Europe's financial security and Chinese economic statecraft: the case of the Belt and Road Initiative

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Abstract The core of the Belt and Road Initiative (BRI) involves trillions of US\$ in investment to increase and improve connectivity between China and different parts of the world. This includes tens of billions of US\$ to build or upgrade roads, rail lines, ports, pipelines and other infrastructure to connect China with Europe. With the European continent still feeling the effects of the Global Financial and Eurozone Sovereign Debt crises, this is an opportunity to strengthen its financial security by gaining access to a new source of financing. This new source, however, is linked to Chinese economic statecraft. Thus, cash-starved Europe can tap on the recently launched Silk Road Fund, Maritime Silk Road Fund and other initiatives from the Chinese government. Concurrently, however, political divisions within Europe derived from Chinese investment, as well as normative differences in terms of standards and practices present a challenge to the continent. This article thus analyses the effects of BRI, presented as a tool of Chinese economic statecraft, on Europe's financial security. It argues that in spite of the latent challenges to said security, the potential benefits have already led many European countries to seek to tap on BRI's investment as a means to strengthen their financing position.

Keywords Belt and road · China · Economic crisis · Economic statecraft · Europe · Finance

Introduction

A decade after the Global Financial Crisis (GFC) and subsequent Eurozone Sovereign Debt Crisis (ESDC), Europe is still recovering from years of subdued economic growth

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and a severe credit crunch. Quantitative easing and other measures by the European Central Bank and the European Commission (EC), as well as other central banks and governments across Europe were essential to address the latter. Without their actions, it is very likely that the European economy would have suffered from an even greater financing squeeze than it went through.

As Europe seeks to resume strong and stable economic growth and, crucially, to prevent and solve new financial crises, it has become imperative to find new sources of financing. In fact, the GFC and ESDC have led to a bigger role for different actors in the financing of European economies. Sovereign wealth funds have invested heavily across European firms and assets. Non-European banks and firms have become active investors across the continent. Even the IMF stepped in with several bailout packages, suggesting that the Washington-based institution is now a player in the prevention and recovery from deep crises that might affect individual European countries. In short, it can be said that Europe's financial security is now tied to a wider range of actors. In other words, diversification is key to the financial security of Europe.

A recent addition to the European financing landscape is the Belt and Road Initiative (BRI). The initiative was unveiled by Chinese president Xi Jinping in 2013, with its principles, framework, priorities and mechanisms presented in March 2015 (Xinhua 2015a). The initiative was enshrined into the Chinese Constitution during the 19th Chinese Communist Party Congress in October 2017 (Xinhua 2017), during which Xi was re-elected for a further 5 years in power. Thus, BRI is very likely to remain central to China's foreign and economic policy until at least 2022 if not even further. It has become an essential component of Beijing's economic statecraft, as it seeks to gain influence with the use of economic inducements and coercive measures.

With one of its land corridors going all the way to Northern, Southern and Western Europe and the Maritime Silk Road linking Chinese ports with the Mediterranean, connecting China with Europe is essential to the success of the initiative and its usefulness as an economic statecraft tool. BRI is indeed guided by connectivity in five areas: policy communication, facilities and infrastructure, unimpeded trade, people-to-people bonds, and *financial integration* (Wang 2017; emphasis added). According to the Chinese government, financial integration entails three components. They include removing regulatory barriers to cross-border financial transactions and increasing cross-border portfolio investment, foreign direct investment and banking activity; promoting openness and connectivity among financial markets to strengthen financial infrastructure connectivity; and the opening of financial markets, including increasing market access of the banking, insurance and securities sectors, as well as strengthening cross-border supervision (Smits 2017).

Put another way, BRI seeks to promote investment links among the countries and regions involved. Crucially, the Chinese government affords a central role to the state in this area through funds and international institutions (National Development and Reform Commission of the People's Republic of China 2015). Based on China's own development experience and cautious approach to financial liberalisation, financial security and the role that state financing plays in this area underpin BRI. The question is whether the financial security of others, including Europe, is strengthened or weakened by BRI in general and by the centrality of Chinese funds to the initiative in particular.

