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# The Belt and Road Initiative in Europe

## Opportunities for a Transatlantic Response Amid the Russian Invasion of Ukraine

Svenja Meike Kirsch

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PAPER
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# About the Author

**Svenja Meike Kirsch** is a Fellow with the Defense Project and Project on Europe and the Transatlantic Relationship at the Harvard Kennedy School's Belfer Center. Her research focuses on the future of European security amid the Russian invasion of Ukraine. She is interested in the future role of NATO and the EU, implications of Russia's war for the international order, the role of the private sector as a safeguarding force of economic freedom, paths to European energy independence, and challenges facing liberal democracies given the rise of illiberal forces. Prior to joining the Belfer Center, Kirsch was a Fulbright and DAAD scholar at Harvard Kennedy School from which she earned a Masters in Public Policy. Her experience includes positions in sustainability management, social mission consulting, political campaigning, and think tank research. She holds a Bachelor of Arts in International Relations with a minor in Global Economics and Management.

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A container ship of Chinese Cosco shipping lies in the harbor in Hamburg, Germany, Wednesday, Oct. 26, 2022. The German government agreed on a compromise to allow Chinese shipping group COSCO to take a smaller stake than previously planned in the operator of the country's biggest container terminal, over concerns that they pose a national security risk. (AP Photo/Michael Probst)

# Executive Summary

China's Belt and Road Initiative (BRI) has for years held a prominent position in the global infrastructure investment space. In the absence of similarly far-reaching projects coordinated by other countries including the transatlantic partners, important questions about the BRI's implications for Europe and America arise. Given U.S.-China competition pulling the EU in two directions and opposing approaches among member states vis-à-vis China amid a globally growing infrastructure investment gap, the need for a liberally motivated[1] large-scale infrastructure investment approach is clear. This alternative model of advancing economic development goals stands in opposition to the BRI's approach of creating economic dependence on China through massive recipient country debt thereby increasing Chinese geopolitical power.

If this need is not addressed, the U.S. and EU would lose narrative power and influence in shaping the world order while giving way to growing Chinese authoritarian influence and increasing transatlantic partnership-internal policy incoherence, which could result in weakening the Western alliance. Further risks include greater international appeal of China's authoritarian governance model, growth in authoritarian political influence on international standard setting, decline of good governance standards, and security vulnerabilities of critical infrastructure. All of these would be concerning given direct risks and policy challenges created for the EU and the U.S.

This paper will go through three examples of recent BRI investments, namely the investments in the Port of Piraeus, the Budapest-Belgrade Railway and the European 5G network, to illustrate the risks and policy challenges created for the transatlantic partners. In doing so, it will be argued that while each of these projects were met with some European criticisms, a better coordinated and more comprehensive U.S.-EU counterapproach to the BRI is needed to prevent further dependence relationships, which could lead to larger political, economic, and security

1 Liberally motivated is hereby understood as the provision of global infrastructure investment assistance to developing countries for rollout of environmentally sustainable, human rights respecting, political independence and democratic processes promoting projects.

crises as the implications of the war in Ukraine painfully demonstrate in the energy space.

Given the escalation of Russian aggression, the time to decouple from a potentially more destructive and economically stronger China, against which sanctions could not be introduced as easily without creating crippling economic effects worldwide, is now. While risks of Chinese critical infrastructure investments are increasingly recognized, also among EU member states that were previously more oblivious to the negative implications of the BRI, a more strategic approach aimed at countering Chinese critical infrastructure dependence needs to be embraced. Such an approach needs to bring EU members and their transatlantic partners along. With the war in Ukraine and China's tacitly supportive position towards Russia, efficient liberal action only becomes more necessary. As momentum for coordination lies on the side of the transatlantic partnership, investing in transatlantic counter-initiatives to the BRI within a coherent China policy can protect key strategic sectors and infrastructure in Europe.

The *EU's Global Gateway Initiative,* the *Partnership for Global Infrastructure and Investment (PGII)*, and the *U.S.-EU Trade and Technology Council (TTC)* are promising responses. If transparently implemented and well-coordinated, these initiatives can provide viable, liberal alternatives to recipient countries. To ensure that challenges are mitigated, and opportunities can be capitalized on, the following items are recommended to EU and U.S. policymakers working on the transatlantic partnership and the EU's approach towards China:

## For reducing EU Economic Dependence and Dependence for Critical Infrastructure:

1. Focus on diversifying EU economic ties.
2. Increase the authority the EU has with regards to infrastructure investment projects and foreign bids for such in member states to improve intra-bloc coordination and advancement of economic de-coupling goals.
3. Focus EU-internal efforts on value-based rapprochement of Central and Eastern European economies with the rest of EU member states to meet external authoritarian challenges to unity.

## For increasing Geopolitical Influence of Western Alternatives to the BRI:

1. Learn from Chinese mistakes related to failure to deliver and angering local communities in implementing projects of the *PGII,* the *Global Gateway Initiative* and the *Trade and Technology Council* while committing to achieving international buy-in for Western infrastructure investments through superior project quality.
2. Establish distinct roles of the *PGII,* the *Global Gateway Initiative* and the *Trade and Technology Council* for crafting transatlantic policy responses to the Chinese geopolitical challenge.
3. Encourage private sector participation in all aspects of the *PGII* and *Global Gateway* investment processes including project selection, prioritization, implementation, impact monitoring and effectiveness assessment. Also give industry a special advisory role for the *Trade and Technology Council.*

# 1. Introduction

When China's Belt and Road Initiative was announced in 2013, neither the EU nor North American powers possessed similarly ambitious geopolitical grand strategies. With the end of the Cold War, American geopolitical strategies including containment and onshore engagement were replaced by commitment to liberal hegemony and increasing restraint following the 2003 Iraq war. The shift signified a move towards relative dis-engagement from international policymaking debates on the U.S. side, which coincided with the Europeans' belief in Fukuyama's proclaimed, "end of history." This meant that the Europeans, in full pursuit of continental integration, ceased to believe in the need for a geopolitical strategy as the arc of history was perceived to be turning in favor of liberal democracy regardless.[2] How short-sighted this perception was can be illustrated by both the geopolitical challenge the BRI represents and Russia's invasion of Ukraine.

With aims of policy coordination, infrastructure development, international trade, financial integration, and improved global connectivity, the BRI embodies a coordinated effort to connect Asia with Africa and Europe.[3] In the scholarly literature and among international observers, there is agreement that the BRI also represents a Chinese geopolitical grand strategy.[4] Thereby, the BRI is thought to help create conditions for increased Chinese global economic presence within expanded interdependent markets, facilitating dependence for countries vis-à-vis China and its economy.[5] How concerning such dependence on an authoritarian power is has recently been illustrated by Europe's energy dependence on Russia, which for a long time has held some of America's key allies like Germany hostage and prevented more intense sanctioning against blatant violations of international law such as the 2014 annexation of Crimea.

2 Fukuyama, F. (1992). The End of History and the Last Man. New York: Free Press.

3 European Bank for Reconstruction and Development (2020). Belt and Road Initiative (BRI).

4 Bhattacharya et al. (2019). China's Belt and Road. The new geopolitics of global infrastructure development. Washington, D.C.: Brookings Institution; Holt, P. (2020, June 17). A Truly Friendly Neighbor? The Motivations behind China's Belt and Road Initiative in its Periphery. Washington, D.C.: The Institute of World Politics; Leong Kok Wey, A. (2022, March 21). A "Mah-Kinder" geopolitical explanation of China's Belt and Road Initiative (BRI).; Zhang, Z. (2018). The Belt and Road Initiative: China's New Geopolitical Strategy? Berlin: German Institute for International and Security Affairs.

5 Hillman, J., Sacks, D. (2021). China's Belt and Road: Implications for the United States. Washington, D.C.: Council on Foreign Relations; Ye, M. (2022). Ten Years of the Belt and Road: Reflections and Recent Trends. Boston: BU Global Development Policy Center; OECD (2018). The Belt and Road Initiative in the global trade, investment and finance landscape.

Furthermore, it has been argued that the BRI increases Chinese narrative power, especially in developing countries. Given China's neutral stance towards the inhumane Russian war in Ukraine and its repressive domestic practices, this context creates a strong imperative for liberal democracies to counter the covert spread of authoritarianism globally.[6] Given that the BRI is increasingly extending into EU territory, which in the wake of a rising, assertive China is associated with important policy questions related to the security of critical infrastructure, Europe's role in U.S.-Chinese strategic competition, and the future of the international liberal order, a more coordinated response than currently present appears appropriate.[7] This paper will examine the policy environment within which such a response creates opportunities and dedicate special attention to the *Partnership for Global Infrastructure and Investment,* the *Global Gateway Initiative,* and the *U.S.-EU Trade and Technology Council.*

The main thesis that will be advanced is the following: Given the escalation of Russian aggression, an authoritarian power that at least EU policymakers have long engaged with, the time to decouple from a potentially more destructive and economically stronger China, on which sanctions could not be introduced as easily without creating crippling economic effects worldwide, is now. To date, reactions to the BRI have been too isolated and too uncoordinated to create meaningful impact. While risks of Chinese critical infrastructure investments are increasingly recognized, also among EU member states that were previously more oblivious to the negative implications of the BRI, a more strategic approach aimed at countering Chinese critical infrastructure dependence needs to be embraced. Such an approach needs to bring both EU member states and their transatlantic partners along to holistically address the Chinese challenge. Given the war in Ukraine and China's tacitly supportive position towards Russia, efficient liberal action only becomes more necessary. With momentum for coordination being on the side of the transatlantic partnership because of the partners' unified approach against Russia's war in Ukraine, one important approach to do so is by investing in transatlantic counter-initiatives to the BRI, which as part of a coherent China policy can protect key strategic sectors and infrastructure in Europe.

6 Sacks, D. (2021b, March 24). Countries in China's Belt and Road Initiative: Who's In And Who's Out.

7 Brattberg, E., Soula, E. (2018, October 19). Europe's Emerging Approach to China's Belt and Road Initiative.

# 2. BRI Investments in the European Union

Although the BRI only came into being in 2013, Chinese FDI in infrastructure has played an important role in Europe since 2008, when the eurozone crisis offered investment opportunities.[8] Until 2016, Chinese FDI increased by a fiftyfold from $840 million in 2008 to $42 billion in 2016, making China one of Europe's largest investors.[9] Although the annual value of Chinese FDI transactions in Europe decreased by 75% in 2021 compared to 2017 levels, they are still significant.[10] As of March 2021, a total of 26 continental European countries, including 18 EU members are officially participating[11]in BRI.[12] As of April 2021, the value of all BRI-associated projects in continental Europe is $13.4 billion in construction, infrastructure upgrading and railway projects.[13]

As of March 2021, a total of 26 continental European countries, including 18 EU members are officially participating in BRI. As of April 2021, the value of all BRI-associated projects in continental Europe is $13.4 billion in construction, infrastructure upgrading and railway projects.

