

osce Network

OSCE Network of Think Tanks and Academic Institutions

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Executive Summary

Since its inception in late 2013, China's Belt and Road Initiative (hereinafter the BRI, or 'the Initiative') has grown into a vast global development project with increasing geopolitical and geo-economic implications. By 2019, Belt and Road co-operation involved 137 countries and 30 international organisations, with concrete projects in over 70 countries. These include 27, or almost half, of the OSCE's 57 participating States.

The new connectivities that the Initiative has created along the Silk Road Economic Belt and two of its economic corridors, the New Eurasian Land Bridge and the China–Central Asia–West Asia Corridor, in some ways complement the OSCE region's two other economic (and political) integration projects, the European Union and the Eurasian Economic Union, but in other ways also represent rival alternatives. An increased Chinese presence thus also competes with Russia and the West for influence across BRI partner countries, particularly in the already contested OSCE subregions of Central Asia, the South Caucasus and Eastern Europe, and the Western Balkans.

Regardless of how much China may emphasise the economic focus of the BRI and its win–win approach, a project as grand and ambitious as the BRI is bound to have geopolitical consequences, yet there is uncertainty about what these are, when and how they will materialise, and whether they are inevitable but unintended consequences or part of a yet unarticulated Chinese grand strategy.

China's presence and activities across the OSCE subregions predate the launch of the BRI but have been systematically framed as part of an increasingly coherent and ambitious Chinese strategy driven by multiple separate domestic and foreign policy imperatives. Associated with concepts such as the 'Chinese dream' and the 'new era', the BRI first and foremost serves Chinese domestic national interests. That the implementation of the BRI is meant to generate gains for China first does not, however, prevent it from benefitting partner countries.

With China increasingly viewed in Washington as the United States' main rival, and in light of growing scepticism toward China in EU and NATO capitals, involvement in the BRI has become increasingly difficult for those countries in the OSCE region, like Georgia, Moldova, and Ukraine, that take a generally pro-Western geopolitical stance in their foreign policy and harbour aspirations for closer integration into Euro-Atlantic security and economic institutions.

The BRI, and China's presence and activities in the OSCE's contested subregions more generally, thus adds an additional complication to already frayed relations within the Organisation that have negatively affected its ability to fulfil its comprehensive security mandate.

The potentially increasing challenge that China therefore presents to security and stability in the OSCE area in general, and in the three contested subregions in particular, cannot be ignored by the Organisation and its participating States. From the OSCE's perspective, there is a need to engage with China. However, such engagement faces three main hurdles.

First, it is not clear that participating States would benefit from OSCE engagement with China, as this may limit the gains they can obtain from direct bilateral engagement or through different formats, such as the EU, the EAEU, and the SCO.

Second, taking on the challenge of engaging with China may simply be a 'bridge too far' for the OSCE, further undermining its capacity to deliver on its existing mandate and to preserve its established norm consensus in the context of the already fractious relations between its participating States.

Third, it is far from clear that the OSCE is the kind of forum with which China would want to engage, and under what conditions.

These hurdles neither diminish the need for engagement nor make engagement impossible. Rather, they set the parameters within which a strategy for engagement could be developed and implemented.

Opportunities for constructive engagement with China are most obvious in the OSCE's economic and environmental dimension. However, while this second dimension can offer a starting point, engagement in this dimension alone will not be enough to address the much broader range of implications of the BRI for the OSCE as a comprehensive security organisation and for each and every one of its participating States.

Hence, the OSCE should initially approach engagement with China from a position of pragmatism that recognises China's significance as an actor within the OSCE region, takes account of the existing capacity and capabilities of the OSCE, and carefully considers the likelihood of a constructive response by China.

Such pragmatism is a necessary starting point, but it would not preclude a gradual shift to a more strategic approach. The foundations for a more strategic approach to engagement with China could then be built by prioritising multi-channel engagement with China that creates and embraces opportunities to enter into dialogue with China directly and indirectly through existing inter-organisational mechanisms, including in co-operation with United Nations Specialised Agencies.

Emphasis should also be placed on identifying issues where China and the OSCE and its participating States have manifestly articulated common interests, such as in relation to combating corruption and transnational organised crime, as well as environmental protection, including climate change.

If and when this initial pragmatism is transformed into a more strategic approach and eventually combined with the development of a more formalised bilateral relationship between the OSCE and China, this would not replace existing bilateral relationships between China and OSCE participating States but rather complement them. It would potentially also strengthen a set of rules for engagement with China that is more firmly anchored in existing OSCE commitments. As such, it would serve as a testing ground for China's willingness to engage with the OSCE as an equal and would respect the existing norm consensus within the Organisation and across all three of its dimensions.

The success of a hybrid approach to engagement that is simultaneously pragmatic and strategic would require careful co-ordination within the OSCE. Implementing this hybrid approach would in turn contribute to the gradual evolution of an OSCE China strategy that would set the parameters for engagement through different channels and across multiple issue areas.

Engagement with China undoubtedly represents one of the main internal and external challenges that the OSCE will face in the years ahead. Whether and how the Organisation and its participating States will rise to this challenge will have a profound impact on its future as the only truly Euro-Atlantic and Eurasian comprehensive security organisation. China and its BRI are therefore a challenge the OSCE must face, not ignore.

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Stefan Wolff

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List of Abbreviations

ACD	Asia Cooperation Dialogue	HCNM	High Commissioner on National Minorities
AIIB	Asian Infrastructure Investment Bank	IBRD	International Bank for Reconstruction and Development
APEC	Asia-Pacific Economic Cooperation	IMF	International Monetary Fund
ASEAN	Association of Southeast Asian Nations	NATO	North Atlantic Treaty Organisation
ASEM	Asia–Europe Meeting	OBOR	One Belt, One Road
BRI	Belt and Road Initiative	ODIHR	Office for Democratic Institutions and Human Rights
BTK	Baku–Tbilisi–Kars railway	OSCE	Organisation for Security and Co-operation in Europe
CAREC	Central Asia Regional Economic Cooperation	PMSCs	Private Military and Security Companies
CASCF	China–Arab States Cooperation Forum	SCO	Shanghai Cooperation Organisation
CCP	Chinese Communist Party	SCO-RATS	Regional Anti-Terrorist Structure of the Shanghai Cooperation Organisation
CFE Treaty	Treaty on Conventional Armed Forces in Europe	SDGs	Sustainable Development Goals
CICA	Conference on Interaction and Confidence-Building Measures in Asia	SOE	State-owned Enterprise
CiO	Chair-in-Office	SREB	Silk Road Economic Belt
CNPC	China National Petroleum Company	TEN-T	Trans-European Transport Network
CRBC	China Road and Bridge Corporation	TITR	International Association Trans-Caspian International Transport Route
CSBMs	Confidence- and Security-Building Measures	UN	United Nations
CSCE	Conference on Security and Co-operation Europe	UNECE	United Nations Economic Commission for Europe
CSTO	Collective Security Treaty Organisation	UNIDO	United Nations Industrial Development Organisation
CWE	China International Water & Electric Corporation	UNODC	United Nations Office on Drugs and Crime
DCFTA	Deep and Comprehensive Free Trade Area	WTO	World Trade Organisation
EAEU	Eurasian Economic Union		
EBRD	European Bank for Reconstruction and Development		
ECT	Energy Community Treaty		
EU	European Union		
GDP	Gross Domestic Product		
GMS	Greater Mekong Subregion		

1

Introduction

Since its inception in late 2013, China's Belt and Road Initiative (hereinafter the BRI, or 'the Initiative') has grown into a vast global development project with **increasing geopolitical and geo-economic implications**. By 2019, Belt and Road co-operation involved 137 countries and 30 international organisations (Xi 2019), with concrete projects in over 70 countries. These include 27, or almost half, of the OSCE's 57 participating States.

According to the Office of the Leading Group for Promoting the Belt and Road Initiative (2019, 2), the BRI "is an initiative for peaceful development and economic co-operation, rather than a geopolitical or military alliance. It is a process of open, inclusive and common development, not an exclusionary bloc or a 'China club'. It neither differentiates between countries by ideology nor plays the zero-sum game."

Regardless of whether one accepts this assertion at face value, the scale and scope of BRI projects means that the initiative also has **clear social, political, environmental, and potentially military implications**. These have been analysed in relation to a variety of individual countries and regional and international organisations, but to date there has been no assessment of the impact that the BRI has had, and will continue to have, on the Organisation for Security and Co-operation in Europe (hereinafter the OSCE, or 'the Organisation') and its comprehensive and co-operative approach to security.¹

The **new connectivities** that the Initiative has created along the Silk Road Economic Belt (SREB) and two of its economic corridors, the New Eurasian Land Bridge and the China–Central Asia–West Asia Corridor, in some ways complement the OSCE region's two other economic (and political) integration projects, the European Union (EU) and the Eurasian Economic Union (EAEU), but in other ways also represent rival alternatives. An increased Chinese presence thus also competes for influence with Russia and the West across BRI partner countries, particularly in already contested spaces like Central Asia, the South Caucasus and Eastern Europe,² and the Western Balkans.

China's economic and political footprint in these subregions has grown in the context of often difficult problems that countries there have faced—from protracted conflicts, to social and

economic inequalities, to environmental challenges—which have so far eluded sustainable solutions. At best, they have been managed, in some instances quite successfully, including by the OSCE. The increased presence and activities of China in these OSCE subregions adds **further complexity** to the management of these persistent problems by bringing an additional actor into a set of already volatile dynamics—an actor, moreover, who is viewed with increasing scepticism in many EU and NATO capitals while being welcomed elsewhere, if only as a potential additional or alternative source of financing for economic development. This has the potential to add to resurgent East–West tensions within the OSCE and to force participating States 'in-between' Russia and the West to make yet another geopolitical choice.

Understanding the implications of China's BRI for the OSCE as a whole and for its subregions is therefore relevant to the Organisation's ability to continue fulfilling its mandate as a comprehensive and co-operative security organisation that has been seriously hampered for over a decade (and arguably longer than that). Contributing to such an understanding is the primary aim of this OSCE Network Report. The analysis that emerges highlights **the profound yet differential impact** that the BRI has had on OSCE participating States and assesses the current and likely future implications of this on the OSCE as an institution. Highlighting both challenges and opportunities for the OSCE, this Report concludes with a number of policy recommendations for the Organisation and its participating States.

The Report **emphasises** that:

1. The BRI, and China's growing presence and activities in the three analysed subregions, has increased the need for the OSCE, as an organisation, to engage with China.
2. OSCE engagement with China faces three main hurdles:
 - a. First, it is not clear that participating States would benefit from OSCE engagement with China, as this may limit the gains they could obtain from direct bilateral engagement or through different formats, such as the EU, the EAEU, and the SCO.
 - b. Second, taking on the challenge of engaging with China may simply be a 'bridge too far' for the OSCE, further undermining its capacity to deliver on its existing mandate and to preserve its established norm consensus in the context of the already fractious relations between its participating States.
 - c. Third, it is far from clear that the OSCE is the kind of forum with which China would want to engage, and under what conditions.
3. These hurdles neither diminish the impact that China has had on the OSCE and its participating States nor eliminate the need for engagement. Rather, they set the parameters within which a strategy for engagement could be developed and implemented.