This article will analyse the benefits and drawbacks of BRI for Europe's financial security. In order to do so, the next section will briefly introduce China's economic (and

financial) statecraft as the framework underpinning the analysis. It will then succinctly summarise the main sources of financing for BRI. Afterwards, the article will focus on the main way in which BRI supports Europe's financial security. This will be followed by a section analysing the extent to which the continent's financial security is undermined by BRI. A concluding section will summarise the key findings of the article.

The Belt and Road Initiative: a tool for China's economic and financial statecraft?

Economic statecraft can be defined as the use of economic means to achieve foreign policy goals (Baldwin 1985). Even though it is hard to prove whether economic statecraft is useful in achieving one's goals or not, it is very commonly used (Baldwin 1985). Globalisation and the concomitant increase in trade, financial, labour and communication flows has made economic statecraft very appealing to states seeking to influence the behaviour of others. It includes a myriad of tools in the areas of aid, trade, and finance to either reward or punish target states through the use of, respectively, economic inducements and sanctions (Alves 2013). In the case of finance, economic statecraft tools fall within both investment flows and monetary and currency links (Gartzke et al. 2001). The nature of finance means that interdependence defines the relationship between both parties.

By some measures, China has already become the biggest economy in the world. It is the largest trading country, one of the two largest hoarders of foreign exchange reserves, a huge provider of aid, and an increasingly important source of investment and capital. In other words, Beijing has the necessary leverage and tools to use economic statecraft as part of its foreign policy. And indeed, extant literature suggests that China has keenly used economic statecraft to pursue its foreign policy goals, especially economic inducements (Kahler and Kastner 2006; Alves 2013; Norris 2016; Reilly 2017). Beijing uses the strengthening of economic ties to change the behaviour of the target state, seeking to improve diplomatic relations (Kahler and Kastner 2006). In common with other users of economic statecraft, China may use economic statecraft in three ways: by directly linking economic ties to changed behaviour in the target state; using economic interdependence to constrain the behaviour of the target state and using economic interdependence to transform the foreign policy goals of the target state (Kahler and Kastner 2006).

It should be noted that economic statecraft results from a state's ability to control or direct the behaviour of the country's economic actors, since economic transactions are usually carried out by commercial actors rather than states strictly speaking (Norris 2016). Beijing is generally able to exercise such control—or at least influence—in areas in which state-owned enterprises (SOEs) or other state-owned economic actors such as state-owned banks or sovereign wealth funds conduct the economic transaction (Norris 2016). In other instances, Beijing might not be able to exercise economic statecraft.

China's economic statecraft is designed to exert change in the behaviour of the target state in two ways, both of which are common among countries using this foreign policy strategy. To begin with, Beijing seeks to foster links and support domestic constituencies in the target state. The hope is that these constituencies will proactively exert

pressure on their own state to implement a friendly foreign policy towards China (Kahler and Kastner 2006; Alves 2013). In addition, Beijing makes use of economic statecraft to offer reassurances and limit distrust. The idea is that the target state will be more inclined towards cooperation with China (Copeland 1999; Reilly 2017).

Europe has been amongst the targets of Chinese economic statecraft (Norris 2016; Reilly 2017; Wong 2017). Sometimes, China has sought to use coercive means to influence European countries in areas such as human rights disputes (Wong 2017). More often than not, however, Chinese leaders have made use of economic inducements to try to influence the position of target countries. In the beginning, Beijing used economic statecraft for the reassurance and trust limiting purpose mentioned above (Glen and Murgo 2007). As economic links between China and Europe have grown in size and complexity and Beijing and European countries have gotten to know each other better; however, Chinese leaders have become more focused on supporting constituencies that will pre-dispose Europe towards friendlier policies (Reilly 2017).