Given diversity of BRI investments across the EU, the following section will focus on three examples: the Port of Piraeus, the Budapest-Belgrade Railway, and plans for 5G rollout to demonstrate how BRI critical infrastructure projects can create significant policy risks and challenges to the EU and its allies. Although the European response has to-date been somewhat critical of the BRI, no meaningful coordination, let alone counter-efforts have been launched. This is partly due to varying member state assessments of the threat severity posed by the BRI, differing degrees of bilateral economic dependence on China, and competing EU-internal foreign policy priorities that led to global infrastructure investment being relatively de-prioritized. Accordingly, only a small number of national-level reactions such

8 Le Corre, P. (2018). Chinese Investments in European Countries: Experiences and Lessons for the "Belt and Road Initiative". In *Mayer, M. (ed.) Rethinking the Silk Road.*

9 Zeneli, V. (2019, March 14). Mapping China's Investments in Europe.

10 Kratz, A., Zenglein, M., Sebastian, G., Witzke, M. (2022, April 27). Report: Chinese FDI in Europe: 2021 Update. New York: Rhodium Group.

11 This means that these countries have signed a Memorandum of Understanding or general cooperation agreement without necessarily supporting project implementation or receiving Chinese investment.

12 Sacks, 2021b

13 Hillman, J., Tippett, A. (2021, April 27). The Belt and Road Initiative: Forcing Europe to Reckon with China?

as the public outcry after the Chinese takeover of German mechanical engineering company *Kuka* or the Italian signing of a Memorandum of Understanding which made the country become an official part of the BRI, stand out.

## 2.1 Existing BRI Investments and their Geopolitical Significance

### The Port of Piraeus

When Greece plunged into the financial crisis in 2008, the Chinese state-owned shipping entity China Overseas Shipping Group Co. (COSCO) acquired a 35-year concession for Piraeus Harbor.[14] The Port of Piraeus is geopolitically significant as it lies at the heart of Eurasian supply chains and trading routes.[15] Due to proximity to the Middle East, where China has oil interests, in addition to situation within the EU, where China seeks market access, the port acquisition serves Chinese trading and national security interests. Given that 80% of Chinese import and export goods to/from Europe are transported via maritime routes, COSCO's management of the Port of Piraeus reduces economic costs and travel time for Chinese ships.[16]

At the time, the EU welcomed the investment into Greek infrastructure and saw such developments as key to the country's economic recovery. Not only was privatization explicitly demanded as part of the stringent austerity measures, but it was also seen as a way to create jobs, increase competitiveness and re-build economic importance. Meanwhile, Greek academics raised questions about the effectiveness of privatizations in solving financial problems and many domestic political opponents labeled the offering of infrastructure assets "sell-out[s]".[17] Given the dire economic state Greece was in and the European troika's insistence on privatization, Piraeus nevertheless had to go on the market. With very few countries wanting to take the risk of investing in Greece, few other options than Chinese bidders remained.[18]

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14 Brattberg, E., Le Corre, P., Stronski, P., De Waal, T. (2021, October 13). China's Influence in Southeastern, Central, and Eastern Europe: Vulnerabilities and Resilience in Four Countries.

15 Li et al., 2021

16 Saeedy, A. (2018, June 1). How Greece's Busiest Port Reveals the Perils of Privatization.

17 Smith, H. (2013, May 28). Greece's ports, trains, and airports are up for grabs.

18 Kidera, M. (2021, December 10). "Sold to China": Greece's Piraeus port town cools on Belt and Road.

In 2013, COSCO increased its investment and committed €230 million to renovations, and in 2016, it acquired a 67% majority stake in the Port of Piraeus which effectively transferred management capacity to China.[19] Through this acquisition, a Chinese government affiliated corporation took control of one of the most important harbors in Europe and secured a stable trading route into the continent. To date, the acquisition of the Port of Piraeus represents one of the biggest BRI investments in monetary terms with an overall investment value of about $8 billion.[20] Under Chinese management, the port has been refurbished and expanded and it has reclaimed some of its lost importance by becoming the sixth largest European container port[21] and the 30th largest port globally.[22]

While Chinese investment in Greece helps the EU-member move along on the path of economic recovery, it also comes with risks and policy challenges for the recipient country and the EU more generally. Among them is the potential negative impact on labor and environmental standards that results from ownership of critical infrastructure assets by private companies accountable to governments with comparatively lower requirements in these realms. The Chinese government can be generally considered one such country with lower requirements for labor safety and environmental protection as evidenced by the existence of at times human rights violating manufacturing factories on Chinese territory and record pollution levels domestically.[23]

In the case of the Port of Piraeus, the environmental conduct of COSCO was also found to be fundamentally flawed, exemplified by the company's contamination of surrounding fishing grounds of the Saronic Gulf caused by dumping of sludge from port dredging. Because of this, Greek courts halted further expansion.[24] Similarly, fears that local workers' labor rights were under threat existed since the takeover and were publicly expressed through worker unions that pointed towards unsafe working conditions. Unfortunately, these fears materialized when a dockworker died following an accident on one of the harbor's container piers in 2021.[25]

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19 Le Corre, 2018

20 Ferrari, C., Tei, A. (2020). Effect of BRI strategy on Mediterranean shipping transport.

21 Brattberg et al., 2021

22 Li, X., Shao, M., Tan-Mullins, M. (2021). China's Belt and Road Initiative: Debates, Impacts and Trends.

23 Human Rights Watch (2021, April 19). "Break Their Lineage, Break Their Roots" – China's Crimes Against Humanity Targeting Uyghurs and Other Turkic Muslims; NPR (2013, January 18). Beijing Grapples with Record Air Pollution.

24 The Maritime Executive (2022, March 18). Greek Court Halts COSCO's Expansion at Piraeus Port.

25 Bali, K. (2022, October 30). In Greece's largest port of Piraeus, China is the boss.

These cases illustrate the potentially detrimental impact that associated projects can have on the environment and its communities. One of the main risks resulting out of the Chinese takeover of Piraeus therefore is the decline in European infrastructure and governance standards, which can undermine the safety of critical infrastructure and the standard setting influence of the EU and the U.S. As one of the dockworkers at Piraeus fittingly put it: "It is just the beginning [of a regime of precarious employment that is spreading across Europe]. Today in Greece, tomorrow in Europe".[26]

Another risk arising from the direct dependence of an important European port on a third country is the owner's power to control and regulate imports and exports coming into the European Union. Considering the immense importance of sea-routes for the European economy, and the EU's reliance on international trade for critical goods such as personal protective equipment (PPE), Chinese-controlled ports could in the case of increased tensions with the EU lead to the blocking of important shipments. Insofar, China's acquisition of European ports like Piraeus enables the country to one day use trade as a weapon against the EU, a practice that China has a track record of as the unofficial trade boycott against Australia, which pushed for an independent investigation into the origin of COVID-19 pandemic, illustrates.

Furthermore, Chinese-owned European ports also make the EU more vulnerable to increased Chinese influence in European policymaking. This is the case as ownership of critical infrastructure assets like ports establishes the need to address Chinese economic presence as a fact of life and because COSCO associated lobbying efforts could help promote Chinese interests. Potentially even more concerning are the implications that Chinese access of company, transport and personal data creates due to COSCO's position as port and logistics operators in Europe. With access to such data, China creates continental leverage, strengthens impact on supply chains, and increases the country's ability to practice espionage for political and military purposes.[27] All these factors increase the dependence of the EU on China and compromise the bloc's ability to sanction Chinese international behavior just as in the case of Russia's invasion of Ukraine since the impact of such action would have much more crippling effects on Europe.

26 Saeedy, 2018

27 Tatlow, D. K. (2022, October 9). China's Stake in World Ports Sharpens Attention on Political Influence.

## The Budapest-Belgrade Railway

Within the 16+1 Forum[28] in 2013, China, Hungary and Serbia announced plans to build a high-speed railway connecting Belgrade and Budapest.[29] Chinese economic investment in Hungary followed, which started in the mid-2000s and accelerated after the 2008 financial crisis.[30] Since Piraeus possessed old railway links to Budapest, this railway line intended to speed up cargo transportation into continental Europe while creating commercial and economic opportunity in target countries.[31] Although 85% of the Hungarian part of the project was to be financed through a 20-year loan of the state-owned *Chinese Export Import Bank*, construction did not begin until 2021 due to investigations related to allegations of failure to uphold EU tender regulation standards in Hungary[32] and corruption accusations raised against the Orbán government.[33] After an EU-led investigation, investigators levied accusations that European procurement laws were not followed when contracts for the railway project were given to Chinese BRI-associated companies. By potentially having failed to invite competing offers from other companies to implement this public infrastructure project, the Hungarian government would have infringed EU legislation to which it is subject as an EU member.[34]

In terms of policy risks arising from the railway project, the price tag and arising financial responsibility for EU member Hungary following construction of the railway line are noteworthy. Should the project be fully implemented by Chinese partners as planned, then it would take Hungary 2500 years to pay the loan back and to achieve profitability.[35] This illustrates the massive scale of financial sums that are associated with many BRI projects and highlights the potential for economic, and eventually also political dependence that European investment

28 The 16+1 Forum is an initiative launched by the Chinese Ministry of Foreign Affairs, which brings together China and 16 other Central and Eastern European countries. The number of participating countries has over time varied between 14 and 17, but currently stands at 14. The 14 remaining countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Greece, Hungary, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia, and Slovenia. The objective of the initiative is to promote economic relations between China and the other participating countries.

29 Brincza, A. (2020, April 28). China and the Budapest-Belgrade Railway Saga.

30 Brattberg et al., 2021

31 Brinza, 2020

32 Rencz, F. (2019). The BRI in Europe and the Budapest-Belgrade Railway Link. Brussels: European Institute for Asian Studies.

33 Brattberg et al., 2021

34 Kynge, J., Beesley, A., Byrne, A. (2017, February 19).EU sets collision course with China over “Silk Road” rail project.