¹ One notable exception is a 2019 OSCE internal discussion paper that I had the opportunity to discuss with its authors when preparing this Report. In addition, and predating the launch of the BRI, Frank Evers published an analysis of China–OSCE relations in 2008, which notes that China first initiated contact with the Organisation in 2003 through its ambassador in Vienna (see Evers 2008).

² The designation 'Eastern Europe' is shorthand for the three OSCE participating States of Belarus, Moldova, and Ukraine.

4. The OSCE should approach engagement with China from a position of pragmatism that recognises China's significance as an actor within the OSCE region, takes account of the existing capacity and capabilities of the OSCE, and carefully considers the likelihood of a constructive response by China.
5. Pragmatism is an inevitably necessary starting point but does not preclude the shift to a gradually more strategic approach. The foundation for a more strategic approach to engagement with China can be built by prioritising:
 - a. Multi-channel engagement with China that creates and embraces opportunities to enter into dialogue with China directly and indirectly through existing inter-organisational mechanisms, including in co-operation with United Nations Specialised Agencies. This should also include an openness to ad hoc and informal modes of engagement.
 - b. Engagement on issues where China and the OSCE and its participating States have manifestly articulated common interests, such as in relation to combating corruption and transnational organised crime, as well as environmental protection, including climate change.

The Report is **structured** as follows. The remainder of **Part 1** provides a brief background on the BRI and the relationship between the OSCE and China. This is followed by an outline of the analytical framework of the Report, including its geographical and substantive scope, and observations on the sources and data used. **Part 2** starts with an overview of the changing geopolitical and geo-economic dynamics across the three subregions that the Report covers in detail. Focusing on Central Asia, the South Caucasus and Eastern Europe, and the Western Balkans, the Report then examines and illustrates in detail how these changing dynamics have been affected by, and themselves affect, the increasing presence and activities of China. This analysis considers in particular (1) the significance to China of each of these subregions and the OSCE participating States located there, (2) accomplishments in the implementation of the BRI to date, (3) subregion- and country-specific risks associated with the BRI, (4) local and (5) external stakeholders' perceptions and reactions, and (6) Chinese responses to them. Comparing and contrasting these dynamics, **Part 3** spells out how the OSCE as an institution and its ability to fulfil its comprehensive security mandate across all three dimensions of its activities have been affected. The concluding section offers policy recommendations to the Organisation and its participating States to address the challenges—and make the most of the opportunities—to which the BRI gives rise.

The Belt and Road Initiative: A Brief Background

Launched in 2013 in a speech by Chinese President Xi Jinping, what has become known as the Belt and Road Initiative³ brought together in an increasingly coherent and ambitious strategy multiple separate domestic and foreign policies that predated the launch of the BRI, in some cases by a decade or more. The origins of the BRI thus go back at least to the second half of the 1990s, when then President Jiang Zemin had begun to pursue the parallel 'Go West' and 'Go Out' strategies.

Domestic policy priorities that have underpinned the launch and ongoing development of the BRI have earlier antecedents in Jiang's 'Go West' strategy. In the late 1990s, the focus of China's domestic development had been reducing "regional imbalances by encouraging investment in trade- and energy-related infrastructure (e.g., roads, hydropower plants and telecommunications) in China's western provinces, notably Yunnan, and autonomous regions such as Inner Mongolia, Xinjiang and Tibet" (Sum 2019, 535). Foreshadowing the launch of the BRI more than a decade later, these projects were meant to extend to the neighbouring countries of Central Asia (Jones and Zeng 2019, 64).

The Xinjiang Uyghur Autonomous Region in particular has long been considered a "strategic pivot point" (F. K. Chang 1997, 403). With an extensive history of tensions with the Uighur community and its most recent escalation (BBC News 2020), Xinjiang has long been a major domestic security concern for the Chinese state. Its location in north-western China further heightens these concerns because of the perceived danger of a spillover of instability from Central Asia, including ethnic and religious extremism and organised crime. Moreover, Xinjiang is the transit point for the Silk Road Economic Belt, which ultimately connects the industrial hubs of eastern China with western Europe, and its regional capital, Urumqi, is the starting point for three economic corridors: the New Eurasian Land Bridge, the China–Central Asia–West Asia corridor, and the China–Pakistan Economic Corridor.

From China's perspective, Xinjiang is particularly affected by the 'three evils' of terrorism, extremism, and separatism that undermine the much-needed stability required for the country's future development. Tackling them, at home and in China's periphery, has emerged as a key driver of the BRI. The Chinese response to these security concerns—caused, at least in part, by a lack of economic development (Rolland 2017)—has been to accelerate the economic integration of Xinjiang and other western provinces into international value chains that connect China to markets and resources across Eurasia (Grieger 2016, 9). In this sense, the BRI mirrors the very conviction that formed

³ Initially, the Initiative was referred to as 'One Belt, One Road' (OBOR) but is now more commonly known as the Belt and Road Initiative (see, for example, Freymann 2020).

the basis of Jiang Zemin's 'Go West' strategy from more than a decade earlier: the belief that economic development can be fostered by grand infrastructure development projects. This point was reiterated by President Xi in September 2020 at the third central symposium on work related to Xinjiang, where he emphasised social and economic development as an important foundation for lasting peace and stability in Xinjiang, again highlighting its geographical advantages as a "core area of the Silk Road Economic Belt and a hub of opening-up in the inland and border areas" (Xinhua 2020).

Two further domestic catalysts in the eventual fusion of foreign and domestic policy imperatives are important for understanding the drivers of the BRI to date. The first of these is geo-economic in nature and connected to the 2008 financial crisis and its aftermath. While China was among the first countries to recover from the crisis, its export-driven economy faced a significant slowdown, further exacerbating the problem of over-capacity within China but also increasing excessive foreign exchange reserves, especially as the global economy gradually revived (Wang 2016). From this perspective, the BRI was meant to contribute to resolving several domestic economic problems simultaneously: surplus capital held by state and private banks could be put to productive use in the form of loans to countries along the BRI, who would then be required to hire Chinese companies and labour to implement the vast infrastructural projects at the heart of the BRI (Jones 2020; Wilson 2016), which in turn would increase international trading efficiencies, especially for Chinese exports to the EU (Wen et al. 2019). Beyond creating growth opportunities in external markets for its construction companies and banks, the BRI also offers China the ability to relocate some of its own industrial capacity and to transfer abroad increasingly problematic and obsolete technological know-how, such as coal-fired electricity plants, as a way to deal with domestic environmental problems (Gubaidullina et al. 2019; Klinger 2019; Shearer, Brown, and Buckley 2019).

The second domestic policy imperative for China is the need to diversify supply routes for its energy and raw materials needs. In this sense, the BRI not only helps to overcome infrastructural challenges affecting Chinese exports to European markets and elsewhere but also creates opportunities for more sustainable import routes on road, rail, and through various oil and gas pipeline projects (H. Yu 2017; J. Yu 2018).

Both of these domestic economic concerns also touch on foreign policy drivers of the BRI. First, and most immediately, the SREB and the two economic corridors on which this Report focuses reduce perceived vulnerabilities of a Chinese economy that is overly dependent on sea routes for imports and exports—which, in the absence of sufficient Chinese naval capacity, were considered to be more easily disrupted by conflict or piracy (Rolland 2017). Second, China's efforts to use existing multilateral formats for its own economic purposes, especially the Shanghai Cooperation Organisation (SCO), were frustrated by Russia, who viewed the SCO as a predominantly security-focused organisation and saw its own economic needs as being better served by the nascent EAEU. In light of Russia's blocking of China's proposal for the establishment of an SCO Free Trade area and an SCO Development Bank (Murat 2020), the BRI can

also be seen as a Chinese response to Russia's lack of support for deeper and more institutionalised forms of economic co-operation (Timofeev, Lissovnikov, and Filippova 2017; Wilson 2016). Notably, an agreement on EAEU–China economic and trade co-operation was signed in 2018 and entered into force in 2019 (Eurasian Economic Union 2018). Similarly, Russia's stance on the 'economic dimension' of the SCO appears to be shifting gradually towards greater receptiveness to economic aspects of co-operation (see further below and cf. Dawei 2018; Khasanov 2019; Suslov 2020).

The most widely cited external driver of the BRI is geopolitical in nature and is related to the US pivot to Asia under President Barack Obama in 2011 (Obama 2011). This resulted in Chinese perceptions of an increased US military presence in the Asia-Pacific region and in a rejuvenation of existing alliances, with the aim of both containing China and strengthening a US-led liberal international order. Within this order there would be opportunities for co-operation with China, provided that China accepted "the importance of upholding international norms and respecting the universal human rights of the Chinese people" (Obama 2011, 5). From China's perspective, this heightened existing concerns about its over-dependence on sea routes for trade and energy supplies and increased the risk of confrontation with the United States.

For China, the BRI, and especially the SREB and its economic corridors, provided an effective response to the US pivot to Asia. On the one hand, as an alternative continental route, Chinese trade and energy vulnerabilities in the Strait of Malacca and the South China Sea could be better mitigated (Indeo 2019; Wen et al. 2019). On the other hand, China would be able to expand and gradually consolidate its influence along this continental route and incrementally build an alternative economic (and subsequently political) order (Tekdal 2018). This is a more long-term goal with an indeterminate outcome, leaving the door open to incremental reform and integration, co-existence with the liberal international order, and a complete hegemonic transition. What is relevant in this context is that China has taken important first steps in building some of the relevant institutions and has created mechanisms that could underpin such a development, including the 17+1 co-operation mechanism between China and 17 Central, Eastern, and South-Eastern European countries and China-led financial institutions like the Asian Infrastructure Investment Bank (AIIB).⁴ At the Fifth Annual Meeting of the AIIB in July 2020, for example, Xi (2020) explicitly called for the Bank to become "a new type of high-performance institution for international co-operation" and "a new paradigm of multilateral co-operation."

