The Other End of the Silk Road
How China’s New Silk Road Threatens European Trade
Jonathan Holslag

Abstract - This paper investigates the motivations behind China’s New Silk Road, also called “One Belt, One Road”. For all the promises of mutually beneficial cooperation, it asserts that Chinese policy documents about the New Silk Road mostly testify of a hardnosed ambition to break open foreign markets and to support domestic firms to take on foreign competitors. As such, it confirms China’s shift from defensive mercantilism, which aims to protect the home market, towards offensive mercantilism, which seeks to gain market share abroad. In a context of global economic stagnation, this comes as a major challenge to Europe. As China’s market share grows spectacularly in countries along the New Silk Road, key European member states have lost both market share and even saw their exports shrink in absolute terms.

Introduction

Around 97 AD, a Chinese embassy arrived in Ctesiphon, the imposing capital of the Parthian Empire. He expected to travel onwards to Europe to establish trade relations with Rome. But the Parthians told the diplomat that Rome was too far away, that the journey would be perilous and that the lucrative silk trade would be better handled by local traders. The envoy returned and the Parthians remained the economic gatekeeper between Europe and Asia.

This anecdote remembers us that the control over trade has always been an important objective of states and empires. What matters from a political viewpoint is not so much the volume of global trade, but who benefits from it the most. However much this realist approach has been criticised by liberals for diminishing the productivity gains from a free market, economic realism has always been present and continues to shape the global economy. A polity can thus have an ideological preference for free trade; if the economic reality goes in the other direction, it is important to come to grips with it, to evaluate its impact, and to act.

So this is the case with Europe, especially in a context of economic uncertainty. One could argue that European concern about losing trade to China is misplaced. After all, with less than 10 per cent of the world population, it used to have a market share of 50 per cent in most countries along the New Silk Road.1 So, China’s advances could actually be a matter of fairness, of economic redistribution, a just change in the global economic order. There is no reason to dispute this, but, again, the social and political consequences for Europe could be severe. Since the Eurozone Crisis, Europe is under tremendous pressure to create jobs and to defend its standard of living. The slack of its internal market makes external demand even more important. Yet, many of its export markets are stagnant as well. Between 2008 and 2014, the imports of countries along the New Silk Road barely grew. In this situation China’s trade ambitions could come as a tremendous challenge. Export competition in a market that hardly grows inevitably becomes a sort of a zero-sum-game. The profit of one party is the loss of the other.

This paper approaches the New Silk Road, also called One Belt One Road, from a distinct European viewpoint. It first elucidates the objectives of the Chinese government. In this regard, it seeks to enrich the debate with an in-depth review of about thirty recent policy papers issued by different government departments. It is remarkable how transparently these

objectives are spelled out in Chinese official sources, but no research has included them thus far. Onwards, the paper assesses to which extent Europe is losing ground to China. For trade in goods, this is rather straightforward, as data to calculate evolving market shares is readily available. For trade in services, this is much more difficult, because there are no comparable data. In this sector, the paper combines fragmentary quantitative evidence with case studies of important biddings that involved both European and Chinese service suppliers. A third section discusses the responses of key European countries hitherto. It reconstructs their official expectations and evaluates to which extent governments have been successful in making gains out of their participation in the New Silk Road.

As such, this paper is relevant in the light of the evolving debate about the Sino-European relations, arguably one of the most important trade partnerships in the world. It aspires to provide new insights to European policy makers in charge of relations with China. Beyond its practical use, a review of the New Silk Road, the objectives and tools to advance it, is certainly significant in view of the academic debates about international political economy. The paper suggests that the study of political intervention in trade should not be solely occupied with the attempt of countries to protect themselves against trade, but that their more offensive designs are as important, offensive designs that include assertive economic diplomacy, large trade credit, politically guided companies, and so forth. The aim of this kind of statecraft is not to cut off globalization, but to manipulate it; not to limit connectivity, but to pursue competitive connectivity to the benefit of certain national interests. Free trade is thus not only imperilled by defensive reflexes, but equally so by politically motivated offensive aspirations.

