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The new Silk Road enters a second phase and increases footprint in Europe

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Abstract:

Before the deployment of the new Silk Road, Chinese diplomacy had never arrived with so much momentum to the heart of Europe. The future success of the goals set by Beijing to become a leading global power will depend on the lessons learned since the initiative was launched six years ago and, on the need, to successfully respond to new and changing circumstances. The new Silk Road enters a second phase where to reduce criticism and recalibrate the deployment strategy all over the Corridors is a priority. Now, the strategic projects in the countries that have formally endorse the initiative will set the pace of the expansion of China's diplomacy, with Europe in the spotlight.

Keywords:

New Silk Road, Belt and Road Initiative, Europe, Infrastructure Development, China.

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Introduction

The new Silk Road has entered a second phase in which the initiative will boost the strategic projects that best represent their interests, seeking further strengthening with the countries through China-backed infrastructure development. In this second phase, Beijing seeks to develop an increasingly green and sustainable Silk Road given the member and non-member countries' widespread criticism. Nonetheless, the main objective is to focus on strategic projects in which to deploy the commercial, economic and financial diplomacy to ensure the development of the country in the coming decades, without setting aside the political component.

If the “debt traps” have ruled some chapters of the deployment in the previous stage, such as the one that has led to the handover of Sri Lanka's Hambantota strategic port to China on a 99-year lease, in this new stage, the countries turn to China for financing on favourable conditions. Against all odds, Sri Lanka has requested a \$1 billion¹ loan to China to meet the re-payment of debt it owes to Beijing. In the case of Indonesia, the Second Belt and Road Forum held in Beijing last April served as a scenario to offer China a joint participation in up to 30 projects, with an associated investment of \$91 billion², seeking to increase the country's participation within the Belt and Road Initiative (BRI) projects.

This second meeting successfully held in Beijing, attended by member countries and others with interests in the initiative, and has proven to have positive outcomes for China. 37 heads of State attended the Forum, highlighting the attendance of the European leaders who have recently joined the new Silk Road, such as Italy (2019), Greece (2018) and Portugal (2018), whereas others, such as the United Kingdom, Germany, France and Spain, sent high-ranking representatives, and hosted up to 150 attending countries and 5,000 other representatives. On this occasion, the Asian giant reinforced its commitment

¹ REUTERS. “Exclusive: Sri Lanka to receive \$1 billion Bank of China loan this quarter.” January 2019. Available at: <https://www.reuters.com/article/us-sri-lanka-economy-bank-of-china-exclu/exclusive-sri-lanka-to-receive-1-billion-bank-of-china-loan-this-quarter-idUSKCN1PB1DD>

² ASMARINI, Wilda and JEFRIANDO, Maikel. “Indonesia asks China for special fund under Belt and Road: ministers.” Reuters. July 2019. Available at: <https://www.reuters.com/article/us-indonesia-china-beltandroad/indonesia-asks-china-for-special-fund-under-belt-and-road-ministers-idUSKCN1TY1DU>

to the initiative by signing agreements amounting to \$64 billion³, placing special emphasis on the development of environmentally sustainable projects in an effort to address international criticism received in recent months⁴ questioning the initiative outside China were in compliance with relevant environmental regulatory requirements. Peru joining the flagship infrastructure initiative⁵ during the Forum unveils the positive outcomes in the framework of diplomatic challenges, a new Latin American country drawing into China's orbit by the infrastructure investments' pledge. In this way, Peru followed the steps of Chile that officially signed on to China's Belt and Road Initiative⁶ in November 2018 highly motivated by the withdrawal of the Trump administration from the Trans-Pacific Partnership (TPP). The fact of China becoming Chile's top trading partner has encouraged the Latin American country to join the China-led Asian Infrastructure Investment Bank (AIIB)⁷, making the connectivity projects strengthen the already strong commercial synergies between the two countries.