As with the domestic drivers of the BRI, it is important to bear in mind that many of the foreign and foreign economic policies associated with the BRI today have important earlier precedents. Jiang's 'Go West' strategy marked the beginning of a gradual turn away from his predecessor Deng Xiaoping's vision of China as keeping a low international profile while focusing on its

⁴ The AIIB currently has 82 members and nearly \$100bn in registered capital. China's share of the capital is just over 30%, and it holds 26% of the votes. Germany, France, and the United Kingdom are among the non-regional members of the Bank.

domestic development. The adoption of more proactive Chinese foreign (and especially foreign economic) policies, reminiscent of Mao Zedong's foreign policy of engagement with developing countries, accelerated under Jiang's successor, Hu Jintao, in the 2010s. For example, a Sino-Kazakh strategic partnership agreement had already been signed in 2005, and the 16+1 framework that initially brought together China and 16 Central and Eastern European countries originated in 2012.⁵ China had also already concluded a concession agreement with the Piraeus Port Authority in 2009—four years before the formal launch of the BRI and seven years before the Greek government sold its majority stake to China COSCO Shipping, a key player in the BRI.⁶ Rail operations on what is now known as the New Eurasian Land Bridge began as early as 2008 with the first container freight train from Xiangtan to Hamburg and was established as a network connecting Chongqing, Chengdu, Zhengzhou, Wuhan, Suzhou, and 16 other cities in China to Duisburg, Hamburg, Madrid, and a further 12 European cities by 2011 (National Development and Reform Commission 2016).

At its launch as the 'One Belt, One Road' in 2013, the BRI may have merely been an umbrella under which a number of pre-existing policies could be united to facilitate further domestic economic growth and development and to secure greater Chinese influence on the international order. Over time, however, the BRI has matured into a more comprehensive strategic tool for China's leadership. In the long run, China's westward orientation towards Eurasia may or may not "integrate Eurasia into a Sinocentric community of shared interests, destiny, and responsibility" (Lin, Sidaway, and Woon 2019, 514). What it certainly has accomplished to date is a "reshap[ing of] China's geostrategic vision as well as the Eurasian landscape" (Jisi 2011, 78).

Seven years after its launch, the BRI has become China's signature foreign policy strategy in its pursuit of the "Chinese dream of the great renewal of the Chinese nation", which concerns the "prosperity of the country, rejuvenation of the nation, and happiness of the people" (Xi 2014a). The Chinese dream, in turn, is a cornerstone of the notion of a 'new era' in which, "rather than a threat or challenge, China's development is an opportunity for the world" (State Council of the People's Republic of China 2019, 11). Such party-political rhetoric aside, the BRI continues to feature in China's overall development strategy, despite an apparent inward turn at the fifth plenum of the 19th Central Committee of the Chinese Communist Party (CCP) in late October 2020. Promoting a concept of domestic and international dual circulation, which emphasises domestic circulation as the main driver of future economic growth, the strategy nonetheless continues to embrace "joint high-quality development of the Belt and Road Initiative" (Central Committee of the Communist Party of China 2020).⁷

President Xi and other top Chinese leaders are by now personally invested in the success of the BRI (Leverett and Bingbing 2016, 111; Rolland 2017, 128; Ye 2019, 705), which was also formally written into the Constitution of the Communist Party of China in 2017 (Central Committee of the Communist Party of China 2020, 8).⁸ This has also led to increased centralisation of China's foreign policy decision-making (H. Yu 2017, 356) and more effective co-ordination of the BRI by the Leading Group for Promoting the Belt and Road Initiative, which is led by He Lifeng, who is also the chairman of the National Development and Reform Commission, the key national macroeconomic planning agency within the State Council of the People's Republic of China.

Taken together, the persistent relevance of the factors that led to the establishment of the BRI (and its antecedents), the domestic and external institutionalisation of key mechanisms for its implementation (and their continuous expansion and consolidation), the financial and political investment committed to date, and the personal stake that President Xi now has in its success mean that the BRI is here to stay. It remains a work in progress, however—open-ended, with only vaguely developed endpoints and milestones and a degree of flexibility that at times borders on the opportunistic. Consequently, shaping and influencing how the BRI is implemented and further evolves remains an open possibility. Its future outcomes will depend not only on China's unquestionable determination to pursue its implementation in realising the Chinese dream but also on how countries that participate in the BRI respond to it and how other major stakeholders in the regions and in regional orders react to it. Herein lies a key challenge for the OSCE and its participating States. Whether and how the Organisation can rise to this challenge is still an open question, one that can only be answered on the basis of a more detailed analysis of the impact of the BRI to date on its participating States. This is what the Report will turn to next.

5 In April 2019, Greece formally joined the 16+1 as the first 'old' EU member to do so. Since then, the 16+1 has become the 17+1.

6 COSCO operates one of the largest container fleets globally and is emerging as the largest global terminal operator, with additional stakes in Zeebrugge and Antwerp (Belgium, 85%/20%), Valencia and Bilbao (Spain, 51%/40%), Vado Ligure (Italy, 40%), and Rotterdam (35%).

7 For an initial, broader analysis of the fifth plenum see, among others, Pei (2020).

8 The relevant passage reads (*emphasis added*): "The Party shall constantly work to develop good neighbourly relations between China and its surrounding countries and work to strengthen unity and co-operation between China and other developing countries. It shall follow the principle of achieving shared growth through discussion and collaboration, and pursue the Belt and Road Initiative."

The OSCE and China

The OSCE and its predecessor, the CSCE, were established with a view to creating **comprehensive and co-operative security structures that reflected the main challenges of their time**. In the 1970s, this was the East–West confrontation and the danger of an arms race spinning out of control and leading to a nuclear Armageddon. In the 1990s, the challenge was to manage the fallout from the collapse of Communism. In different ways, both of these challenges persist today, and while a nuclear showdown may not be on the cards anytime soon, East–West relations have been at a historic low since the beginning of the conflict in Ukraine in late 2013, while the recent escalation of violence between Armenia and Azerbaijan over the disputed territory of Nagorno-Karabakh is but one example of the enduring legacy of the collapse of Communism.

While driven by the logic of superpower competition during the Cold War and thus initially heavily focused on its politico-military dimension, the 1975 **Helsinki Final Act** nonetheless also spelled out the need for co-operation in both the economic and environmental dimension and the human dimension. In particular, the then 35 signatories recognised the link between peace and security in Europe and the need to promote fundamental rights, economic and social progress, and well-being for all peoples (Conference on Security and Co-operation in Europe 1975, 3).

This consensus was reiterated in the **Charter of Paris for a New Europe** in 1990, albeit with greater emphasis on the human dimension, when the signatories reiterated their “steadfast commitment to democracy based on human rights and fundamental freedoms; prosperity through economic liberty and social justice; and equal security for all our countries” (Conference on Security and Co-operation in Europe 1990, 3).

The **Istanbul Document** of 1999, reflecting on a decade of often violent conflict between and within participating States, returned to a stronger focus on the politico-military dimension. The signatories “reaffirm[ed] the OSCE as a regional arrangement under Chapter VIII of the Charter of the United Nations and as a primary organisation for the peaceful settlement of disputes within its region and as a key instrument for early warning, conflict prevention, crisis management and post-conflict rehabilitation”, stressing that the “OSCE is the inclusive and comprehensive organisation for consultation, decision-making and co-operation in its region” (Organisation for Security and Co-operation in Europe 1999a, 2–3). In relation to the human dimension, the participating States “reaffirm[ed] that respect for human rights and fundamental freedoms, democracy and the rule of law is at the core of the OSCE’s comprehensive concept of security” (Organisation for Security and Co-operation in Europe 1999a, 5). Equally importantly, the participating States committed to ensuring “that the economic dimension receives appropriate attention, in particular as an element of our early warning and conflict prevention activities”, and that this would be realised, “inter alia, with a view to promoting the integration of economies in transition into the world economy and to

ensur[ing] the rule of law and the development of a transparent and stable legal system in the economic sphere” (Organisation for Security and Co-operation in Europe 1999a, 8).

Another decade later, the **Astana Commemorative Declaration** of 2010 saw yet another reiteration of participating States’ “commitment to the concept ... of comprehensive, co-operative, equal and indivisible security, which relates the maintenance of peace to the respect for human rights and fundamental freedoms, and links economic and environmental co-operation with peaceful inter-State relations” (Organisation for Security and Co-operation in Europe 2010, 1). Importantly, the Astana Declaration also notes “that the security of the OSCE area is inextricably linked to that of adjacent areas, notably in the Mediterranean and in Asia”, concluding that the Organisation and its participating States “must therefore enhance the level of our interaction with our Partners for Co-operation” (Organisation for Security and Co-operation in Europe 2010, 3). Ten years on, however, and seven years after the launch of the BRI, not only is China not among the OSCE’s Partners for Co-operation, but institutional dialogue between China and the OSCE is almost non-existent,⁹ this despite the fact that there has been occasional acknowledgement of “increased geostrategic and geopolitical competition in the region, causing volatility” and necessitating more (rather than less) “effective multilateralism” (Organisation for Security and Co-operation in Europe 2017a, 3).

This context is important in two ways. First, it underscores that the CSCE and the OSCE were set up to provide an **arena for the management of security challenges among participating States**, as opposed to challenges beyond its geographical scope. While ‘extra-territorial’ issues have gained prominence over the past two decades or so, including in relation to transnational challenges such as terrorism, organised crime, and migration, the Organisation has mainly remained focused on co-operative and comprehensive security within the Euro-Atlantic and Eurasian area. Second, when assessing the implications of China’s increased presence and activities for the OSCE, these must be considered within the context of the existing challenges affecting the OSCE.

The OSCE’s ability to deliver on its mandate of comprehensive and co-operative security is crucially dependent on the **sustainability of consensus** among its participating States on the norms that underpin the Organisation. This consensus has been significantly weakened over the past two decades by developments within the OSCE and by the actions and reactions of its participating States, rekindling an East–West confrontation reminiscent of the Cold War. This has both underscored the need for the OSCE and undermined its capacity to fulfil that need.

Beyond the internal challenges that the Organisation has had to confront, but closely connected to them, there have been issues in the external environment that have added to (and in some cases exacerbated) ‘home-made’ problems, including instability

⁹ Among the higher-profile links, in June 2017, the then OSCE Parliamentary Assembly President Christine Muttonen visited China and had meetings with representatives of the Chinese Ministry of Foreign Affairs, the Shanghai Cooperation Organisation, and the International Department of the Communist Party of China (OSCE Parliamentary Assembly 2017).

in Afghanistan and the Middle East and migration across the Mediterranean. Barely recognised in official OSCE statements, the increasing presence and activities of China pose another challenge that the OSCE will eventually have to confront if its participating States want it to remain relevant as a co-operative and comprehensive security organisation for the Euro-Atlantic and Eurasian area.

The impact of China in and on the OSCE has been incremental and differs across subregions, but its **cumulative effect is significant and shows no sign of abating**. While China engaged with individual OSCE participating States long before the launch of the Belt and Road Initiative in 2013, the economic scope and scale of this engagement, underpinned by a more coherent strategic vision, have increased significantly since then, as have the Initiative's geopolitical and geo-economic implications. Associated with concepts such as the 'Chinese dream' and the 'new era', the BRI represents an increasingly coherent, streamlined, and well-resourced foreign policy concept that first and foremost serves Chinese domestic national interests.

