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**CHINA'S BELT AND ROAD INITIATIVE: A STRATEGY FOR
EXERTING HEGEMONY IN EASTERN EUROPE?**

Bachelor's thesis

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I hereby declare that I have compiled the thesis independently and all works, important standpoints and data by other authors have been properly referenced and the same paper has not been previously presented for grading. The document length is 11911 words from the introduction to the end of conclusion.

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ABSTRACT

This thesis researches China's growing influence in the context of the Belt and Road Initiative. This global infrastructure program connects China by land and sea routes to the rest of the world and is built and financed mainly by Chinese state-owned companies. The initiative ensures mutual benefit to the acceding countries. However, potential drawbacks have been highlighted, suggesting hegemony as China's ulterior motive. This thesis aims to identify these mechanisms and, examine the potential political consequences for participating countries. China has a growing presence in Central and Eastern Europe, primarily through its regional cooperation framework 17+1. For this reason, the thesis focuses on Eastern Europe, where various projects have been carried out or are being discussed. Although the EU has not yet adopted a common approach on the initiative, the participating EU Member States need to ensure that EU legislation, rules and policies are followed. Since the EU and China have a very different regulatory framework, a "comprehensive international framework" should be implemented to avoid unnecessary pressure on EU regulators. Similarly, in dispute cases, some Bilateral Investment Treaties have clauses that could lead to a loss of political autonomy, even for larger economies such as Germany. Such clauses should have more restrictive language. The research method used is a qualitative and comparative approach, with two small illustrative case studies of the Polish Lodz railway service and the Latvian Seaport of Riga towards the end of the thesis.

Keywords: Belt and Road Initiative, Hegemony, European Union, Central and Eastern Europe, International Investment Law

INTRODUCTION

For the past centuries, China has kept itself relatively isolated from the rest of the world.¹ However, structural changes in its economy and financial system have remade the scenery of its global politics.² China's ever-rising economy has attracted worldwide attention in the face of emerging superpower status and sparked the debate of whether it can overcome the United States (US) in the future.³ Its global influence has expanded significantly through its economic and political interests as it restored its original Silk Road that arose during the westward expansion of China's Han Dynasty.⁴ Now China has a New Silk Road for international connectivity, called the Belt and Road Initiative (BRI).⁵ This global infrastructure program uses land and sea components to pass through Central Asia on to the Middle East, ending in the European Union (EU).⁶ Its enormous scale proves it to be one of the most ambitious foreign policy strategies of this century.⁷

Dedication to geopolitical strategies is evident in how China is expanding its investment market and political influence along the BRI.⁸ Its attraction is based on an alleged win-win situation, where China promotes a trustworthy and friendly relationship to foster the economy and development with peaceful means.⁹ Successfully, more than a hundred countries have signed an official Memorandum of Understanding, which promises cooperation within the framework and

¹ Morrison, W. M. (2014). China's economic rise: History, trends, challenges, and implications for the United States. *CRS Report*. Washington, DC: Congressional Research Service.

² Ibid.; Barth, J. R., et al. (2009). Transformation of China from an Emerging Economy to a Global Powerhouse. In: J. R. Barth, J. A. Tatom, G. Yago (Eds.), *China's Emerging Financial Markets: Challenges and Opportunities* (73-110). Switzerland: Springer Nature, 73.

³ Morrison (2014) *supra nota* 1, 1; Cohn, T. H. (2008). *Global Political Economy*. (6th ed.) USA: Pearson Education, 395.

⁴ Chatzky, A., McBride, J. (2020). *China's Massive Belt and Road Initiative*. Retrieved from <https://www.cfr.org/backgroundunder/chinas-massive-belt-and-road-initiative>, 13 February 2020.

⁵ *Ibid.*

⁶ Arduino, A., Gong, X. (2018). *Securing the Belt and Road Initiative: Risk Assessment, Private Security and Special Insurances Along the New Wave of Chinese Outbound Investments*. (1st ed.) Singapore: Palgrave Macmillan, 3.

⁷ Chatzky, McBride (2020), *supra nota* 4.

⁸ Zhu, Z. (2014). *China's Foreign Policy*. Retrieved from <https://www.oxfordbibliographies.com/view/document/obo-9780199743292/obo-9780199743292-0025.xml>, 9 March 2020.

⁹ Ministry of Foreign Affairs, the People's Republic of China. (2015). *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*. Retrieved from https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml, 10 March 2020.

substantiates the legitimacy of the initiative.¹⁰ Moreover, China has built a strong relationship with Central and Eastern European countries (CEE) and promoted the BRI through the 17+1 cooperation framework.¹¹ Although China claims that its rise is meant to be a peaceful one with no expansionist aspirations, the nature of power makes this claim suspicious.¹² The BRI can be a strategy by which China uses its economic power to expand its influence globally. There is a need to assess what kind of great power China is and how it will use its growing influence.

This thesis examines China's foreign policy strategy and researches whether BRI's ulterior motive is hegemony, in this case, in Eastern Europe. It seeks to answer whether participation in the projects will come at a political cost. For methodology, a qualitative and comparative approach is used to gain insight into China's strategical intentions. Possible risks associated with the BRI projects are identified with existing literature which reveals potential mechanisms and risks. These mechanisms are tested with two small demonstrative case studies, including the Lodz railway service in Poland and the Seaport of Riga in Latvia.

As various projects end up on the EU's continent, this thesis also includes legal focus from the EU law perspective. The EU and China have a very different legal environment, which is why this thesis considers the legal limitations of the participating EU Member States in the context of BRI. Moreover, it focuses on International Investment Law in the avenue of the Investor-State Dispute Settlement (ISDS) mechanism. When there is a dispute among Bilateral Investment Treaties (BIT) that establish the terms and conditions of the BRI projects, investor, e.g. from China, can sue host country for any discriminatory practices that are then settled down in the ISDS tribunals. The purpose is to observe risks such as a loss of political autonomy that may arise from these disputes. Furthermore, the thesis elaborates the effect of ISDS mechanics on increasing hegemony and discusses legal steps regarding how to reduce such hegemony.

The research questions are as follows:

- 1) Is China's Belt and Road Initiative a strategy for exerting hegemony in Eastern Europe?
- 2) What are the (potential) political consequences of countries adhering to the BRI?

¹⁰ Ibold, S. (2018). *Cooperation agreements and MoUs under the Belt and Road Initiative*. Retrieved from <https://www.beltroad-initiative.com/memorandum-of-understanding-belt-and-road-initiative/>, 4 April 2020.

¹¹ Pavličević, D. (2019). A Power Shift Underway in Europe? China's Relationship with Central and Eastern Europe Under the Belt and Road Initiative. In: L. Xing (Ed.), *Mapping China's 'One Belt One Road' Initiative* (249-278). Switzerland: Palgrave Macmillan, 249.

¹² Pant, H. V. (2011). *China's Rising Global Profile: The Great Power Tradition*. Great Britain: Sussex Academic Press, 1.

- 3) Does the Investor-State Dispute Settlement Mechanism increase Chinese hegemony and what contractual changes would be necessary to avoid it?
- 4) To what extent does EU law limit implementation of BRI in the EU Member States?

The thesis consists of three main chapters. The first chapter introduces the history of China's rise and its rapid economic growth. It explains what it means to be a hegemony and how that has been identified in history. By doing so, it shows the possibility for China's hegemony and further assesses China's potential as the next leading power. Moreover, it discloses China's own views and intentions on what kind of superpower it wants to be.

As BRI is a suitable tool for expanding influence globally, the next chapter focuses specifically on the framework. This section introduces what the BRI is, its purpose, shape as well as China's aspirations and objectives behind it. The aim is to emphasise how China's foreign policy attracts countries to join the BRI. Furthermore, EU Member States' limitations from the EU law are discussed. Finally, related critiques to the framework are reviewed, and potential risks are highlighted. This gives rise to mechanisms such as 'debt-trap diplomacy' and 'divide and rule', that are potential backdoors for political influence. Lastly, the implications of the ISDS mechanism are discussed.

The final chapter is a small illustrative case study analysis that tests these reasons to suspect BRI-related investments. It first presents the project and then assesses whether the costs of the project outweigh the benefits. By looking at the key issues that separate the EU and China, it shows whether these countries are adopting pro-China attitudes in order to satisfy Beijing. This shows whether there is a potential to create dependence on China, which in the long run, creates hegemony.

1. CHINA'S RISE TO GREAT POWER

The establishment of the People's Republic of China resulted in 1949. Its economic development over the past seven decades can be divided into the pre-reform and post-reform periods.¹³ Before 1979, under the leadership of Chairman Mao Zedong, China maintained policies that kept the economy inefficient, centrally controlled and relatively isolated from the rest of the world.¹⁴ During this period from 1954 to 1977, the state regulated the economic performance by setting the production goals, controlling the prices as well as mostly being responsible for the allocation of resources.¹⁵ After the death of Chairman Mao in 1976, the Chinese government decided to break its Soviet-style policies and began reforming the economy in the hope that this would increase economic growth and raise living standards.¹⁶ The new technological revolution and economic globalisation gave a significant momentum, and so Beijing grasped this trend by opening up with the West.¹⁷

After implementing tremendous structural changes, industrialisation, urbanisation and integration into the world economy have made China to become one of the biggest economic success stories in contemporary times.¹⁸ It sustained its growth in 1980 and 1990, though slowed down in 1997 due to the Asian financial crisis.¹⁹ Learning from recent history, Beijing decided to open up once more.²⁰ Ever since, China has transformed itself into a modern economic great power, with a broad economic interest.²¹ It has continued its strategy and started to widen and deepen its investment, market and political influence.²²

¹³ Wu, Y. (2004). *China's Economic Growth: A miracle with Chinese characteristics*. London: Taylor & Francis, 1.

¹⁴ Morrison (2014), *supra nota* 1.

¹⁵ *Ibid.*; Wu (2004), *supra nota* 13, 1.

¹⁶ Morrison (2014), *supra nota* 1, 2.