The turning point in Latin America began when Panama broke off diplomatic ties with Taiwan in favour of recognizing China in June 2017. In November of that year, its support for the new Silk Road became full and effective with the ambition to strengthen the commercial, tourism and investment relationships between both countries⁸. With this diplomatic manoeuvre, in January 2018 China attended the CELAC Forum (Community of Latin American and Caribbean States) showing a growing interest and regional power, and boosting the economic and commercial development through the initiative, a

³ PAO, Jeff. "Xi claims \$64 billion in deals at BRI Forum." *Asia Times*. April 2019. Available at: <https://www.asiatimes.com/2019/04/article/xi-takes-a-conciliatory-tone-at-belt-road-forum>

⁴ XINHUANET. "President Xi delivers keynote speech at 2nd Belt and Road Forum for International Cooperation." April 2019. Available at: http://www.xinhuanet.com/english/2019-04/26/c_138008377.htm

⁵ AQUINO, Marco. "Peru to sign MoU to join China's Belt and Road club in coming days: Chinese Ambassador." *Reuters*. April 2019. Available at: <https://www.reuters.com/article/us-china-silkroad-peru/peru-to-sign-mou-to-join-chinas-belt-and-road-club-in-coming-days-chinese-ambassador-idUSKCN1S104R>

⁶ SHERWOOD, Dave. "Chile to join China's Belt and Road Initiative." *Reuters*. November 2018. Available at: <https://www.reuters.com/article/us-chile-china/chile-to-join-chinas-belt-and-road-initiative-idUSKCN1N65YD>

⁷ RÍOS, Xulio. "Chile anuncia su incorporación al Banco Asiático de Inversión en Infraestructuras." *Observatorio de la Política China*. June 2019. Available at: <http://politica-china.org/areas/politica-exterior/chile-anuncia-su-incorporacion-al-banco-asiatico-de-inversion-en-infraestructuras>

⁸ MORENO, Elida. "Panama, China sign accords on Xi visit after diplomatic ties start." *Reuters*. December 2018. Available at: <https://www.reuters.com/article/us-panama-china/panama-china-sign-accords-on-xi-visit-after-diplomatic-ties-start-idUSKBN1O22PE>

breakthrough that would not have been possible if the United States were to remain as the hegemonic power in the region.

The new Silk Road has no limits and moves steadily

The steady growth in trade between the countries comprising the initiative shows that the infrastructure deployed in the last six years is fulfilling the purpose of establishing closer trading links between China and the BRI countries. The bulk of BRI-related investment reaches so far US\$70 billion, according to MERICS, whereas goods trade surpassed US\$6 trillion between 2013-2018, thanks to the 170-plus agreements signed with 150 countries or international organizations⁹ worldwide, even deployed in non-BRI countries.

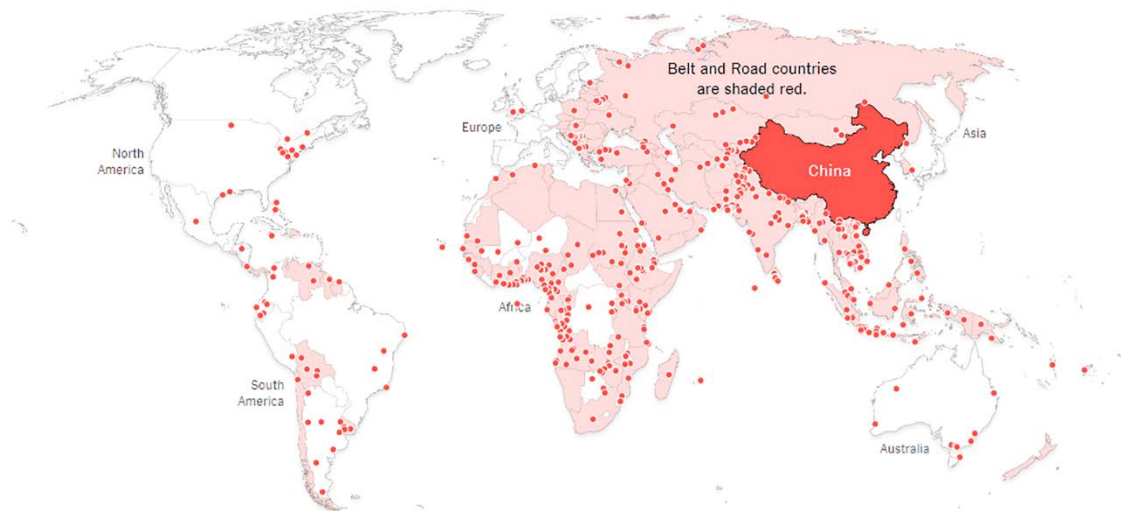


Figure 1. China-backed projects by the end of 2018. Source: NYT

The geopolitical balance-of-power game China has outlined throughout the Asia-Pacific region allows the Asian giant to enhance infrastructure-led connectivity, fuelling the expansion of its influence. The diplomatic component is yielding China greater recognition in the region as a global power, becoming one of the key milestones to the new Silk Road's expansion. Just as importantly in terms of achieving this goal is the trade component, thanks to which China is deploying new markets for its products. Nevertheless, reaching these destinations also depends on achieving greater capillarity