Its implementation in OSCE participating States has implications for the states that co-operate with China under the BRI framework, many of them undoubtedly positive, by increasing these countries' **connectedness to the global economy**. As detailed in the Report, however, BRI implementation also carries risks for these countries and their populations. These risks are related to the economic viability of various projects and the concomitant economic and financial dependencies that they create for countries that are particularly exposed in this regard. Economic viability, moreover, can be further undermined by various security and stability concerns, especially in countries that also experience persistent governance problems, such as fragile institutions, corruption, and weakly-developed rule of law. Under such conditions, and given the bilateral rather than multilateral nature of the BRI and its implementation, Chinese projects are also vulnerable to sudden changes in regime or policy. This is especially the case where public pressure and discontent with ruling elites are expressed in anti-Chinese and anti-BRI sentiments that also reflect legitimate concerns regarding the erosion of whatever social, environmental, and labour rights and standards may have existed prior to China's involvement.

These primarily **domestic risks** are serious, and their long-term impact should not be underestimated. From an OSCE perspective, however, even more significant are the geopolitical implications of China's activities and presence in participating States. China's initially predominantly economic and financial forays into the OSCE region have offered a sometimes vital development alternative for countries that otherwise have few palatable options at their disposal. The availability of a Chinese option to finance development projects has increased local agency vis-à-vis Russian- and Western-dominated institutions but has also intensified the competition for influence, extending it to three major powers. The OSCE, created to manage East-West tensions and without any formal relationship with China, is poorly equipped to handle the further geopoliticisation of already fraught relationships between its participating States.

From China's perspective, bilateralism as the predominant pattern of engagement under the BRI is useful as it preserves an **asymmetry in economic and political power relationships** that favours China. The continuing absence of "meaningful multilateral mechanisms" (Yan 2020, 68) also has a flipside, however, in that it weakens the potential of intraregional co-operation and increases the risk of further intraregional fragmentation, inequalities, and rivalries. These are more pronounced in Central Asia and less so in the Western Balkans, where countries are for the most part firmly anchored in Euro-Atlantic structures. In the South Caucasus and Eastern Europe, however, such problems are further exacerbated by the intense geopolitical rivalry between Russia and the West, especially in Georgia, Moldova, and Ukraine (Kemoklidze 2020b; Malyarenko 2020a; Tytarchuk 2020).

This is not to say that China's presence and activities should be viewed as destabilising per se. Over the years, China's reach into the OSCE region has extended along the BRI, making it more or less influential across different contested subregions. Given the geography of the two relevant BRI economic corridors, Chinese interests (in terms of the subregions considered in this Report) are strongest in Central Asia and the Western Balkans, while the Initiative's geopolitical and geo-economic impact has thus far been lower in the South Caucasus and Eastern Europe. China has adopted subregion- and country-specific, differentiated approaches, which in turn requires similarly **flexible and adaptable responses** from the OSCE and participating States in terms of engagement with China (Bērziņa-Čerenkova 2020).

The Western Balkans represent something of a mirror image of Central Asia in the sense that the West is by far more deeply entrenched and effective in the former, as has become obvious recently with the success of a US campaign to prevent Chinese technology from being used in the subregion's digital infrastructure (Standish 2020). By contrast, China has more significant capabilities to establish and leverage influence in Central Asia. Russian influence in the Balkans is more limited than in Central Asia, and its stakes are higher in this part of the former Soviet Union, where Russia has built **regional institutions** like the EAEU and the CSTO, which it clearly dominates, and where it vies for leadership with China in others (in particular the SCO).

While China is generally more interested in political stability, including subregionally, Russia, because of its parallel geopolitical confrontation with the West, benefits from a degree of (manageable and managed) instability in the South Caucasus, Eastern Europe, and the Western Balkans. The **Russia-China relationship** is likely to remain characterised by long-term uncertainty for some time to come as their interests converge when it comes to limiting Western influence in Central Asia and Belarus but diverge where Western and Chinese interests are more closely aligned. This is the case when it comes to stability in the Western Balkans, and potentially in the South Caucasus, Ukraine, and Moldova, if the so-called Middle Corridor ever takes on greater significance for China as a potential economic corridor (Kemoklidze 2020b; Colakoğlu 2019).

China's increasing presence and activities across the three OSCE subregions considered here creates choices for OSCE participating States about who to forge close economic (and political) ties with—Russia and the EAEU, the EU, NATO, and the United States, or China and the BRI. On one level, this contributes to strengthening the **sovereignty and independence** of certain OSCE participating States, for example in Central Asia and Eastern Europe (Bayok 2020b). At the same time, such choices are often driven, at least in part, by domestic policy imperatives and preferences (Běrziņa-Čerenkova 2020).

Yet there is also the danger that choice is an illusion and that countries are, in fact, forced to decide or have no viable alternatives available to them. For all the rhetoric on multi-vector foreign policies, **geography remains a powerful predictor of alignment options**. Traditional geopolitics in the Western Balkans, Eastern Europe and the South Caucasus, and Central Asia has led to a resurgence of spheres-of-influence thinking in the foreign policies of the major powers in and towards these subregions. Their ability to create, shape, and defend such spheres of influence is a reality that the OSCE and its participating States cannot escape. Geopolitics has intensified in the wake of China's rise, and not just in the OSCE region.

What is particularly noteworthy in this context is **the West's hardening position on China**, especially since 2019. The EU and NATO, as well as their key member states (the United States, Germany, France, and the United Kingdom, among others), now consider China a systemic rival (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2019a; Reflection Group Appointed by the NATO Secretary General 2020) and view the BRI as a key tool through which China is pushing for change in the global system.

A recent report by the Policy Planning Staff in the US State Department (Office of the Secretary of State 2020, 12) argues that the BRI is “a means of drawing nations, particularly their political and economic elites, into Beijing's geopolitical orbit” and contributes to entrenching “China's long-term access to local elites and confer[ring] power over key parts of the host country's critical infrastructure”. The 2020 Report to Congress of the US–China Economic and Security Commission (2020, 418) even argues that “it may not be so farfetched to imagine the PLA someday deploying to defend BRI infrastructure, support Beijing's preferred elites in a coup on an island nation, or prop up authoritarian allies”.

In the EU context, assessments of China and its strategic use of the BRI have also become more negative over time. The (proposed) responses still rely on engagement based on European values (Huotari, Weidenfeld, and Wessling 2020; Rühlig 2020) but have also become more assertive in defending what the EU perceives as its own sphere of influence in the Western Balkans and by establishing a strategic partnership with ASEAN. Most importantly, and signifying greater **transatlantic alignment on China**, a “new EU–US Dialogue on China will provide a key mechanism for advancing our interests and managing our differences” (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2018, 8). This need for a closer and more effective Western alliance against

China was also echoed by the Chair of the Group of the European People's Party in the European Parliament, Manfred Weber, in an interview with the South China Morning Post in which he called for a “reunification of the so-called Western world, now with Joe Biden as a constructive partner, to face this challenge of China” (Lau 2020).¹⁰

From **NATO's perspective**, China is not considered “an immediate military threat to the Euro-Atlantic area on the scale of Russia”, but the fact that “it is expanding its military reach into the Atlantic, Mediterranean, and Arctic, deepening defence ties with Russia, and developing long-range missiles and aircraft, aircraft carriers, and nuclear-attack submarines with global reach, extensive space-based capabilities, and a larger nuclear arsenal” is being watched with concern. This includes the assessment that China's “Belt and Road, Polar Silk Road, and Cyber Silk Road have extended rapidly, and [that] it is acquiring infrastructure across Europe with a potential bearing upon communications and interoperability”. Much like the EU, however, there is still a view within NATO that the Alliance “should be open to the possibility of constructive dialogue with China when it serves its interests, and should continue to identify opportunities and prospects to tackle a number of global challenges” (Reflection Group Appointed by the NATO Secretary General 2020, 27).

Among the key member states of NATO and the EU, **Germany** has perhaps most significantly hardened in its view on China. The German Defence Minister, Annegret Kramp-Karrenbauer (2020), has called for “a newly consolidated Western trade alliance” to take on the challenge that “China's aggressively controlled state capitalism poses to the liberal international order”. Similarly, Foreign Minister Heiko Maas has called for a “proactive approach to our relations with China as an opportunity for renewed transatlantic co-operation”, citing shared American and European concerns about China in relation to “open societies, human rights and democratic standards, fair trade, unrestricted maritime routes, and the security of ... data and intellectual property” (Maas 2020).

By contrast, **Russia** has for the most part been far more positive about China in general and the BRI in particular. This is clear from official statements and from a range of expert opinions. For example, at a press conference following his participation in the Second Belt and Road Forum on International Cooperation in Beijing in April 2019, President Putin noted the importance of the Russia–China strategic partnership and the broad complementarity of their interests (Putin 2019a). After a meeting with Xi in the margins of the BRICS Summit in Brasilia in November 2019, Putin emphasised that this “truly ... comprehensive partnership” rests on “mutual respect for each other's interests and close coordination on key global issues” (Putin 2019b). Readouts from telephone calls between the two presidents in 2020 further underscore the nature and basis of Russia's co-operation with China. In a conversation in July 2020, for example, the two leaders reiterated their “mutual support in

¹⁰ It remains to be seen how the conclusion, in principle, of the EU–China Comprehensive Agreement on Investment will affect the speed and rigour with which any common transatlantic strategy on China will materialise (see, for example, Barkin and Kratz 2020; Barkin 2021). It is equally unclear whether a Biden administration will be less tough on China (Rosen 2020).

protecting sovereignty, preventing any interference in internal affairs from outside and ensuring the supremacy of international law”, reaffirming “their interest in further close coordination of efforts on the international arena, primarily at the UN Security Council as well as in the SCO and BRICS” (The Kremlin 2020).

Russian and Russia analysts take a similarly positive view. As early as 2016, for example, Timofei Bordachev (2016)¹¹ noted that “an alliance [with China] with a positive joint agenda directed both at pursuing equally important objectives and consolidating an order in bilateral relations that would satisfy either party” would be desirable for Russia. Reflecting on Russia–China co-operation in Central Asia in 2020, he noted that “Russia’s practical co-operation with China, Kazakhstan and other countries in the subregion at the level of governments, businesses, education and civil society is much stronger than Russia ever had with the West, even during the best years of their relations” (Bordachev 2020). From a different angle, other analysts emphasise that rivalries between Russia and China are often overstated (Samorukov and Umarov 2020; Umarov 2020), and thus challenges to their co-operation may be less significant than assumed.

Such assessments are further backed by the fact that an agreement between China and the EAEU on economic and trade co-operation has been in force since 2019 (Eurasian Economic Union 2018). Academic debates also note the potential for a **Russia–China strategic alliance** developing from economic co-operation (Malle 2017), for security co-operation between Russia and China through the SCO (Alimov 2018), and for economic co-operation between the (Russia-led) EAEU and the BRI (Bennett 2016).