Most notably, in the aftermath of the GFC and ESDC, Beijing has been focusing on the use of financial inducements to shape the behaviour of target countries. China has been using foreign direct investment as a tool for political influence (Meunier 2014a; Meunier 2014b; Reilly 2017). Issues such as negotiations of an EU-China bilateral investment agreement, condemnation of China's human rights record by the UN or discussions about the granting of market economy status to China by the WTO seem to have been affected by this inducement. Meanwhile, Beijing has also been using monetary and currency links as part of its economic statecraft strategy in Europe. In particular, renminbi internationalisation and the opening up of overseas renminbi centres to achieve this goal have been used by Beijing to influence the behaviour of target states (Hall 2017).¹ Put another way, China has made use of Europe's financial security needs following the severe credit crunch suffered due to the GFC and ESDC to influence the policies of countries across the continent as well as the EU.

Chinese economic statecraft and the financing of the Belt and Road Initiative

Financing of BRI has thus far been a task for China. Financial integration might 1 day make the private sector the main financing source for the initiative, or at least an important one. Since its launch and in its early stages, however, Beijing has been the almost only source of funding for BRI-related projects. For the Chinese government, it makes economic and political sense to finance BRI. From an economic point of view, it is a means to place surplus savings and obtain a greater return on investment compared to alternatives such as buying up American debt. From a political perspective, financing BRI proves the government's commitment to this initiative and supports its economic statecraft strategy.

China has pledged to invest US\$1.25 trillion on BRI by 2025 (Shambaugh 2015). A large part of this amount will be disbursed directly by Beijing's state-owned institutions. Most notably, the Xi government has established a US\$40 billion Silk Road Fund and

¹ Renminbi internationalisation is an important component of BRI. However, it is not analysed in this article due to space constraints.

pledged US\$25 billion for the Maritime Silk Road (Shambaugh 2015). Established in December 2014, the Silk Road Fund unveiled its first investment—a hydropower project in Pakistan—in April 2015 (Xinhua 2015b). The Silk Road Fund draws its capital from the State Administration of Foreign Exchange, China Investment Corporation, China Development Bank and Export-Import Bank of China (Silk Road Fund 2017a). These and other state-owned entities are poised to play a crucial role in the financing of BRI, including state-owned banks and enterprises as well as Chinese sovereign wealth funds. Beijing has thus the ability to use them for economic statecraft purposes.

Beijing has also established partnerships with regions targeted by BRI in the form of cooperation funds. Similarly to the Silk Road Fund, financing of the cooperation funds comes exclusively or mainly from China (China-CEE Investment Cooperation Fund 2016a; China-ASEAN Investment Cooperation Fund 2017). Even though some of these funds were launched prior to BRI, all of them have been incorporated into the set of funding bodies for this initiative. In the case of Europe, a US\$1 billion-plus China-CEE Investment Cooperation Fund organised by Export-Import Bank of China targets investments in Central and Eastern Europe (China-CEE Investment Cooperation Fund 2016a).

Furthermore, Beijing has also provided US\$50 billion for the Asian Infrastructure Investment Fund (AIIB) and US\$40 billion for the New Development Bank (NDB)—out of a total initial capital of US\$100 billion each (Shambaugh 2015). In March 2015, Beijing directly linked both development banks to BRI and financial integration (National Development and Reform Commission of the People's Republic of China 2015). Beijing has stressed that both are multilateral banks in which China is one of several members (Tang 2015). However, these multilateral development banks are perceived as tools of Chinese economic statecraft—even if their initial evolution suggests that they might be status-seeking banks to be used to provide legitimacy to China's rise (Wilson 2017). Indeed, the AIIB and the NDB have signed memorandums of understanding (MOUs) with the World Bank (Rana and Pacheco Pardo forthcoming). In the case of the former, joint projects with its global counterpart have already been approved (AIIB 2017a). Focusing on Europe, the AIIB and NDB have also signed MOUs with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

In summary, Chinese economic statecraft in the area of finance in the form of investment is present in BRI. Whether in the form of unilateral, inter-regional or multilateral funding bodies, Chinese capital has been crucial in the initial stages of the initiative. Even institutions established prior to the launch of BRI are now part of the initiative's funding bodies. Chinese economic inducements in the form of the availability of capital to fund infrastructure building supportive of BRI's fivefold connectivity goal is a key feature of Beijing's economic statecraft. This includes providing funding for projects in Europe still afflicted by capital shortages.