⁹ YITING, Ding. "China's goods trade with B&R countries surpasses \$6 trln." People's Daily. April 2019. Available at: <http://en.people.cn/n3/2019/0422/c90000-9570435.html>

in the interior regions far from maritime freight transport. Hence, the Asian giant is expanding the connectivity scheme of the six land corridors, including the New Eurasian Land Bridge, the only one fully conceived as rail freight transport.

Among them, the China-Indochina Peninsula Economic Corridor stands out as the corridor with the biggest momentum with the beginning of the railway construction that will link China-Laos¹⁰ and China-Thailand¹¹. In Cambodia, Beijing will invest US\$2 billion for the construction of the 190-km long expressway linking the capital Phnom Penh with the deep-sea port in the coastal city of Sihanoukville, a rising destination for Chinese tourism due to the construction of more than 150 casinos in recent years. With this project, Cambodia falls into an ever-closer China's sphere of influence, receiving its assistance in the event of the European Union (EU) imposing trade sanctions over issues related to human rights violation. This movement would imply distancing itself from its major development partner in favour of Beijing¹² and its ongoing support through the BRI-linked projects.

In this same Corridor, Mahathir bin Mohamad's appointment as Malaysia's prime minister was the beginning of a period of changes in the shifting balance of power of favourable alliances to Beijing in the Indo-Pacific. Shortly after, other movements have followed in countries such as Pakistan and Burma, where the newly elected leaders have reviewed the BRI-related projects signed with China in previous stages in order to confirm they unleash economic benefits for the country, and do not merely serve Beijing's interests. After this review, some suspended projects have been resumed, and others have even included improvements. In the case of Malaysia, the government was able to cut the cost¹³ of the 648km rail link construction by one third, from US\$16 billion to US\$10.7 billion. It will start running in 2026, two years behind schedule, with an increase in civil

¹⁰ People Daily. "Colocan la primera viga de la superestructura del ferrocarril China-Laos." Spanish People Daily. December, 2018. Available at: <http://spanish.peopledaily.com.cn/n3/2018/1203/c31620-9524776.html>

¹¹ Yidaiyilu. "El Ferrocarril China-Tailandia." Portal de la Franja y la Ruta. November, 2017. Available at: <https://esp.yidaiyilu.gov.cn/noticia/word/35554.htm> Accessed: June 1, 2019.

¹² NACHEMSON, Andrew. "Chinese investment in Cambodia is bringing Phnom Penh closer to Beijing – and further from the EU." South China Morning Post. May 2019. Available at: <https://www.scmp.com/news/asia/southeast-asia/article/3008451/chinese-investment-cambodia-bringing-phnom-penh-closer>

¹³ BOWIE, Nile. "Mahathir sets tone for renegotiating with China." Asia Times. April 2019. Available at: <https://www.asiatimes.com/2019/04/article/mahathir-sets-tone-for-renegotiating-with-china/>

works from 30% to 40%, and the route crossing five states, instead of the initial four, connecting the north-eastern region, bordering Thailand, and the capital, Kuala Lumpur. As a result, Malaysia becomes the example to follow in the negotiations of China-backed BRI projects affected by excessive prices or allocated under circumstances of little transparency. In the corridor's extension towards Indonesia, the Jakarta-Bandung¹⁴ high-speed connection begins to take shape thanks to a consortium signed between Chinese and Indonesian companies with an associated investment of US\$6 billion.

Novelties also apply to the New Eurasian Land Bridge, which continues to increase its capillarity in the heart of Europe with a new cargo train between the Belgian city of Liege, located 100 kilometres from Brussels, and the capital of the Chinese Henan province, Zhengzhou¹⁵. These routes add to the railway links between China and Belgium with the freight train from the Chinese city of Daqing to Zeebrugge, Bruges port, in June 2018, and the connection between the Chinese port of Tangshan and the port of Antwerp in May 2019. Likewise, the new freight train route¹⁶ launched from the Chinese city of Zhuzhou to Minsk, the capital of Belarus, marks a new milestone, turning this area into the initiative's more important railway hub acting as a gateway for all transport to Europe [Fig. 2]. The increasingly freight transport capillarity is driving the connections between East and West, especially when Russia's decision to lift the ban on transit traffic of European products, in force since August 2014, could be a major boost for the overland transport of goods in coming months¹⁷.