China’s motivations

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

What emerges as the primary objective of the New Silk Road is to respond to an increasingly challenging international economic environment. China became concerned about the global economic slowdown, which reduces opportunities for exporters and makes it more difficult to develop its poorer provinces beyond the coast. It also stated that economic distress leads to more protectionism, with countries resorting to competitive devaluation and qualitative trade barriers, as well as fiercer competition between companies. China wants to stand by its firms in demanding times and to defend their ground in the international market. It seeks to counter alleged protectionism and to hold partner countries to the principle of free trade. At the same time, it endeavours to continue to be accepted as a benign power, to foster political goodwill in partner countries and to advance its interests through economic integration and openness.
The New Silk Road is also expected to lead to better coordination between Chinese stakeholders. On the one hand, this is a matter of preventing so-called vicious competition between Chinese companies. Instead of competing each other, Chinese companies have to work closer together to advance national interests. “Chinese companies have to strengthen synergy along the entire industrial chain,” it was stated. Synergy implies joint bidding and alliances, with Chinese companies teaming up, for instance, to win infrastructure projects by providing the knowhow, the construction service, the maintenance, and the financing. It entails that central enterprises “continue to carry out national strategy” and “form a division of labour between them”. On the other hand, the New Silk Road is supposed to improve coordination between different administrations. The Small Leading Group is critical in this regard, but the instruction was also given to provinces and even certain cities to establish coordination mechanisms.

The third objective concerns the promotion of export of manufactured goods. Even if China wants to tackle its industrial overcapacity problem through domestic demand in the long run, its immediate aspiration is to avoid bankruptcies by tapping into external demand. China’s industrial export policy falls into four parts. To begin with, it sees the New Silk Road as an opportunity to preserve its labour-intensive manufacturing. Even if wages have increased, labour-intensive manufacturing is seen as an indispensable sector to create jobs in poorer provinces. China is thus not giving up on this sector, but that does not prevent it from preparing its companies to produce more abroad. In this regard, the New Silk Road must support the development of so-called Chinese production chains. This implies that Chinese companies build assembling plants overseas, mostly to penetrate local markets and to circumvent import tariffs, and continue to source components from producers in China. Apparel makers, for instance, are encouraged to invest in low-wage countries, to strengthen their brand, to increase their market share in local supermarkets, yet to source the textile and machinery from their motherland.

Another part of the manufacturing agenda in the New Silk Road strategy is to help steel factories export themselves out of their glut. An important opinion from the State Council insists that China cannot afford to reduce steel production, but that it has to be made more competitive instead. It encourages the formation of large Chinese steel groups through mergers, the creation of quality standards “with greater international influence”, and to use the New Silk Road as “an instrument to promote export”. In a note on the relevance of the New Silk Road for steel manufacturers, the Ministry of Industry and Information Technology states that “China seeks to gradually transfer excess capacity overseas”. One concrete proposal is to use the New Silk Road as an opportunity to export steel. The 20,000 km of new railways in the framework of the New Silk Road, the ministry states, could create demand for as much as 85 million tons of steel. It also proposes to diversify exports to countries like Vietnam, Turkey, Iran, and Saudi Arabia.

A final component of the manufacturing agenda in the New Silk Road strategy is to expand China’s market share in high-end goods. The State Council identifies the following “new” industries: electricity, railways, shipbuilding, aviation, renewable energy, machinery, biotech, aviation and advanced machinery. The New Silk Road should help to implement the “Made in China 2025” agenda, which aspires to make China one of the most competitive high-tech manufacturers. The focus is on indigenous technologies, “independent intellectual property rights” and thus to develop goods independently from mostly Western multinationals. In a note on the aviation industry, for instance, the government shows itself unsatisfied with the pace of modernization, but it expects the sector to become more competitive in small-body aircrafts. “The encouragement of domestic purchases” as well as the diplomatic push of the New Silk Road to support emerging aviation industries. Regarding renewable energy, the government has a long list of large projects in Iran, the Belarus, Pakistan, and other countries that it wants to implement in the framework of the New Silk Road.
Several government departments have targeted cross-border e-commerce as a way to help Chinese manufactures expand their export markets. In a paper on e-commerce, the State Council clearly puts export first and proposes to promote e-commerce in the framework of the New Silk Road. The Ministry of Commerce specifies that e-commerce will “help expand market share along entire value chain from marketing to payment, from logistics to financial services and along the complete industrial chain.” E-commerce is considered to have several advantages. It cuts out foreign intermediaries, gives manufacturers greater profits and contributes to the development of Chinese brands. In addition, if the advantage of competitive goods is combined with strong branding, it creates room for a new generation of successful online shops, like Alibaba, Jingdong, Suning, Dangdang, etc. Those service providers on their turn could support the going abroad of other Chinese service providers, like warehouses and logistics companies that could rival with current multinationals like DHL and FEDEX.

A fourth goal is to increase China’s access to natural resources. This too is not a new aspiration, but the different policy documents show that China wishes to continue to strengthen its position in commodity markets. One important target to satisfy the growing need for food with products produced by Chinese companies overseas. Companies will be supported to acquire farmland and to set up basic processing plants in partner countries. Natural resources also relate to energy. The New Silk Road is also supposed to consist of new or upgraded energy corridors, including pipelines to Russia, Central Asia and the Indian Ocean, and both refineries and liquid natural gas (LNG) hubs. The objective remains to have more imported energy supplied by Chinese firms, which is mostly a matter of energy security, but also to increase their international market share – downstream and upstream. The government also wants to secure minerals. It vows to map “the metallogenic belt” along the New Silk Road by means of remote sensing satellites, geologic research and a new mineral resources information system, which seems to resemble the American Geological Survey (USGS). The government highlights the need to control foreign iron ore mines. It signals that Japan covers 50 per cent of its iron imports with “equity ores” (i.e. being produced abroad by Japanese firms), whereas China only achieves 8 per cent.