35 Miller, N. (2018, June 20). “Why are they giving us money?” Behind China’s plans to “rescue” a decrepit raillink.

recipient countries see themselves confronted with. As the costliest Hungarian infrastructure project ever initiated with a total price of €2.3 billion split between Hungary and Serbia, the railway line will therefore burden taxpayers in both countries in the long run, thus creating conditions for persistent indebtedness.[36]

This project already contributes to Hungary's relative political isolationism in relation to EU-wide efforts to counter China, as it represents yet another factor that prevents European policy alignment on reducing Chinese investment in Europe while making Hungary more vulnerable to Chinese influence on its domestic and foreign policy. Pre-existing and rising EU-skepticism, particularly among Eastern EU governments and candidate countries in the Balkans, has complicated this picture. Fueled by the economic crises of 2008 and 2010, the Hungarian EU-skeptical movement led by Prime Minister Viktor Orbán has since repeatedly blocked EU-wide approaches towards China, partly due to open questioning of the need to be a cooperating EU partner.[37] The inroads China has been able to make into the EU because of this project has complicated reaching EU consensus and creating transatlantic responses on China.[38] As the formalization of Hungarian-Chinese investment relations exemplified through the railway project, this can move Hungary even further away from its European partners and the Hungarian governments' EU-skeptical sentiments could intensify, thus complicating EU policymaking on China despite increasing urgency.

BRI investment into the Budapest-Belgrade Railway has the risk of enabling democratic backsliding in Hungary because of stronger ties with China and weakened cooperation with the EU. Considering growing concerns about the state of Hungarian democracy given government measures altering the position of the media, judiciary, central bank, and other institutions, more Chinese investments into Hungary could weaken government accountability towards citizen demands and lead to broader concerns about the EU's policymaking capacity.[39] Potential democratic backsliding accelerated by Chinese influence in Hungary could weaken the narrative power of the European idea, incapacitate the EU in its China policy, and help establish China as a powerful player with direct access to the EU common market.

36 Káncz, C. (2020, June 15). The New Budapest-Belgrade Railway Line: A White Elephant on the New Silk Road.

37 Boros, T. (n.d). Hungary: The Country of the Pro-European People and A Eurosceptic Government.

38 Brattberg et al., 2021

39 Boros, T. (n.d.)

## The European 5G Network

The Chinese government regards investment in digital infrastructure as part of BRI since 2015. This includes involvement in technological standard-setting and investment in *Huawei*-executed 5G rollout globally.[40] As the leading 5G infrastructure provider, *Huawei* is a private company associated with advancing Chinese national interests due to untransparent ownership structures and domestic government influence over most tech companies. In that vein, American and European governments repeatedly accused the company of Chinese government-sponsored engagement in cyber espionage and intellectual property theft.[41] Despite increasing presence of *Huawei* contracts in Europe, exemplified by 14 signed 5G partnerships with European network providers, the EU lacks a unified position.[42] As of 2021, among EU member states that were either already using or planning to use *Huawei's* 5G were Austria, Hungary, Ireland, Malta, Monaco, and the Netherlands. Other countries were not yet considering it, but had released restrictions concerning *Huawei* as a high-risk vendor or were unlikely to sign up.[43] Regardless, *Huawei* already owns 17.5% of the European smartphone market, making it an embedded player whose existence needs to be addressed holistically.[44]

Given that the EU identified 5G infrastructure as key to innovation and digital transformation[45] while being behind Asian and the U.S. economies in rollout, there is pressure to catch up.[46] Although *Huawei* could be useful for this, the EU-internal adoption of security restrictions hinders the Chinese envisioned expansion of *Huawei* infrastructure. These restrictions came into being in 2020 following American pressure and after the Trump administration decided to level criminal charges against *Huawei*, which it accused of espionage, gathering intelligence for the Chinese government, and posing a direct risk to U.S. national security. While the EU restrictions are not as far-reaching as the U.S. wished (no blanket ban was imposed on Chinese network providers)[47], they increase member

40 Vladisavljev, S. (2021). China's "Digital Silk Road" enters the Western Balkans. Prague: Association for International Affairs.

41 Maizland, L., Chatzky, A. (2020). Huawei: China's Controversial Tech Giant.

42 Duchâtel, M., Godement, F. (2019). The Huawei Case. Paris: Institut Montaigne.

43 Sacks, 2021a

44 Duchâtel & Godement, 2019

45 European Commission (2019, March 12). EU-China – A strategic outlook.

46 Brattberg, 2019

47 Barnes & Satariano (2019, March 17). U.S. Campaign to Ban Huawei Overseas Stumbles as Allies Resist.

state and bloc-wide scrutiny of 5G risks, particularly in connection with Chinese companies.[48] At the heart of differing risk assessments leading to a ban on the U.S. side as opposed to more limited scrutiny on the EU side lies the lack of concrete evidence justifying the U.S. viewpoint that *Huawei* is guilty of the above crimes. Since European wireless networks are more dependent on Chinese players, an outright ban is also potentially more consequential to EU member states, which likely impacts the bloc's more cautious stance.[49]

With the conversation about investment in digital infrastructure turning into one about security concerns, the risks and policy challenges related to 5G rollout for Europe took center stage, particularly as they relate to the realms of cybersecurity and economic growth. Due to politicization of the issue with the U.S. advocating for other countries to join in banning *Huawei* from domestic markets, 5G rollout is a matter of balancing diplomacy, security, and technological development.[50] According to the 2017 *Chinese National Intelligence Law*, all organizations and citizens are legally obligated to support Chinese national intelligence agencies; therefore, the BRI's 5G push into Europe presents an opportunity for the country to collect intelligence, monitor critics and engage in intellectual property theft. European reliance on Chinese-provided 5G could also enable China to exercise coercive pressure through network disabling while giving access to sensitive data and industrial information.[51] Ownership of European 5G infrastructure matters as it helps China establish itself as a technological power, which creates potential to export its governance system and challenges U.S. dominance in international technology innovation.[52] For the EU, this means that 5G infrastructure provided by Chinese actors could potentially threaten the bloc's economic competitiveness and infrastructure safety in the long run. Both threats require a targeted approach that safeguards critical European assets amid *Huawei's* presence in the EU market.

The EU devised a 5G cybersecurity toolbox because of these risks associated with the Chinese adoption of the above-mentioned intelligence law and under U.S. pressure to adopt similarly far-reaching measures aimed at limiting the operations of Chinese companies at home. Endorsed by the European Commission and European Council, the toolbox provides member states with measures for

48 Chee, F. Y. (2019, March 26). EU demands scrutiny of 5G risks but no bloc-wide Huawei ban.

49 Barnes & Satariano, 2019

50 Garcia Domingo, A. (2021, August 9). Eastern Europe, Huawei and 5G.

51 Sacks, 2021a

52 Vladisavljev, 2021

assessing and addressing 5G supplier risk without being legally binding. Following the toolbox's rollout, most member states started restricting high-risk vendors, among them many Chinese organizations. However, little information is available about how these risks are otherwise addressed by member states. What is clear is that members' approaches diverge, which supports the main argument that European critical responses to the BRI have not been far-reaching enough to create real impact and to safeguard European critical infrastructure against foreign malign interference.

While public discourse about risks arising from having Chinese vendors supply 5G network access is lively in countries like Germany, which has introduced a law requiring national security considerations as a criterion for infrastructure investments, no such legislation is in sight in other EU countries. A similar picture emerges with regards to the EU toolbox. Some countries like Sweden have put the toolbox's framework and restrictions on certain Chinese vendors in place. Other countries like Austria have used the framework to classify some high-risk vendors from China but nevertheless remain on track to expand their 5G networks with the help of *Huawei*. Then again, there also are countries like Hungary that have not restricted any 5G vendor and that are unlikely to do so any time soon.[53]

## 2.2 Key EU and North American Policy Risks Arising from European BRI Investments

As these three projects illustrate, BRI investments in Europe have geopolitical underpinnings with policy risks for the EU and its American allies: debt dependence, business misconduct, the impact of international standard setting influence of a non-liberal power, and security concerns arising from investments in critical infrastructure. Since particularly the latter concern has taken center stage in European policymaking with the war in Ukraine, an increased need to protect such infrastructure has been recognized among NATO members and its partners.

The EU and its North American allies face risks associated with increasing narrative power gained by a geopolitically assertive and non-liberal China. European and North American policymakers are called upon to re-think how to

53 European Court of Auditors (2022). Special Report – 5G roll-out in the EU: delays in deployment of networks with security issues remaining unresolved. Luxemburg: European Court of Auditors.

sustain the international appeal of liberal governance models while upholding a values-driven worldview that motivates investment countries to support it. In this context, the war in Ukraine, China's public refusal to actively condemn the invasion[54] alongside its opposition to economic sanctions against Russia[55] represents an opportunity to re-gain support from economically disillusioned, somewhat more China-friendly European countries, particularly in Eastern Europe. The country's reluctant reaction to the invasion has made it clear that Chinese leadership only assumes its long-proclaimed role as defender of poor countries' sovereignty when it suits its geopolitical interests. In the absence of a strong repudiation of Putin's actions, this creates the impression that authoritarian leaders tend to stick together even in face of blatant and brutal breaches of international law.

Of course, China's reaction to the war is more complex. Just like Ukraine's Western supporters, China wants the war to end as soon as possible but hopes that an end can be brought about without a full Russian defeat, which could lead to regime change in the Kremlin, and with a broader re-designing process of the international security architecture.[56] This is exemplified by Xi Jinping's comments shortly after the invasion, that called for "maximum restraint", preventing escalation or spillover of the conflict, and potential peace talks.[57] A full-scale Russian defeat would put China in a relatively weakened competitive position with the West due to potentially detrimental implications for China's territorial security and possible spreading of the U.S.'s liberal narrative, which is why a cease-fire that keeps Putin in power, no matter the terms, is in China's most immediate interest.

China opposes unilateral Western sanctions against Russia as it sees these as advancing the U.S.'s international influence, but it embraces the thought of Russia potentially becoming its junior partner because of the West's turn against Russia.[58] Regardless however, China for the most part appears to be complying with these sanctions as evident in significantly reduced business activity with Russia in the realms of high-tech and finance. Underlying this is likely a cost-benefit analysis according to which the Russian market only makes up less than 2% of Chinese

54 AP News (2022, April 14). China rejects "pressure or coercion" over Russia relations.

55 Reuters (2022, March 2). China will not join sanctions on Russia, banking regulator says.

56 Lee, L. C. (2022, June 30). China's Long Game in Russia: Violating Sanctions? No. Ensuring Russia's Survival? Yes.; Sui, C. (2022, September 20). Analysis: China's Balancing Act on Russia's War in Ukraine; The Guardian (2022, September 24). Russia's allies China and India call for negotiations to end Ukraine war.