¹⁷ *Ibid.*; Bijian, Z. (2005). China's "Peaceful Rise" to Great-Power Status. *Foreign Affairs*, 84 (5), 18-24, 20.

¹⁸ Barth, *et al.* (2009), *supra nota* 2, 74; Morrison (2014), *supra nota* 1, 1.

¹⁹ Wu (2004), *supra nota* 13, 1; Bijian (2005), *supra nota* 17, 20.

²⁰ Bijian (2005), *supra nota* 17, 20.

²¹ Zhu (2014), *supra nota* 8.

²² *Ibid.*

1.1. Hegemonic power

The notion of hegemony means that there is one predominant state that exercises its power by persuading and compelling others to act as it wishes.²³ The exercise of military, economic and political power is an essential part of it, but not exhaustive.²⁴ Hegemonic power also has soft power tendencies; making people and institutions bind around its culture and standards.²⁵ Because of its preponderant capabilities, hegemonic power can dominate the global political and economic order through its stakeholders.²⁶ In addition to the scope of power, the leading hegemony also needs to be willing to take the responsibility of global leadership.²⁷ Today, there is consensus among many scholars that at the moment, the sole hegemon is the US.²⁸ However, history shows that such a situation can shift and make room for other major powers to take the lead.

Since the 16th century, almost every historical period can be linked to some global power. In the 16th century, Spain was the leading hegemonic state because of its success in colonial trade, mercenary armies and dynastic ties.²⁹ During the 17th century, robust trade, capital markets and a strong navy made the Netherlands the following hegemony.³⁰ After that, in 1804, Napoleon became emperor in France and expanded his empire across Western and Central Europe.³¹ France was powerful with its large population, rural industry, a powerful army and broad acceptance of culture.³² However, in the Battle of Waterloo, the French forces were defeated by British and Prussians.³³ Britain's advanced industry, political cohesion, finance, and liberal norms made it the next hegemon.³⁴ Lastly, in the 20th century, after the World War II and the Cold War rivalry with the Soviet Union, the US overtook the leading position and possesses it to this date.³⁵

²³ Masciulli, J., Molchanov, M. A. (2012). Hegemonic Power. In: H. K. Anheier, M. Juergensmeyer (Eds.), *Encyclopedia of Global Studies* (787-790). Thousand Oaks: SAGE Publications; Agnew, J. (2005). *Hegemony: The New Shape Of Global Power*. Philadelphia: Temple University Press, 1.

²⁴ Agnew (2005), *supra* nota 23, 2.

²⁵ *Ibid*; Cambridge University Press. (2020). *soft power*. Retrieved from <https://dictionary.cambridge.org/dictionary/english/soft-power>, 7 May 2020.

²⁶ Masciulli, Molchanov (2012), *supra* nota 23, 787.

²⁷ Cohn (2012), *supra* nota 3, 394.

²⁸ Masciulli, Molchanov (2005), *supra* nota 23, 788.

²⁹ Nye, J. S. Jr. (2007). *Understanding International Conflicts: An Introduction to Theory and History*. (6th ed.). New York, USA: Longman, 63.

³⁰ *Ibid*.

³¹ History.com Editors. (2018). *Battle of Waterloo*. Retrieved from <https://www.history.com/topics/british-history/battle-of-waterloo>, 8 May 2020.

³² Nye (2007), *supra* nota 29, 63.

³³ History.com Editors (2018), *supra* nota 31.

³⁴ Nye (2007), *supra* nota 29, 63.

³⁵ Masciulli, Molchanov (2005), *supra* nota 23, 789.

1.2. The debate over the next hegemon

Due to China's continued growth, there is much debate about whether China can be the 21st century's hegemony.³⁶ According to some measurements, the US will long remain a leader because of its capabilities and investments, which are not easy to overtake.³⁷ However, recognising that China's rise is real and that its influence should be taken seriously.³⁸ In contrast, many experts and scholars argue that the US has fallen from the dominant position and that unipolarity is shifting away.³⁹ However, equal distribution of power is relatively rare; hence the strong growth in one state also means its growing influence.⁴⁰ Moreover, the general assessments are pointing out that as long as China can maintain a balanced growth, it has great potential to challenge the US.⁴¹ At the moment, China is the world's second-largest economy, largest trading country, second-largest foreign direct investment destination, largest manufacturer, and largest holder of foreign exchange reserves.⁴² As China has substantial economic grounds, the premise is that it can become a hegemony. For this reason, it is necessary to consider what China's own aspirations are of what kind of great power it wants to be, and whether it is willing to take responsibility for global leadership.

1.3. A different kind of power?

Beliefs about China's intentions as an emerging superpower vary widely. Firstly, it is seen as a different kind of power that does not seek hegemony nor predominance, but who instead advocates a new international political and economic order.⁴³ That is due to its internal problems such as remaining underdevelopment, shortage of resources and environmental obstacles.⁴⁴ It must first fix its internal problems before it can consider attaining further power; and thus, its rise is considered peaceful.⁴⁵ However, the BRI could save China from an economic decline.⁴⁶

³⁶ Toje, A. (2018). *Will China's Rise Be Peaceful? Security, Stability, and Legitimacy*. (1st ed.) New York, USA: Oxford University Press, 2; Cohn (2012), *supra nota* 3, 395.

³⁷ Brooks, S. G., Wohlforth, W. C. The Rise and Fall of the Great Powers in the Twenty-first Century: China's Rise and the Fate of America's Global Position. *Quarterly Journal: International Security*, 40 (3), 7-53.

³⁸ *Ibid.*, 8.

³⁹ *Ibid.*, 7.

⁴⁰ Nye, J. S. Jr. (2011). *The Future of Power*. (1st ed.) New York, USA: PublicAffairs, 153.

⁴¹ Sengupta, M. (2003). Is China the Next Superpower? *Defense & Security Analysis*, 19 (4), 389-404, 402.

⁴² Morrison (2014), *supra nota* 1.

⁴³ Bijian (2005), *supra nota* 17, 24; Pant (2011), *supra nota* 12, 1.

⁴⁴ Bijian (2005), *supra nota* 17, 21.

⁴⁵ *Ibid.*, 21-24.

⁴⁶ Benard, M. (2020). Infrastructure and the Belt and Road Initiative. In: J. A. Berlie (Ed.), *China's Globalization and the Belt and Road Initiative* (57-76). Switzerland: Palgrave Macmillan, 59.

Furthermore, the likelihood that China would be any different because of the nature of power makes this claim suspicious.⁴⁷ Thus, there is only one type of great power and great power tradition where power is necessarily expansionist.⁴⁸ Moreover, China sees today's world as Kaiser Wilhelm II did a century ago; the current world order meets the needs of the US and its allies, and the leaders of China would want to change the rules of the international system before the system changes them.⁴⁹ With BRI's international investment projects, China could challenge the dominant Western vision of the international system and change the existing order.⁵⁰

Furthermore, claiming that China does not seek hegemony nor predominance contradicts with its need to protect and promote its large investments in the BRI project.⁵¹ The BRI would be a suitable tool for enlargement, as then China could be able to extend its influence and culture to other continents while at the same time benefiting economically. Moreover, by expanding its access to resources, China could also solve its internal problems. Nevertheless, China assures that the project is for common benefit only and that the 21st century is a new era marked by the theme of peace.⁵² This, of course, is logical, because if Beijing does not convince other states that it has no other desires than to foster development, it would be much more challenging for it to obtain the acceptance of others. The friendly and open nature of the initiative could lead many countries to join, giving China more global influence.

⁴⁷ Pant (2011), *supra nota* 12, 1.

⁴⁸ *Ibid.*, 1-10.

⁴⁹ Kagan R. (1997). *What China Knows That We Don't: The Case for a New Strategy of Containment*. Retrieved from <https://carnegieendowment.org/1997/01/20/what-china-knows-that-we-don-t-case-for-new-strategy-of-containment-pub-266>, 7 May 2020.

⁵⁰ Godehardt, N. (2016). No End of History: A Chinese Alternative Concept of International Order. *SWP Research Paper*. Berlin: Stiftung Wissenschaft und Politik German Institute for International and Security Affairs, 5.

⁵¹ Champion, M., Leung, A. (2018). *Does China Have What It Takes to Be a Superpower?* Retrieved from <https://www.bloomberg.com/graphics/2018-china-superpower/>, 11 March 2020.

⁵² Ministry of Foreign Affairs, the People's Republic of China (2015), *supra nota* 9.

2. THE BELT AND ROAD INITIATIVE

The BRI is a robust development strategy introduced by Chinese President Xi Jinping in 2013.⁵³ It is a global infrastructure program and a forerunner project for international connectivity, dominated by Chinese state-owned companies.⁵⁴ The initiative links continents through land and sea components, known as the Silk Road Economic Belt and the Twenty-First-Century Maritime Silk Road.⁵⁵ The BRI's land routes consist of railways and highways that pass through Central Asia and the Middle East, ending in the EU, whereas the Twenty-First-Century Maritime Silk Road connects sea routes via ports in Southeast Asia, the Persian Gulf and the Horn of Africa, ending also in the EU.⁵⁶ China has signed 173 BRI intergovernmental cooperation agreements, of which 125 are countries and 29 are organisations.⁵⁷ With the BRI, Beijing could acquire a mechanism to gain political influence through its economic leverage.⁵⁸

2.1. Win-win cooperation?

According to China, the idea of the BRI is to foster the economy and development in a trustworthy and friendly way that is mutually beneficial.⁵⁹ The aim is to enhance the cross-border infrastructures and reduce transportation costs between China and Europe.⁶⁰ China promotes projects by emphasising that significant and sustainable achievements can be made that in the long term will benefit all.⁶¹ However, China's intentions are usually questioned by supposing that it is

⁵³ Mações, B. (2019). *Belt and Road: A Chinese World Order*. London: Hurst & Company; Chatzky, McBride (2020), *supra nota* 4.

⁵⁴ Saarela, A. (2018). A new era in EU-China relations: more wide- ranging strategic cooperation? *Study*. Belgium: European Union.

⁵⁵ Mações (2019), *supra nota* 53.