¹⁴ China Internet Information Center. "Primer túnel del proyecto ferroviario de alta velocidad Jakarta-Bandung." Spanish.CHINA.ORG.CN. March 2019. Available at: http://spanish.china.org.cn/txt/2019-03/27/content_74617659_3.htm

¹⁵ XINHUANET. "China, Belgium launch new cargo train route." Xinhuanews. October 2018. Available at: http://www.xinhuanet.com/english/2018-10/25/c_137556106_4.htm

¹⁶ ZASIADKO, Mykola. "China launches new container train to Belarus." RailFreight. July 2019. Available at: <https://www.railfreight.com/beltandroad/2019/07/11/china-launches-new-container-train-to-belarus/>

¹⁷ VAN LEIJEN, Majorie. "Russia lifts ban on transit of sanctioned EU products by rail." RailFreight. July 2019. Available at: <https://www.railfreight.com/specials/2019/07/09/russia-lifts-ban-on-transit-of-sanctioned-eu-products-by-rail/?gdpr=accept>



Figure 2. Comparison between the maritime route and the rail freight route to Europe.

Source: Railfreight.

Chinese diplomacy intensifies in Europe

Although some countries show disagreements over the high BRI-project costs, the need to promote broader connectivity that leads them to better economic development and greater regional integration is crucial in accepting the conditions imposed by Beijing. As far as western powers are concerned, the misgivings about the initiative emerge when China's growing influence in the Indo-Pacific goes far beyond the borders to reach Europe, succeeding in getting a large bunch of European countries to join the Initiative.

The first move in Europe came from the 16+1 mechanism, a group created in 2012 in which 16 countries from Central and Eastern Europe meet, 11 of which belong to the European Union, which aims at promoting trade on a bilateral basis and boosting Chinese investment in European countries. A first platform where Chinese diplomacy has largely strengthened among the European countries closely aligned to the objectives of the new Silk Road, getting all participating countries to join the initiative just one year on from this cooperation format's creation. Much like Central Asian and Southeast Asian countries, investments into BRI projects have favoured greater regional integration, and hence Greece, due to its proximity to these countries, has officially joined the 16+1

mechanism¹⁸. With this new scheme, China achieves a new milestone by connecting Belgrade to Skopje, capital cities of Serbia and North Macedonia respectively, and to the Greek port of Piraeus, the European flagship project of the String of Pearls' extension in the Mediterranean Sea.

The initial euphoria about European states officially joining the initiative persists with Switzerland¹⁹ signing an agreement last April and Luxembourg²⁰ signing a bilateral Memorandum of Understanding on BRI cooperation at the Second Belt and Road Forum. These two countries followed in the wake of Portugal, which found in Chinese investments the most effective means to revitalize its economy after the austerity measures promoted in several EU countries following the 2008 global financial crisis. This way, Portugal resumed a more than 500-year relationship that ended up with the handover and transfer of sovereignty of Macao to the Chinese government in 1999. The investments across diverse sectors from energy to transport, insurance, financial services and health, worth 9,000 million euros until 2017, according to official data, show the growing interest of the Asian giant in Portugal. In fact, the new Silk Road has become the instrument for Portugal to be the first country in the Eurozone to issue debt in yuan²¹. Moreover, the strategic position of Portugal, connecting the European, African and Latin American markets, gives the country the potential to become a prominent hub along the Maritime Silk Road, hence COSCO's interest in the port of Sines²².

However, it has not been until Italy endorsing China's Belt and Road Initiative that the European Commission has issued a strongly worded statement against the growing power the Asian giant is gaining in the old continent as China pledges to ramp up loans

¹⁸ LIU, Zhen. "Greece set to join China-led 16+1 group with Central and Eastern European nations." South Morning China Post. April 2019. Available at: <https://www.scmp.com/print/news/china/diplomacy/article/3005774/greece-set-join-china-led-161-group-central-and-eastern>

¹⁹ South China Morning Post. "Switzerland to sign belt and road deal during President Ueli Maurer's China trip." SCMP. April 2019. Available at: <https://www.scmp.com/news/china/diplomacy/article/3006438/swiss-belt-and-road-deal-be-signed-during-president-ueli>