57 Al Jazeera (2022, March 9). China's Xi: Beijing supports peace talks between Russia, Ukraine.

58 Kusa, I. (2022, June 21). China's Strategic Calculations in the Russia-Ukraine War.

tech exports, thus making it much less costly to cut these ties than risking important connections to financially more significant U.S.-based chip suppliers. A similar picture emerges in finance as China's financial sector continues to be reliant on the dollar-dominated international system. Mainly in the energy sector, China seems to have a harder time with compliance and has recently become Russia's number one buyer of fossil fuels.[59]

Policymakers in Europe and North America should capitalize on this understanding of the Chinese-Russian relationship as a somewhat supportive one, and they should instrumentalize China's understanding of the conflict as one that is more about their geopolitical position than about the need to end the Ukrainian peoples' suffering to mobilize additional EU member state support for efforts to counter the spread of dependency-increasing BRI investments in Eastern Europe and beyond. By reminding member states of China's implicit backing of Putin's expansionist agenda in Eastern Europe, transatlantic policymakers should emphasize China's role as an authoritarian international player with grander, potentially more threatening geopolitical ambitions than Putin." With this understanding, especially Eastern European countries are to be discouraged from furthering Chinese-sponsored infrastructure projects and from accepting proposals for new ones.

Further risks concern financial dependence created for European countries, especially for ones with pre-existing debt vulnerabilities. As projects like the Budapest-Belgrade Railway are financed through Chinese loans, the BRI creates debt burdens for recipient country governments.[60] Especially in participant countries of the 16+1 Forum, Chinese money for infrastructure investments takes the shape of loans which can overwhelm smaller economies. As most these loans come from Chinese banks and will need to be paid back with interest regardless of whether economic benefits are generated, dependence relationships are there to stay.[61] This creates risks including political vulnerability of recipient countries to Chinese repayment pressures, ideational drifting apart of EU members and increased debt, which risks creating new financial crises. For its allies, debt of EU countries to China relates to risks of decreased political and narrative influence in previously pro-Western recipient countries and decreased buy-in for countering

59 Lee, L. C. (2022, June 30)

60 Rencz, 2019

61 Eder, T. S., Mardell, J. (2018, July 10). Belt and Road reality check: How to assess China's investment in Eastern Europe. Berlin: Mercator Institute for China Studies.

Chinese assertiveness. The interaction of risks contributes to making it harder to align transatlantic interests regarding Chinese assertiveness.[62] As illustrated by the current energy crisis in Europe, critical infrastructure dependence on external, authoritarian players can not only create debt burdens but also make the enacting of sanctions towards a warring party a more complicated and financially backfiring process. Moreover, such dependence can in moments of crisis undermine the regular functioning of a country's economy just like the absence of reliable energy supply can prevent private industries from achieving their production targets.

Additional risks of BRI investments involve business misconduct and limited Western business opportunities. On the one hand, this is the result of lacking recipient country and Chinese transparency about investments as in the case of the Budapest-Belgrade Railway project's circumvention of EU public procurement rules. It accelerates democratic backsliding in already kleptocracy-vulnerable economies, thus undermining core ideological tenets of the European project. It implicitly legitimizes Chinese business misconduct by giving it space to operate in and makes EU members complicit with unfair trade practices, an authoritarian-dictated geopolitical agenda, and human rights violations along value chains of Chinese infrastructure companies responsible for BRI project delivery.[63] On the other hand, the fact that most BRI contracts are in the hands of Chinese companies creates advantages for these and leaves Western companies behind. Untransparent contract bidding processes enable Chinese companies to gain market share thus challenging Western firms' industry-specific dominance.[64] This leaves European and American policymakers with pressure to institute policies that keep their own industries internationally competitive without sacrificing governance standards.

Good examples of such policies are on both sides of the Atlantic: policymakers instituting legal acts related to manufacturing of digital chips and other semiconductors. Both acts strengthen the respective industries through R&D and up-skilling investment, public-private partnerships for rollout, and privileged market access.[65] However, despite both acts addressing competitive challenges in the same industry sector, they are not the product of coordinated transatlantic

62 Hillman & Tippett, 2021

63 Brattberg et al., 2021

64 Hillman & Sacks, 2021

65 European Commission (2022b). European Chips Act; White House (2022b, August 9). FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China.

efforts. While both acts aim to increase supply chain resilience, international cooperation with partners in the case of supply disruption, economic and national security, it remains unclear how the transatlantic partners will work together. Both acts encourage transatlantic coordination in principle but fail to lay out concrete mechanisms to avoid a subsidy race to the bottom and to coordinate on countering other countries' efforts in the space.[66] Future efforts must include prior consultation between the transatlantic partners and should make space for coordination mechanisms throughout the policy implementation process to prevent weakening the Western economic position relative to China.

A related issue stems from the negative impact Chinese global investment can have on liberal international standards concerning the environment, governance, labor, and technology. By offering infrastructure loans without conditions and accountability mechanisms, Chinese BRI investments lower the bar for recipient countries to advance projects in a green and socially sustainable manner. The Port of Piraeus, where workers raised concerns about COSCO's push for subcontracted labor, provides just one example of the company's lack of concern for worker safety.[67] The absence of environmental impact assessments increases pollution and contrasts the EU's commitment to the green transition.[68] By not being similarly present in emerging digital markets like 5G, American and EU actors leave this under-regulated space to Chinese players who promote their model of technology-enabled authoritarianism. Similarly, the absence of international standards that curtail governments' ability to use technology enhancing surveillance and without policies addressing cyber espionage creates long-term risks to data privacy and security.[69]

Lastly, the nature of BRI investments into infrastructure creates security concerns. The European Commission highlighted these in its 2019 EU-China strategic outlook stating that "foreign investment in strategic sectors, acquisitions of critical assets, technologies and infrastructure in the EU, involvement in EU standard-setting […] can pose risks to the EU's security. This is particularly relevant for critical infrastructure, such as 5G that will be essential for our future

66 Timmers, P. (August 9). How Europe aims to achieve strategic autonomy for semiconductors. Washington, D.C.: The Brookings Institution.

67 Saeedy, 2018

68 Brattberg et al., 2021

69 Kurlantzick, J. (2020, December 17). China's Digital Silk Road Initiative: A Boon for Developing Countries or a Danger to Freedom?

and need to be fully secure".[70] It will be critical to institute countermeasures as these can help protect elections from interference, guard sensitive data, secure access to global trading and secure the continent militarily. In the absence of such countermeasures, the U.S., too, faces policy risks associated with reduced ideational power of key democratic allies amid global authoritarian rise, cybersecurity of American data in Europe, access to international shipping and homeland security.[71]

## 2.3 **European Reactions to the BRI: Domestic and EU-Level Discourse**

Although a multitude of project- and issue-specific reactions to BRI investments have occurred in broader Europe and among EU member states, no unified approach has been devised or practiced. Increasingly, critical debates are emerging at the national, but also at the EU level. Some important national reactions could be seen in response to the 2018 Chinese takeover of German mechanical engineering company *Kuka* or the 2019 Italian signing of a Memorandum of Understanding which made the country become an official part of the BRI. More European and EU-level reactions have emerged with regards to more far-reaching issues such as the *EU-China Comprehensive Agreement on Investment (CAI)*, and the rollout of 5G infrastructure through Chinese vendors.

With regards to national reactions, the takeover of *Kuka* stands out as an example of far-reaching debates about and national-level policy responses to Chinese economic influence in Europe. As a company engaged in robotics, the takeover of *Kuka* presents an opportunity for Chinese operatives to access the growing market for future-oriented key technologies related to Industry 4.0, the Internet of Things, and industrial use of robots. The takeover was perceived as a strategic threat to Western economic interests associated with long-term direct and indirect national security implications. These relate to future economic security, semiconductor industry competitiveness and potential acquisition impact on relative military position in the world. As the acquisition was negotiated, concerns were expressed from different political entities in Germany and at the EU level. While the Federal Ministry of Economics advocated for the consideration of alternative European

70 European Commission, 2019, p. 9

71 Homeland Security (2021). DHS Strategic Action Plan to Counter The Threat Posed by the People's Republic of China. Defending the Homeland in the Era of Great Power Competition.

offers, an EU Digital Commissioner voiced support for the idea that one of the other major shareholders could step up.[72]

Once it was clear that the takeover could not be prevented because business interests overrode political concerns that could not be sufficiently backed by legally enshrined government capabilities, the German government began a policy effort to address such situations in the future. What resulted were stricter rules concerning the types of industries and businesses that required prior government authorization before being sold to foreign actors. Examples of companies that fall under this newly amended provision cover the realms of software, energy, and telecommunications. Beyond that, the ownership stake for which government approval would be required in the case of foreign investments was reduced from 25% to 10%.[73] This example illustrates that governments are increasingly perceiving Chinese economic reach as threatening and that a policy environment favorable to regulation is emerging. It also shows that traditional definitions of critical infrastructure should be rethought and that related policies should address industrial sectors which are likely to become critical in the future. However, the *Kuka* case also highlights that policymakers have limited impact on private company takeover decisions even when national security interests are at stake.

Another case in point is the domestic reaction to Italy's Memorandum of Understanding with China, which made the country become an official partner of the BRI. The Memorandum established cooperation in the areas of policy dialogue, transport and infrastructure, trade and investment, finance, people connectivity, and green development. Without legally binding and specifically associated projects, the signing of the document nevertheless caused great criticism within the coalition government and among domestic opposition forces, which led to the Draghi government distancing itself from China.[74] Although no comparable policy responses have resulted as in the *Kuka* case, it is noteworthy that no new infrastructure projects have materialized. This might be partly due to relative political instability in Italy, which has led to frequent changes in political direction over the past three years but is also the result of a pragmatic Italian China policy. As part of this policy, somewhat positive relations with China are

72 Wrage, C., Kullik, J. (2022, July 21). After Kuka – Germany's Lessons Learned from Chinese Takeovers.

73 Braw, E. (2019, October 7). Cutting-edge tech takeovers are a strategic threat to the west.

74 Hong, X. (2021, December 20). Italy Changes Track: From the Belt and Road to (Re)Alignment with Washington. Rome: Instituto Affari Internazionali.

maintained while Italy also retains its role as a liberal member of the EU through joint condemnations of human rights violations.

Concerning EU issue-based responses, the failure to ratify the Comprehensive Agreement on Investment in the European Parliament after seven years of negotiation represents an insightful example of the current EU-China relationship. The agreement that was meant to open the Chinese internal market to EU companies while also creating conditions for EU FDI protection in China was frozen and not even put out for ratification. Due to Chinese sanctions against EU lawmakers who have been critical of the country's human rights record with regards to the Uygur minority, the European Parliament overwhelmingly voted against even considering closer economic relations with China. While the agreement is not fully off the table, this decision indicates a parliamentary desire to lead with democratic values when it comes to relations with China, even on issues like trade.[75]

Although not directly related to BRI projects, the opposition to the agreement further implies growing European concern about its economic relations with China. Since the agreement has long been a source of tension in the EU's relationship with the United States, the freezing of its ratification process could over time lead to a full rejection in favor of a unified transatlantic counterapproach to the BRI. However, alongside the above examples, this case illustrates the isolated and uncoordinated nature of past reactions to the BRI.