⁵⁶ Arduino, Gong (2018) *supra nota*, 6, 3.

⁵⁷ Office of the Leading Group for Promoting the Belt and Road Initiative. (2019). *The Belt and Road Initiative Progress, Contributions and Prospects*. Beijing: Foreign Languages Press Co. Ltd, 6.

⁵⁸ Mações (2019), *supra nota* 53.

⁵⁹ Ministry of Foreign Affairs, the People's Republic of China (2015), *supra nota* 9.

⁶⁰ Herrero, A., Xu, J. (2017). China's Belt and Road Initiative: Can Europe Expect Trade Gains? *China & World Economy*, 25 (6), 84-99, 84.

⁶¹ Ministry of Foreign Affairs, the People's Republic of China (2015), *supra nota* 9.

on the path of its past.⁶² BRI has gained more support increasingly mainly from less-developed countries, indicating risks that are common to such economies.⁶³

2.2. Interest in Europe

After the 2008 financial crisis, several EU Member States experienced disastrous consequences, especially those in the Southern periphery.⁶⁴ At the same time, China managed to handle the crisis relatively well, especially compared to the US and Europe.⁶⁵ For this reason, China has been regarded as an essential partner in easing the economic difficulties on the European continent.⁶⁶ Although many EU leaders have since realised that they need China more than China needs them, for many years, the EU has not developed a deliberate and sustainable policy with China.⁶⁷

Since 2012, China is again active in the CEE region as a rising global power with new investment initiatives; the 17+1 framework and the BRI.⁶⁸ Geographically the CEE countries are important along the BRI. They are the starting point for its two large-scale corridors stretching from China to Europe, supported by the proposed large-scale development of transport and energy infrastructure.⁶⁹ Both land and sea corridors extend over parts of the CEE.⁷⁰ Cooperation with these countries will enable China to enter and strengthen its functionality with European markets.⁷¹ For this reason, Beijing has extended dozens of loans for CEE infrastructure projects and expresses interest in several more.⁷²

⁶² Wang, Y., Liu, X. (2019). Is The Belt and Road Initiative A Chinese Geo-Political Strategy? *Asian Affairs*, 50 (2), 260-267.

⁶³ Siu, R. C. S. (2019). China's Belt and Road Initiative: Reducing or Increasing the World Uncertainties? *Journal of Economic Issues*, 53 (2), 571-578, 571.

⁶⁴ Austermann, F., et al. (2013). *China and Europe in 21st century global politics: Partnership, competition or co-evolution*. Newcastle upon Tyne: Cambridge Scholars Publishing, 2; Liu, L. (2016). Europe and China in the Global Economy in the Next 50 Years: A Partnership for Global Peace and Stability. *Intereconomics*, 51 (1), 37-42, 37.

⁶⁵ Austermann (2013), *supra nota* 64, 2.

⁶⁶ *Ibid.*

⁶⁷ Vogt, R. (2012). *Europe and China: Strategic Partners or Rivals?* Hong Kong: Hong Kong University Press, 3-9.

⁶⁸ Góralczyk, B. (2017). China's interests in Central and Eastern Europe: enter the dragon. *European View*, 16 (1), 153-162, 153.

⁶⁹ Pavličević (2019) *supra nota*, 11, 250.

⁷⁰ *Ibid.*

⁷¹ Choroś-Mrozowska, D. (2019). Global and regional consequences of the Chinese Belt and Road Initiative. *Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu*, 63 (6), 9-21; Herrero, Xu (2017), *supra nota* 60, 84.

⁷² Pavličević (2019) *supra nota*, 11, 250.

2.2.1. Challenges in relations with the European Union

China and the EU, whose diplomatic relations began in 1975 have deepened and broadened cooperation in many areas through a comprehensive EU-China Strategic Partnership established in 2003.⁷³ The EU-China Strategic Cooperation Action Plan is a key document in defining partnership, mainly based on the three areas: peace and security, the economy and trade and sustainable development.⁷⁴ Nevertheless, the EU's response to the initiative has been slow and largely ignored. Only since 2015 has European policy community begun to take into account China's new development agenda.⁷⁵ During this period, several events and publications emerged, discussing the BRI.⁷⁶

Trade between EU and China seems to be greatly imbalanced. For example, in 2018, the EU's trade in goods with China had around 185€ billion deficit.⁷⁷ This imbalance is one of the concerns that the BRI sceptics have.⁷⁸ However, it is unlikely to cause any problems for the EU as China's domestic economic pressures are likely to reduce trade surpluses in the future.⁷⁹ Furthermore, the BRI could probably provide economic opportunities for the European economy, but in order fully exploit these opportunities, the EU and China must resolve certain economic frictions and trade protectionist tendencies.⁸⁰

2.2.2. Legal obstacles

EU Member States are responsible for ensuring consistency with EU legislation, rules and policies, both individually and within the frameworks of regional cooperation, such as the 17+1 format.⁸¹ In the future, the entry of large-scale projects may create some legal problems and conflicts with EU rules. For example, in the EU public procurement rules on open and competitive bidding processes.⁸² With infrastructure projects, Chinese loans are based on intergovernmental agreements that do not envisage public tenders.⁸³ Instead, they are usually connected to a Chinese

⁷³ EU-China 2020 Strategic Agenda for Cooperation 2003.

⁷⁴ *Ibid.*

⁷⁵ Pavličević, D. (2015). China, the EU and One Belt, One Road Strategy. *China Brief*, 15 (15).

⁷⁶ *Ibid.*

⁷⁷ Pelagidis, T., Haralambides, H. (2019). The Belt and Road Initiative (BRI) and China's European Ambitions. *World Economy*, 20 (3), 221-232, 225.

⁷⁸ *Ibid.*, 225.

⁷⁹ Freytag, A. (2008). That Chinese “juggernaut” – Should Europe Really Worry about its Trade Deficit with China? *ECIPE Policy Briefs*, No 2. Brussels: European Centre for International Political Economy, 10.

⁸⁰ Liu (2016), *supra nota* 64, 37.

⁸¹ Joint Communication to the European Parliament, the European Council and the Council: EU-China – A strategic outlook 2019.

⁸² Grieger, G. (2018). China, the 16+1 format and the EU. *Briefing*. Brussels: European Union, 7.

⁸³ *Ibid.*

state-owned enterprise.⁸⁴ The terms are not published, and workers, materials and equipment are Chinese, which hinders employment in a host state.⁸⁵ Moreover, these loans typically require state guarantees, and lawsuits are taken under the jurisdiction of the Chinese courts.⁸⁶

In 2017, the media raised the case of Hungarian Belgrade-Budapest railway and its compliance with EU law.⁸⁷ The European Commission examined the Hungarian railway case and whether it had chosen a Chinese developer without considering a public tender process as specified in the EU public procurement rules.⁸⁸ Public procurement is regulated in the EU Directive 2014/24 on public procurement which also includes the operation of maritime, coastal or river transport services as mentioned in recital 21, and Directive 2014/23 on the award of concession contracts.⁸⁹ Furthermore, Directive 2014/25 considers procurement by entities operating in the water, energy, transport and postal services sectors.⁹⁰

The Directive 2014/24 states in recital 1, that when the authorities of the Member States award contracts or award such contracts on their behalf, it "has to comply with the principles of the Treaty on the Functioning of the European Union (TFEU)... as well as the principles deriving therefrom, such as equal treatment, non-discrimination, mutual recognition, proportionality and transparency."⁹¹ Moreover, provisions should be laid down for contracts above a certain value to coordinate national procurement procedures and ensure that those principles are applied in practice and that public procurement is open to competition.⁹²

The European Commission investigated the financial feasibility of the 2.89\$ billion Belgrade-Budapest railway and whether it had broken EU public tender law.⁹³ For Hungary, that has a full

⁸⁴ *Ibid.*

⁸⁵ *Ibid.*

⁸⁶ *Ibid.*

⁸⁷ Delegation of the European Union to China. (2017). *Reply by the EU Delegation to China on recent media reports related to the Belgrade-Budapest railway project*. Retrieved from https://eeas.europa.eu/delegations/china/21594/node/21594_kk, 6 May 2020.

⁸⁸ Kynge, J., et al. (2017). *EU sets collision course with China over 'Silk Road' rail project*. Retrieved from <https://www.ft.com/content/003bad14-f52f-11e6-95ee-f14e55513608>, 9 May 2020.

⁸⁹ Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC Text with EEA relevance OJ L 94, 28.3.2014, p 65–242; Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts Text with EEA relevance OJ L 94, 28.3.2014, p 1–64.

⁹⁰ Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC Text with EEA relevance OJ L 94, 28.3.2014, p 243–374.

⁹¹ Directive 2014/24/EU (2014), *supra nota* 89.

⁹² *Ibid.*

⁹³ Kynge, et al. (2017), *supra nota* 88.

EU procurement legislation, failure to comply with EU tendering regulations could be disciplined by fines and reverse infringement proceedings.⁹⁴ The dialogue with the Hungarian national authorities was ongoing.⁹⁵ In Hungary, a similar case was with Moscow-funded nuclear project by Russian state-owned energy company.⁹⁶ Commission launched similar proceeding suspecting that internal market rules were broken.⁹⁷ However, the case was closed as Hungary argued that only the Russian operator could provide such necessary technology.⁹⁸

As the EU has competence in certain areas, such as common commercial policy and the establishment of competition rules for the functioning of the internal market, the Member States alone cannot take legislative action in such cases without the empowerment of the Union.⁹⁹ However, EU law does not explicitly prohibit Member States from joining the BRI infrastructure projects. As long as, for example, public procurement law and other secondary legislation are complied with, there are no other limitations for Member States to participate in the BRI framework. However, in the future, the number of projects can significantly increase. To ensure well-ordered compliance with EU law, it would be necessary to make certain package or "comprehensive international framework"¹⁰⁰, where BRI related infrastructure projects are addressed and applied. Otherwise, BRI infrastructure projects can put EU regulatory under pressure as the EU must ensure that its rules comply.¹⁰¹

2.3. Criticism of initiatives and potential political drawbacks

Initially, either EU institutions or the European countries have not shown great enthusiasm towards these initiatives.¹⁰² BRI has been characterised as a geopolitical strategy that aims to dominate on a worldwide scale while rewriting global rules.¹⁰³ Cooperation between China and CEE countries received a warning in 2012 from Catherine Ashton, then EU High Representative for Foreign Affairs and Security Policy, stating that both China and CEE countries should not form any kind

⁹⁴ *Ibid.*

⁹⁵ *Ibid.*

⁹⁶ *Ibid.*

⁹⁷ *Ibid.*

⁹⁸ *Ibid.*

⁹⁹ Division of competences within the European Union 2016.