Next comes the objective to give a boost to services exports. This stems from two important concerns. On the one hand, China’s domestic investment boom has reached and probably passed its peak. With domestic demand dwindling, service providers have to find alternative markets abroad. This goes in particular for companies in construction, engineering, dredging, and transportation. The Vice-President of CCCC, for example, said that he considered the New Silk Road as the launch of a new going out. “Today Belgium and the Netherlands are the strongest and set the standards,” he explained, “We want to dominate the international dredging market with our own standards.” On the other hand, China wants to break through in so-called new services, like finance, shipping, and airlines. Even if it already had large companies in shipping, like COSCO, the aim in this cluster is to support traditional freighting with business services: engineering, brokerage, maritime legal services and insurance, and “to compete with today’s leaders London, Singapore and Hong Kong.” In aviation, the goal is to make Chinese airlines to expand their share in important international air corridors, to build regional air hubs overseas, to provide services to airports, and to create airport economic zones for time-sensitive industries.

Several policy documents mention the need to diversify Chinese investments abroad. China has continued to generate large surpluses on the current account and thus also to expand its foreign exchange reserves. These are important resources to invest back abroad. Yet, overseas investment is also pushed by the fact that return on investment at home fell significantly, mostly because of oversupply. The New Silk Road is expected to coincide with growing Chinese direct investments, investments thus with the aim of ownership, in sectors like high-tech, machine building, culture, entertainment, and so forth. Yet, China also signalled its wish to increasingly take minority positions in foreign companies through portfolio investment. Finally, the government has made it clear that it wants to continue to invest in the form of
loans and other credits, for instance, to support contractors securing projects and to support foreign customers to buy “Made in China” goods.

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

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

Instruments

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

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

The most important asset, however, remains credit. This works through two mechanisms: financial repression and sterilization. With important limits maintained on the capital account, the government stimulates households to bring their savings to Chinese policy banks, which, on their turn, lend it cheaply to Chinese companies. The transfer from households to companies amounted to US$ 4.5 trillion in 2015. This allows companies to expand and modernize their production capacity much faster than foreign competitors.

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

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

![Chart](https://example.com/chart.png) 

**Chart.** Composition of China’s foreign investment (US$ billion). Source: calculations based on China Foreign Exchange, SAFE.

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

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

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

The going out of national champions, trade credit, and new connections are flanked by a fourth important tool: free trade agreements. The State Council has announced a more “proactive” free trade agreement strategy, linked to the New Silk Road. This comes with a greater willingness to negotiate comprehensive agreements, agreements that, besides trade in goods, include services, investment, government procurement, intellectual property, etc. The government indicated that free trade agreements should support the objective to establish free trade zones in all neighbouring countries so as to build “a peripheral market.” Whereas
China for a long time had a defensive interest in opening trade in services, this now has become an offensive interest in trade in engineering, logistics, e-commerce, and finance.\textsuperscript{45} Free trade agreements are supposed to promote Chinese standards, for instance in product safety, environmental protection, electronic commerce, and government procurement negotiations.\textsuperscript{46} The State Council also vowed to strengthen its capacity and to increase the expertise of its officials to negotiate trade agreements, as well as to streamline the cooperation between different departments. One of the important initiatives in this regard was China’s proposal to upgrade the free trade agreement with the ASEAN members, the initiative to negotiate free trade agreements with Sri Lanka and the Gulf Cooperation Council, and feasibility studies for possible agreement with Nepal, the European Union, Moldova and India.

Conclusions and consequences for Europe

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

This all adds up to a very ambitious offensive mercantilist strategy. China understands that its economy remains vulnerable, but it is confident that it can manage this, not by closing its door to the international market, but by manipulating openness. China’s offensive mercantilism is about promoting free trade, while national companies still benefit from staggering amounts of credit and different forms of trade support. It is about making partner countries more connected to the Chinese economy than to competing economies, like the United States, the European Union, and Japan. Such competitive connectivity involves new networks of communication, transportation, but also harmonization of rules and standards. China’s offensive mercantilism seeks to promote a form of economic harmony that is in fact an economic hierarchy. If partner countries can gain from exporting raw materials, touristic services, and, in the longer-term labour-intensive goods, China wants to dominate new strategic industries with high value-added.