These **diverse views on China among participating States** of the OSCE—mirroring, in part, the rekindled East–West divide in the organisation—again underscore the importance of the context in which this Report assesses the implications of China’s presence and activities for the OSCE. They matter in two respects in particular, discussed further below: achieving consensus on a China ‘policy’ among the OSCE’s participating States will be difficult at best, and China’s incentives for engaging with the OSCE (rather than with individual participating States) are limited. This does not diminish the value of assessing the implications of China’s growing footprint in the OSCE area, however. On the contrary, an improved understanding of these implications can contribute to better, evidence-based judgements on the consequences of action and inaction regarding China.

¹¹ Bordachev is the Valdai Club’s Programme Director for “Global Democracy and International Governance”.

A Framework for Analysis

Asking the relevant questions

The OSCE’s ability to deliver on its mandate of comprehensive and co-operative security is crucially dependent on the sustainability of consensus among its participating States on the norms that underpin the Organisation, as expressed in its key documents. This consensus, including on how to interpret and implement these norms, has been weakened significantly over the past decade, including by the selective recognition of Kosovo’s declaration of independence after February 2008, the Russia–Georgia war of August 2008 and Russia’s subsequent recognition of Abkhazia’s and South Ossetia’s independence, and the conflict in Ukraine since 2013.¹²

One question for this Report to consider is therefore what impact the BRI has had on the ability and willingness of participating States to live up to their “commitment to the concept ... of comprehensive, co-operative, equal and indivisible security”, as last expressed in the Astana Commemorative Declaration a decade ago (Organisation for Security and Co-operation in Europe 2010, 1). Related to this, there is the question of the extent to which the presence and activities of China—neither a participating State nor a Partner for Co-operation—across the OSCE region affects the Organisation’s status as “the inclusive and comprehensive organisation for consultation, decision-making and co-operation in its region” (Organisation for Security and Co-operation in Europe 1999a, 3).

Similar but more detailed questions can be explored in relation to each of the **three dimensions of the OSCE**. For the **first dimension**, relevant questions include the impact of the BRI on the OSCE region’s protracted conflicts, the role of Chinese private security companies tasked with protecting Chinese assets and investments, and the influence that China can potentially exercise through its membership in the SCO, which rivals the OSCE, if not in terms of the size of its membership then in the fact that, following the accession of India and Pakistan in 2017, it comprises almost 45% of the world’s population and covers a geographic area from the Indian Ocean to the Arctic and from the South China Sea to the Baltic Sea.

Challenges are also obvious in relation to the OSCE’s **third dimension**. For example, the US Ambassador to the Organisation for Security and Co-operation, James S. Gilmore III, noted in an address to the OSCE Permanent Council in Vienna on 16 July 2020 that “egregious mass human rights violations on our doorstep, such as the mass abuses occurring in Xinjiang, China” cannot be ignored and that “any legitimate discussion on OSCE principles should take these larger trends into account”. Specifically concerning the Belt and Road Initiative, he noted that its advocates “need to think hard about vulnerabilities in the

¹² The evolving situation in Ukraine since late 2013 has been interpreted differently by states and international organisations, and these differences are also mirrored in the views of contributors to this report. For this reason, and without prejudice against any of these views, the Report will simply use the phrase “conflict in Ukraine” when referring to events and developments in and around Crimea and Donbas since late 2013.

supply chain by examining the risks associated with labour or goods sourced in Xinjiang, or from factories elsewhere in China implicated in the forced labour of individuals from Xinjiang” (Gilmore 2020, 2–3).¹³

Moreover, questions have arisen as to the impact of China’s presence and activities on the **protection of fundamental human rights and freedoms** in OSCE participating States, including labour and environmental standards (Grieger 2016). The Chinese governance model, which promotes state capitalism and leaves little room for domestic political dissent, is seen as a viable alternative to both the liberal democratic Western European model and the Russian-style ‘sovereign democracy’, not least because of its apparent economic success. At the same time, the apparent lack of conditionality of Chinese investments in the context of the BRI reduces the leverage of other international development partners to tie economic development to the observance of international human rights standards (Indeo 2020).

Whereas the first and third dimensions appear mostly to present challenges to the OSCE, the **second dimension** may offer genuine opportunities for co-operation. At one level, the vision of the BRI and its implementation thus far appear similar to the OSCE’s connectivity agenda, and both could benefit from closer co-ordination. For example, a recent World Bank Study found that “Belt and Road transport corridors could substantially improve trade, foreign investment, and living conditions for citizens in participating countries—but only if China and BRI participants adopt deeper policy reforms that increase transparency, expand trade, improve debt sustainability, and mitigate environmental, social, and corruption risks” (Kunaka 2018).

While on one level the BRI clearly aligns with the OSCE’s assumption of a connection between “economic and environmental co-operation [and] peaceful inter-State relations” (Organisation for Security and Co-operation in Europe 2010, 1), the magnitude and reach of the initiative will inevitably have **political consequences**—both intended and unintended (Flint and Zhu 2019). Such political consequences include, and derive from, among others, China’s need to protect foreign investments; the resultant engagement with different systems of rules and regulations that govern access to, and operations in, other markets; and the further ‘regionalisation’ of Asian and Eurasian spaces under Chinese leadership that overlap with existing regional visions and institutions and their respective normative and strategic foundations. This, in turn, underscores the importance of the OSCE’s comprehensive security concept; that is, the three dimensions of security—politico-military, economic and environmental, and human—are closely linked, and security in the OSCE area and its subregions can only be sustained if it is achieved in all three dimensions.

Consequently, the analysis of the impact of the BRI on each of the subregions considered in this Report is structured around **six questions**:

- What drives the BRI in the subregion?
- What has been accomplished so far?
- What are the critical risks of BRI implementation in the subregion?
- How have local actors reacted?
- How do the other main players view the BRI?
- How has China responded to local and other actors’ perceptions?

There will inevitably be some overlap between these questions, and the situation on the ground remains fluid. What the Report therefore tries to capture are long-term trends over the past seven years—since the launch of the BRI at the end of 2013—and how these do (or do not) represent a continuation of longer-standing Chinese engagement.

OSCE participating States in each of the subregions are included in the analysis but at different levels of detail. This is partly due to the issue of data availability and partly due to the varying importance, to China, that countries have in the implementation of the BRI.

In analysing **risk factors** linked to the BRI, the Report draws on the conceptualisation used by Pushkina and Pan (2020) in their background paper on the BRI in Kazakhstan. Modifying their analytical framework slightly, the Report considers security challenges and stability concerns, governance problems, economic viability, geopolitical rivalries, and intraregional inequality when discussing risk factors in each subregion. Acknowledging that the implementation of BRI projects, and China’s presence and activities more generally, is a **dynamic process** in which different players have their own agency, the Report then also examines local reactions, the perceptions of the other main players (i.e., the United States, Russia, and the EU), and how China has responded to them.

Taken together, exploring these questions offers a detailed but nuanced picture of the impact of the BRI across the three subregions discussed in this Report. This forms the basis for an assessment of how and where the implications of the BRI for the OSCE play out.

Considering the implications

The starting point for this Report is a **two-fold assumption** that is well established in the existing literature on the BRI and widely shared among policy makers. First, the BRI is not (yet) a traditional multilateral integration project (like the EU or the EAEU) with its own explicit rules, but an economic connectivity project to enable the realisation of specific Chinese domestic and foreign national interests. Despite the prevailing Chinese win–win rhetoric, the BRI is a China-focused project first, but one that, while it has inherent risks, may benefit other countries that participate in it. Second, in its current configuration and implementation, the BRI is based on bilateral relations, even where these are realised within multilateral frameworks, such as the 17+1 or the Central Asia Regional Economic Cooperation

¹³ Concerns have also been raised by Western OSCE participating States and some of the Organisation’s Asian Partners for Cooperation about the deteriorating human rights situation in Hong Kong and the possible escalation of tensions with Taiwan.

format, or in the context of relationships with existing regional organisations, such as the EU, the EAEU and the SCO.¹⁴

As a consequence, assessing the implications of the BRI for the OSCE requires consideration of its outcomes to date in the context of its drivers (Chinese national interests) and implementation framework (bilateral relations) and what they tell us about costs and benefits for countries participating in the BRI. Understanding the BRI's **track record**, including the risks and challenges that have become apparent for both China and its partner countries, will make it possible to assess its impact on the OSCE to date and in the future by looking at implications across each of the Organisation's three dimensions.

Once these implications are better understood, they can be considered from the perspective of how the OSCE as an organisation and its participating States should respond. The Report is clear about the **complex nature of the implications** of China's presence and activities in the OSCE region, and it acknowledges the difficulties of formulating and implementing an OSCE response. Yet it also views the 'China challenge' as an opportunity for the OSCE. If the Organisation and its participating States wish to take advantage of this opportunity, the report offers observations on what OSCE engagement with China could look like.

What the Report does (and does not) cover

The unprecedented ambition of the BRI makes it impossible to cover it in its entirety in this Report, and the Report's focus on the OSCE makes it unnecessary to do so. Empirically, the analysis has to concentrate on individual countries that participate in the BRI, and it also needs to extend beyond the merely bilateral level of relations between China and these countries, taking into account the **multi-layered relationships** among different actors that are relevant to assessing the implications of the BRI for the OSCE.

These relationships, first of all, play out within the countries in each of the geographic subregions covered by the Report. At this level, they primarily involve the bilateral relationships that each country has with China and **other relevant partners**, such as Russia, the EU, and the United States.

Second, this country level of analysis cannot be considered in isolation from **subregional dynamics**. In particular, relationships here involve intraregional rivalries and inequalities, the special importance that China places on specific countries as critical nodes along the economic corridors that the BRI has established and that link subregions, and, again, the role played by other 'outside' actors.

14 The National Development and Reform Commission's 2015 *Vision and Actions* paper on the BRI specifically emphasises: "We should enhance the role of multilateral co-operation mechanisms, make full use of existing mechanisms such as the Shanghai Cooperation Organisation (SCO), ASEAN Plus China (10+1), Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), Asia Cooperation Dialogue (ACD), Conference on Interaction and Confidence-Building Measures in Asia (CICA), China-Arab States Cooperation Forum (CASCF), China-Gulf Cooperation Council Strategic Dialogue, Greater Mekong Subregion (GMS) Economic Cooperation, and Central Asia Regional Economic Cooperation (CAREC) to strengthen communication with relevant countries, and attract more countries and regions to participate in the Belt and Road Initiative" (National Development and Reform Commission 2015, 217).

Third, it is important to consider relationships in the context of **regional organisations that cut across economic corridors and geographic subregions**, for example relationships involving the EU and the EAEU, NATO and the SCO, and so on.

The countries that have signed up to the BRI to date are linked through the SREB and the Maritime Silk Road. Of particular significance to this Report are two of the six economic corridors established along the SREB: the New Eurasian Land Bridge and the China–Central Asia–West Asia corridor.¹⁵ These connect, in different configurations, over 20 of the OSCE's participating States to China and to each other, and once completed they will establish a **network of connected major urban nodes and special economic zones** to "promote policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds" (National Development and Reform Commission 2015, 210) across Eurasia, from Beijing and Chongqing to Dusseldorf and Rotterdam.