¹⁰⁰ Verhoeven, S. (2020). EU Legal Obstacles to the Belt and Road Initiative: Towards a China-EU Framework on the Belt and Road Initiative. In: F. Leandro, P. Duarte (Eds.), *The Belt and Road Initiative: An Old Archetype of a New Development Model* (283-316). London: Palgrave Macmillan.

¹⁰¹ Delegation of the European Union to China (2017), *supra nota* 87.

¹⁰² Skala-Kuhmann, A. (2019). European Responses to BRI. *Horizons*, (14), 144-155, 147.

¹⁰³ *Ibid.*, 147.

of alliance.¹⁰⁴ Moreover, some European diplomats have labelled the Chinese initiative as the 'new Berlin Wall' and warned the EU.¹⁰⁵ Without absolute cohesion, neither the EU nor any of its Member States can effectively achieve their objectives with China.¹⁰⁶

Concerns have been raised over issues of practice, such as possible risks in projects common to large infrastructure projects.¹⁰⁷ The limited transparency could worsen these risks.¹⁰⁸ If the country is not able to repay the debt, China could get a concession, for example, by signing over national territory or steep financial concessions.¹⁰⁹ Moreover, the EU's regulatory framework is much higher, for example, on environmental protection, labour welfare, quality of products and the nature of capital.¹¹⁰ Therefore, the EU has concerns about violating or lowering its high standards when Chinese investment enters.¹¹¹

2.3.1. Developing countries and debt-trap diplomacy

Most of the BRI deals involve lending money to build new ventures.¹¹² Borrowing money entails risks, particularly for developing countries.¹¹³ Proponents argue that this is a way to strengthen the emerging markets so that they can have new prospects for trade.¹¹⁴ However, it does not exclude the possibility that the developing countries might not be able to repay their BRI-related debt, giving China the possibility to impose conditions on them.¹¹⁵

¹⁰⁴ Jing, L. (2016). The Transition of EU's Attitude Towards "16+1". In M. Andžāns (Ed.), *Afterthoughts: Riga 2016 International Forum of China and Central and Eastern European Countries* (25-28). Riga: Latvian Institute of International Affairs, 25.

¹⁰⁵ *Ibid.*

¹⁰⁶ Joint Communication to the European Parliament, the European Council and the Council (2019), *supra nota* 81, 2.

¹⁰⁷ World Bank. (2019). *Belt and Road Economics: Opportunities and Risks of Transport Corridors. Working Paper*. Washington, DC: World Bank Group.

¹⁰⁸ *Ibid.*

¹⁰⁹ Chandran, N. (2019). *Fears of excessive debt drive more countries to cut down their Belt and Road investments*. Retrieved from <https://www.cnn.com/2019/01/18/countries-are-reducing-belt-and-road-investments-over-financing-fears.html>, 3 April 2020.

¹¹⁰ Jing (2016), *supra nota* 104, 26.

¹¹¹ *Ibid.*

¹¹² Ma, A. (2019). *The US is scrambling to invest more in Asia to counter China's 'Belt and Road' mega-project. Here's what China's plan to connect the world through infrastructure is like*. Retrieved from <https://www.businessinsider.com/what-is-belt-and-road-china-infrastructure-project-2018-1>, 15 February 2020.

¹¹³ World Bank (2019), *supra nota* 107.

¹¹⁴ Ma (2019), *supra nota* 112; World Bank (2019), *supra nota* 107.

¹¹⁵ *Ibid.*

This kind of tool is known as 'debt-trap diplomacy' where creditor country intentionally lends excessive credit to a debtor.¹¹⁶ As a result, when the debtor cannot service the loan, the creditor gets economic or political concessions out of it.¹¹⁷ Such cases have already happened with the BRI; Sri Lanka's Hambantota port could not pay off its debt to Chinese companies and therefore handed over a strategic port.¹¹⁸ In Western Balkans, Montenegro's highway project is now having a serious debt problem.¹¹⁹ Consequently, some developing nations have cancelled or backed away from the BRI-related projects worrying about similar impacts on the national debt and economy.¹²⁰

2.3.2. Divide and rule?

In Europe, the 17+1 cooperation has been called a 'divide and rule' strategy aiming at disrupting the EU.¹²¹ China could attempt to divide the Union by offering BRI investments to Member State countries in the CEE.¹²² Of these 17 CEE countries, 12 are the EU Member States. China's growing role in some areas could bring about realignments within the EU itself.¹²³ This would hamper the EU's ability to act collectively with China as the Member States could start taking stances favourable to China.¹²⁴ Moreover, different countries have different interests and needs with China.¹²⁵ While attracting Chinese investment, difficult issues could be ignored, and European values and ideals like the promotion of democracy and human rights in China could be left

¹¹⁶ Doherty, B. (2019). *Experts dispel claims of China debt-trap diplomacy in Pacific but risks remain*. Retrieved from <https://www.theguardian.com/world/2019/oct/21/chinese-loans-expose-pacific-islands-to-risk-of-unsustainable-debt-report-finds>, 22 February 2020.

¹¹⁷ *Ibid.*

¹¹⁸ *Ibid.*

¹¹⁹ Doehler, A. (2019). *How China Challenges the EU in the Western Balkans. Will the EU ultimately cede the Western Balkans to Beijing's influence?* Retrieved from <https://thediplomat.com/2019/09/how-china-challenges-the-eu-in-the-western-balkans/>, 22 February 2020; Hurley, J., et al. (2018). Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective. *CGD Policy Paper*, No. 121. Washington, DC: Center for Global Development.

¹²⁰ Chandran (2019), *supra nota* 109.

¹²¹ Kizeková, A. (2018). China's Belt and Road Initiative and the 16+1 Platform: The Case of the Czech Republic. In A. Arduino, X. Gong (Eds.), *Securing the Belt and Road Initiative: Risk Assessment, Private Security and Special Insurances Along the New Wave of Chinese Outbound Investments (275-297)* Singapore: Palgrave Macmillan, 275.

¹²² Jing (2016), *supra nota* 104, 25.

¹²³ Andžāns, M. (2016). Riga 2016 International Forum of China and Central and Eastern European Countries: Conclusions, Considerations, Recommendations, and Introduction to the Afterthoughts. In M. Andžāns (Ed.), *Afterthoughts: Riga 2016 International Forum of China and Central and Eastern European Countries (14-24)*. Riga: Latvian Institute of International Affairs.

¹²⁴ Klose, S. et al. (2017). An uphill struggle? Towards coordinated EU engagement with China's Belt and Road Initiative. *European Policy Brief*, No. 48. Belgium: Egmont Royal Institute for International Relations; Wu, W. (2018). *China could be using 'divide and rule' tactics to gain influence in Europe*. Retrieved from <https://www.businessinsider.com/china-could-be-using-divide-and-rule-tactics-to-gain-influence-in-europe-2018-3?r=US&IR=T>, 30 March 2020.

¹²⁵ Huotari, M. et al. (2015). Mapping Europe-China Relations: A Bottom-Up Approach. *A report by the European Think-tank Network on China*. Berlin: Mercator Institute for China Studies, 12.

behind.¹²⁶ Some states that have previously openly criticised China's human rights policy no longer emphasise these issues in bilateral relations.¹²⁷

Furthermore, the EU is concerned about the loss of its attractiveness to potential membership candidates.¹²⁸ There are still five non-EU countries in the Western Balkans, and the EU worries that they may see 17+1 as an alternative as it becomes increasingly difficult for them to join the EU.¹²⁹ The difficulty of applying for various EU funds under rigorous conditions may make many of these new EU members prefer cooperation with China.¹³⁰ The EU has a central interest to pursue its enlargement and neighbourhood policy in the Western Balkans.¹³¹ Thus, it should implement legally binding agreements such as Association Agreements in order to secure full adherence to EU values, norms and standards.¹³² This includes financially supported instruments such as the Instrument for Pre-Accession, which is a proposal, as well as Neighbourhood, Development and International Cooperation Instrument with its European Fund for Sustainable Development.¹³³

2.3.3. Investor-State Dispute Settlement Mechanism

Although China has not been involved in many ISDS cases (a total of three¹³⁴), it will inevitably do so more in the future.¹³⁵ ISDS mechanism is used in investment and trade agreements such as BITs, that allow investors to enter arbitration with states over treaty infringements.¹³⁶ International Centre for the Settlement of Investment Disputes (ICSID) is the leading institution for the resolution of international investment disputes providing procedural rules.¹³⁷ Also, the United Nations Commission on International Trade Law (UNCITRAL) or other arbitration rules may be

¹²⁶ *Ibid.*, 6.

¹²⁷ Kaczmarek, M. (2016). An essential partner in the background. Europe in China's policy during the rule of Xi Jinping. *OSW Studies*, No. 56. Warsaw: Centre for Eastern Studies, 15.

¹²⁸ Jing (2016), *supra nota* 104, 26.

¹²⁹ *Ibid.*

¹³⁰ *Ibid.*

¹³¹ Joint Communication to the European Parliament, the European Council and the Council (2019), *supra nota* 81, 4.

¹³² *Ibid.*, 4-5.

¹³³ *Ibid.*

¹³⁴ United Nations Conference on Trade and Development. (2019). *Investment Dispute Settlement Navigator*. Retrieved from <https://investmentpolicy.unctad.org/investment-dispute-settlement/country/42/china/respondent>, 3 April 2019.