75 Lau, S. (2021, May 20). European Parliament votes to "freeze" investment deal until China lifts sanctions.

# 3. The Case for Countering Economic Dependence on China: The War in Ukraine & Learnings from European Energy Dependence on Russia

While issues of economic dependence on China through the country's investments in European critical infrastructure are only slowly gaining more attention, it is the stark case of European energy dependence on similarly non-liberal Russia that policymakers should draw lessons from. Although the European dependence on Russia is quite different in composition, character, and potential security consequences than the dependence on China, it nevertheless provides valuable lessons for engaging with an influential autocratic player. However, it needs to be noted that regardless of how devastating the consequences of such a dependence can become, it seems nearly impossible for China to fully close its market to Europe the way Putin can cut off Russian gas supply. The interdependence is simply too strong, far-reaching, and economically important for any one side to fully disengage, be it for political or security reasons. Particularly because the Chinese Communist Party's unchallenged domestic leadership is based on the promise to maintain economic growth and stability, it is in the Chinese government's interest to ensure the efficiency of global markets.

Similarly on the European and American sides, it is in policymakers' interest to continue economic engagement with China as the world's largest market through which most global supply chains pass. Therefore, the case for countering economic dependence on China is about diversifying Western economic ties beyond China for which the need became shockingly evident during the COVID-19 induced shortage of PPE equipment mostly produced in China. It is also about protecting European critical infrastructure from foreign interference and thereby safeguarding national and EU sovereignty in realms associated with national security matters such as defense and public health. The Russian gas supply example is nevertheless relevant because it exemplifies the consequences that over-reliance on any one authoritarian foreign actor can have in the realm of critical infrastructure. The objective of this comparison is to derive lessons from the worst-case scenario that is playing out through the European energy crisis to prevent potentially even more devastating consequences from Chinese ownership of European critical assets.

As Europe's largest gas supplier accounting for a supply of **185 billion cubic meters** or about **36%** of Europe's total gas demand in 2020[76], Russia had long been seen as an attractive supplier with abundant resources and established transport networks.[77] Country-level dependence varied leading to some countries like Germany, which prior to the invasion imported **55%** of its gas from Russia, being more vulnerable to supply shocks than others.[78] With the Russian invasion of Ukraine in February 2022, this theoretical vulnerability became a real-world problem as the EU decided to reduce its Russian gas imports by two-thirds until the end of the year.[79] Over the course of 2022, Putin responded with temporary shutdowns of several pipelines connecting Russia with Europe, thus sending shockwaves to economies around Europe that were mostly unsuccessfully scrambling to find alternative sources. The Russian government was further suspected of deliberately sabotaging the key Nord Stream pipelines in the Baltic Sea, which likely left both dysfunctional.[80]

This case illustrates how critical infrastructure and reliance on external, authoritarian players can be used as a political and even war tool, which, if effective, could lead to reduced independent decision-making capability of liberal democracies. By cutting gas supplies, Putin is increasing pressure on European countries whose economies are heavily dependent on the valuable resource. Through temporary supply cutoffs and the likely commitment to a complete gas stop, Putin is trying to increase fear in recipient countries, which he hopes will lead to growing domestic opposition against further support of Ukraine. As the war is largely continuing because of the many brave Ukrainians that are unwilling to give up while being aided by an unprecedented scale of external weapons and other forms of military support, having other countries reduce their support of Ukraine could create a turning point for Putin's Russia. Such a turning point would likely lead to a swifter end of the war than currently projected. It could turn Russia into the victorious party and enable international acceptance of a status quo in which the country could despite the bloody and illegal annexation of at least parts of Ukraine be recognized as an economic partner. Even if Russia cannot reach its aim of reduced Western support for Ukraine, concessions with regards

76 Corbeau, A.-S. (2022, March 14). How Deep is Europe's Dependence on Russian Oil? New York: Columbia Climate School.

77 Washington Post (2022, July 12). How Europe Became so Dependent on Putin for Its Gas.

78 BBC News (2022, September 5). Nord Stream 1: How Russia is cutting gas supplies to Europe.

79 Washington Post, 2022.

80 Hernandez, A., Duxbury, C. (2022, September 26). Sweden and Denmark say Nord Stream pipeline blasts were deliberate attacks.

to sanctions relief could reduce Putin's risk of large-scale domestic opposition in Russia against the war. In this context, European dependence on Russian gas supply can be considered Putin's strongest economic weapon which has a legacy of being used to ensure more Russia friendly European policymaking as the gas wars of 2006 and 2009 illustrate. In both cases, Russia reduced gas supply to the EU to ensure that Ukraine paid its outstanding debt.[81]

Gas dependence on Russia has far-reaching consequences for the European economy and has made it hard to craft a quick and coordinated transatlantic response to Russian breaches of international law. With the current complete gas supply stopped, Europe has to severely reduce energy consumption amongst both private households and industry, which is likely to trigger a recession in the entire eurozone. Other negative side effects related to reduced industrial activity include but are not limited to higher unemployment, increased global supply chain disruptions, and reduced GDP levels in the EU.[82] The implications of Russian gas dependence for the European economy are potentially devastating and worst-case scenarios are becoming more likely as the Russian invasion of Ukraine continues. To mitigate the impact of further Russian powerplay with its gas supply, it is of pivotal importance that European energy sources continue to be diversified as quickly as possible. However, a lot of valuable time has been lost and few opportunities to avoid greater economic damage remain. Recognizing that giving in to Russian pressure is not an option for European democracies, the only available option is to work on lessening the economic impacts on Europe while deriving valuable lessons from this case to avoid future dependencies on authoritarian regimes.

Among the learnings policymakers should take away from the post-war implications of European gas dependence is the need to see economic partner countries governed by authoritarian regimes for what they are: self-interested, repressive, brutal entities that at least partly rely on external economic returns as means to finance internal and outward-facing policies which help authoritarian leaders bolster their standing and accumulate personal wealth while undermining the interests of the civilian population. This realization must go together with the commitment to avoiding strong one-way dependencies that make liberal democracies vulnerable to erratic behavior on the other side.

81 Hall, S. (2022, August 31). How Russia is using gas as a political tool to win support for the Ukraine war.

82 Capolongo, A., Kühl, M., Skovorodov, V. (2022, August 9). Cold winter ahead? Implications from a Russian gas cut-off for the euro area. Luxemburg: European Stability Mechanism.

Key to achieving this objective is to make interruptions to the agreed-upon terms of trade equally costly for the other side. As in the case of economically powerful China not engaging at all would create economic disadvantages for the entire world economy, this objective should be top-of-mind for transatlantic policymakers. Beyond that, and wherever possible, sources for resources that keep critical infrastructure operational need to be diversified so that supply shocks induced by one of the resource partners do not have as grave consequences as they have in the case of some European countries particularly dependent on Russian gas. Equally, it is important to protect critical infrastructure by preventing it from falling into the hands of foreign powers, whether democratic or authoritarian. That way a maximum degree of control over potentially crucial aspects of a country's or in the case of the EU, a bloc's defense mechanisms against malicious attacks by foreign adversaries can be retained.

Had the EU, and particularly Germany, been more careful about limiting reliance on Russia, the eventual invasion of Ukraine could have been made much more costly. While it is unlikely that the invasion could have been prevented given Putin's desire for restored empire, preparation and response time could have been gained. However, since the EU response following the 2014 annexation of Crimea was characterized by reluctance to impose far-reaching sanctions, the Russian leader felt empowered to further his ambitions in Ukraine. Had crippling sanctions been imposed, and had Germany refused to move forward with the for Russia extremely lucrative Nord Stream 2 pipeline, Putin would probably not have invaded so quickly. This would have given the Europeans more time to diversify their energy supply, speed up the green transition and to counter disregard of the international order. It would have made relations to its transatlantic partners, particularly to the U.S. more amicable, which could have ensured credibility for the narrative of Western liberal democracies sticking together in face of authoritarian challenges to peace and national self-determination.

The West cannot afford to repeat the mistakes of the past, which have at least partly caused the economic fallout as a result of Russia's invasion of Ukraine, in the relationship with China. While China has not yet taken equally far-reaching military steps with regards to Taiwan, the country's focus on building support for its policy goals while reducing potential criticism of the regime through BRI-affiliated projects presents a dangerous long-term threat to the value-based liberal world order. All transatlantic partners should therefore see the BRI as a tool that aims to influence countries' strategic decisions in a China-friendly manner, which should be understood as an existential challenge to cohesion and unified policymaking of Western liberal democracies and they should craft a coordinated, impactful response to reduce vulnerability to the BRI's risks on the European continent and beyond.[83] Russia, which Barack Obama in 2014 called a regional and not a world power, is not as economically intertwined with the world economy as China is.[84] In comparison between the two and as described in the 2022 U.S. National Security Strategy, China is the only international player "with both the intent to reshape the international order and, increasingly, the […] power" to do so, while Russia is regarded as a more immediate, but short-term threat without capabilities to out-compete the U.S. in the long-term.[85]

With this key difference between Russia and China in mind, countering Chinese influence and strategic dependence now is just as important as protecting against military aggression by China because the country's economic position is unlikely to be met with the same degree of sanctions and weapons support as in the case of Russian aggression. There is time to wake up and to take on China in its covert operation to influence public opinion favorably while increasing strategic dependence through ownership of critical infrastructure. It appears that with the invasion of Ukraine and detrimental impacts on European energy security, the transatlantic partners have unique momentum to stand up for their values.

83 Rolland, N. (2019, April 19). A Concise Guide to the Belt and Road Initiative. Washington, D.C.: The National Bureau of Asian Research.

84 Holland, S., Mason, J. (2014, March 25). Obama, in dig at Putin, calls Russia "regional power".

85 White House (2022a). Biden-Harris Administration's National Security Strategy.

# 4. The State of Transatlantic Relations: Momentum for Coordination and Imperative for Action Amid the War in Ukraine

Not only has the EU exhibited limited reactions to the BRI's presence in Europe, but recent years were also characterized by worsening transatlantic relations with Trump withdrawing from international agreements and portraying America's European allies as foes. With President Joe Biden, whose foreign policy stance is perceived as embodiment of old-school, nostalgic Atlanticism, the question becomes: how much momentum is there for a coordinated response to China and its ambitious foreign policy endeavors?[86] For Europeans, President Biden signifies a moment in which grievances can be overcome, mutual respect can be enshrined, and transatlantic policymaking is enabled.[87] On the other side, Americans should not take European policy alignment for granted, especially due to European sentiment that considers America "politically broken and likely to soon be overtaken by China".[88]

However, Putin's invasion of Ukraine has been a turning point that led to almost unprecedented transatlantic coordination regarding condemnation of the invasion, sanctions, and weapons support. That the Europeans, and particularly Germany, long criticized for free riding under the U.S. security umbrella, are finally increasing their defense spending also creates a more favorable environment for transatlantic coordination. In this context, the current moment of transatlantic unity presents a unique opportunity for reviving the alliance and for countering China. Nevertheless, differing perceptions of China on opposite sides of the Atlantic remain and need to be addressed in order to craft a coordinated and efficient policy response to the BRI.