This Report will not offer a comprehensive picture of China's presence and activities in each and every one of the 27 OSCE participating States that have signed up to the BRI. Rather, it will **focus on the impact of the BRI in three subregions of the OSCE**—Central Asia, the South Caucasus and Eastern Europe, and the Western Balkans—and the key states that China has targeted within these subregions.

Sources and data

Since its inception in 2013, the BRI has been the focus of countless academic books and articles, policy reports, blog posts, and media commentaries. In addition, governments and international organisations have produced their own assessments and formulated policy responses. Lest we forget, the Chinese government and its various agencies have also generated a significant number of publications, ranging from keynote speeches by leading officials, to technical documents that translate these ideas into more practical policy guidelines, to news items reporting on the implementation of specific projects.

Even with the relatively narrow geographic focus adopted in this Report, a comprehensive coverage of this wealth of sources is not feasible. Instead, the Report draws on a **selection of available sources**. These include eighteen specifically commissioned background papers from country and regional experts, academic and policy literature on the BRI, and a host of original primary data, including from Chinese, Russian, OSCE, EU, UN, and World Bank sources, among others.

The inclusion of this breadth of sources was an attempt to present an assessment of the impact of the BRI on the OSCE that is **as balanced as possible**. In trying to realise this aspiration, several constraints were encountered. The most profound limitation was the impact of the global pandemic, which made the planned fieldwork and expert workshops impossible. Additional extensive desk research, 'email interviews,' and online conversations

15 The China–Mongolia–Russia corridor is one of three economic corridors within the OSCE area. However, because this Report focuses on the BRI's impact on the OSCE's contested subregions, neither the corridor itself nor Mongolia will be further analysed here.

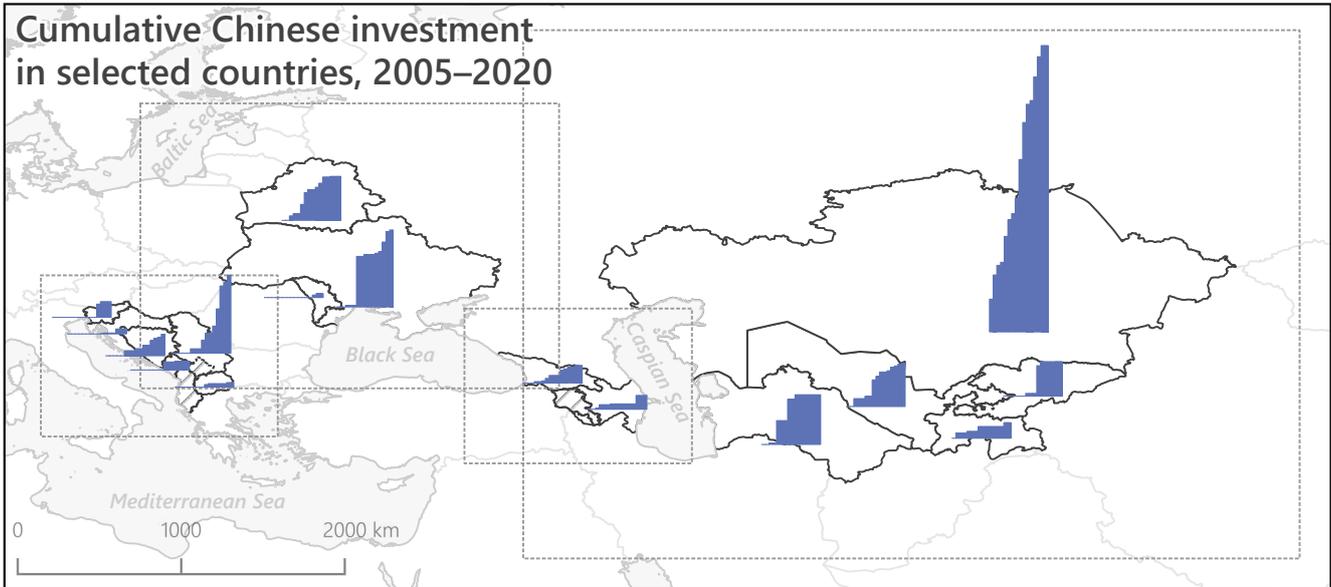
did offer some mitigation in this respect, however, as did the extensive feedback received from experts on early drafts of the Report.

A second problem was the availability of comparable ‘hard’ data on Chinese projects, investments, and loans in the countries covered in this Report. Among the available datasets, the China Global Investment Tracker compiled by the American Enterprise Institute and Heritage Foundation (Scissors 2020) offered the most comprehensive source, covering both investment and construction transactions (i.e., not trade, loans, or bond purchases),¹⁶ and served as the principal source of such data throughout the Report.¹⁷ As appropriate, it was complemented by other datasets (Aminjonov et al. 2019; Kratz et al. 2020) and by information on individual projects featured in the background papers (e.g., Bayok 2020a; Kartsonaki 2020a; Kemoklidze 2020b; Malyarenko 2020a; Savaris 2020a).

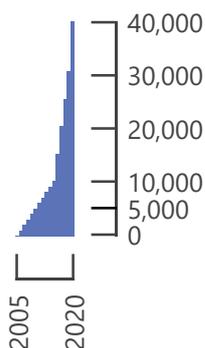
Engaging with these ‘hard data’ and their various interpretations also repeatedly confirmed that there is very **little agreement on what constitutes a BRI project**. Consequently, the Report does not draw a sharp distinction between China’s presence and activities in the OSCE region in general and the BRI in particular. The boundaries between the two are fluid and changing. Moreover, as the BRI has increasingly developed into a signature foreign policy under President Xi, the distinction has become even less relevant. In this sense, the analysis concerns China’s growing footprint in the three OSCE subregions covered in the Report. This is also reflected in the policy recommendations, which emphasise the need for—and outline some options with regard to—engagement with China, not just with the BRI.

¹⁶ The distinction between investment and construction transactions is defined as follows: investment involves “ownership and an indefinite presence in the host country,” whereas “construction and associated lending can stretch years, but they are not indefinite and do not bring asset ownership” (Scissors 2021, 2).

¹⁷ There is also an ongoing (but so far inconclusive) debate on the impact of COVID-19 on Chinese lending and investment along the BRI in general (Mingey and Kratz 2021; Kratz, Rosen, and Mingey 2020; Kenderdine and Yau 2020), with which this Report does not engage. Note, however, that global Chinese “investment started to dip in 2017, and construction flattened around the same time” (Scissors 2021, 1).



Cumulative investment in million \$



data not available

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Figure 1: Cumulative Chinese Investment in Selected Countries in OSCE Subregions, 2005–2020

(Source: Scissors 2020 and author calculations)

2

Changing Geopolitical and Geo-Economic Dynamics Across Three OSCE Subregions

The three subregions considered in this Report—Central Asia, the South Caucasus and Eastern Europe, and the Western Balkans—and the OSCE participating States within them remain targets of influence-seeking by rival powers. In the post-Cold War period, these have traditionally been the United States and the EU (i.e., ‘the West’) and Russia. The intensity of their competition for influence has varied over time but has generally increased over the past decade, especially in the wake of the conflict in Ukraine since late 2013 (e.g., Beyer and Wolff 2016; Malyarenko and Wolff 2018). As China’s presence and activities have simultaneously grown across the OSCE region, the **rivalry between Russia and the West** has become more complex, and relations between all of these major players remain somewhat in flux.

The most obvious indicator of China’s increasing footprint in all three subregions is the **growth of Chinese investment** in the countries there. Figure 1 illustrates this for the period since 2005, indicating that Central Asia received by far the most investment, including significant amounts prior to the official launch of the BRI in 2013. Within Central Asia, Kazakhstan received the most Chinese funds, and its total share of all Chinese investment across the three subregions stands at almost 40% for the period from 2005 to 2020. Comparing the three subregions directly, it becomes apparent that Chinese investment and construction contracts in Central Asia make up almost 60% of the total Chinese funds disbursed to the three subregions (Figure 2).

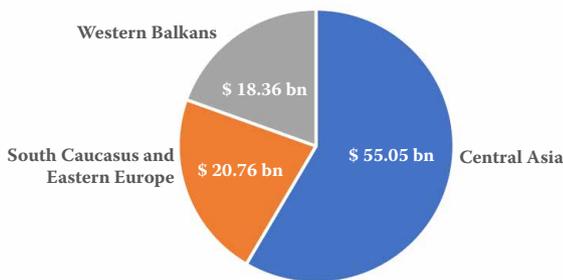


Figure 2: Chinese Investment and Construction Contracts in OSCE Subregions, 2005–2020

(Source: Scissors 2020 and author calculations)

In addition, there has also been an increase in **Chinese soft power projection** (Li and Wong 2018; Pepermans 2018; Jakimów 2019; Sadri and Akar 2019). This is obvious across all three subregions in relation to the growing number of Confucius Institutes and Classrooms (Figure 3), but also in more subtle forms of influence, including Chinese influence on local media, as discussed further below.

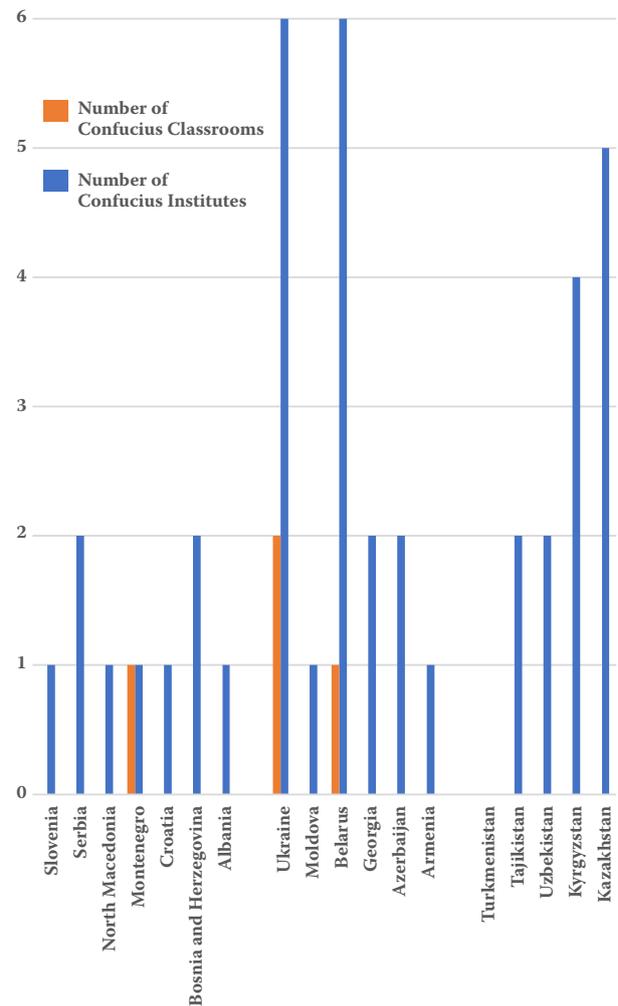


Figure 3: Chinese Soft Power Projection Compared: Confucius Institutes and Classrooms in Central Asia, the South Caucasus and Eastern Europe, and the Western Balkans

(Source: author calculations based on Confucius Institute Headquarters 2020)

This level of investment in Central Asia—in both financial and soft power terms—indicates that, along the Silk Road Economic Belt, this subregion is perhaps the **most critical subregion** when it comes to determining whether the Belt and Road Initiative will ultimately succeed or fail to provide China with sustainable overland connections to the EU market, to expand its political

and economic influence in countries that participate in the Initiative, and to deliver on the relevant domestic policy priorities (such as stability in Xinjiang, access capital, and production capacity). This subregion and the individual countries within it are critical to China's ability to address domestic and regional security concerns, and they provide two-way trade and transport connectivity along two economic corridors. Yet they also represent a significant challenge given their much poorer levels of governance (Figure 4).¹⁸ **Corruption**, while a significant problem in all three subregions, is particularly pervasive in Central Asia and represents one of the subregion's central challenges.¹⁹

The way in which China has engaged with the subregion in the implementation of the BRI (and similar projects preceding it) also offers important insights into how China is managing relations with local and external stakeholders, which, in turn, offers **indications of the likely future trajectories** of the Initiative more generally and its impact on the OSCE as an organisation, its institutions, and participating States.