¹³⁵ Chen, H. (2020). Reforming ISDS: A Chinese perspective. In: Y. Li, T. Qi, C. Bian (Eds.), *China, the EU and International Investment Law: Reforming Investor-State Dispute Settlement* (100-111). Oxon: Routledge.

¹³⁶ Miller, S. Hicks, G. N. (2015). Investor-State Dispute Settlement: A Reality Check. *A Report of the CSIS Scholl Chair in International Business*. Washington, DC: The Center for Strategic and International Studies.

¹³⁷ Background Information on the International Centre for Settlement of Investment Disputes (ICSID) Fact Sheet the World Bank.

followed.¹³⁸ ISDS purpose is to promote foreign investment and protect investors from arbitrary state abuse.¹³⁹

The BRI related disputes could be categorised into three types; international disputes between states, international investment disputes between state and investor, and international trade disputes between non-state parties.¹⁴⁰ The BRI's implementation means that the closer international trade relations become, the higher the likelihood is for international trade disputes.¹⁴¹ Due to difference in dispute characteristics, there are different settlement mechanisms.¹⁴² For disputes between state and investor, BITs are more conventional approach.¹⁴³ BIT between Poland and China states that the venue of potential disputes is in domestic courts of the host state or other forums.¹⁴⁴ Between Latvia and China, disputes fall under ICSID or domestic court of the host state.¹⁴⁵

China has begun offering a wider range of ISDS services since 2015.¹⁴⁶ They offer new options to Chinese investors, particularly by extending foreign investment disputes through an expansion of jurisdiction.¹⁴⁷ With jurisdiction expansion in the Shenzhen Court of International Arbitration (SCIA) and the China International Economic Trade Arbitration Commission (CIETAC), Chinese parties will come across a system more familiar to them.¹⁴⁸ These changes indicate that the Chinese government is paying particular attention and intention to participate in resolving investor and state disputes.¹⁴⁹ China is also establishing new courts to hear international commercial cases.¹⁵⁰ Based on the document on 'Opinion Concerning the Establishment of the Belt and Road

¹³⁸ *Ibid.*, 3.

¹³⁹ Business & Human Rights Resource Centre. (2020). *Investor state dispute settlement (ISDS)*. Retrieved from <https://www.business-humanrights.org/en/investor-state-dispute-settlement-isds>, 4 April 2020.

¹⁴⁰ Ren, H. (2019). Treaties on the International Trade Dispute Settlement and the China “Belt and Road” Initiative. *Beijing Law Review*, 10 (3), 441-454, 441.

¹⁴¹ *Ibid.*, 444.

¹⁴² *Ibid.*, 441.

¹⁴³ *Ibid.*, 446.

¹⁴⁴ United Nations Conference on Trade and Development. (2020). *International Investment Agreements Navigator: China - Poland BIT (1988)*. Retrieved from <https://investmentpolicy.unctad.org/international-investment-agreements/treaties/bilateral-investment-treaties/956/china---poland-bit-1988->, 22 April 2020.

¹⁴⁵ United Nations Conference on Trade and Development. (2020). *International Investment Agreements Navigator: China - Latvia BIT (2004)*. Retrieved from <https://investmentpolicy.unctad.org/international-investment-agreements/treaties/bilateral-investment-treaties/928/china---latvia-bit-2004->, 22 April 2020.

¹⁴⁶ Chen, H. (2018). Symposium on the BRICS Approach to the Investment Treaty System: China's Innovative ISDS Mechanisms and Their Implications. *The American Society of International Law*, 112, 207-211, 207.

¹⁴⁷ *Ibid.*

¹⁴⁸ *Ibid.*, 207-211.

¹⁴⁹ *Ibid.*, 210.

¹⁵⁰ *Ibid.*, 208.

International Commercial Dispute Resolution Mechanism and Institutions', the original idea was to have these courts settle disputes exclusively arising from BRI.¹⁵¹

These new mechanisms serve China's interest in 3 ways.¹⁵² They protect Chinese investments abroad, especially those in developing countries, and countries which domestic laws on investments are inadequate.¹⁵³ Furthermore, they strengthen the voice of the Chinese Government in the international discussion on foreign investment agreements.¹⁵⁴ For example, China is engaged in the ongoing global reform of the ISDS; when UNCITRAL suggests reform options, China participates actively in the negotiations.¹⁵⁵ These operate as trial runs for the Chinese government. Once mechanisms prove successful, China can suggest its own international courts, as an alternative to ICSID, to settle matters arising from international investment disputes.¹⁵⁶ These new mechanisms allow Chinese investors to refer disputes to the SCIA and CIETAC.¹⁵⁷ This said, China may insist for new infrastructure investments that any dispute arising under such agreement shall be referred to Chinese arbitral bodies. In this sense, the establishment of new mechanisms can be seen as a potential way to exert hegemony with BRI.

A case from ICSID demonstrates what could happen in practice and what would be possible patterns with dispute cases arising from the BRI. The main risk with ISDS cases seems to be a loss of political autonomy, where Chinese companies can sue the government over policy decisions. The case of *Vattenfall v. Germany*¹⁵⁸ demonstrates this kind of situation. Vattenfall is a Swedish energy firm that in 2009 brought up an investor-state claim of \$1.9 against Germany under the Energy Charter Treaty.¹⁵⁹ Vattenfall claimed that delays for permits for a coal-fired power plant in Hamburg started after the Environmental Ministry established a new clear requirement in accordance with the alerted reports impending climate change by the Intergovernmental Panel on Climate Change.¹⁶⁰ Furthermore, according to Vattenfall, the delays were a result of a coalition

¹⁵¹ Supreme People's Court of the People's Republic of China. Opinion Concerning the Establishment of the Belt and Road International Commercial Dispute Resolution Mechanism and Institutions. 2018, referenced in Chen (2018), *supra nota* 146, 208.

¹⁵² *Ibid.*, 209.

¹⁵³ *Ibid.*

¹⁵⁴ *Ibid.*, 210.

¹⁵⁵ *Ibid.*

¹⁵⁶ *Ibid.*

¹⁵⁷ *Ibid.*

¹⁵⁸ ICSID, Case No. ARB/09/6, Vattenfall AB, Vattenfall Europe AG, Vattenfall Europe Generation AG v. Federal Republic of Germany, 11.3.2011, Washington, DC.

¹⁵⁹ ISDS Platform. (2015). *Case study: Vattenfall v. Germany I*. Retrieved from <https://isds.bilaterals.org/?case-study-vattenfall-v-germany-i&lang=en>, 23 April 2020.

¹⁶⁰ *Ibid.*

between the Green Party and Christian Democrats.¹⁶¹ Vattenfall argued that Hamburg's environmental rules amounted to expropriation and a violation of Germany's obligation to grant 'fair and equitable treatment' to foreign investors.¹⁶² Avoiding a massive amount of compensation, the German government reached a settlement with Vattenfall in 2010 where Hamburg was obliged to drop these additional environmental requirements.¹⁶³

Furthermore, the then Germany's deputy environment minister Michael Müller stated that these conditions are truly unprecedented, as the country is being pilloried by the implementation of German and EU legislation.¹⁶⁴ Drawing attention to 'fair and equitable treatment' is a severe clause that should be revised, for example, if a change in the law is mandatory; however, by protecting the investor without discrimination. Otherwise such provision may result in extensive obligations imposing a high protection threshold on the investor.¹⁶⁵ In BITs between China and Poland and Latvia, the tone is mainly similar. In the case of Poland, according to Article 3, contracting parties should treat each other with 'equitable treatment', and they shall enjoy protection in the host territory.¹⁶⁶ Similarly, in Latvian BIT between China, Article 3 states 'fair and equitable treatment'.¹⁶⁷ In this sense, similar cases could resolve in potential BRI dispute cases. That would be a way to control other state's sovereignty at least indirectly by using hegemony as a tool; the more there are BRI projects, the more likely disputes are going to arise.

Some countries have begun using more restrictive language in their investment treaties in order to avoid interpretations of such standards like the fair and equitable treatment or expropriation.¹⁶⁸ One way to give more protection to host states sovereignty would be to specify this clause. For example, if the EU has adopted a decision that takes precedence such as regulation, it should not be used against those states obliged to implement that regulation. A clause could be added to the agreement that removes or lowers damages in cases where the law needs to be implemented and

¹⁶¹ *Ibid.*

¹⁶² *Ibid.*

¹⁶³ *Ibid.*

¹⁶⁴ Von Knauer, S. (2009). *Vattenfall vs. Germany: Power Plant Battle Goes to International Arbitration*. Retrieved from <https://www.spiegel.de/international/germany/vattenfall-vs-germany-power-plant-battle-goes-to-international-arbitration-a-636334.html>, 14 May 2020.

¹⁶⁵ Bernasconi, N. (2009). Background paper on Vattenfall v. Germany arbitration. *Foreign Investment for Sustainable Development Program*. Winnipeg: International Institute for Sustainable Development, 5.

¹⁶⁶ Agreement Between the Government of the People's Republic of China and the Government of the Polish People's Republic on the Reciprocal Encouragement and Protection of Investments 1988.

¹⁶⁷ Agreement Between the Government of the People's Republic of China and the Government of the Republic of Latvia on the Promotion and Protection of Investments 2004.

¹⁶⁸ Bernasconi (2009), *supra nota* 165, 7.

amended by a higher body such as the EU. The same would apply to situations where public health, territorial integrity or some other similar reason require a change in the law. The burden of proof would be on the host state. That is, the host state must be able to prove that such a situation is underway. If the clause in the agreement remains in its current form, and if it is not clarified to deal with situations where the host state has been forced or urged to change its legislation, it will provide a vital instrument of power for China to challenge these legislative changes. Here both smaller and larger economies such as Germany are under risk.