Support from China? The Belt and Road Initiative and Europe's financial security

China is one of the largest trading partners for a growing number of European countries. In fact, China is now the EU's second-biggest trading partner, and the EU

is China's largest. Meanwhile, investment flows between Europe and China have grown significantly following the GFC and ESDC and as a result of China's 'going out' strategy—whereby Chinese firms are encouraged to invest surplus savings overseas. However, Sino-European flows have become significantly skewed towards Chinese investment into Europe since 2013 (Hanemann and Huotari 2017). Chinese investment was first welcomed, as cash-starved European countries sought new financing sources (Meunier 2014a). More recently, however, Chinese investment has proved more controversial, with accusations that Beijing is protectionist in areas of economic activity where the EU and other European countries are open to Chinese investment (Hanemann and Huotari 2017).

This is the context in which BRI-related investment takes place. Concentrating on the positive aspects of this investment, Europe's financial security is enhanced the more investment it receives and the more diversified this investment is. BRI is therefore positive in two ways. To begin with, by offering a new source of investment that is unlikely to suddenly stop. Since the Xi government is heavily promoting BRI and Xi was re-elected for 5 more years in October 2017, BRI will continue to be a Chinese priority at least until 2022.

BRI's funds and banks in Europe

Economic interdependence bestows influence if both partners to an exchange are better off (Wagner 1988). It can be argued that this is the case with regard to BRI-related investment in Europe. On the Chinese side, Beijing can mobilise its surplus savings productively and support the building of infrastructure facilitating future trade and investment. On the European side, the EU and European countries can tap on a huge pool of savings to finance projects that otherwise might not have happened or would have taken longer to build. As a result, China and Europe can develop a mutually beneficial investment relationship.

The clearest indication of the existing and potential benefits of Sino-European investment synergies within the framework of BRI is the MOU on the EU-China Connectivity Platform signed in September 2015. Its explicit purpose is to enhance synergies between BRI and the EU's own connectivity initiatives, especially the Trans-European Transport Networks (T-ETN) (European Commission 2015). Working group-level meetings have given substance to the MOU. The first meeting was held in January 2016 and resulted, among others, in the identification of transport corridors linking China and the EU, the identification of a list of pilot projects and priority actions, and the creation of an expert group on the financing options for these projects (Baron 2016). The second meeting was held in June 2017 and reinforced the previous results, while also discussing extension of the platform to other regions including the Western Balkans (European Commission 2017c).

At the same time, a working group on Investment and Financing of the EU-China Connectivity Platform has given material substance to the MOU by identifying a list of 7 (European Commission 2016) and 12 projects (European Commission 2017d), respectively, across Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Italy, Latvia, Poland, Serbia, Slovakia and Slovenia that could be financed through the platform. These lists encompass a range of infrastructure projects in Europe that, ultimately, would be at least partially funded by China.

The Silk Road Fund is the main Chinese body involved in the financing of these projects. To this end, the European Investment Fund belonging to the EIB and the Silk Road Fund signed an MOU in June 2017. They committed €500 million to the fund, with each of them contributing an equal amount of €250 million (European Commission 2017b). In September 2015, China had already become the first non-EU country to announce its commitment to the €315 billion Investment Plan or 'Juncker Plan' to boost investment across the EU (European Commission 2015). The agreement between the Silk Road Fund and the European Investment Fund provided concrete proof of this commitment.

In addition, the Silk Road Fund has also signed investment agreements with the EBRD, the government of Serbia, and with firms and funds from France, Germany and Italy (Silk Road Fund 2017a). This shows that an increasing number of European firms, governments and institutions are tapping into Chinese BRI funds to finance their own projects. Furthermore, financial integration has moved beyond the financing of infrastructure only. A case in point is the agreement between the Silk Road Fund and French financial firms to launch an investment fund focusing on industries such as technology, medical care or environmental protection (Silk Road Fund 2017b). As Europe seeks to strengthen its financial security, BRI-related funds are welcomed in a growing range of sectors.