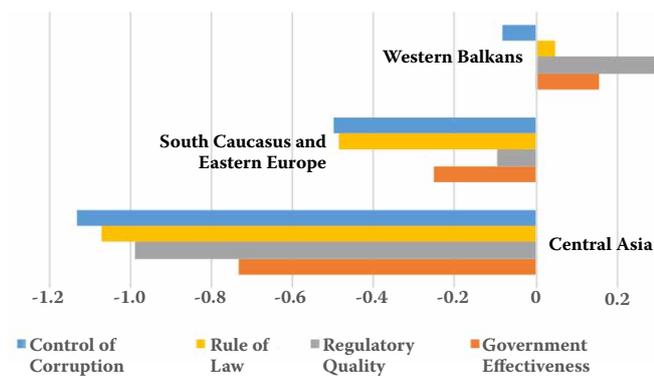


Figure 4: Governance Indicators in OSCE Subregions, 2009–2019

(Category average for all countries in each subregion of 2009, 2014, 2019; lower values indicate poorer governance.)

(Source: World Bank 2020b)

Geographically distinct, and with no common land border with China, the six OSCE participating States in the **South Caucasus**

18 There are six World Governance Indicators: government effectiveness, regulatory quality, control of corruption, rule of law, political stability and absence of violence/terrorism, and voice and accountability. These indicators represent composite measures of perceptions ranging from -2.5 (worst) to +2.5 (best), taken from a range of different sources (World Bank 2020b). Individual definitions of the different indicators are as follows:

- **'Government effectiveness'** covers perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- **'Regulatory quality'** covers perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
- **'Control of corruption'** covers perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the extent to which the state has been 'captured' by elites and private interests.
- **'Rule of law'** covers perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
- **'Political stability and absence of violence/terrorism'** measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.
- **'Voice and accountability'** covers perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

19 The data presented in Figure 4 and similar figures below are only intended to convey a general sense of the differences between the three subregions. They mask differences between countries and changes over time, which will be subject to further analysis in the following sections.

(Armenia, Azerbaijan, and Georgia) and **Eastern Europe** (Belarus, Moldova, and Ukraine) have a number of features in common that simultaneously set them apart from Central Asia and the Western Balkans.²⁰

While there are individual differences between these countries, as a whole they have been **socially and economically more developed** than the countries of Central Asia but have also displayed far greater degrees of political instability than either Central Asia or the Western Balkans for the past decade (Figure 5). This is evident from the ongoing conflict in Ukraine but, more recently, also from the escalation of violence between Armenia and Azerbaijan and disputed elections in Belarus and Georgia. Three of the countries—Georgia, Moldova, and Ukraine—have also been stuck in a tug of war between Russia and the West for more than a decade (Malyarenko and Wolff 2019).

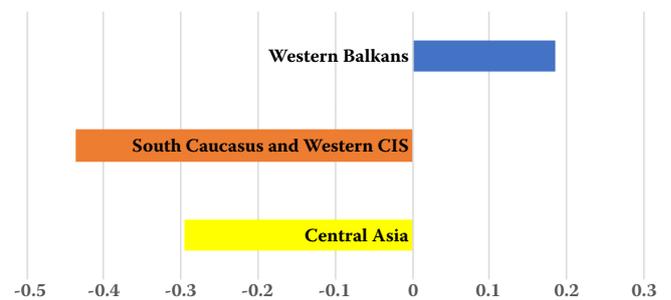


Figure 5: Political Stability in OSCE Subregions, 2009–2019

(Category average for all countries in each subregion of 2009, 2014, 2019; the lower the score, the greater the political instability experienced.)

(Source: World Bank 2020b)

Exploring Chinese engagement in the OSCE participating States in the South Caucasus and Eastern Europe thus offers an interesting counterpoint to the preceding examination of Central Asia and the subsequent section on the Western Balkans. A perspective on the six countries located there will offer insights into the impact of China's generally more limited presence and activities on both the subregion(s) and the OSCE as a whole.

The **Western Balkans** subregion comprises Albania, Bosnia and Herzegovina, Croatia, Kosovo,²¹ Montenegro, North Macedonia, Serbia, and Slovenia.²² As a subregion, the Western Balkans have significantly higher levels of development than the countries in Central Asia and in the South Caucasus and Eastern Europe (Figure 6).

20 While not relevant from an OSCE perspective per se, the EU also groups all six countries together in its Eastern Partnership.

21 The OSCE has not taken a formal position on the status of Kosovo, other than basing the mandate of its Mission there on United Nations Security Council Resolution 1244. The original mandate of 1 July 1999 (Permanent Council of the Organisation for Security and Co-operation in Europe 1999) has been renewed automatically since 2007 after the Permanent Council decided that, as of 31 December 2008, "the mandate will be extended for another month unless a participating State objects in writing to the Chairperson of the Permanent Council" (Permanent Council of the Organisation for Security and Co-operation in Europe 2007).

22 From an EU perspective, and following the accession of Slovenia and Croatia in 2004 and 2013, respectively, the Western Balkans subregion now includes Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia. For the purposes of this Report, however, all eight countries and entities are subsumed under the 'Western Balkans' designation.

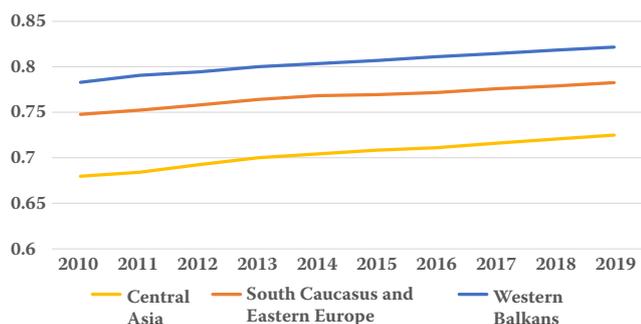


Figure 6: Human Development in OSCE Subregions, 2009–2019

(Source: Human Development Report Office 2020)

From China's perspective, and considering its march westward along the Silk Road Economic Belt and the Maritime Silk Road, the Western Balkans offer the unique opportunity of **direct access to the important EU market**. The subregion, and individual countries within it, are also critical with respect to how China has managed its relationships with other key external stakeholders in the BRI in a geographical space where it has a far less well-established presence, in particular compared to the European Union and NATO.

These countries are generally, albeit to varying degrees, also **more deeply integrated in Euro-Atlantic structures** than any of the others considered in this Report. Slovenia joined the European Union in 2004 and Croatia in 2013, while Albania (2014), Montenegro (2010), North Macedonia (2005), and Serbia (2012) are official candidate countries. Bosnia and Herzegovina and Kosovo have potential candidate status, with their Stabilisation and Association Agreements having entered into force in 2015 and 2016, respectively. At the same time, Slovenia (2004), Croatia (2009), Albania (2009), Montenegro (2017), and North Macedonia (2020) have become members of NATO. This level of integration also reflects the greater degree of political freedoms and civil liberties enjoyed by the citizens of Western Balkan countries, which also sets them clearly apart from the other two subregions (Figure 7).

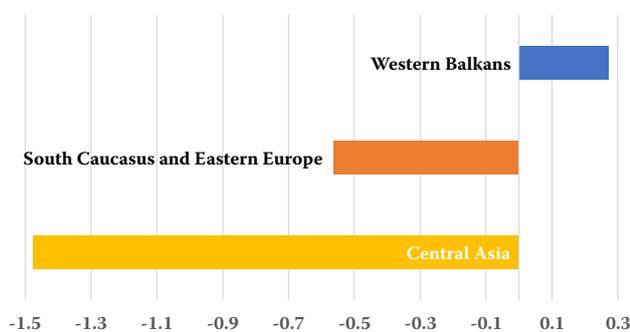


Figure 7: Voice and Accountability in OSCE Subregions, 2009–2019

(Category average for all countries in each subregion of 2009, 2014, 2019; the higher the score, the greater the degree of political freedoms and civil liberties.)

(Source: World Bank 2020b)

BRI projects in the Western Balkans operate in an environment where it is likely that, despite China's primarily bilateral approach to co-operation, "the Belt and Road [will] provide[] new historical opportunities, [including for] further complementary regional co-operation" (Hu and Pan 2017, 26). Opportunities of this type arise in part from the fact that, with the exception of Kosovo,²³ the Western Balkan countries are also part of the **17+1 co-operation mechanism**. This is a multilateral platform that currently includes a total of 16 Central and Eastern European Countries,²⁴ Greece, and China. Established before the BRI was launched but now firmly integrated with it, the 17+1 platform, at least in the official Chinese rhetoric, is an opportunity to establish "win-win co-operation" in the fields of connectivity, investment, trade, transport, and cultural exchange (Ferchen et al. 2018; Kartsonaki 2020a). There are strong links across the 17+1 platform, including in the form of a transport and logistics corridor from the Greek port of Piraeus to the Hungarian capital of Budapest. This Balkan Silk Road is a central element of the overall Chinese strategy in the Western Balkans, which is focused above all on infrastructure development financed by a mix of Chinese loans, investment by national governments in the subregion, and (in some cases) EU grants (Savaris 2020a). This emphasis, especially on transport infrastructure, not only raises the spectre of overlap and duplication with existing projects, especially the EU-led Trans-European Transport Networks (TEN-T), but also brings different visions of connectivity (by China, the EU, and the OSCE) into direct contact, and likely confrontation.