3. CASE STUDIES

Various relevant projects have been carried out or are being discussed.¹⁶⁹ The the Greek port of Piraeus is the keystone of China's economic enlargement into South-Eastern Europe, making the Western Balkans a strategic investment region.¹⁷⁰ The railway link of Budapest-Belgrade is the first BRI project in the EU, followed by the Lodz Railway Service in Poland.¹⁷¹ Now there are possible projects even in the Baltics; Seaport of Riga in Latvia is the Northern branch for North-West China that could distribute goods to Scandinavian countries.¹⁷² The project part of BRI is also proposed in Estonia and Finland that would connect two capital cities via an undersea tunnel.¹⁷³ Nevertheless, there is still a lack of research in some cases as the future implications are challenging to predict. For this reason, the following case studies are on the Lodz Railway Service in Poland and on the Seaport of Riga in Latvia.

If the costs of the project were to outweigh the gains, or if the gains for the host country were relatively small, this would run counter to China's promise of a win-win situation. Moreover, countries could become increasingly dependent on trade between China in order to repay their debts. In this sense, it would be beneficial to look at whether there is a debt-buildup for additional BRI-related financing. Hegemony could be gained, particularly if countries were to take a pro-China stance on critical issues in fear that otherwise, their important trading partner would get offended. Furthermore, one way to operate the 'divide and rule' would be to identify some key policy issues that have set China and the EU apart. For example, whether, over time, a shift in these countries towards a more favourable position towards China can be detected, and whether this can be linked to the BRI involvement. There are several issues to be discussed for the EU in 2020 related to its future relationship with China, for example, how to resolve human rights

¹⁶⁹ Pavličević (2019) *supra nota*, 11, 250.

¹⁷⁰ Doehler (2019), *supra nota* 119.

¹⁷¹ Rencz, F. (2019). The BRI in Europe and the Budapest-Belgrade Railway Link. *Briefing Paper*. European Institute for Asian Studies; Bartosiewicz, A., Sztelik, P. (2019). Łódź's benefits from the One Belt One Road initiative. *International Journal of Logistics Research and Applications*, 22 (1), 47-63.

¹⁷² Bulis, A., Skapars, R. (2014). Development of "New Silk Road" Northern Branch through Seaport of Riga in Latvia. *Procedia - Social and Behavioral Sciences*, 150 (C), 1222-1229.

¹⁷³ Virki, T. (2019). *Three Chinese companies build the Tallinn-Helsinki tunnel*. Reuters. Retrieved from <https://www.reuters.com/article/us-finland-estonia-tunnel/three-chinese-companies-to-build-tallinn-helsinki-tunnel-idUSKCN1U70F3>, 22 February 2020.

disputes in China and whether to allow Chinese tech giant Huawei to exploit the 5G market in Europe.¹⁷⁴ Therefore, the following cases focus on such issues.

3.1. Poland: Chengdu and Lodz railway service

Relations between China and Poland can be seen on four levels; on the bilateral level, in ties developed in the 17+1 cooperation, in connection with EU relations as well as through the BRI format.¹⁷⁵ Poland has been developing proactive strategies to draw Chinese investors attention based on the potential business opportunities offered by EU membership and the Schengen area.¹⁷⁶ For China, Poland is at the forefront of the BRI agenda for bilateral meetings as well as political, economic and cultural dialogues.¹⁷⁷ They are organising seminars and delegating Chinese experts to visit investment environments.¹⁷⁸

In Poland, the attitudes towards the initiative are mainly positive.¹⁷⁹ It is seen as an opportunity for its development and influence as well as expansion on a global scale.¹⁸⁰ When the BRI was first presented, China decided that the land connection should go through Poland as it is the shortest route from China to Western Europe.¹⁸¹ Xi Jinping stressed the importance of the region because of its geographical location as the centre of Europe.¹⁸² Its railway connection goes between the cities of Chengdu in China and Lodz in Poland.¹⁸³ Lodz is in the centre of the country where the majority of Polish urban centres are located.¹⁸⁴ Furthermore, European capitals such as Warsaw, Berlin, Prague, Vienna, Bratislava, Budapest and Vilnius are located only with a radius of hundred

¹⁷⁴ Cameron, F. (2019). *2020: Critical year for EU-China relations*. Retrieved from

<https://www.euractiv.com/section/eu-china/opinion/2020-critical-year-for-eu-china-relations/>, 11 May 2020.

¹⁷⁵ Pendrakowska, P. (2018). Poland's perspective on the Belt and Road Initiative. *Journal of Contemporary East Asia Studies*, 7 (2), 190-206.

¹⁷⁶ Jakóbowski, J. *et al.* The Silk Railroad. The EU-China rail connections: background, actors, interests. OSW Studies, No. 72. Warsaw, Centre for Eastern Studies 2018, referenced in Matura (Matura, T. The Belt and Road Initiative depicted in Hungary and Slovakia. *Journal of Contemporary East Asia Studies* 7 (2), 2018, 179).

¹⁷⁷ Matura (2018), *supra nota* 176, 183.

¹⁷⁸ *Ibid.*

¹⁷⁹ *Ibid.*, 184.

¹⁸⁰ Winiecki, J. Czy Polska znajdzie się na nowym jedwabnym szlaku? *Tygodnik Polityka* 2017, referenced in Bartosiewicz, Sztterlik (2019), *supra nota* 171, 51.

¹⁸¹ Bartosiewicz, Sztterlik (2019) *supra nota* 171, 54.

¹⁸² *Ibid.*, 51.

¹⁸³ Czerep, J. Influence of the Lodz-Chengdu Railway on the Perception of 16+1 in Poland. Working Paper, No. 5. Budapest, China-CEE Institute 2017, referenced in Matura (2018), *supra nota* 176, 174.

¹⁸⁴ Bartosiewicz, Sztterlik (2019) *supra nota* 171, 54.

kilometres.¹⁸⁵ The aim is to increase the competitiveness as well as the frequency of rail transport between China and Europe.¹⁸⁶

3.1.1. Economic outcome

The general proposition is that the Lodz region could benefit from BRI participation as well as its geographical position, which seizes the opportunity for further development.¹⁸⁷ This is if the cooperation between China can turn the city into a large transshipment centre as an essential place for Europe and the world.¹⁸⁸ Furthermore, statistics show relatively good results, and it is estimated that as a result of railway connection, the bilateral trade between China and Poland has grown by almost 30%.¹⁸⁹ However, there are also problems such as trade imbalances favouring China, asymmetry in market access and the volume of investments in Poland.¹⁹⁰ There is a problem in reciprocity¹⁹¹, which questions whether the project will ultimately be a win-win situation.

Poland hosts a significant part of the BRI investments in the CEE region.¹⁹² Based on the United Nations Conference on Trade and Development (UNCTAD) statistics, from 2009 to 2015, the growth in China's investments is 193%.¹⁹³ With these investments, China is acquiring existing plants instead of investing in greenfield investments.¹⁹⁴ Greenfield investment involves building a new entity which would create new jobs versus international acquisition where an existing company is purchased.¹⁹⁵ For trade volume, the growth between 2009 and 2015 is 60% between China and Poland based on UNCTAD statistics.¹⁹⁶ Even though trade has increased, Poland still has a trade balance deficit.¹⁹⁷ Poland imports 12 times more than it exports, which results in a 21€ billion deficit according to UNCTAD database.¹⁹⁸ Besides, the World Bank estimates that Eastern

¹⁸⁵ *Ibid.*

¹⁸⁶ *Ibid.*, 50.

¹⁸⁷ *Ibid.*, 55.

¹⁸⁸ *Ibid.*

¹⁸⁹ Czerpak, E. (2018). *Poland in the top 20 most attractive locations for China*. Retrieved from <http://english.eurobuildcee.com/?page=komentarz&id=91>, 11 May 2020.

¹⁹⁰ Kizeková (2018), *supra nota* 121, 286.

¹⁹¹ Huotari, *et al.* (2015), *supra nota* 125, 13.

¹⁹² Huotari, M., Hanemann, T. (2017). *Chinese investment in Europe: record flows and growing imbalances: Joint report by MERICS and Rhodium Group*. Retrieved from <https://www.merics.org/en/papers-on-china/chinese-investment-europe-record-flows-and-growing-imbalances>, 11 May 2020.

¹⁹³ Pavličević (2019) *supra nota*, 11, 260.

¹⁹⁴ Kizeková (2018), *supra nota* 121, 286.

¹⁹⁵ *Ibid.*; Phung, A. (2019). *Green Field vs. International Acquisition: What's the Difference?* Retrieved from <https://www.investopedia.com/ask/answers/06/greenfieldvsacquisition.asp>, 29 April 2020.

¹⁹⁶ Vangeli, A. China's Engagement with the Sixteen Countries of Central, East and Southeast Europe Under the Belt and Road Initiative. *China & World Economy*, 25 (5) 2017, referenced in Pavličević (2019) *supra nota*, 11, 262.

¹⁹⁷ Bartosiewicz, Sztelik (2019), *supra nota* 171, 51.

¹⁹⁸ Matura (2018) *supra nota* 176, 181.

Europe experiences the smallest gains in export.¹⁹⁹ The trade impact of the BRI is only a 0.2% increase.²⁰⁰ Moreover, new infrastructure projects elsewhere can reduce Poland's competitiveness in the future.²⁰¹ Nevertheless, based on measurements of Standard & Poor's, Moody's, and Fitch credit ratings, Poland does not fall on the risk of debt distress and therefore has a low risk of debt-buildup for additional BRI-related financing.²⁰² Despite this, the policy-makers of Poland seem to be optimistic that the BRI projects would resolve some of the mentioned issues.²⁰³

3.1.2. Political influence

The US has been lobbying actively in its future 5G networks to discourage EU members from using Huawei, a Chinese multinational technology company.²⁰⁴ Most European countries do not want to upset Beijing, while the US is an important security ally.²⁰⁵ The EU has agreed to follow a 'comprehensive and risk-based' approach to 5G security for its Member States.²⁰⁶ This implies the use of only trustworthy parties for components that are essential to national security, and where the laws of the home country of the supplier are considered.²⁰⁷ The rivalry between Washington and Beijing over 5G has started to redefine the status quo on the international scene, raising concerns about Chinese hegemony abroad both in terms of its essence and scope.²⁰⁸

In 2019, on allegations of spying, Poland detained a Chinese employee of Huawei and a Polish national engaged in cyber-business.²⁰⁹ Consequently, it sparked a domestic debate about the ramifications of Huawei's increasing presence in Poland, which has been quickly developing both in the consumer market and in the network of information technology.²¹⁰ The event brought international attention for Poland in terms of its involvement in the Sino-American rivalry.²¹¹ In early September 2019, Warsaw and Washington signed the US-Poland Joint Declaration on 5G; a document that indirectly opposes Huawei and portrays it as a possible threat to security.²¹²

¹⁹⁹ World Bank (2019), *supra nota* 107, 53.