²⁰ OBOReupe. "Luxembourg, a member of the BRI." April 2019. Available at: <https://www.oboreurope.com/en/luxembourg-member-bri/>

²¹ AMARO, Silvia. "Portugal becomes the first euro zone country to issue debt on China's market." CNBC. May 2019. Available at: <https://www.cnbc.com/2019/05/30/portugal-first-euro-zone-country-to-issue-bonds-in-china-currency.html>

²² Macauhub. "Chinese shipping groups interested in the port of Sines, Portugal." December 2018. Available at: <https://macauhub.com.mo/2018/12/12/pt-china-interessada-no-porto-de-sines-em-portugal/>

and global infrastructure investment programmes. Before Italy, 13 European countries, including Greece, Portugal and a large number of Eastern countries, have already signed BRI cooperation agreements with China.

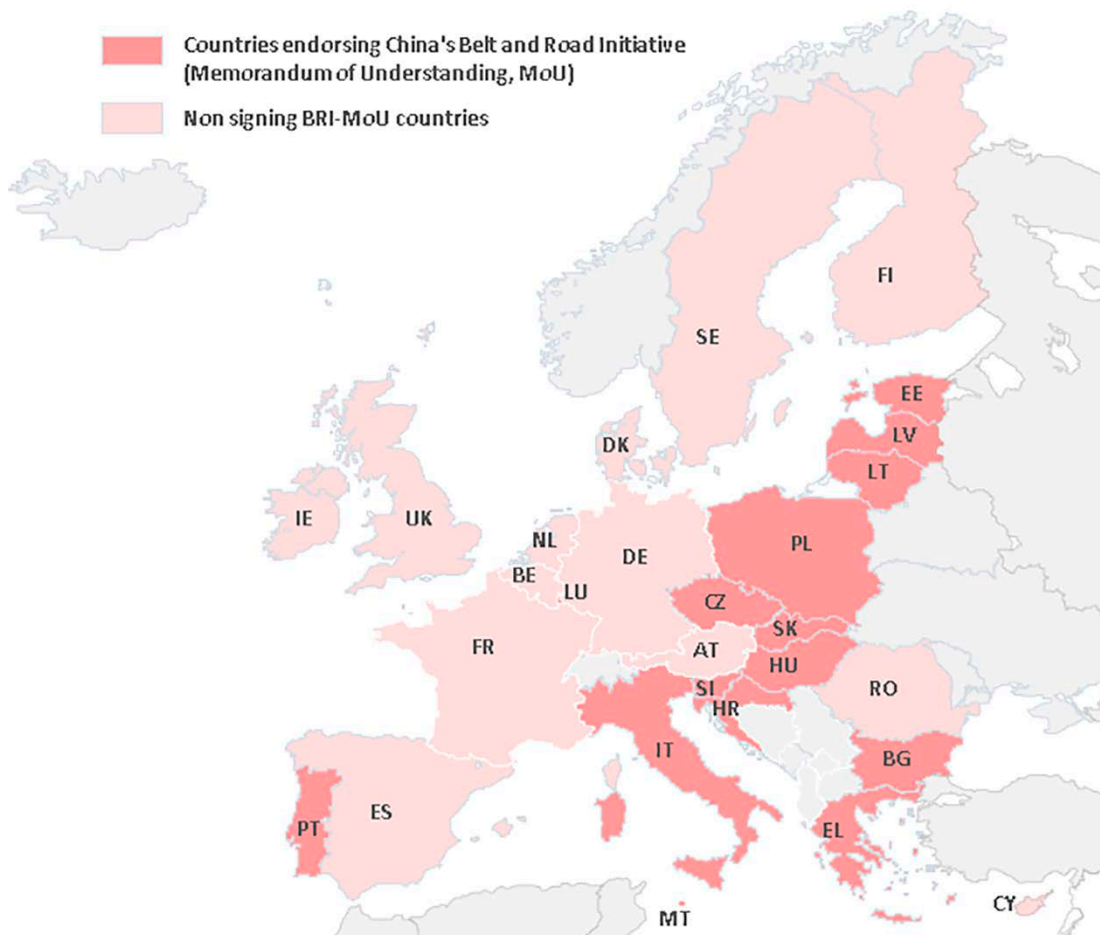


Figure 3. European Union member States that have endorsed China's Belt and Road Initiative.

Source: Prepared by the author on the basis of data supplied by Belt and Road Initiative.

