impacts of BRI as illustrated in the previous chapter, aiming to present that, due to various issues such as transparency of Chinese economic statistics, unfamiliarity of Chinese domestic economic structure, government's control over key economic and industrial sectors, etc, have rendered the studies and interpretations of BRI's economic inspirations complicated and hard to determine. These highly complicated issues have rendered BRI more reactionary rather than pro-active, and these reactionary features might consequently render BRI more like a “White Elephant” policy, which already are showing early signs in the lack of concrete project planning and actual project realization 5 years after its announcement.

4.1 The difficulty to measure BRI economic impacts.

As already discussed in the previous chapter, a comprehensive assessment of BRI's impacts upon China's domestic economic is necessary in order to accurately define PRC's economic intentions behind the initiative. However, understanding China's domestic economy is proven to be a challenging task from the beginning. Among all difficulties, the **lack of transparency in data regarding China's economic performances proves to be one of the major concerns and a source of doubts and arguments** among economic actors and observers. This lack of transparency has been a long-standing issue in international economic organizations. As Ben Bernanke Peter Olson indicate, [lack of understanding regarding China's economic structure] has always led to adverse reactions and overreactions in international market towards any single economic phenomenon happening in China (Bernanke & Olson, 2016).

Any reformation effort for PRC to improve its economic transparency is bound to be a long-term effort, due to various political and technical challenges coming from PRC's domestic situations and demands. However, as Bernanke and Olson also points out, PRC has already acknowledged the need for higher economic transparency and has been making improvements in its data transparency since the short-lived Shanghai stock market meltdown in early 2016 (Bernanke & Olson, 2016). Since the reformation to increase China's economic transparency has started only very recently, therefore, in the foreseeable future, incomplete observations and understandings regarding BRI's economic impact would remain one of the key obstacles in understanding BRI.

4.2 The (deeper) domestic economic inspirations of BRI

Another major, and perhaps the more fundamental yet dominant concerns of BRI might actually be China's domestic economic concerns. On this issue, dedicated BRI scholars in Europe like Meyers have made some accurate observations. He argues that "economic development is still the main concern of Chinese decision makers. The great majority of CCP cadres first of all care for economic performance at home. The domestic political economy provides a crucial and often underemphasized rationale for promoting the BRI." (Mayer, 2017, p. 10) However, to correctly identify these key economic issues proves to be a challenging task. This is because China's domestic economic structure is highly diversified and complicated, with significant discrepancies in key economic terms such as sectors, infrastructure conditions, demographic structure, etc. In general, these economic discrepancies are mainly geo-economic discrepancies, yet, as some Chinese scholars notice, **it is becoming an increasingly acute economic issue since its domestic economic reformation since mid-70s of the last century, and especially intensified during the last 20 years.** (Yao, Zhang, & Feng, 2015, pp. 12, 17) This division mainly falls along the line of rich, developed coastal areas and West, inland rural areas. Consequently, the economic structures and development policies of the rich coastal areas differ largely with those of the West inland rural areas.

Under the backdrop of this highly different economic development policies caused by this rich-poor divide, it is interesting to notice that the majority of BRI and BRI-related projects mainly exist in those inland and rural West area of China (See map below for illustration). (Cai, 2017) Consequently, when studying BRI's domestic economic impacts, the domestic economic impacts in these inland and West rural areas should be the primary focus of study. With this focus of study, it is important to note that **the economic structure of China's inland and rural West vary enormously with that of rich coastal area.** As Yao indicates in his research, "rural/urban inequality accounts for over 70 per cent of inter-provincial inequality...[while] Inter-zone inequality explains up to over 80 per cent of inter-provincial inequality of rural income." (Yao, Zhang, & Feng, 2015, p 17) Consequently, the methods employed to study China's economic performance in coastal areas should not be extended to these comparatively less developed areas, and that the economic structures of these rural areas could vary massively from that of China's rich areas. This, the writer believes, is one of the key reasons why international studies fail to accurately identify the domestic economic impact of BRI.



Concentrations of BRI and BRI-related projects in mainland China by areas. Source: Lowy Institute

Since the creation of BRI project is to mainly address China's inland and rural area economic development issues, it becomes easier to identify the potential political-economic impacts of BRI in these region. As Yao also argues, "Beijing believes poverty and underdevelopment is at the heart of rising militancy in the restive provinces." (Cai, 2017). Therefore, economically developing and integrating these region could be one of Beijing's strategies in promoting inter-region integration as a deterrence towards growing separatist movements in China. Furthermore, Most Chinese scholars would agree that industrialization of the inland and western rural area is the long-term solution to the growing inter-region inequality. As Chinese BRI scholars such as Song would agree, BRI "aims to resolve the issue of regional economic development discrepancies through making the central and Western regions the new forefront economic area." (Song, 2015)

4.3 The Reactionary(!) Characteristic of BRI

It is seemingly a paradox to claim that BRI is a reactionary instead of a pro-active policy. It contradicts with the conventional understanding of BRI as Beijing's geo-strategic policy to form a new international order. However, the previous section has illustrated the fact that behind BRI there is a more pressing domestic political-economic concerns to address, especially at current time since the rising development inequality has caused rising political threat. This

pressing need to quickly and efficiently address these economic development issues has given BRI very little time to enter its operational mode. However, to date, no significant or major project under the design of BRI has been completed. Instead, BRI has been facing significant resistance, from European Union to Pakistan and later to Malaysia (South China Morning Post, 12 June 2018). As correctly notices by Cai, the lack of a concrete development plan and projects has become the primary implementation challenge of BRI at this stage (Cai, 2017). This lack of concrete progress and implementation plan, as already presented in the first chapter, has given BRI the undertone of a “white elephant project”, both internationally and domestically.