While the U.S. perceives responding to China's foreign policy assertiveness as a priority given U.S.-Chinese competition, the EU is also increasingly realizing the

86 Barkin, N. (2021, November 3). Closing Window: Transatlantic Cooperation on China under Biden. Washington, D.C.: The German Marshall Fund of the United States.

87 Karnitschnig, M. (2020, November 8). What Biden means for Europe.

88 Krastev, I., Leonard, M. (2021, January 19). The crisis of American power: How Europeans see Biden's America. Berlin: European Council on Foreign Relations.

need to defend its values, respect for human rights, and international security.[89] Accordingly, the EU Commission's diplomatic language as exemplified in the Commission's 2019 strategic outlook has hardened. European leaders referred to this sentiment by insisting on their strategic autonomy in foreign policy questions. Although the concept of strategic autonomy first gained traction in response to the Trump administration's comparatively hostile approach towards the U.S.'s European allies, it truly proved to be here to stay with the Commission's re-assessment of China's role for the EU. With Xi Jinping's support for his close ally Putin in light of the war in Ukraine, and as EU leaders have become more outspoken in their criticism of Xi's complicity with Putin's war, the American-European rift on China is on track to be eased. Therefore, one should expect more EU-U.S. policy alignment at least for the remaining Biden years.[90] With increasing convergence on the recognition that China presents challenges to the transatlantic partners in technology, trade, investment, and global governance, and the creation of the *U.S.-EU Trade and Technology Council* offers hope for future cooperation.[91]

Considering the risks resulting from the BRI, there is political will to draft a common policy towards China. However, due to reciprocal frustrations with the respective partners, it will be difficult to match expectations and let actions follow. With the pressing nature of a response to growing Chinese assertiveness in foreign policy and considering the feasibility of a coordinated multilateral EU-U.S. response, the question will be whether alignment on policy priorities can be achieved fast enough to defend democratic values, governance, and human rights protection. However, due to current transatlantic dynamics, one can see clear momentum for coordination under a multilaterally minded Biden administration favoring coalition building to confront China, it will require the EU to achieve consensus among members that view Chinese geopolitical expansionism in more favorable terms and those that are critical of it.[92]

A proactive transatlantic approach towards Chinese infrastructure investments in Europe necessitates that policymakers divert some of their attention away from the ongoing war in Ukraine to holistically meet the dual, yet largely independent challenges posed by Russia and China at the same time. Given Russian atrocities

89 Barkin, 2021.

90 Schuman, M. (2022, September 26). China's Mistakes Can Be America's Gain.

91 Carrai, M. A. (2021). China's role in transatlantic relations: Time for a new strategy. Singapore: Hinrich Foundation.

92 Dempsey, J. (2020, December 10). Judy Asks: Is Europe Ready to Work With the United States on China?

in Ukraine, particularly those targeting civilians, and considering the escalating scale of aggression, this will be a challenging endeavor. Therefore, it will be pivotal to address risks arising from Chinese investments in European infrastructure without undermining efforts to support Ukraine. One possible way to approach the issue is to connect BRI projects with China's positioning regarding the war. As a reluctant supporter of Putin, which has only in recent weeks voiced concerns about the continuing and brutal nature of the conflict, China has received a lot of criticism from both sides of the Atlantic.[93] The associated geopolitics and domestic implications of stalled economic growth matter most to China. This means that the Chinese government has an interest in ensuring Russian regime survival to limit Western geopolitical power while keen on a quick end of the war, which could allow for a quick increase in tanked economic growth levels. Stuck in a balancing act between wanting to prevent a long-term conflict and avoiding a total Russian defeat, China's position becomes an increasingly uncomfortable one, especially as violence increases and allegations of Russian war crimes including crimes against humanity gain influence.[94]

Accordingly, policymakers on both sides of the Atlantic should take action not just against Russia, but also China based on the conviction that BRI projects are representative of both countries' independent yet ideologically shared efforts to destabilize Europe and NATO through political influencing and the deepening of dependence relationships. China is not just tacitly supporting Russia's imperialist campaign in Eastern Europe, but the country is also hoping to replicate aspects of Putin's strategy of using European strategic dependencies to limit international sanctioning. It is therefore in the context of the Russian invasion of Ukraine that the transatlantic partnership is presented with a clear imperative for action: to counter the increasing political influence of China in Europe to prevent destabilization of European and transatlantic unity in view of the expansion of illiberal control over territory, resources, and international politics. With widespread transatlantic recognition of this imperative, this paper proposes furthering of the *Partnership for Global Infrastructure and Investment*, the *Global Gateway Initiative*, and the *U.S.-EU Trade and Technology Council*. In all of the above mechanisms, addressing challenges associated with the BRI should be prioritized. Moreover, work on meeting the Chinese competitive challenge should be coordinated between the mechansims to holistically meet all relevant competitive pressures vis-à-vis China at the same time.

93 Mukherjee, R. (2022, September 26). China and India weren't critical of Putin's war. Did that change?

94 Kusa, 2022

# 5. The Prospect of Promising Transatlantic Opportunities

What the international response to the Russian invasion of Ukraine has shown is that only when the transatlantic partners are acting together, can they hold authoritarian regimes like the one in China accountable to democratic standards, international peace, and global stability.[95] Beyond allowing increased leverage and capacity to respond to China's BRI, the prospect of cooperation comes with opportunities that concern creating a stable business environment, achieving progress on climate change, increasing geopolitical security, and protecting liberal values.[96] Three of the most promising developments in terms of achieving coordination on China policy are President Biden's *Partnership for Global Infrastructure and Investment*, EU Commission President von der Leyen's *Global Gateway Initiative*, and the transatlantic *Trade and Technology Council*.

## 5.1 From the Build Back Better World Partnership (B3W) to the Partnership for Global Infrastructure and Investment (PGII)

Following years of BRI expansion and the absence of similarly grand American and European projects, U.S. President Biden announced the *Build Back Better World Partnership (B3W)* in 2021. This partnership targets the infrastructure needs of low- and middle-income countries and received buy-in from G7 leaders. As part of B3W, worldwide infrastructure needs worth $40+ trillion can be addressed. Through this initiative, G7 countries and their partners are asked to mobilize private-sector capital for targeted investment in climate, health and health security, digital technology, and gender issues in the developing world. Different partner countries are to focus on different regions and the overall goal of the partnership is to advance a "unified vision for global infrastructure development" led by the USA.[97] Key tenets of B3W are liberal values, good governance standards, environmental friendliness, strategic partnerships, private capital mobilization and

95 Taussig, T. (2021). Transatlantic Action Plan: China. Cambridge: Belfer Center for Science and International Affairs.

96 Fritz, L., Wallenberg, J. (2021, June 14). Transatlantic Partnership: An Opportunity to Lead Together. Washington, D.C.: Business Roundtable.

97 White House (2021, June 12). FACT SHEET: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership.

financial multilateralism.[98] In contrast to the BRI, the B3W is designed to address ESG factors in emerging markets and represents another means within the broader strategic competition between the USA and China.[99]

Since the initial announcement of the initiative just over a year ago, little tangible and publicly communicated progress has been made. This is partly due to the Ukraine war's relative dominance in G7 foreign policy conversations as well as America's preoccupation with domestic issues including but not limited to the continuing impacts of COVID-19, inflation, and political polarization. As a result, funding has not gone into the partnership and countries in target regions such as Latin America, Asia and Africa are starting to doubt whether the partnership will provide an attractive alternative to Chinese large-scale investments. Other challenges affecting the partnership concern the lack of a concrete roadmap about sources of funding, with relatively small spending targets in comparison to the BRI, and uncertainty about economic viability in the context of record inflation rates and persistent post-COVID economic recovery challenges.[100] However, the Biden administration remains committed to the endeavor and hopes to turn the partnership into a flagship project of Biden's foreign policy.[101] Concretely, President Biden announced at this year's follow-up G-7 meeting that the U.S. would mobilize $200 billion dollars for global infrastructure projects over a timeframe of five years. Overall, the administration aims for a total of **$600 billion** to be invested by G7 countries and its private capital partners.

Given the President's domestic struggles when trying to pass aspects of his Build Back Better public investment agenda, B3W was also rebranded and is now referred to as the *Partnership for Global Infrastructure and Investment (PGII)*. Among initial investment projects are a $2 billion solar project in Angola, a $600 million effort to deliver high speed internet through a submarine telecommunications cable from Singapore to France, $50 million in support for the World Bank's Childcare Incentive Fund, and $3.3 million in technical assistance for the creation of a multi-vaccine manufacturing facility in Senegal.[102]

98 White House, 2021

99 Thompson, F. (2021, October 21). B3W infrastructure plan: can it rival China's BRI?

100 McLain Gill, D. (2022, July 28). Will the Partnership for Global Infrastructure and Investment be a Game-change in the Indo-Pacific?

101 White House (2022c, June 26). FACT SHEET: President Biden and G7 Leaders Formally Launch the Partnership for Global Infrastructure and Investment; White House (2022e, June 26). Memorandum on the Partnership for Global Infrastructure and Investment.

102 Keith, T. (2022, June 26). Biden announced a $600 billion global infrastructure program to counter China's clout.

These investments represent a good starting point for providing liberal alternatives to BRI infrastructure investments, but it remains to be seen whether the *PGII* can outperform China in terms of project delivery. To prevent funds from not achieving their maximum potential in terms of economic development contributions, it will be important to monitor project impact on an ongoing basis. This can enable ad-hoc interventions and spending adjustments should they become necessary. Part of this process will have to be the inclusion of local agencies that act as project partners on the ground and that should make implementation fundamentally different from fully Chinese-controlled BRI projects.

## 5.2 The Global Gateway Initiative

The EU's *Global Gateway Initiative* is another initiative officially launched in December 2021 which will mobilize up to **€300 billion** in investments between 2021 and 2027. The strategy aims to foster global smart, safe and clean digital, energy, transport, health, education, and research systems. Framed as part of the post-pandemic recovery efforts of the EU, the initiative focuses on promoting liberal values, standards, governance, building on partnerships among equals, improving infrastructure and scaling up private investment. By bringing together member states and the block's institutional development actors, the *Global Gateway Initiative* aims to reinforce the U.S.-led *PGII*. This becomes particularly evident when considering the overlapping challenges both efforts regard as most pressing to tackle including climate change, improving health security, increasing competitiveness, and securing global supply chains.[103]

As part of the *Global Gateway Initiative*, the EU and European financial institutions announced an EU-Africa investment package encompassing a total of €150 billion in investment. Through a focus on sustainable energy generation, safeguarding biodiversity, supporting the creation of sustainably managed agri-food systems, and improving climate resilience, the package aims to accelerate the green transition in Africa and addresses issues related to digitization, inclusive growth, health, and education.[104] Moreover, EU Commission President von der Leyen announced a €600 million investment targeting countries in Africa,

103 European Commission (2021a, December 1). Global Gateway: up to €300 billion for the European Union's strategy to boost sustainable links around the world.