The China-CEE Investment Cooperation Fund is another important pillar of Beijing's investment vehicles for the financing of BRI projects in Europe. The fund was established in November 2013, and counts the Hungarian Export-Import Bank as one of its partners along with its Chinese counterpart (China-CEE Investment Cooperation Fund 2016b). It has invested in infrastructure and energy projects across Central and Eastern Europe (China-CEE Investment Cooperation Fund 2016a). The fund has also served to boost mutual confidence between China and Central and Eastern European countries. Therefore, Beijing and the countries in the region involved in the 16+1 initiative launched a financial holding company in November 2016 to manage a €10 billion China-CEE Fund. Led by Industrial and Commercial Bank of China (ICBC), the fund seeks to invest in infrastructure but also other industries, such as high-tech manufacturing (ICBC 2016). The launch of the fund further highlights that Chinese BRI-related investment in Europe is moving beyond infrastructure.

Multilateral banks are another relevant component of China's BRI-related investment financing initiatives in Europe. To this end, the AIIB signed MOUs with the EBRD and EIB in May 2016 (AIIB 2016a; AIIB 2016b). The NDB followed suit with its own MOUs with the EBRD and EIB in April 2017 (NDB 2017a; NDB 2017b). These MOUs provide for funding or co-financing arrangements. The AIIB, in any case, is more central to the financing of BRI (Wilson 2017). It has also been more pro-active in reaching out to Western-led and European development banks. Thus, the AIIB, EBRD, EIB and World Bank are jointly developing a natural gas pipeline in Azerbaijan (AIIB 2017b). The AIIB and EBRD are also implementing a border road improvement project in Tajikistan together (AIIB 2017c).

The EU has encouraged cooperation between its regional development banks and the AIIB (European Commission 2015). This includes China becoming a shareholder of the EBRD in January 2016 (EBRD 2017). Brussels considers that these two banks can support the AIIB with its experience in implementing infrastructure building projects (EEAS 2017). In addition, the EBRD and EIB can help to shape the behaviour

of the AIIB. Indeed, their respective MOUs have provisions for consultation and knowledge and information sharing (AIIB 2016a; AIIB 2016b). Furthermore, several AIIB projects follow EBRD or EIB rules and procedures (AIIB 2017a).

Chinese economic statecraft with regard to BRI-related investments can be said to be working. This can be seen in the way that Beijing has established multiple investment channels with European countries at the bilateral, inter-regional and multilateral levels. Firstly, European countries within and outside the EU, including in Western Europe, have welcomed Chinese investment through its Silk Road Fund and China-CEE Investment Cooperation Fund. Secondly, the EBRD and EIB are also cooperating with the AIIB. For European countries, financial security has been enhanced thanks to their access to news sources of financing. Meanwhile, they can try to shape the behaviour of Chinese investment initiatives. For Beijing, this investment serves to make BRI come to fruition through the mobilisation of surplus savings through different channels. This economic interdependence is poised to continue as long as the parties involved continue to benefit.

Folding back to Beijing? The Belt and Road Initiative in a divided Europe

BRI is being implemented in a context in which European views of Chinese investment are not entirely positive and, in some cases, are turning negative. There has been criticism of Chinese protectionism, with allegations that Beijing does not reciprocate Europe's openness to its investment (Kynge et al. 2017). More closely related to Chinese investment in Europe per se, two main criticisms have been levelled at Beijing. The first one is that the Chinese government is pursuing a 'divide and conquer' strategy, using its economic power to split European countries and weaken opposition to Beijing's policies (Meunier 2014a). The second criticism is that Chinese investments undermine Western and European norms and values (Rana and Pacheco Pardo forthcoming). Both are detrimental to Europe's financial security.

The politics of Chinese investment in Europe: divide and conquer?

Arguably, the biggest challenge to Beijing's economic statecraft towards Europe is political rather than economic. When focusing on economic interdependence, it can create frictions if one of the two parties feels worse off—especially when its trade and investment diversification is limited (Kahler and Kastner 2006). In the particular case of Europe in general and the EU in particular, potential frictions derived from economic interdependence are underpinned by the fact that not all European countries benefit—or suffer—from it equally (Christiansen and Maher 2017; Reilly 2017).