The more significant resistance comes from domestic funding of BRI. As Cai presents in his research, “A chief investment officer from one of China’s largest state-owned financial institutions also told the author about his own reservations: ‘I prefer to invest in places like Canada and Australia, where I can get safe and decent returns. However, where I have been ordered to invest in OBOR countries, I will only allocate the minimum amount.’” (Cai, 2017) **This lack of domestic investment support is a major setback towards BRI projects, as domestic banking support forms the majority of BRI’s project funding.** Without China’s domestic banks’ support, the various development projects of BRI, both internationally and domestically, would prove to be challenging to even begin.

This lack of domestic economic support, coupled with international reservation regarding China state funded projects, have greatly limited the development scope of BRI projects everywhere and thus rendered BRI more reactionary. Faced with pressing need to address the domestic economic issue yet lacking domestic and international economic support, BRI is caught in the predicament between failing to address its primary goal of developing inland economy and unable to convince its participants(both domestically and internationally) the economic benefits of the project. Yet cancelling BRI at this stage is not an option as a significant volume of publicity regarding BRI has already been launched. Cancelling BRI as this stage means that China’s reputation to efficiently implement major policies is on the line.

4.4 Conclusion

Noting that BRI’s main domestic goal is to economically develop China’s inland and Western region, it becomes obvious that industrialisation and promoting manufacturing and export sectors in these region becomes the main economic aim of BRI. This, the writer believes in the primary domestic economic goal of BRI, yet it remains largely unnoticed outside China due to

international studies' unfamiliarity with China's geo-economic structure. Consequently, the tools and methods employed to study the economic performance of rich coastal areas might not be suitable in studying BRI's domestic economic goal, and that the awareness of the degree of underdevelopment in central and Western regions would become useful in identifying BRI's economic aims. However, the low level of transparency on China's economic performance, and international scholarly studies' failure to acknowledge China's coastal-inland economic divide renders the work a massive and hugely challenging task, which would become an increasingly prominent issue as Beijing continues to promote BRI in its target participating states.

Chapter 5: What are BRI's domestic Impacts in China?

This chapter aims to illustrate the major domestic impacts contributing to the design of BRI, presenting the fact that when PRC designed BRI, its primary and majority of goals were to address its domestic concerns. International impacts and concerns are in fact minor concerns in BRI planning. Therefore, it is still premature at this stage to conclude that PRC has an intentional geo-political and geo-strategic goal behind BRI in international arena, but it is feasible to conclude that BRI has no concern regarding its economic impacts in international market and therefore has no awareness and no contingency plan to address its potential international impacts.

5.1 Addressing uneven geo-economic development.

Much studies and researches have already been dedicated to the many-fold impacts of BRI. Depending on the area of focus, each single area such as politics, economics, security, foreign policy, etc can be regarded as a specialization. Since the focus of this research falls on studying BRI as an Economic Diplomacy (ED) tool, this section will only illustrate the political and economic impact of BRI.

It is undisputable that ensuring the economic wellbeing of China has always been the dominating concern of CCP as PRC's state party. Studying the yearly state addresses by Chinese presidents (traditionally at the beginning of each new year), ensuring satisfying economic performance of the nation has consistently been included in all the addresses.⁷ It is interesting to learn why PRC's New Year addresses has consistently regard economic development as an important goal of the central government. As Chinese geo-economic scholars like Yao, Zhang and Feng believe, the so-called "East-West divide" of China's geo-economic development "may have important economic, social and political implications.... In political terms, the ever-rising regional divide has triggered massive inter-regional migration and periodic political riots in the poor areas, especially among the minority-nationality regions of Tibet, Xinjiang and Guizhou. This political tension may become a constant threat to China's long term economic growth." (Yao, Zhang, & Feng, 2015, p. 17) Stemming from this

⁷ Result is based on studying Chinese presidents' New Year addresses as published on the official website of The Central People's Government of the People's Republic of China: www.GOV.cn

understanding is the observation that **since the uneven economic development of these regions have already caused some periodic political unrests in these regions, then the central government in Beijing has the political responsibility and pressure to address the issue.** As already presented in the previous chapter, since PRC's central government believes that underdevelopment is the root cause to rising dissatisfactions and instability in these regions, then **quickly improving the economic development of these regions becomes an issue of governing control of CCP government in Beijing.** It is under this domestic political pressure than BRI was first designed.