104 European Commission (2022a). EU-Africa: Global Gateway Investment Package.

the Caribbean and the Pacific, which the Commission considers particularly hard hit by food insecurity caused by the war in Ukraine. This investment is to provide immediate humanitarian aid and aims to build up resilience of local food systems. Among the envisioned investments are a contribution of €45 million to UNFPA to strengthen health systems globally through the provision of sexual and reproductive health services; and a €715 million commitment to support the Global Fund's efforts to fight AIDS, tuberculosis, and malaria.[105] Criticisms of the initiative concern the by some observers perceived lacking international development mandate, the prioritization of European companies' gain over alleviating the root causes of poverty, and the absence of civil society voices and recipient countries from underlying governance structures.[106]

## 5.3 The U.S.-EU Trade and Technology Council and its work on China

Yet another transatlantic forum that can help achieve policy coordination on China is the *U.S.-EU Trade and Technology Council (TTC)*, which was created in July 2021. Set up with the objectives of promoting trade and investment, solidifying economic leadership, enabling innovation, supporting infrastructure development, and standard setting, the council is well positioned to tackle challenges arising from the BRI.[107] Through its ten working groups addressing topics such as investment screening, clean tech, and global trade, the *TTC* is focused on pivotal underlying issues that the BRI's presence in Europe creates. With regards to technological infrastructure, there is a particularly great potential for impact. To date, the *TTC* has met thrice, and the European Union has opened an office in San Francisco.[108] At its most recent meeting in December 2022, the *TTC* outlined details of its future cooperation relating to supporting resilient digital connectivity in third countries, cooperation on new technologies, semiconductor supply chains, security, and economic prosperity. As a result, several initiatives in the above realms have been launched, thus institutionalizing the *TTC's* work. Among these initiatives are information and communication technology and services projects in Jamaica and Kenya, a joint study on the impact

105 European Commission (2022c, September 24). Global Gateway: President von der Leyen announces funding for women and youth's rights, food security, fight against disease, and biodiversity.

106 European Network of Debt and Development (2022, September 14). Von der Leyen boasts of EU Global Gateway progress despite fundamental flaws.

107 European Commission (2022d, September 5). Digital in the EU-US Trade and Technology Council.

108 European Commission, 2022d.

of AI on the future of work, and an Initiative on Sustainable Trade that is tasked with identifying action areas to boost trade and investment in a green manner.[109]

The Council has made some progress in creating the conditions for long-term coordination despite increasing influence of authoritarian regimes in international affairs since its inception. At the first meeting in Pittsburgh, export controls, FDI screening, supply chain security, technology standards especially with regards to AI, and global trade have been identified as the council's five focus areas.[110] Much of the outcomes of the second meeting in Paris addressed Russia's war in Ukraine. However, commitments to achieving environmental sustainability in technology and trade, alongside efforts to improve cybersecurity also concern the Chinese challenge to the liberal order.[111] Direct references to China remain notably absent from official declarations, however, *TTC's* priorities especially concerning technological standard setting run counter to Chinese ambitions.

The Council will become an important vehicle for a coordinated transatlantic response to Chinese foreign investments and associated critical infrastructure dependence risks. Going forward, it will be important to translate the commitments on technology cooperation with the aim of countering Chinese standard setting influence into action. Among the transatlantic partners, the differing perceptions of the intensity of the Chinese challenge to liberal principles needs to be accommodated. This can be done by setting baseline expectations in one of the upcoming meetings, which can lay the groundwork for future common policy approaches targeting Chinese influence in international technology.

## 5.4 Challenges and Opportunities of Current Transatlantic Initiatives

Although details about implementation impact and cross-country coordination are pending, *PGII*, *Global Gateway*, and *TTC* represent opportunities for the EU, U.S., and even China. Once China is no longer the only large-scale global infrastructure investor, there is at least some potential for new initiatives to drive better overall

109 White House (2022d, December 5). FACT SHEET: U.S.-EU Trade and Technology Council Advances Concrete Action on Transatlantic Cooperation.

110 European Commission (2021b, September 29). EU-US Trade and Technology Council: Inaugural Meeting.

111 European Commission (2022e, May 16). EU-US Trade and Technology Council: strengthening our renewed partnership in turbulent times.

infrastructure project performance because of competitive pressures.[112] Even if this does not materialize, the increased offering of infrastructure funding sources is likely to help close the global infrastructure investment gap more quickly. In the wake of global efforts towards a low-carbon future given the challenge posed by climate change, this can encourage more environmentally friendly projects that support the need for urgent action on climate change risk mitigation.

Moreover, the creation of alternative global infrastructure initiatives and technology promoting bodies helps the U.S. and the EU increase its international soft power and narrative influence. It does so as the EU, although already a contributor to global connectivity, faces limited visibility for its efforts in the realm. By funding infrastructure projects in a more sustainable, democratic, and greener way, the EU and U.S. can provide a challenge to China's anti-Western investment philosophy while supporting human rights advancement in target countries and beyond.[113] This can contribute to increased credibility and strengthened influence in multilateral institutions. By no longer leaving parts of international standard setting to China, the EU and the U.S. are better positioned to shape global norms and uphold the international rules-based order which Putin is challenging with the invasion of a sovereign neighboring country.

*PGII*, *Global Gateway*, and *TTC* further American and EU strategic interests in digital infrastructure, post-pandemic recovery, climate resilience, global public health infrastructure, supply chain security and trading. Through investment in these areas, the EU and the U.S. can protect their long-term international trading interests, ensure domestic competitiveness, increase preparedness for global health emergencies and pave the way for long-term economic prosperity.[114] Given the U.S.-China competition for global influence, it is especially the existence of the *PGII* that can create relative gains in influence of a liberal worldview, which can help enhance the EU's global appeal. China's critically received threats of military aggression towards Taiwan, and over-confidence in negotiations over a security and economic pact with Southern Pacific nations, have helped create a unique opportunity to challenge China's predominance in global infrastructure

112 Lu, J., Myxter-lino, E. (2021, October 14). Beyond Competition: Why the BRI and the B3W Can't and Shouldn't be Considered Rivals. New York City: Rosa Luxemburg.

113 Mardell, J. (2021, October 12). Global Gateway – the European Union's new connectivity strategy. Berlin: Mercator Institute for China Studies.

114 Huiyao, W. (2021, December 1). Build back better vs belt and road: to improve infrastructure, competition must yield to cooperation.

investment.[115] As the country finds itself in a relatively weaker international position, the transatlantic partners are well-positioned to ride on the current wave of relative disillusionment with China, which can lead to regained narrative power of the concept of liberal democracy around the world.

Lastly, the *PGII*, *Global Gateway Initiative*, and the *TTC* are likely to create domestic payoffs in investor countries that include positive contributions to economic growth and job creation, which can help mitigate some of the negative impacts from rising global inflation and the post-COVID-19 recovery. Such payoffs can be indirectly achieved because of improved global connectivity and efficiency gains in global supply chains. They can also be directly achieved due to involvement of transatlantic companies in project coordination, investment management and on-the-ground implementation.

Although there is a plethora of opportunities, there are also challenges to mitigate. The first relates to political conditionality and the relatively lesser appeal of initiatives that impose political conditions on recipient countries. Especially in developing countries that have limited accountability structures in place, possess a legacy of corruption, and where parts of the population express anti-Western sentiment, this can be problematic. To many countries in the Global South, it will seem more attractive to receive BRI investment due to the existing economic and political constraints on the ground. By contrast, receiving infrastructure investments through the *Global Gateway Initiative* or the *PGII* will either explicitly or implicitly be associated with certain transparency and environmental standards that might prove challenging to keep up with. To ensure that transatlantic investments are perceived more favorably than those associated with Chinese BRI efforts, it will be crucial to establish a positive track record early on. To achieve this, policymakers on both side of the Atlantic should dedicate resources to in-depth project implementation monitoring and put in place continuous impact assessment efforts as learned from Beijing's mistakes committed throughout the BRI's implementation: project delays or cancellations, an overemphasis on investor country benefits, and recipient country debt concerns.[116]

Another challenge relates to the U.S. and Europe being late movers, thus making it harder to establish credibility in the fields of international infrastructure

115 Schuman, 2022

116 Knowledge at Wharton (2019, April 30). China's Belt and Road Initiative: Why the Price Is Too High. Pennsylvania: Wharton School of the University of Pennsylvania.

investment and technological standard setting. Considering that under President Trump the U.S. lost credibility as a reliable international partner, the U.S. will have to dedicate extra time and resources to persuading leaders about their commitment to the long-term success of its global investments. This could imply proactively reaching out to allies to discuss longer-term binding timelines for cooperation projects that are so institutionalized that they are likely to persist beyond the current administration's term in office. The attractiveness of EU-U.S. infrastructure investments is further limited by Chinese firms' relative competitive advantage in some project areas such as transport and power, which largely arises due to years of practice that the EU and US do not yet possess.[117] Therefore, it will be crucial to invest in capacity building in these areas and to actively work together with private sector companies that have a proven track record of efficient infrastructure development implementation.

With both the EU and the Biden administration having announced and at least partially implemented initiatives, it will be crucial to ensure transatlantic coordination to prevent overlap and guarantee value-alignment in project delivery. While the *TTC* already presents a viable forum for such coordination in the technology space, it remains to be seen how the partners' differing views on issues such as data privacy will play out. Only when the EU and U.S. coordinate, can challenges be actively addressed, and a common narrative built. The risk of inefficient use of financial resources can also be mitigated. Efforts to coordinate were re-stated in the EU's official launch paper that announced the *Global Gateway Initiative*. However, this was done in very broad terms and no clear structure for monitoring that the efforts are indeed concerted with the G7 commitment to Biden's infrastructure partnership have been revealed nor put in place. In the months ahead, it will be important to institutionalize transparent and manageable processes for coordination between both projects.