With Italy joining the BRI, the initiative adds strategic maritime hubs in the Adriatic Sea that connect directly with the Balkan countries and with the factories in the heart of Europe. The ports of Trieste, Palermo and Genoa are part of the agreement on which China intends to expand its container transit capacity in search of new markets for its products. Ports that will also have the function of connecting with the European landlocked countries through the deployment of new transport infrastructures, connecting with the branches the Yiwu-Madrid freight train has deployed in this region, and from where China will seek the source of supply for its economy.



Figure 4. The new Silk Road expands influence in Europe.

Source: Prepared by the author on the basis of data supplied by MERCIS.

The objective of Italy is to achieve Chinese investment volumes similar to those received by other European states such as France, Germany and the United Kingdom. In fact, these three countries represent 31% of all China's foreign direct investment (FDI) in Europe in 2017, reaching 50% in 2016, according to the National Bureau of Statistics of China. The trading sphere is considered a top priority for Italy, which aims to boost 6.5% of its exports to China, seeking to match them with 17% they represent in the case of the German economy, according to Baker McKenzie. In fact, whereas 60 million Italian citizens purchase Chinese products amounting to 60,000 million euros each year, the Chinese population, twenty-three times larger than Italy's, barely makes a purchase volume of Italian products worth 13,000 million euros, according to official sources. A circumstance replicated throughout Europe.

Challenges raised by the second phase of the new Silk Road

Italy's decision to join China's Belt and Road Initiative at the end of March just two weeks before the EU-China summit in Brussels highlights how in Chinese culture a symbol of power means matching significant accomplishments with relevant dates. China's reinforced image getting Italy to join the BRI, the third country in the Mediterranean officially endorsing the initiative, in addition to being one of the five major European economies, the first G7 nation to sign up, and a founding member of the European Union, contrasts with the concern shown by the European Commission in its EU-China Strategic Outlook²³ paper. In this document, China is now considered an 'economic competitor' that pursues 'technological leadership', as well as a 'systemic rival', promoting 'alternative models of governance' that are not in line with the democracy scheme established in the world's largest economies.

The division within the EU grows between countries that endorse the initiative and others that consider Europe should speak with one voice to China, undermining internal cohesion. This is Germany, France, Spain and the United Kingdom's position, although the pro-China attitude declared by Boris Johnson²⁴, new British Prime Minister, means London would significantly increase Chinese FDI, which is currently the largest in Europe with 18% in 2017, compared to 11% in Germany. The great European powers' bet on China-EU relations is to design their own "Connectivity between Asia and Europe" strategy²⁵ in order to counter the rise and hegemonic status China is reaching by strengthening the European regional order and setting up broader cooperation agreements. Therefore, not to sign bilateral memorandums, protect strategic sectors and communications networks, and promote greater reciprocity to make sure Chinese and

²³ European Commission. "EU-China – A strategic outlook." European Commission and HR/VP contribution to the European Council. March 2019. Available at: <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf> Accessed: June 6, 2019.

²⁴ LU, Zhenhua. "'Pro-China' Boris Johnson 'enthusiastic' about belt and road plan." South China Morning Post. July 2019. Available at: <https://www.scmp.com/news/china/diplomacy/article/3019884/pro-china-boris-johnson-enthusiastic-about-belt-and-road-plan>

²⁵ European Commission. "Connecting Europe and Asia – Building blocks for an EU strategy." September 2018. Available at: https://eeas.europa.eu/sites/eeas/files/joint_communication_-_connecting_europe_and_asia_-_building_blocks_for_an_eu_strategy_2018-09-19.pdf Accessed: July 9, 2019

European companies compete on equal terms are considered an integral part of the strategy.

While Europe seeks to launch its own infrastructure initiative, all other countries joining the new Silk Road share the strategy of boosting bilateral trade and increasing China's infrastructure investments that improve their regional integration and connectivity. In the case of European countries, the financing requirement stems from the economic downturn after the 2008 global financial crisis. As for Asian countries, as developing countries, the complexity behind access to funding provided by the International Monetary Fund and the World Bank is the reason for finding in BRI projects the best chance to revitalize their national economies. In return, the benefits to China result in gaining access to new markets and increasing its hegemony in BRI recipient countries.