BRI was primarily designed in order to address the vast economic development discrepancy between the coastal rich areas and the poorer inland and western regions within China. Due to various complicated issues, the economy development of inland and western China still largely dependent on the state's ongoing industrialization process (Yao, Zhang, & Feng, 2015, p 17). Song Guo You also argues that "China's 'Open-Door Policy' has traditionally been following the sequence of East-Central-West" sequence. However, at current stage, maintaining this development sequence would further aggregate the coastal-inland economic disparity. Therefore, BRI could serve to break this development sequence and jumpstart the economic development of inland and western region[of China] in order to narrow the gap and integrate the economic growth of these regions with that of coastal areas. (Song, 2015, pp 3-4)

5.2 Ensuring stable export market

Since ensuring the continuing industrialization process of these regions becomes an important strategy in China's inland and Western regions, then ensuring a stable market in order to guarantee the growth and development of traditional industries is another dominant purpose behind the design of BRI. A portion of Chinese and Western BRI scholars agree over this issue although this recognition has yet to receive enough attention in European BRI researches. Peter Cai of Lowy Institute argues that "The Chinese Government has announced a number of policy measures to address the issue of excess capacity... [and] OBOR is another way for Chinese policymakers to address the excess capacity problem." (Cai, 2017) While Song Guo You blatantly argues that heavy and textile industries are the best-performing industries of China, yet they are also reaching its peak capacity in terms of demand in domestic market. Therefore, this excesses can be transferred outward in order to support the economic development of other countries. (Song, 2015, p 3)

Another key component in ensuring China's industrialization process is to ensure the supply of raw material and energy in the production chain. In this respect, BRI serves as the economic strategic assurance of low-cost raw material and energy supply. As Penthayagoda observes, "many of the 68 countries involved in the project export the raw materials and energy that China requires." (Penthayagoda, 2017) From this perspective, BRI serves as one of China's strategic tools in order to ensure that the crucial respects of raw material, energy supply on one hand, while ensuring a stable demand market for all the manufacturing excesses.

However, Beijing's design of BRI as the tools to ensure the key components in China's national production chains is faced with significant challenges. Due to PRC's inexperience as a prominent economic actor in international projects, Beijing has significantly underestimated the complexities and challenges of promoting and executing these projects in BRI's participating countries. These complexities range from legal disputes, the significantly different economic models of each country/region, to local's perceptions regarding China's investments and the political implications (and potential) political instability it might cause upon these countries. Mayer believes that at current stage, China's interactions with the world is on one hand governed by its knowledge of the world yet on the other hand also by its perceptions about the world. However, some Chinese scholars in mainland China admit that country-specific expertise is required for the successful implementation of BRI projects, yet the current "outside-world" knowledge in mainland China are still limited to restrictive academic realm. (Mayer, 2017, pp. 21-22) From this perspective, the large number of countries, in fact, is becoming a burden to the successful progression of BRI at current stage, with each country adding to the complexity of the design, promotion, and execution of the projects.

5.3 BRI's International Economic impacts do not concerns Beijing

Judging from its economic intentions, which is the dominating intentions of the design of BRI in Beijing, we are reaching a highly surprising paradox that **BRI is in practice a highly inward-looking policy designed by PRC's central government. Consequently, effects and implications (actual or potential) beyond China's borders are actually secondary, or even minor concerns of PRC's government.** As presented in Chapter 2, China generally adopts a more instrumental view and approach of ED and therefore any of its ED policy is designed with the purpose of facilitating the state needs. If BRI is designed in Beijing as an ED policy, then its main goals is to serve the purposes of resolving China's domestic geo-economic issues as presented in Chapter 4. A closer look at China's academic publications regarding BRI reveals

that the impacts of BRI in China remains the primary focus of the majority of researches. Its potential implications in other participating countries usually employs minimal volume in each individual research or, at rare occasion, not mentioned at all. Such omission partly stems from China's incomplete knowledge about the so-called "outside world", but more because they are not included in various researches' concerns.

5.4 Conclusion

In this chapter, the author has discussed and presented the more crucial, yet largely neglected economic inspirations behind BRI's design. In order to resolve the increasingly acute inequality among China's geo-economic regions between the rich coastal areas and poorer inland and Western regions, PRC's central government designs BRI as an instrumental policy to ensure that the industrialization process can be continued in inlands and Western regions. However, it is essential to note that, **in PRC central government viewpoint, addressing and resolving the economic inequality issues are not merely an economic, but also a considerable political task, since CCP's legitimacy as PRC's state party is derived from the satisfactory performance of China's macroeconomic**, and the aggregated economic inequality has already caused periodic political unrest, mainly in the Western, minorities dominant autonomous regions. Coupled with China's viewpoint that the purpose of ED is to facilitate state's needs, BRI is in fact adopting a more inward-looking, economic-focused agenda, while its actual and potential implications to other participating states remain a minor component and concern to decisionmakers in Beijing.

Chapter 6: What is the so-called “regrouping effect” of BRI on EU member states?

This chapter presents author’s analyses and perceptions of the effects BRI have caused in the EU, aiming to illustrate that a “regrouping effect” – regrouping of states according to their economic profiles and ease of concluding trade agreements- is undergoing among EU member states. While the regrouping effect happens not from PRC’s deliberate designs, PRC has not foreseen this circumstances and thus offers no solution to these potential issues as BRI, from PRC’s viewpoint, is primarily designed to address China’s domestic economic issues. In addition, PRC’s unfamiliarity with European’s style of rule of law, and PRC’s underestimation of members and candidates’ states’ legal commitments to EU law has rendered the expansion of BRI in Europe significantly more difficult, which leads to the first signs of setbacks, as marked by 27 EU member states’ signed concerns regarding the project.