²⁰⁰ *Ibid.*

²⁰¹ *Ibid.*

²⁰² Hurley, *et al.* (2018), *supra nota* 119, 7-8.

²⁰³ Kizeková (2018), *supra nota* 121, 286.

²⁰⁴ Cameron (2019), *supra nota* 174.

²⁰⁵ *Ibid.*

²⁰⁶ *Ibid.*

²⁰⁷ *Ibid.*

²⁰⁸ Bachulska, A. (2019). *The consequences of Sino-American rivalry for third countries: Poland and the 5G dilemma*. Retrieved from <https://theasiadialogue.com/2019/11/11/the-consequences-of-sino-american-rivalry-for-third-countries-poland-and-the-5g-dilemma/>, 11 May 2020.

²⁰⁹ *Ibid.*

²¹⁰ *Ibid.*

²¹¹ *Ibid.*

²¹² *Ibid.*

Following this, Poland balanced the needs of different international partners along with its own.²¹³ With the EU, it affirmed its engagement on the development of common standards governing 5G building on the European market.²¹⁴

Finding an alleged spy would be a good reason to drive Huawei out of Poland, s Chinese businessman Wang Weijing reported to Reuters.²¹⁵ Nevertheless, Chinese foreign minister Wang Yi was echoed by the Polish side that no foreign business in Poland is being discriminated.²¹⁶ The Chinese Embassy's spokesperson in Poland addressed media questions on the 5G Joint Declaration between the US and Poland stating that media spread false and inaccurate information to strangle a private company.²¹⁷ Moreover, the Polish leaders have clearly stated that Poland will uphold the telecommunications market's open with the fair environment and will not implement exclusionary policies against particular countries or companies for which China is grateful.²¹⁸

3.1.3. Analyses

From the above, it becomes eviden that the main driver for the Lodz railway project and collaboration with China is economic motivation. Poland's location seems to be efficient for fostering trade between Europe, Central-Asia and China. Nevertheless, as stated, it might not gain much in its exports the way China does, and there is a general problem in reciprocity. At the moment, the cooperation has not shown any significant results; instead, it seems more beneficial for China. Future implications are unsure; however, it seems that Poland has no risk to have a debt-buildup.

Although there are many political factors involved in the 5G rivalry between the US and China, Poland can make decisions alone without undue Chinese influence. Poland has clearly shown its willingness to work in the same vein with the EU on common standards governing the European 5G construction market. There is no indication that there would be any shift in a more favourable position towards China.

²¹³ *Ibid.*

²¹⁴ *Ibid.*

²¹⁵ Plucinska, J., *et al.* (2019). *How Poland became a front in the cold war between the U.S. and China*. Retrieved from <https://www.reuters.com/investigates/special-report/huawei-poland-spying/>, 11 May 2020.

²¹⁶ Bachulska (2019), *supra nota* 208.

²¹⁷ Ambasada Chińskiej Republiki Ludowej w Polsce. (2019). *The Spokesperson of the Chinese Embassy in Poland Answers Question of media on the US-Poland Joint Declaration on 5G*. Retrieved from <http://www.chinaembassy.org.pl/pol/ywsz/ggwj/t1694240.htm>, 11 May 2020.

²¹⁸ *Ibid.*

3.2. Latvia: Freeport of Riga

As early as 2012, Latvia was seen as having a unique opportunity to be a linking element between major economic unions such as the Eurasian Economic Union and the EU.²¹⁹ It could provide a short and fast transit route between China and Europe.²²⁰ In recent years, the relationship with China has emerged partly through its close military links and strategic partnership with Russia and partly through 17+1 framework as well as the BRI.²²¹ Nevertheless, the Summit of China and CEE countries in Riga in November 2016 became a symbolic experience for engagement and mutual trust-building.²²² As a result, Latvia became the first country in the Baltic Sea region to sign a Memorandum of Understanding to link up with the BRI.²²³ Latvia was very receptive for Chinese institutional and individual investors to strengthen the trade link between the countries.²²⁴ It issued bonds to attract Chinese investors, who can enjoy, for example, the issuance of visas through investments in the EU.²²⁵

In 2018, China and Latvia signed an agreement for the establishment of the sister port relationship between the Freeport of Riga and the Shenzhen Port in China.²²⁶ The Seaport of Riga would be part of the New Silk Road's Northern branch.²²⁷ The aim is to promote cooperation and exchange information and experience in port planning as well as management and development.²²⁸ The route would serve for the distribution of goods from China to Scandinavian countries.²²⁹ The total private investment portfolio for Freeport of Riga is 500€ million.²³⁰

²¹⁹ Kabashkin, I. (2012). Freight transport logistics in the Baltic Sea region. Regional aspects. *Transport and Telecommunication*, 12 (1), 33–50., 37.

²²⁰ *Ibid.*

²²¹ Scott, D. (2018). China and the Baltic States: Strategic challenges and security dilemmas for Lithuania, Latvia and Estonia. *Journal on Baltic Security*, 4 (1), 25-37, 25.

²²² Spruds, A. (2017). Towards a Balanced Synergy of Visions and Interests: Latvia's Perspectives in 16+1 and Belt and Road Initiatives. *Croatian International Relations Review*, 23 (78), 37-56, 38.

²²³ Yongqoi, H., Yun, W. Q. (2016). *Latvia beomes first to link with Belt and Road Initiative in Baltic Sea area*. Retrieved from https://europe.chinadaily.com.cn/china/2016-11/04/content_27280715.htm, 1 May 2020.

²²⁴ Shenshen, Z. (2018). *Latvia aims to use BRI to lure Chinese investors*. Retrieved from <https://www.shine.cn/biz/economy/1803131635/>, 1 May 2020.

²²⁵ *Ibid.*

²²⁶ Embassy of the Republic of Latvia in the People's Republic of China. (2018). *The Port of Riga to cooperate with the Port of Shenzhen, the World's Third Largest Container Port*. Retrieved from <https://www.mfa.gov.lv/en/china/845-visas-vestniecibas/china-en/china-news-other/60604-the-port-of-riga-to-cooperate-with-the-port-of-shenzhen-the-world-s-third-largest-container-port>, 1 May 2020.

²²⁷ Bulis, Skapars (2014) *supra nota* 172, 1222.

²²⁸ Embassy of the Republic of Latvia in the People's Republic of China (2018), *supra nota* 226.

²²⁹ Bulis, Skapars (2014) *supra nota* 172, 1222.

²³⁰ Report on the Investment Opportunities at the Freeport of Riga for the Cooperation with Investors from the People's Republic of China.

3.2.1. Economic outcome

Like Poland, Latvia's political circles are continually looking for ways to attract Chinese investors and cargo to the Eastern Baltic Sea region.²³¹ Freeport of Riga can thrive as a traffic route to the Northern Scandinavian territories.²³² Riga has the nearest port for cargo transshipment for cities such as Stockholm and Oslo.²³³ However, whether there are changes in foreign trade in the context of the BRI are still under consideration between academics.²³⁴ Overall, Latvia has an increase in trade volume between China based on UNCTAD statistics.²³⁵ However, the growth of Chinese imports is higher compared to Latvian exports.²³⁶ Latvia's former Transport Minister Uldis Augulis has stressed that the next objective is to change the difference in cargo flow between Latvia and China which is a challenge to take.²³⁷ In 2018 Latvia's exports to China were \$177 million versus imports of \$581 million.²³⁸ The difference is considerable, and whether the outcome of cooperation is a win-win situation is still unclear.²³⁹

There are several challenges for all Baltic states when in economic cooperation with China.²⁴⁰ Firstly, Chinese enterprises hope that they can leverage their expertise and technologies in infrastructure building, meaning that more jobs are addressed for Chinese.²⁴¹ Due to the 17+1 framework, the Baltic countries can ask China for designated credit lines for various infrastructure projects.²⁴² Although these loans have a relatively low-interest rate and are extended for many years, the Chinese financing model has a risk of a sudden debt increase.²⁴³ The conditions for these loans are not transparent, making it difficult to predict long-term feasibility which is risky for small economies.²⁴⁴ Moreover, as materials and labour force capital are allocated to China, it does not

²³¹ Efimova, E., & Vroblevskaya, S. (2019). Are Eastern Baltic Ports the drivers of Eurasian trade? *International Journal of Management and Economics*, 55 (3), 268–281, 268.

²³² *Ibid.*, 274.

²³³ *Ibid.*

²³⁴ *Ibid.*, 268.

²³⁵ Pavličević (2019), *supra nota*, 11, 261-262.

²³⁶ *Ibid.*

²³⁷ The Baltic Course. (2017). *DHL: Latvia will be significant transport hub between China and Europe*. Retrieved from <http://www.baltic-course.com/eng/transport/?doc=134894>, 4 May 2020.

²³⁸ Efimova, Vroblevskaya (2019) *supra nota* 231, 231.

²³⁹ Scott (2018), *supra nota* 221, 27.

²⁴⁰ *Ibid.*

²⁴¹ Lirong, Z. (2015). *The "sixteen plus one" cooperation will take China-EU relations to a new level*. Retrieved from <https://euobserver.com/stakeholders/131270>, 2 May 2020.

²⁴² Scott (2018), *supra nota* 221, 27.

²⁴³ Jakóbowski, J., Kaczmarski, M. (2018). Beijing's mistaken offer: the '16+1' and China's policy towards the European Union. *OSW Commentary*, No. 250. Warsaw: Centre for Eastern Studies, 3.