Post-GFC and ESDC, some countries have benefited from Chinese capital as it has filled investment gaps (Meunier 2014a; Reilly 2017). Other countries, however, have been more critical of Chinese investment that they think creates centrifugal pressures pitting European countries against each other (Meunier 2014a). Taking this perspective, BRI is negative to Europe's financial security because it leads to competition among European countries and, subsequently, the lack of a unified position regarding the Sino-European investment relationship. The 16 + 1 framework involving China on the one hand and 16 Central and Eastern European countries on the other, including 11 EU member states, is particularly problematic from a European perspective.

Launched in 2012, China's 16 + 1 framework has been one of the main conduits for BRI's expansion into Europe. The Central and Eastern European countries which are part of the 16 + 1 are geographically closer to the Asian continent, have more infrastructure and other investment needs, and seem to be less connected with the politics of Chinese investment decisions. As already mentioned, the 16 + 1 countries have a BRI-related investment fund together with China. Furthermore, half of the countries involved in this framework have signed bilateral BRI MOUs with China as of September 2017 (Bloomberg News 2017). Also, of the 19 projects identified as suitable for financing by the Investment and Financing of the EU-China Connectivity Platform and mentioned above, 17 are in 16 + 1 countries.

Central and Eastern European countries originally welcomed the 16 + 1 framework for economic reasons. The investment opportunities afforded by Chinese surplus capital and the prospect of reducing reliance on investment from the EU were appealing (Vangelis 2017). In addition, some countries in the region were displeased with the EU's response to the GFC and Euroscepticism grew (Rohrschneider and Whitefield 2016). Embracing the 16 + 1 framework and BRI was thus also partially driven by political motivations (Vangelis 2017).

EU institutions and some member states have expressed their misgivings about the 16 + 1 framework. The European Parliament has been openly critical, arguing that 16 + 1 entrenches imbalances in the investment and trade relationship between China and Europe, while not addressing the issue of non-reciprocity in terms of market access (Grieger 2016). The EC has been more cautious, but it has also criticised the framework and eventually was admitted as an observer (Le Corre 2017). Also, some EU member states have expressed their worry that the 16 + 1 framework would undermine an EU common position towards China (Vangelis 2017). This and other, similarly strategic investments have prompted EU institutions and some member states to call for an EU-wide FDI screening process (Grieger 2017). If China has a 'divide and conquer' strategy in Europe, the 16 + 1 framework has clearly sowed divisions within the continent.²

Indeed, Hungarian prime minister Viktor Orban has openly said that the centre of gravity of the world economy is moving towards Asia even though many westerners are in denial about it. He has also stated that his government is thus committed to building BRI (Orban 2016). The implication is that Hungary has made a political choice to support BRI and maximise inward investment from China, in common with other Central and Eastern European states (Kynge and Peel 2017). The politicisation of BRI has led Brussels to carefully monitor Chinese investments related to this initiative, as well as to seek clarification regarding its technical aspects from EU member states receiving investment (EU Delegation to China 2017).

Even though BRI-related investment could enhance Europe's financial security, there are fears that China's economic statecraft in this area is creating divisions among European countries. Instead of being reassuring to Europe, some EU institutions and member states believe that Beijing is indeed pursuing such a strategy. Some are also critical of China's lack of reciprocity in terms of openness to FDI. The result is that there has been open criticism of Beijing's BRI-related investment through the 16 + 1

² Most notably, Beijing's OBOR-related investment in the Greek harbour of Piraeus and Southern Europe in general has also proved controversial (Casarini 2016).

framework or in Greece, for example. Discussions about EU-wide screening of FDI shows economic statecraft can backfire if not all European countries benefit from Chinese investment equally.