6.1 Economic Regrouping of EU member states- and its many problems

Due to the hybrid nature of BRI, its impacts and effects, both politically and economically, is bound to be complicated and intertwined. However, as BRI was essentially designed by PRC as an economic policy which later transformed into an ED policy, the author will present her analyses and interpretations from ED viewpoint, aiming to illustrate how the initial economic concerns have transformed into political concerns under the existing frameworks of the EU and EU enlargement policy. Therefore, the economic concerns mentioned in this chapter are **economic concerns which will have actual or potential political impacts**, while pure economic concerns of BRI will be largely excluded as they do not align with the discussion and study focus of ED in this research.

The economic regrouping effect of EU member states is perhaps the most pronounced impact of BRI. By “**economic regrouping effect**”, the author refers to **PRC’s side of re-categorizing and regrouping of European states according to countries’ economic profiles and the level of ease with which PRC could conclude bilateral agreements**. The first instance of this “regrouping trends” in fact happened one year before the official announcement of BRI, in the forms of 16+1 framework, as mentioned by Angela Stanzel. In his report regarding the 16+1 framework, Stanzel states that China differentiates groups of countries based on the size of their economies and that China has identified CEE region’s acute needs for

economic, market and infrastructure developments and thus China could bolster its relationships with this region through BRI and 16+1 initiative (Stanzel, 2016, p 3)

This new effort on PRC's side to economically regrouping European countries actually aligns with BRI's initial economic purposes. As already mentioned in the first chapter, one of the initial goals of BRI is to establish a transport network in the Eurasian area which contains a comprehensive network of transportation including railways, highways, air – and sea-ways, oil and gas pipelines, and transmission lines as well as communications networks. (Wang y. , 2015, p 94). In a desperate need for improvement for their infrastructure networks, China's BRI and 16+1 initiative seems to be a much needed co-operation framework for the CEE region. This coincidental match of CEE's development needs and China's pressing need to expand BRI rapidly explains why CEE region was the primary focus region of BRI when it was announced in 2013.

However, this economic regrouping strategy on PRC's side has in recent years lost its effectiveness, and instead reveals a series of problems which were previously unexpected on PRC's side. To begin with, **China's failure to recognize EU policies' impacts on the region's economy, and its choice of not considering EU presence in the region has led to failure in the expansion of BRI projects in the region.** As Richard Turcsanyi highlights, some Chinese Scholars and policymakers have in recent years lamented the lack and slow progression of economic co-operation with the EU and have quietly suggested that EU policies is a hindrance to deeper economic-co-operations in the CEE region. Wang Yiwei, professor of Renmin University, openly states that “currently, the EU and the U.S. can no longer provide help to boost CEEC economies.” while Cui Hongjian, director of Department of European Studies at CIIS suggested that “sophisticated” outsiders” and “onlookers” do not understand the true feelings of the people in CEE. (Turcsanyi, 2017). Under the backdrop that the EU is already doubting China's intentions behind BRI, the EU parliament, in turn, introduced screening processes for FDI in the EU, which further slows down the process of FDI flows into EU member states. (European Parliament, 2018)

Such conflict of interests **mainly stems from PRC's unfamiliarity and underestimation of the impacts of EU politics in its member and candidate states, and caused by PRC's over-eagerness to rapidly establish and expand BRI projects in the continent**, as discussed in chapter 5. Being unfamiliar with EU governance style of rule of law, coupled with pressing domestic economic needs to proceed with the development, PRC

assumed that sizeable economic benefits to these states will be sufficient to convince these states to bypass legal and political commitments to the EU and instead pursue greater economic co-operations with China. However, In this respect, PRC fails to understand and acknowledge that European states' commitments to the EU are not only political ones, but also legal ones. Although the discussed situations and events all centres on 16+1 framework, Stanzal also acknowledges that BRI expansions in Europe will face highly identical issues and situations. (Stanzel, 2016, pp 3-4). To ensure successful implementation of BRI projects in the EU, China must seek EU support through integrating EU interests and concerns, both politically and legally.

6.2 Legal Commitment to the EU- and its political reality

Another major aspect of European politics BRI fails to consider and address is the fact that EU politics will be an integrated part of European politics in negotiations, and that policy negotiations and decisions made at EU level will have impacts upon key issues concerning BRI. PRC's failure to address this aspect of EU politics partly stems from the institutionalization feature of EU politics in European politics, which in itself is a highly complicated issues even for EU politics specialists. Due to the unique setup of EU politics, **several key economic aspects of ED designs and negotiations such as trade and investment deals, imports and exports, etc, are in the control of EU institutions at Brussels, while other aspects of ED issues such as defence and foreign policies, are in the control of individual member states** instead of Brussels. As Lequesne and Paquin indicates in their work concerning EU trade deal negotiations, due to the fact that the EU is currently adopting the form of a non-central government in Europe, "Non-central governments are often downplayed in the state-centric international relations and international political economy literature, because they do not have the qualifications to be considered "true international actors. ... [yet] This lack in scholarly research contrasts uncomfortably with the actual impact of non-central governments on international negotiations. Examples touch a wide range of policy areas, from finance to defense to the environment." (Lequesne & Paquin, 2017, p. 185)