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

\textit{Chart.} Imports of forty countries along the New Silk Road from China and European suppliers (US$ Billion). Source: UN Comtrade.
This strategy is a tremendous challenge for Europe. China’s new push for trade comes at a moment that economic growth along the New Silk Road stalls. Between 2008 and 2014, the imports of goods and services of countries along the New Silk Road only grew by two per cent annually, compared to 19 per cent annual growth between 2000 and 2008. Between 2008 and 2014, Europe’s exports of goods to Silk Road countries decreased by US$ 25 billion, whereas China’s exports grew by US$ 250 billion. So, even in absolute terms, Europe lost significantly. In relative terms, Europe’s market share decreased from 38 to 30 per cent; while China’s market share increased from 9 to 16 per cent. Decomposing this trade, Europe’s loss of market share was the most dramatic in high-tech goods. In this sector, its market share dropped from 62 to 30 per cent, whereas China’s market share increased from 15 to 26 per cent. All major member states have suffered from this evolution. Between 2008 and 2014, France, Germany, and Italy saw their exports to the Silk Road countries decrease in absolute terms, with -12, -6, and -9 per cent respectively. All five countries saw their market share decrease.

For trade in services, it is impossible to calculate precise patterns, as comparable data are not available. China consistently reports contracted projects, mostly in construction, engineering, power, and telecommunication. The European Union reports exports of services, which is a much broader category, and detailed services exports for a selected number of countries. Between 2008 and 2018, China’s turnover of contracted projects along the New Silk Road almost doubled from US$ 30 billion to US$ 57 billion. For the countries with detailed European figures available, China appears to have gained a larger market share. If both trade in goods and services, these losses were incurred only in the three first years after the launching of the New Silk Road. In other words: this is just the beginning. If the New Silk Road proves successful, trade losses will become far larger.

Besides the commercial losses, the New Silk Road also undermines Europe’s political influence. If internal weakening of the European Union has damaged Europe’s position already a lot, China’s economic charm offensive will complicate the situation even more. As the New Silk Road destroys Europe’s external market, it decreases the prospect of recovery in the Eurozone. If relatively weak members of the Eurozone expect their export competitiveness to be increased by social and fiscal sacrifices, China’s offensive mercantilism, its excessive use of credit, and massive export support make that less likely. The failure for these countries to expand exports could exacerbate the tensions between the members of the Eurozone, make it more difficult for centre parties to resist Euroscepticism, and thus indirectly contribute to the further fragmenting of the European Union.

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

1 UNCTAD Statistical Database: Merchandise: Trade matrix by product groups.
2 It is headed by Vice Premier Zhang Gaoli, Vice-Premier Wang Yang, State Councillors Yang Jing and Yang Jiechi, as well as the NDRC, the Ministry of Foreign Affairs, the Ministry of Commerce, the Ministry of Industry, the Ministry of Finance, and so forth. See: NDRC, 2015.
3 More specifically the Western Development Division.
5 Xi, Jinping, 2016. 让“一带一路”建设推动各国共同发展 [Let OBOR Promote the Common Development of All Countries]. Statement at Politburo Meeting, 30 April 2016, see: http://www.gov.cn/xinwen/2016-04/30/content_5069523.htm
7 Ibid, § 1.
8 Zhao, Lei, 2015. 中央企业将对出海已达成国家意志: 可避免恶性竞争等 [Central Enterprises Have the National Determination to Avoid vicious competition in going overseas , People’s Daily, 24 June 2015
9 Ibid.
10 Ibid.
12 An opportunity analysis for the steel industry in the “OBOR” Strategy”. MOFCOM and MIT, September 2015.
18 State Council, 2015. “一带一路”沿线国家期待与中国在可再生能源领域合作 [China looks forward to work with countries along the “One Belt One Road” in the Field of renewable energy].


25 地质调查服务国家重大战略


27 专访中国交建副总裁孙子宇 [Interview with Vice-President of CCCC Sun Ziyu]. 21st century business herald. 15 October 2015.


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

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


33 See also a specific note on this: State Information Center, 2016. 一带一路战略风险评估及应对建议 [Recommendations for OBOR To Deal With Strategic Risks]. State Information Center, June 2016.


37推进“一带一路”建设工作领导小组办公室负责人就“一带一路”建设有关问题答记者问 [Responsible persons in charge of the OBOR development of the Leading Group of the Development of the OBOR answer reporter’s questions on various issues].
“助⼒开放发展 服务“一带一路” [Helping the Development of Open Services in the OBOR]. International Business Daily, 4 March 2016


41 See: http://www.silkroadfund.com.cn/


47 These are: Turkey, Russia, Egypt, India, Iran, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Data refer to construction, telecom and services to mining and industry. Source: Eurostat.