The criticisms over some BRI projects for being debt traps' generators, for lack of transparency and inclusivity, and for being considered possible "Trojan Horses" in China's quest to gradually increase its regional and global hegemony, are in no way an obstacle for the new Silk Road to welcome new countries. Among great powers, the approaches differ, but they come to confirm each country has established its own foreign policy with China, bearing in mind the dimension the new Silk Road is achieving in the global trade and connectivity landscapes. Luxembourg and Switzerland, first and third position respectively, top the list of wealthiest countries in the world by GDP per capita according to the World Bank, and have formalized their participation in the initiative based on the increase of bilateral trade flows and investment possibilities in third countries.

Japan's pragmatic attitude has made Tokyo to agree with China on joint implementation of 50 infrastructure projects, seeking to produce benefits for its companies and an improvement in relations between the two countries²⁶. The fact of Japan leading the Free and Open Indo-Pacific (FOIP) strategy²⁷ to counter BRI projects' policy significance in Asia proves there are different approaches toward the New Silk Road Project and levels of engagement. With a budget of US\$110 billion, below the US\$1 trillion threshold the Chinese initiative has pledged, Tokyo aims to develop high-quality infrastructure in Asia

²⁶ ARMSTRONG, Shiro. "Japan joins to shape China's Belt and Road." East Asia Forum. October 2018. Available at: <https://www.eastasiaforum.org/2018/10/28/japan-joins-to-shape-chinas-belt-and-road/print/>

²⁷ JENNINGS, Ralph. "Japan Is Committing To China's Belt & Road Initiative, But What's In It For Them?." Forbes. April 2018. Available at: <https://www.forbes.com/sites/ralphjennings/2018/04/17/why-japan-had-to-join-china-in-building-trade-routes-around-asia/#5fee48657175>

and Africa. Its objectives include maintaining maritime security and freedom of navigation in the region, having India, the United States and Australia as allies, following the same collaboration scheme as with the so-called “Quad” dialogue mechanism. Given China's growing influence in the Indo-Pacific, the target countries will be those affected by “debt traps” such as Sri Lanka. Australia has acted similarly, signing an agreement with China for infrastructure development in third countries, mainly to counter the rise of Chinese investments in the Pacific Islands, an area under Australia's sphere of influence, which have reached US\$1.7 billion between 2006-2016, according to Lowy Institute. However, the duality in the approach can be seen in the case of the state of Victoria, the second most populous in Australia, breaking ranks with the discipline proposed by the government to sign up to the new Silk Road²⁸ so that its companies can make a profit from these projects.

Nonetheless, the investments proposed in European ports, although conceived to improve the performance and capacity of container transit, deserve a long-term discussion on possible short-term benefits. An analysis of the possible implications that these maritime infrastructures could have for the security and stability of the region is necessary if China were to make military use of these enclaves. Nevertheless, it is far more important when it comes to countries signing up to the initiative, such as Italy, member of the Atlantic Alliance, better known as the North Atlantic Treaty Organization (NATO), much like many other European countries.

²⁸ POWER, John. “Why has an Australian state broken ranks with Canberra to sign up to China’s belt and road?.” South China Morning Post. November 2018. Available at: https://www.scmp.com/week-asia/article/2171159/why-has-australian-state-broken-ranks-canberra-sign-chinas-belt-and-road?utm_campaign=a2339fd3be-20180920%20newsletter_COPY_02&utm_medium=email&utm_source=SupChina%20Free%20Newsletter&utm_term=0_96063830a5-a2339fd3be-165091491

Conclusions

China seeks in this second phase of the new Silk Road to adjust the initiative to cut costs while keeping control over the projects, as well as recalibrating the deployment strategy across Europe. The lessons learned from Malaysia renegotiating China-backed projects, as well as the first G7 member country signing up to the initiative and the agreements reached for infrastructure development in third countries are all part of new scenario the initiative must face.

References to “debt-trap” projects and “Trojan Horse” dilemma have marked the development of the initiative in its first phase, whereas in this second stage the new Silk Road must pursue a framework for promoting a reciprocal opening-up of the domestic markets, and boosting foreign investment. China has come to stay and become a global player, with instruments such as the new Silk Road, which should not promote zero-sum games but the long-term common benefit in an environment where Chinese and foreign companies will be able to compete on equal terms.

Europe's prosperity depends to some extent on its relationship with China. EU-China cooperation framework would be reinforced by incorporating the new Silk Road as part of the bilateral relations, setting up new infrastructure investment policies, but also in the field of technology, related to the deployment of the Digital Silk Road, in addition to promoting the opening-up of Chinese markets. A way to strengthen EU-China relations whilst maintaining unity among European countries.

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