This is exactly the kind of misconception harboured by PRC when designing BRI. However, **from the viewpoint of ED**, in order to successfully implement BRI projects in Europe, PRC will need to make the extremely challenging, almost impossible attempt of **negotiating economic policies at EU levels while negotiating the foreign policies at individual state level**. Both aspects are equally crucial in European politics since the

institutionalized feature of EU politics means that the mutual commitment between EU institutions and member states will have binding legal effects, and any violations from any party involved will have actual political impacts to all parties involved. From practical viewpoint, the author believes that this extremely demanding challenge presented before the negotiation of BRI in Europe **is a task far too wide and complicated for PRC to handle, with too many conflicting issues and interests involved.**

To conclude, the negotiation and implementation of BRI as ED in Europe proves to be a staggeringly ambitious policy, which is almost impossible to achieve. From ED viewpoint, BRI in its current stage is gradually becoming a “White Elephant” initiative, exposing PRC’s weaknesses and failures in considering, identifying and assessing the impacts and consequences of its foreign policies in international arena.

6.3 Unintended, with no offer of solution

Until now, the author has discussed at length how BRI is in essence a domestic-focused foreign policy aimed at addressing China’s multiple domestic economic issues. This domestic focus, coupled with PRC’s unfamiliarity with European politics setup, as presented earlier in this chapter, means that BRI is primarily an inward-looking policy, while its impacts, both in international society and upon participating states, becomes minor concerns for PRC and are rarely considered when BRI was designed and announced in 2013. Under such circumstances, the currently politically dominant analyses of BRI in Europe as PRC’s deliberate strategy to divide Europe and assert political dominance with Economic proves to be a problematic conclusion derived from the observers’ neglect of the twofold nature of ED topics. A further detailed study at current BRI projects reveals PRC to be a clumsy and inexperienced international actors in terms of foreign policymaking, failing to understand and address the complications of an overly ambitious international negotiations.

This domestic-focused intention and various misconceptions regarding participating states’ politics means that the “economic regrouping effect” which is currently taking place is in fact an unintended circumstance rather than a deliberate PRC’s effort to “divide and rule” Europe, as some China observers proposed. However, as the effect is unintended, and was rarely considered by PRC, PRC offers no solution or proposal to address the concerns raised by various European states. This situation is potentially more aggregated in EU member states, due to various binding political and legal commitments to EU institutions. From PRC’s

viewpoint, these are the issues which should be considered and addressed by individual participating states, and thus offer no viable solution or alternative to the concerns of these states during the negotiations of BRI projects. It is exactly this kind of unconcerned attitude adopted by PRC during the BRI negotiations that has led to first almost EU-wide protestation to PRC's cherished policy initiative (Prasad, 2018)

6.4 Conclusion

In this chapter, the author has briefly introduced and discussed the effect of economically regrouping European states according to their economic profiles and ease of negotiating and concluding bilateral deals following the introduction of BRI policies and projects in Europe. Contrasting the traditional beliefs in Europe that this regrouping is a deliberate attempt on PRC's side aiming to "divide and rule" Europe, the author has presented and argued at length that when studying BRI from ED viewpoint, BRI is in fact an inward looking policy aiming to address China's domestic economic issues and thus this economic regrouping effect is merely an act and impact of convenience on PRC's side. However, studying BRI's progress in Europe further reveals PRC to be an inexperienced and clumsy policy designers and BRI is in its current stage an overly ambitious ED policy which has greatly underestimated the complexity and institutional setup of European and EU politics. Failing to identify the impacts of BRI projects' impacts in participating states, PRC offers neither suggestion nor solution to the concerns raised by participating states during negotiation, which has led to its first setback in expansion in Europe, marked by an almost EU-wide protestation toward BRI.

Chapter 7: How has BRI changed the outlook of EU politics?

This chapter aims to illustrate author's personal analyses and interpretations on how the “economic regrouping effect” discussed in previous chapter is further complicating EU politics, which in current stage still predominantly political in general. Due to the fact that the EU is generally adopting free market approach, economic and political goals and policies in EU politics are not always harmonious and aligning with each other, and free market economy means EU policymakers have less control over economic issues. This free market approach is the biggest challenge PRC faces when negotiating BRI projects from ED perspective. Furthermore, PRC's current approach of establishing bilateral agreements with individual EU member states as an attempt to bypass EU legal complexities is, to a certain degree, enabling more policy control at state level rather than at EU level. This strategic approach does not serve the “grand bargaining strategy” of PRC economic statecraft goals as presented in chapter 3, but instead has the potential of further complicating and slowing the negotiation process.

7.1 Separation of Politics and Economy – and the problems posed to PRC

As already discussed in chapter 2, PRC emerges as the more efficient actor and negotiator from ED perspective due to the fact that political and economic issues are mutually integrated and co-ordinated issues in PRC government. This advantage partly stems from the fact that China has, to a certain degree, retained certain features of a socialist-style planned economy, thus the central government in Beijing still asserts considerable state control over key economic and market issues compared to EU institutions, or even than individual EU member state. However, PRC's familiarity with planned economic model also implies that PRC government is relatively unfamiliar with the characteristics and operations of free market economic model and the effects it has on ED policies. This unfamiliarity proves to be a significant defect in PRC's design of its ED policies as central government in Beijing is unable to make accurate predictions about the impacts its ED policies would have on participating countries, including itself.