²⁴⁴ *Ibid.*

boost the local economy.²⁴⁵ Thirdly, as in Poland, there is a general problem of reciprocity.²⁴⁶ While Chinese companies are finding an open door environment in Europe, it is almost impossible for a European company to win a contract for building a Chinese infrastructure project.²⁴⁷

3.2.2. Political influence

China has secured its internal policies by exerting pressure on the Baltic countries.²⁴⁸ After the European debt crisis, China took advantage of the 'race for China'. Individual countries sought to gain as much from China as possible. They hoped to become China's primary partner and a 'gateway' to Europe.²⁴⁹ This allowed Beijing to take advantage of countries fear being excluded if they express reservations about Chinese interests.²⁵⁰ The Baltic countries, which previously stressed the topic of human rights, felt compelled to change their rhetoric.²⁵¹ China, through its economic power, has suppressed the general criticism of human rights issues.²⁵² It has for long maintained its control on Tibet as well as other minorities, as part of its 'core interests', and restricted the international role of Dalai Lama.²⁵³ Chinese state media reported that China's economic impact had led more countries to avoid the Dalai Lama.²⁵⁴ This pressure was evident during his visit to the three Baltic countries.²⁵⁵

When Estonia welcomed Dalai Lama in 2011 and 2013, relations between China were virtually frozen.²⁵⁶ When Dalai Lama visited Latvia in 2013, the Latvian government took a different approach.²⁵⁷ The Latvian President claimed that he was unaware of the visit.²⁵⁸ Shortly after that, in 2016, China gave its support to Riga as the primary Baltic link in Eurasian continental projects

²⁴⁵ *Ibid.*

²⁴⁶ Casarini, N. (2015). Is Europe to Benefit from China's Belt and Road Initiative? *IAI Working Papers 15*, No. 40. Rome: Istituto Affari Internazionali, 9.

²⁴⁷ *Ibid.*

²⁴⁸ Kaczmarek (2016), *supra nota* 127, referenced in Scott (2018), *supra nota* 221, 30.

²⁴⁹ *Ibid.*

²⁵⁰ *Ibid.*

²⁵¹ *Ibid.*

²⁵² *Ibid.*

²⁵³ Scott (2018), *supra nota* 221, 29.

²⁵⁴ Zhang, Y. (2017). *More countries shun Dalai Lama as China's economic impact grows*. Retrieved from <http://www.globaltimes.cn/content/1061653.shtml>, 4 May 2020.

²⁵⁵ Scott (2018), *supra nota* 221, 29.

²⁵⁶ *Ibid.*, 30.

²⁵⁷ *Ibid.*

²⁵⁸ *Ibid.*

and the right of hosting the 17+1 summit in Riga.²⁵⁹ Furthermore, when Dalai Lama later visited again, Latvia's Foreign Minister Edgars Rinkevics expressed that the Latvian government does not organise his visit in any way, and it is entirely a private event.²⁶⁰

3.2.3. Analyses

It becomes evident from the above that the Seaport of Riga could increase the cargo and trade flow for Latvia as it is the nearest port for Northern Scandinavian territories and an important linking point between the Central-Asian region. Nonetheless, it remains uncertain if the BRI would in future increase the amount of trade. There are few challenges ahead, such as the mentioned differences in cargo flow, risks in financing model and general problem in reciprocity. Moreover, it undercuts Latvia's local industry as imports from China, which are now cheaper, bring in larger quantities of Chinese goods.²⁶¹ Nevertheless, China's role in trade remains minor compared to the EU.²⁶² Moreover, based on similar measurements, Latvia has a low risk of debt distress for additional BRI-related financing.²⁶³

As mentioned earlier, not only is Latvia constantly seeking ways to attract Chinese investors, it is also committed to respecting China's territorial integrity.²⁶⁴ Dalai Lama's visit did not show contact with government officials.²⁶⁵ As a result, the relationship between the two was strengthened, and Latvia became the primary Baltic link in Eurasian continental projects. For these reasons, there is a clear presence of Chinese economic and political influence on Latvia.²⁶⁶ Like stated in the beginning of this chapter, human rights issues in China are central to the development of future relations between China and the EU; Latvia could adopt positions that are more favourable to China. This said, the participation in the projects could come at a political cost, if a country becomes economically dependent for China and thus takes such political stances.

²⁵⁹ Scott (2018), *supra nota* 221, 29; Jakóbowski, J. *et al.* (2015). *The China/Central and Eastern Europe summit: a new vision of cooperation, old instruments*. Retrieved from <https://www.osw.waw.pl/en/publikacje/analyses/2015-12-02/china/central-and-eastern-europe-summit-a-new-vision-cooperation-old>, 14 May 2020.

²⁶⁰ Tibetan Review. (2016). *Latvia says it can't stop Dalai Lama from visiting*. Retrieved from <https://www.tibetanreview.net/latvia-says-it-cant-stop-dalai-lama-from-visiting/>, 14 May 2020.

²⁶¹ Scott (2018), *supra nota* 221, 27.

²⁶² Pavličević (2019), *supra nota*, 11, 261.

²⁶³ Hurley, *et al.* (2018), *supra nota* 119, 7-8.

²⁶⁴ Tibetan Review (2016), *supra nota* 260.

²⁶⁵ Scott (2018), *supra nota* 221, 30.

²⁶⁶ Scott (2018), *supra nota* 221, 25.

CONCLUSION

The thesis elaborates how China, as a rising great power, has attracted worldwide attention ever since it transformed itself into a modern economic great power. It becomes evident that with its BRI infrastructure projects and regional cooperation framework between CEE countries, China has deepened its investment, market and political influence. As a result, several projects have been implemented of which some end up in the EU's area of jurisdiction. Some EU Member States have already shown their willingness to cooperate under the BRI, and there are likely to be more cases in the future.

It appears, that the EU has not yet adopted a common approach to neither of the frameworks and has rather been cautious. Nevertheless, there are no limitations for Member States to participate in the projects than to ensure the compliance with EU legislation, rules and policies. In the case of Hungarian Belgrade-Budapest railway, the European Commission needed to examine whether Hungary had broken EU public procurement rules for choosing straightaway the Chinese developer. The EU and China have a very different regulatory framework, and as the number of the projects is probably going to increase, a certain package should be implemented to avoid unnecessary pressure on EU regulators. This would directly address issues related to BRI infrastructure projects.

Furthermore, the thesis's premise is that if China's growth is going to continue, it could take the position of leading hegemon in the future, and the BRI would be a suitable tool for such enlargement, where China could extend its global influence. For this reason, the thesis examines whether BRI's ulterior motive is hegemony, in this case, in Eastern Europe. Furthermore, it seeks to answer whether the participation in the projects will come at a political cost. It became evident that China assures to be a different kind of power that does not seek dominance in the international system. Also, the BRI should be a win-win situation in which trustworthy and friendly relations are fostered by peaceful means. It should also encourage the development of the international economy. However, potential drawbacks have been highlighted in questioning China's alleged intentions.

First it was shown that China has been accused of 'debt-trap diplomacy' as many loans have been granted to developing countries whose public debt may already be enormous. In 'debt-trap diplomacy,' the creditor cannot pay off the debt and ends up giving economic or political concessions. Few cases have occurred with the BRI, which has led to many similar developing countries to cancel or withdraw from the projects. Secondly, BRI has graded some criticism and warnings in Europe and been called as a strategy that aims to dominate and change the international system. The 17+1 framework has been called as a 'divide and rule' strategy, where presumably, China attempts to divide the Union by offering BRI investments to EU Member States as well as membership candidates. As a result, countries could take more favourable stances on China in order to protect their economic relationship with it.

Thirdly, the case of *Vattenfall v. Germany* showed how disputes with investor and host state can result in a loss of political autonomy. When Vattenfall brought up an investor-state claim against Germany for not receiving 'fair and equitable treatment', Hamburg had to drop these additional environmental requirements in order to avoid a massive amount of compensation. Similar cases could resolve potential disputes with BRI cases, where an investor could challenge the host country's policy decisions. In order to protect host countries from such cases, investment treaties should have a more strict language where such clauses are specified. Otherwise, even large economies such as Germany could result in a loss of political autonomy.

To test whether the above-mentioned concerns hold true, small illustrative case studies were made at the end of the thesis. They analysed the Lodz railway project in Poland and the Freedom port of Riga in Latvia. With both cases, it became evident that the main driver for cooperation is economical. Both projects could be geostrategically successful and are important to both parties. However, there is a general unbalance in many areas. This questions whether the BRI is truly a win-win situation especially in the future development. China seems to benefit more from the projects, especially in the long term as the functionality of the BRI will improve. At the moment, the cooperation has not shown any significant results, and it remains unclear whether the BRI will benefit Latvia or Poland as much as China in the long run.

As for political aspects, Poland and Latvia ended with different results. By taking the example of 5G rivalry between Washington and Beijing as well as EU's implications on it, Poland was able to take independent decisions despite the Chinese influence. Moreover, Poland assured to be on the

same page with the EU and that it would keep a fair and open environment in the telecommunications market despite the spying allegations on Huawei. On the other hand, Latvia showed a clear presence of Chinese political influence. When Dalai Lama visited Latvia for several times, Latvia made sure to assure that these visits are private events and that Latvia fully recognises Tibet as an integral part of China. As a result, China gave its reward and supported Riga as the primary Baltic link to Eurasian continental projects.

With this said, the potential political consequences would be a loss of political autonomy through ISDS mechanisms or major debt-buildups that could result in economic or political concessions. On the other hand, BRI could foster trade and development on an international scale, which would indicate a win-win situation. However, the case studies are not yet fully able to indicate either, and for now, it seems more beneficial for China. The future will show the real economic impact of the BRI projects, but at the moment, the EU needs to implement a common approach with China in order to protect its integrity. Member States may take pro-China stances on its internal issues that are more sensitive in order to protect their economic relationship like in the case of Latvia. However, there is no indication that China would 'divide and rule' between the EU Member States. On a broader scale, Member States can act jointly with the EU when needed, such as in the case of Poland and Huawei. In conclusion, while it seems that China has some influence on the policies of some countries, currently, BRI is not a strategy to exert hegemony in Eastern Europe.

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