Lastly, another challenge relates to opportunity costs created because of the G7 and EU focus on global infrastructure investment, which are particularly noteworthy in the context of Putin's ongoing challenge to world peace and national self-determination. By dedicating many of the limited financial, planning, and staffing resources of implementing countries to the roll-out of the *Global Gateway Initiative* and the *PGII*, the ability to holistically address Putin's attack on the

117 Lu & Myxter-lino, 2021

liberal order is somewhat curtailed. To limit the scale of opportunity costs, it will be important to present the investments as a longer-term effort that help reduce risk of authoritarian overreach, and that are part of a broader anti-Putin and anti-authoritarian strategy. Importantly, it should be clearly communicated that ending the Russian war in Ukraine remains foreign policy priority number one for the transatlantic partners. Accordingly, efforts and resources should be allocated in such a manner that global infrastructure development is perceived as a key component of the foreign policy agenda while efforts against Russia are prioritized in the short-term.

# 6. Policy Recommendations

The challenges that transatlantic partners face in wanting to counter Chinese economic and geopolitical influence are daunting. However, there are important ways in which they can and should be addressed at this present moment of transatlantic cooperation. This report offers the following recommendations in EU & US policymakers:

## Reducing EU Economic Dependence and Dependence for Critical Infrastructure:

1. **Diversify EU economic ties while recognizing that imposing sanctions on China for international misconduct would have crippling economic effects for all players involved.**

   This implies not denouncing European entities and EU member states with deeper trade relations to China and instead taking a more pragmatic approach. Such an approach recognizes China's rise as a fact of life that cannot be escaped and that can be mitigated in terms of continental impact through deepened trading relations with traditional and new partners. Some of the traditional trading partners with which ties should be deepened include the G7 countries and the transatlantic partners. As part of the deepening with these partners, more far-reaching free trade agreements should be negotiated, especially in the case of U.S.-EU relations as no such agreement exists despite the EU being the U.S.'s largest trade and investment partner. Such agreements are to remove existing tariffs, customs procedures and administrative burdens that represent hindrances to intensified, more mutually beneficial trade relations.

   One should furthermore consider the expansion of cross-country partnerships in research and development related to new technologies and increase opportunities for innovation-focused companies in digital, to critical infrastructure increasingly important industries to generate funding, and collaborate with industry partners in other countries. Some non-traditional countries with which the transatlantic partners and particularly the EU can consider deepening their economic ties include important Latin American economies and democracies such as Brazil or Argentina. This seems to be in line with the EU External Action

Service recently re-launching its partnership with Latin America and the Caribbean.[118] In this context, some levers to pull include increasing the amount of FDI spent in the region, or the expansion of climate change and digital technology addressing investments. Other partners to consider diversifying economic ties through include but are not limited to growing economies, populous countries and/or emerging democracies in Africa such as Kenya, Nigeria, and South Africa.

2. **Increase the EU's authority with regards to member state level infrastructure investment projects and foreign bids to improve bloc-internal coordination and unified advancement of economic de-coupling goals related to China.**

One of the greatest challenges to implementing a unified approach towards China is member states' differing engagement levels with the country. Being cognizant of the reality that most members tend to protect their political autonomy vis-à-vis the EU consultation with EU bodies prior to receipt of foreign infrastructure investments should be made more desirable and standard process.

While it might be hard to formalize a direct and compulsory role for the EU in member state processes related to foreign investment, encourage members to voluntarily reach out as they consider EU guidance on the matter helpful. For this to become a widely accepted belief, EU policymakers should focus on creating in-depth investment review processes which co-exist alongside the EU toolbox for risk assessment. The processes should be grounded in factual knowledge of security experts, policymakers, and private sector partners active in critical infrastructure.

As this is not a sufficient condition for member state buy-in, consultation of EU bodies when making infrastructure investment decisions could also be associated with incentives such as preferential access to a potential follow-up mechanism to the *Next Generation EU Pandemic Recovery Fund*. This access can entail receiving some monetary support that could replace the foreign investment through an actor like China, but it can also mean access to a network of business partners and institutions, which can lead to new EU-internal investment offers.

118 Borrell, J. (2022, October 28). Re-launching the partnership between the EU and Latin America and the Caribbean.

3. **Focus EU-internal efforts on value-based rapprochement of Central and Eastern European economies with the rest of the EU to meet external authoritarian challenges to unity.**

While a challenging and long process, this is at the heart of enabling a unified, strong EU response to Chinese assertiveness. Countries like Hungary that have been more receptive to Chinese investments and the associated authoritarian rhetoric need to be brought along to craft an effective, unified response to the BRI. Such a response is to be achieved by reference to European values, which will not be a sufficient condition for such a rapprochement but a first step. By framing EU engagement with its more China friendly Eastern member states in the context of Chinese support for Russian ambitions in Ukraine, these countries are to be reminded about the crucial role China plays in undermining their Ukrainian brothers' and sisters' ambitions for self-determination.

Considering that soft-spoken EU appeals to remember at least formerly shared democratic values have for long failed to make a difference in some member states in which populists rose to power, it is also important to apply some political carrots and sticks. With regards to punitive stick-like measures aimed at coercing a government like the Orbán government into closer EU cooperation, one could think of the EU Commission temporarily withholding funds to the country, as has already been proposed in connection to concerns about the state of democratic norms and the rule of law in Hungary. This could also be done in the case of possible new infrastructure investments by China and BRI takeover of critical assets without plans for a competitive bidding process. The carrots that the EU could provide in case of improvement and re-consideration of ties with China could free up previously withheld EU funds or increase some of them. Since the Russian war on Ukraine has so far proven to be a unifying moment for particularly Eastern European economies in opposition to authoritarian, expansionist regimes, momentum for a more assertive European response appears to be on transatlantic policymakers' side.

## Increasing Geopolitical Influence of Western Alternatives to the BRI:

1. **Learn from Chinese mistakes related to failure to deliver and angering local communities in implementing projects of the *PGII*, *the Global Gateway Initiative* and *the Trade and Technology Council* while committing to achieving international buy-in for Western infrastructure investments through superior project quality.**

   Recognizing that quality has made private sector companies industry leaders and enabled many of them to retain their competitive position despite lower-cost challengers, this recommendation focuses on the need to outperform China on infrastructure delivery. The context of many of China's BRI projects never materializing, either due to cancellations, hurdles in project delivery or other reasons for delays can be helpful for the transatlantic partners. A key lesson that should be taken away from it is that one should be careful not to overpromise. Therefore, the advice for project implementation associated with the *PGII*, the *Global Gateway Initiative*, and to a more limited extent the *Trade and Technology Council* is that projects should only be started when sources of funding have been identified for the entirety of the planned time horizon, companies for rollout have been selected according to a competitive and complex selection process, and sufficient local buy-in exemplified through the involvement of civil society groups, local authorities and wherever possible local implementation partners have been achieved.

   Considering that many BRI projects have received criticism for the potentially harmful impacts they create for local communities and the environment, it is also important that the proposed Western infrastructure mechanisms consider ESG factors along all steps on the way from project planning to implementation. This could be done by having external ESG auditors partner with the above proposed counter-initiatives to the BRI and provide advice in their foundational years for devising an ESG-conscious project selection and rollout framework that regardless of project focus will be relevant and needs to be considered. Apart from helping set up general frameworks applicable to all projects, ESG partners could also help create processes for continuous monitoring of project impact, which are informed by specialized knowledge in environmental, social, and political impact assessment.

What would help further the green and sustainable agenda for global infrastructure delivery that lies at the heart of the by the EU and G7 counter-initiatives to the BRI would also be to have an ESG-focused internal team that could take the role of an advisory body for initiative leadership. With such a team's input in addition to other ongoing project monitoring processes, quick adjustments to project implementation could be made and the liberal, sustainable agenda upheld. Through the institutionalization of the mandates of these agents and processes, superior project quality can be delivered, which should be capitalized on by highlighting particularly high-quality projects with desirable ESG impacts as North Stars early on.

2. **Establish distinct roles of the *PGII*, the *Global Gateway Initiative* and the *Trade and Technology Council* for crafting transatlantic policy responses to the Chinese geopolitical challenge.**

To prevent overlapping responsibilities and confusion in both the policymaking and implementation process of the proposed transatlantic initiatives and coordination mechanisms, each of them needs specifically defined competence areas. While from a case-to-case basis it might become possible that an issue might lie in the competence area of more than just one of these mechanisms, in day-to-day operations this should be avoided whenever possible. Some ways to go about allocating differing responsibilities between the *PGII* and the *Global Gateway Initiative* is to divide competence according to geographic focus and industry of project. With similar agendas related to the promotion of green infrastructure, clean energy and digital connectivity, similar industries are targeted, and it therefore appears that dividing up by geographic region is most feasible.

Therefore, it is advisable that the *PGII* with the U.S. as its leading nation focuses on regions that the country already has strong business ties to, such as Latin America and Asia-Pacific. Similarly, it makes most sense for the EU to focus on European, African and some Asian geographies. In the case of Asia, one should consider splitting competence between the *PGII* and *Global Gateway* on a project-by-project basis. While this does not imply that not everyone can be everywhere, it should be clearly communicated that the objective is not to define spheres of influence but to improve coordination and project efficiency. In the long run, it might be worth thinking about merging the two initiatives and previous coordination on a project-by-project basis could pave the way. The role of the *Trade and Technology Council* in relation to the outlined infrastructure delivery initiatives should be one focused on the provision of external advice for ensuring more secure international supply chains and establishing technological standard setting influence. Its mandate should be extended to broader coordination with other G7 countries that are behind *PGII* and entail an advisory role for the *EU's Global Gateway Initiative*.

3. **Encourage private sector participation in all aspects of the *PGII* and *Global Gateway* investment processes including project selection, prioritization, implementation, impact monitoring and effectiveness assessment. Also give industry a special advisory role for the *Trade and Technology Council*.**

Since the bulk of capital for global infrastructure investment is to originate in the private sector, businesses and industry associations need to play an active part in the policy conversation. To ensure value-alignment and to prevent communication difficulties regarding time horizons, direct lines of communication with explicit engagement opportunities should be established. In practice, this means that private sector actors should become part of the infrastructure investment selection process by having the initiatives allow the formation of some sort of advisory council, that while not equipped with ultimate decision-making power, can provide valuable guidance to policymakers about feasibility, cost, time horizon and potential project impact.

A similar formalized advisory role should be devised for the private sector and industry leaders with regards to the *Trade and Technology Council*. Moreover, regular forums between private and public actors connected to the objectives of the *PGII* and *Global Gateway Initiative* should be held to give room for cross-sector learning. These forums can be valuable as they could open opportunities for knowledge sharing, which can be important to diagnosing diagnosing security risks in the industry or country early on. They could also enable responding to these in a timely manner. To create a more conducive business environment for large-scale infrastructure investment, targeted policies that encourage the private sector to spend more on global infrastructure development should be devised by the U.S. government and EU institutions, which are to be promoted through the affiliated infrastructure initiatives. These policies can include financial incentives, tax credits or the promise of publicly enabled follow-up contracts facilitated through infrastructure delivery mechanisms.

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