The separation of political and economic issues, as is the case with most European countries, means that political authorities of most European countries(including the EU) do not have primary control over the development of market and the economic activities. In fact , in terms of economic and market activities, the primary control is largely in the hands of influential economic actors in the forms of industry unions, leading co-operations, etc. Consequently, in

order to design effective ED strategy, PRC will at some point need to involve these economic actors. However, at this stage, PRC seems not to make any visible effort in this respect, and is still engaging itself in negotiations exclusively with political authorities without considering the impacts of economic actors.

When this phenomenon is translated into the design and execution of BRI, it means that BRI, in its current form, is unlikely to produce the economic results PRC government intends to have. In fact, the approach of attempting to wield economic results through engaging only political authorities in Europe is doomed to fail due to the fact that European political actors do not have the level of control over economic and market issues as PRC enjoys with its respective domestic economy. In order to ensure the effective and successful operations and expansions of BRI, central government in Beijing will at some stage need to engage the abovementioned mentioned primary economic actors in Europe, since they are the primary actors which will wield higher economic influence.

However, engaging European economic actors alongside its political actors proves to be a risky strategy on PRC side, with potentially costly political consequences. Due to the fact that economic goals do not always harmonize with political agendas in Europe, PRC's involvement with influential economic actors in Europe will at some point face the predicament of the clash of political and economic interests. Consequently, involving economic actors in Europe could potentially be the first step of PRC central government's loss of control over key domestic economic issues. From European perspective, this step will be the much-welcomed step in integrating China into global, capitalist-style free market economy. However, Western China's observers must understand, and be reminded of the fact that politics and economy are integrated issues and should be regarded as the two sides of a single issue in PRC's political traditions. CCP's political and governance legitimacy is derived predominantly from satisfactory domestic economic performance, as discussed in details in chapter 4 and 5. Opening up the market, or even the gradual loss of control over its domestic market and economy is not only an economic concern, but also a highly risky political gamble, with significant political stake. This is the primary reason why PRC is highly reluctant in opening up its domestic market, and unless the Western observers fully grasp its political impacts, they are unlikely to succeed in persuading PRC to willingly give up its central control over domestic market, especially over its key industries.

7.2 Attempting to please all, but pleasing neither.

Perhaps under the influence of its “grand-bargaining” ED ideology as mentioned in chapter 2, the current BRI is adopting an all-encompassing approach in its strategy of reaching out to all political level, attempting to identify the fastest and most effective way of co-operation due to the pressing time constraint coming from its domestic economic needs. As already discussed in chapter 3, PRC believes that an all-encompassing strategy is the key of success in its ED negotiations with the EU in order to adapt to the multilateral, federalist approaches existing in the European Union. However, this “grand bargaining” strategy(as PRC itself declares), presented in its approach of forming bilateral trade agreements at national level as an attempt to bypass the complexities of EU legal commitments while enabling maximum flexibility, is proving to have the exact opposite effect, raising concerns within the EU regarding PRC’s political agenda in Europe while having unable to ignore the legal effect EU law has upon its member and candidate states. As already discussed in chapter 6, this misconception and its resulting misstep, stems more from PRC’s misunderstanding and inexperience rather than a well-designed, deliberate attempt to divide the European Union, yet it is a fact that PRC has not given ample considerations regarding the effects its actions and strategies would have in Europe in general and thus it offers neither solution nor suggestion towards the consequences of its activities in Europe.

Consequently, when conducting its BRI projects negotiations with the European Union, PRC finds itself arriving at the predicament of unable to persuade either the political authorities or the economic actors in the European Union. While EU political authorities are wary of the (potential) political consequences, economic and market actors remain unconvinced regarding the economic benefits of the initiative. Judging from the initial proposal of improving infrastructure and connectivity between China and Europe, chapter 1 has already offered and proven the case that no significant improvement has occurred in Europe’s infrastructure since BRI’s initial announcement in 2013. Under this circumstance, PRC is actually finding itself in the difficult situation of pleasing neither the political authorities nor economic actors in Europe. This shall be the biggest setback to BRI’s further expansion in Europe due to the fact that BRI was initially designed as a long-term economic project. Without actual achievements or even progression(either political or economic), it would be difficult for BRI to further proceed into its next phase.

7.3 Enabling state level control does not improve EU-level bargaining process

The impact of BRI'S expansion failure in Europe does not end at EU rejection of the initiative based on various political, legal and economic grounds. The more serious and complicated effect might be the fact that PRC's approach of concluding bilateral trade and economic deals at national level has enabled more state control rather than EU control over selected economic issues, which actually further complicates and hinders the process of PRC's ED negotiations with the EU. To begin with, the previous bilateral agreements concluded at national level have already come into effect and these bilateral agreements have enabled state control over selected economic issues such as foreign direct investments. However, these bilateral agreements do not in effect grant decisive economic control to individual EU member states. This is because key issues concerning BRI economic co-operation such as agriculture and fishing policies, foreign investment screening, granting PRC market economy status, etc, are still in the control of EU institutions instead of nations states. Under this institutional setup, enabling national control over selected yet secondary economic control actually further complicates BRI projects negotiations, as any EU-level bargaining which is likely to hurt national economic performance will be opposed by state political leaders at EU level.