Norms and investment: Sino-European divergences

Chinese economic statecraft is also affected by normative differences when it comes to Europe. Economic interdependence creates incentives to cooperate as the security and material well-being of the interdependent states is linked to each other. Nonetheless, interdependence does not eliminate normative differences (Wagner 1988). In the case of BRI, it is focused on improving connectivity and economic interconnectedness between China and the other countries included in the initiative. It does not have a strong normative component. The EU, however, self-identifies as a normative power. This has practical implications for BRI.

Concentrating on finance and financial integration, China and Europe have divergent norms (Pacheco Pardo 2014). This includes the area of investment. China and Europe diverge on issues such as labour standards, procurement and transparency requirements or competition policy reviews (Nicolas 2014). Nonetheless, the EU in particular and Europe in general have not been able to impose their norms and values in the area of investment. For the most part, it has been NAFTA that has created *de facto* global standards (Meunier 2014b). To a large extent, this stems from the fact that the EU lacked a common investment framework until the Lisbon Treaty entered into force in 2009 (Nicolas 2014). In the absence of a bilateral investment agreement with China and a centralised screening process, the EU lacks a framework to consistently enforce its preferred norms *vis-à-vis* Beijing.

The absence of such a framework, nonetheless, affects BRI because Europe can use its normative differences with China to slow down the implementation of the initiative. As EC Vice President Jyrki Katainen said during the BRI summit of May 2017, the EU can more actively support BRI if China and the EU sign a bilateral investment agreement. The treaty would boost bilateral investment links, but from a European perspective, it would require removing barriers to its investment in China (Martina 2017). Nevertheless, differences in areas such as transparency, sustainable development and SOEs remained following the 15th round of bilateral investment negotiations agreement negotiations in October 2017 (European Commission 2017a).

At a more practical level, normative differences between Europe and China have affected BRI investments. Most notably, the EC launched an investigation on a proposed Belgrade-Budapest high-speed railway in early 2017. European officials confirmed that the project was under investigation because of a potential breach of EU procurement law by Hungary (Kynge et al. 2017). Regardless of the outcome of the investigation, its launch by the EC shows that Europe is willing to flex its muscles if it feels that its norms are being undermined.

Normative divergences between China and Europe mean that some consider that the financial security of the latter can be negatively affected by BRI. In the case of the EU, there is a stringent normative framework in the area of investment. A looser version applies to candidate countries, but it exists. As a result, almost all of Europe is covered by some version of EU norms. This includes Central and Eastern Europe as well as Southern Europe, where most BRI-related investment in the continent has thus far been

concentrated. Without a bilateral investment agreement, Europe is likely to continue to invoke this normative framework as necessary. In this respect, China's economic statecraft seems insufficient for normative differences to be completely overlooked.

Conclusion

Financial security remains a concern for much of Europe a decade after the GFC and ESDC. European economies still recovering from one or both of these crises are seeking to attract more investment and diversify their sources of inward FDI. This can support growth, increase stability and serve to prevent future crises. It is in this context that China's BRI and concomitant investment have reached Europe—especially its Central and Eastern Europe and Southern Europe sub-regions.

For the most part, Europe has welcomed BRI-related investment, which suggests that Chinese economic statecraft is working as mutually beneficial economic interdependence is being fostered. BRI's funds such as the Silk Road Fund and China-CEE Investment Cooperation Fund are providing financing across Europe with little criticism. The AIIB is already cooperating with the EBRD and EIB shortly after its launch. At the same time, however, Beijing's alleged 'divide and conquer' strategy and normative differences with Europe have created frictions affecting BRI-related investment. These frictions are unlikely to disappear as long as intra-European divisions continue and a bilateral investment treaty between the EU and China is not signed.

As part of its economic statecraft, BRI is being used by China to provide inducements to attain political goals by offering reassurances, limiting distrust, and, ultimately, shaping the behaviour of target countries towards Beijing. The case of Europe signals that economic statecraft is working in influencing the policy of target countries towards China, albeit with limits and not without frictions. If strengthening economic interdependence continues to define BRI investments in Europe, Beijing's economic statecraft will continue to work. For Europe, financial security considerations will make the continent for the most part welcoming of this Chinese initiative.

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