Under this circumstance in which both EU institutions and national authorities are competing for control over economic issues yet with neither gaining decisive control, it means that the "economic regrouping effect" discussed in the previous chapter is creating a new trend of economic competition and division between EU authorities and state authorities. The emergence of this competition over economic control is unlikely to evolve to PRC's preference. To begin with, Europe will have significant economic importance to PRC only when it is considered under the single unifying entity of the EU due to the fact that the EU is PRC's second largest trading partner. From BRI perspective, if there exists any potential threat to the economic unity or harmonization of the EU, PRC will find itself having to make the effort of devising and managing different ED policies with different entities within Europe, which is a consuming effort yet without any economic significance. Consequently, PRC needs to recognize and acknowledge the fact that it is in PRC's interest to promote and maintain EU economic unity and harmonization through EU institutions in order to ensure successful operation and further expansion of BRI in Europe. However, judging from its current result and progression, PRC approach is yielding the exact opposite impact in EU politics, with the

competition between the EU and national authorities aggregated with the arrival of various BRI project negotiations.

7.4 Conclusion.

In this chapter, the author has presented and discussed the fact that the separation of political and economic issues existing in European forms of governance means that political authorities in Europe has lesser control over economic activities in market compared to China. Consequently, if China is to conduct a successful BRI negotiation from ED perspective, PRC policymakers would at certain stage need to involve both political and economic authorities to ensure successful BRI expansion and progression in Europe. However, due to PRC's model of planned economy, PRC is rather inexperienced with the fact that economic activities and their resulting impacts are not entirely in state control in Europe. This means that BRI, which was primarily designed as an economic policy, is likely to witness surprising economic result in its co-operations in Europe, and is unable to wield the intended economic result PRC wishes to see. Furthermore, under the "grand bargaining" mindset, PRC's hope of conducting a co-ordinated and unifying approach through its all-encompassing strategy during its BRI negotiation with EU authorities proves to be an idealistic approach, failing to identify the multilateral and federal characteristic of EU political and economic negotiations.

On the other hand, the EU also fails to acknowledge the fact that political and economic issues are highly integrated, intertwined and co-ordinated issues in PRC's political traditions. Due to the fact that CCP's governance legitimacy is derived from its capabilities to deliver satisfactory domestic economic performance, any attempt which is likely to cause PRC central government's loss of control over key economic issues is unlikely to succeed as this concerns CCP's political survival as state authorities. Due to this two contrasting political traditions existing between PRC and the EU, when conducting BRI projects negotiations, PRC might find itself trapped in the double predicament of attempting to fulfil all parties involved, yet unable to conclude deals satisfactory for all parties. This resulted phenomenon, coupled with the already highly complicated institutional setup of EU politics, is likely to render PRC into reactionary position once PRC becomes involved in the process of negotiations.

Chapter 8: Conclusion

This chapter concisely summarizes how BRI, assessed from ED perspective, looks increasingly like a “white elephant” policy/strategy. Fundamental differences and distinctive development paths of ED between the West and China determine that the relationship between national politics and economics is the core difference between the two versions of ED. Stemming from this core difference are completely different perceptions and policy recommendations from both sides. Dubbed as the most ambitious and prominent foreign policy announcement of China since 1990s, the author believes that mutual ignorance and misinformation on both China and the EU sides let both parties to have significantly underestimated the influences and complexities of BRI, leading the EU adopting a heavily political interpretation of BRI while China simply focuses on its economic demands. Various other reasons, including lack of understanding regarding China’s macroeconomic models and structures, European’s ignorance regarding ED topics and issues, diversified macroeconomic profiles among EU member states, China’s ignorance regarding EU political and legal operation models, etc., render BRI an overly ambitious foreign policy announcement which would be extremely challenging to be executed and developed in Europe. In its current form, bridging the diversified views and perspectives between the two versions of ED is the deciding factor of BRI’s development in Europe.

8.1 The union/separation of politics and economics

To begin the discussion about ED policy, both national economic policy and foreign policy need to be included into the consideration of its design. However, due to the vast differences between the Western version and Chinese version of ED, the resulting analyses, interpretations and recommendations regarding BRI have been developing in significant differences. On many occasions, opposite analyses and policy recommendations emerge from these differences. It is essential to recognize and acknowledge that such misplacements of study focus exist not only among the policymakers, but also in the academic circles, both on the Chinese and European sides.

The core difference between Western ED and Chinese ED mainly stems from the contrasting views regarding the relationships between national economic policy and foreign policy. Deriving from the capitalist free market model, European policy makers and academics generally upholds the belief of the separation and relative independence of economic policy

from political involvement. The resulting European ED policies primarily function for the management and facilitation for free-flowing economic relationships among states and non-state actors. Contrastingly, PRC is more used to the socialist-style planned market economic. Therefore, PRC policymakers uphold the belief that national economic well-being is part of government's core responsibility and must be largely controlled and managed by authorities. The resulting Chinese ED policies adopt a more instrumental perspective, functioning primarily as initiatives designed largely by central government in Beijing to shape and change market operation models to fulfil government's economic goals and needs. These two distinctive versions of ED are currently developing in opposite directions. When translated into the design, operation and expansion of BRI in Europe, this means that BRI is likely to face various challenges and resistance due to this core mismatch in market operation models.

8.2 BRI- PRC's "White Elephant" Initiative

Another notable challenge to BRI in its current form is the fact that the majority of the discussions and analyses regarding BRI is still in potential and futuristic terms. 5 years have already passed since its initial announcement by Xi Jinping in 2013, there is still no completion or development of notable joint project in Europe which can be attributed to BRI. A closer look upon the official timeline of BRI development, as announced on BRI's official portal online, reveals that there has been a lack of progress announcement since various agreements have been concluded in May 2017. In the absence of concrete progress and model of co-operations, all the discussions and predictions regarding BRI is conducted purely in potential and possible terms. Such discussions, whether in policymaking circles or academic circles, makes BRI look increasingly like a "white elephant" project- a lucrative policy announcement without actual policy content or development progress.

Part of this actual policy vacuum of BRI is caused by the fact that there is a lack of agreed definition and scope of co-operations to BRI. To begin with, PRC fails to provide a concrete definitions for its cherished policy announcement, unable to determine whether BRI is an initiative to promote trade relations, investment relationship, infrastructure development, regional integration, comprehensive co-operation structure, or cultural exchanges. The resulting phenomenon is that every dedicated studies, both in Europe and in China, simply chose one area of studies to focus on and build their analyses and discussions on their chosen area of focus. The resulting study findings are a large volume of distorted study outcomes based on only a single perspective with no concrete example or policy to base on. Coupled with the previously

discussed contrasting views of ED, systematic academic studies on BRI might find themselves entangled in the predicament of unable to effectively define and limit the directions and scopes of their studies.

8.3 BRI, China's inward looking ED policies, and the resistance from the EU

As ED is the focus of this research, discussions and analyses regarding BRI's economic impacts is one of the research focuses. A closer study towards BRI's impacts upon PRC's domestic economy might present a better explanation towards, BRI's inspiration. The author believes that BRI is actually PRC's inward looking ED policy, designed primarily to address some of the ongoing, acute economic and development issues, particularly in the inland and Western regions of mainland China.

Due to the fact that CCP government derives the majority of their legitimacy to rule as state party from a relatively well-performing macroeconomic, ensuring a stable economic performance becomes a crucial issue of political survival from CCP's perspective. However, since Deng Xiaoping's Open Door policy since later 1970s, China has witnessed an increasing inequality in the geo-economic development between the rich coastal areas and poor inland and Western regions. This phenomenon has been aggregated since 1990s when China's economy has been rapidly developing, causing numerous political unrests in China's poorer regions such as Xinjiang and Tibet provinces in the form of political protests. BRI was designed under such background by the central government in Beijing, believing that better economic development in these poorer regions will be an effective method to render political unrests under control. The fact that most of the BRI and BRI-related projects in China are based in the inland and western regions, while the rich coastal regions of China have minimal involvement support this argument.

When translated into the design of BRI in Beijing, it means that BRI was initially meant as an initiative to primarily address China's domestic economic issues. The resulting BRI policy announcement is an inward looking Chinese ED, with minimal consideration dedicated to its impacts beyond Chinese borders. This lack of consideration for international impacts might partly be caused by PRC's relative inexperience in handling and managing a large-scale co-operation plan in international society, yet it is a fact that PRC has not considered, and therefore not prepared any solution or suggestion to address the potential impacts BRI might have in its participating countries, be the impacts political or economic ones.

Under such circumstances, BRI is likely to face strong political oppositions in Europe. Due to the fact that the majority of European interpretations of BRI is heavily political, authorities and actors in Europe widely hold the speculation that PRC's intentions and purposes behind BRI are political ones. Furthermore, PRC's inexperience at various fronts, including member states' legal commitments to the EU, the complexities of ED negotiations under EU framework, the separation of the control of economic issues from governments, etc. means that BRI is unlikely to have the intended economic effects PRC wishes to have upon its domestic economy in its expected timeframe.

8.4 Final words- how can BRI proceed from this point?

Judging from its current progress and trends of development, it is obvious that BRI, in its proposed scope and depth, is becoming an overly ambitious ED projects which faces many complexities and challenges at many fronts. These complexities and challenges has rendered the initiative unable to be executed in practice, at least in its participating European states. In order for BRI to be successfully developed and executed in Europe, large-scale revisions to include the previously omitted Chinese political influence and European economic concerns is crucial to perform a credible revision. At current stage, the success and failure of bridging the vast differences between the two distinctive perceptions of ED is the determining factor whether BRI can be successfully revised and executed. However, given the fact that neither the Chinese side nor the European side possesses the pressing needs, willpower and political capital to undertake this over-challenging task of revising the overly ambitious BRI, the prospect of PRC's most cherished policy announcement to date risks the possibility of becoming an empty policy announce that is unable to progress beyond lucrative political slogans.

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List of Appendices

Appendices