More so than any other subregion considered here, the dynamics of the BRI in the Western Balkans offer insights into the likely future trajectories of the BRI and its impact on the OSCE as an organisation, its institutions, and participating States in a geographical space that has been **dominated by Western influence** over the past quarter-century, which is now being challenged by China's increasing footprint.

As this Report places significant emphasis on the geopolitics and geo-economics of China's presence and activities in these three subregions of the OSCE, it is worth considering, at the outset, a number of relevant indicators. The **four major players**—China, Russia, the United States, and the EU—are, unsurprisingly, of great significance to the countries in these subregions.

China, for example, was a top-five trading partner in 2019 for Albania, Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, Montenegro, North Macedonia, Tajikistan, Ukraine, and Uzbekistan.

The EU, however, still remains more important to more countries. Leaving aside EU members Croatia and Slovenia, it was a top-five partner in 2019 for Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, the Kyrgyz

²³ Despite its non-recognition of Kosovo, China has opened a representative office in Pristina offering consular services and maintaining bilateral relationships. While Kosovo has no official representation in China, companies registered there have begun to participate more frequently in trade fairs and other forums in China (Savaris 2020a).

²⁴ Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia, and Slovenia.

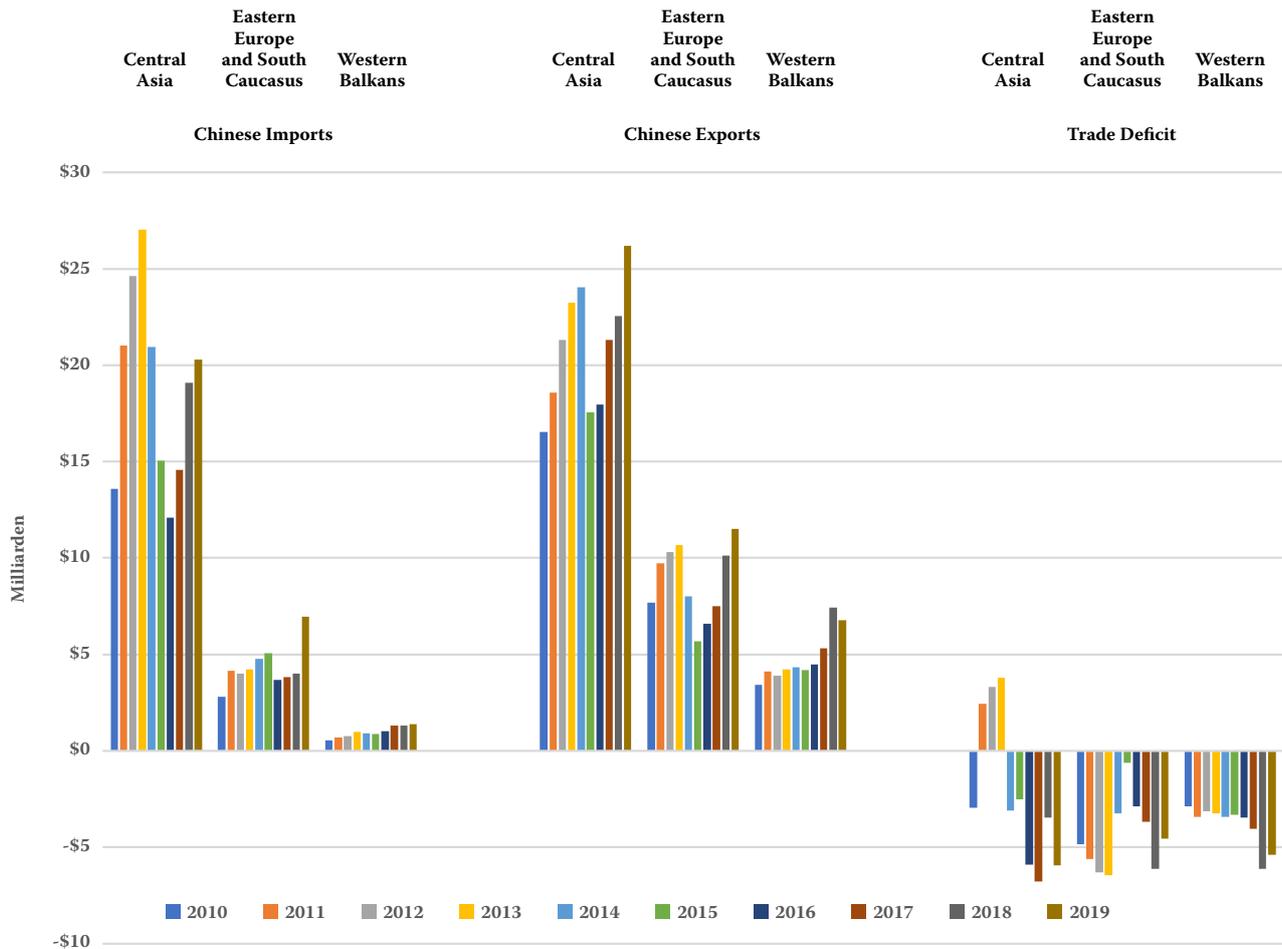


Figure 8: Chinese Trade with OSCE Subregions, 2010–2019

(Source: United Nations Statistics Division 2020 and author calculations)

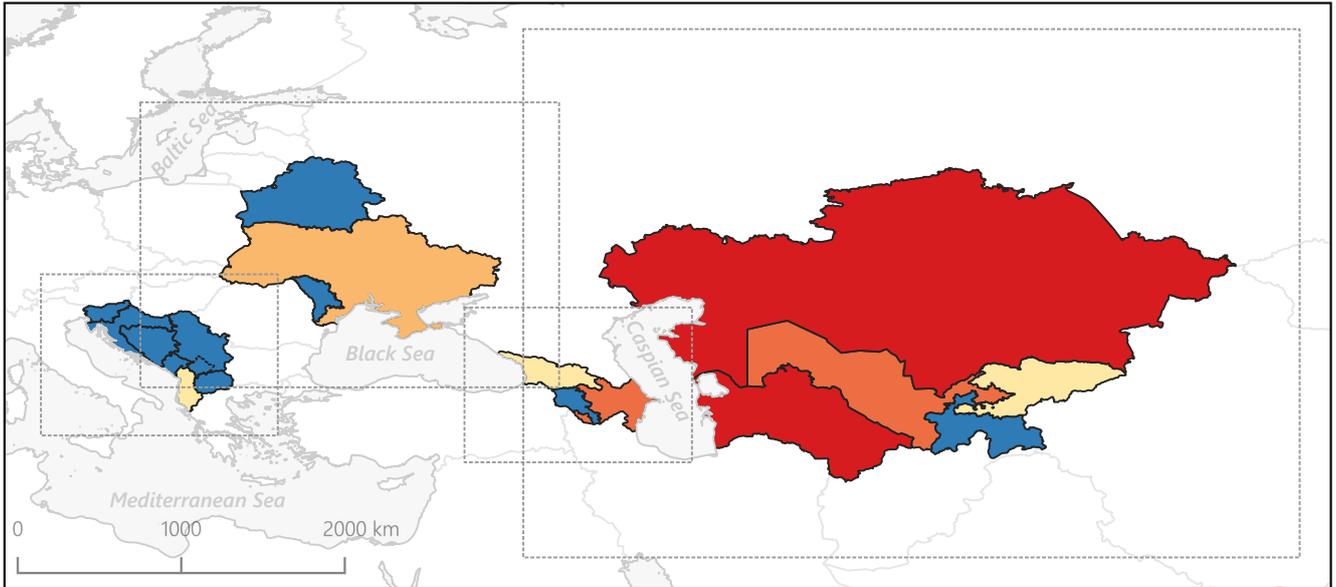
Republic, Moldova, Montenegro, North Macedonia, Serbia, and Ukraine. It was only in relation to Armenia (3) and Belarus (2) that the EU fell short of occupying the top spot.

Russia was the most important partner for Armenia and Belarus in 2019 and a top-five partner for Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Montenegro, Serbia, Ukraine, and Uzbekistan. **The United States** had the smallest footprint in the three subregions covered in this Report in 2019, being a top-five partner for Albania, Georgia, Moldova, North Macedonia, and Ukraine.

Considering Chinese trade with the countries of the three subregions, several interesting trends are apparent (Figure 8). In the decade from 2010 to 2019, **overall trade value increased**—consistently with the Western Balkans, less so with the South Caucasus and Eastern Europe, and with Central Asia (reflecting in particular the latter’s greater exposure to fluctuating hydrocarbon prices).

Moreover, trade with Central Asia is slightly larger than with the other two subregions combined (\$398bn, compared to \$189bn).²⁵ This reflects the much higher Chinese imports from Turkmenistan and Kazakhstan in particular, who exported a combined total of just over \$100bn worth of hydrocarbons to China between 2010 and 2019, equivalent to 93% of all Chinese hydrocarbon imports from all three subregions (Figure 9). Conversely, the **trade deficit** of Central Asia over the same period is only about half of that of the other two subregions (\$21bn, compared to \$44bn for the South Caucasus and Eastern Europe and \$38bn for the Western Balkans). Only three countries have a trade surplus with China: Turkmenistan (\$62bn over the period, thus driving the relatively lower trade deficit of the Central Asian subregion as a whole, based on the country’s hydrocarbon exports to China), Armenia (\$592m), and North Macedonia (\$180m).

²⁵ The Western Balkans in particular are largely insignificant to China, even as an export market. This is, of course, due to the smaller market (i.e., population) size of the subregion, which is not offset by higher purchasing power. The value of the subregion for China, however, derives from its location as a transit route to the EU market and the level of European integration (now and potentially in the future).



\$60,237,536,447	■ Turkmenistan	\$373,186,372	■ Ukraine	■ Armenia, Belarus,
\$46,115,170,034	■ Kazakhstan	\$22,616,832	■ Kyrgyzstan	Bosnia and Herzegovina, Croatia,
\$5,021,376,888	■ Uzbekistan	\$20,028,301	■ Georgia	Moldova, Montenegro, North Macedonia,
\$2,114,811,299	■ Azerbaijan	\$9,519,742	■ Albania	Serbia, Slovenia, Tajikistan
				<\$1,000,000

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Figure 9: Cumulative Chinese Imports of Mineral Fuels and Oils, 2010–2019

(Source: United Nations Statistics Division 2020 and author calculations)

Equally importantly from the perspective of assessing the geopolitical and geo-economic implications of China's presence and activities in the subregions, **trade among the four major players** has remained extensive, despite the worsening relations between them. The most significant shift has been in trade with **Russia** following the imposition of sanctions by the EU and the United States in response to the ongoing conflict in Ukraine (Figure 10). According to data from the International Monetary Fund (IMF), the EU accounted for 52.6% of Russia's total trade in goods in 2010, but only 39.3% by 2019. By contrast, China's share in Russian trade increased from 9.2% in 2010 to 16.6% in 2019 (International Monetary Fund 2020). Russia's trade with the EU, China, and the United States still makes up 60% of the country's total international trade, although this is down from over 67% ten years ago.²⁶

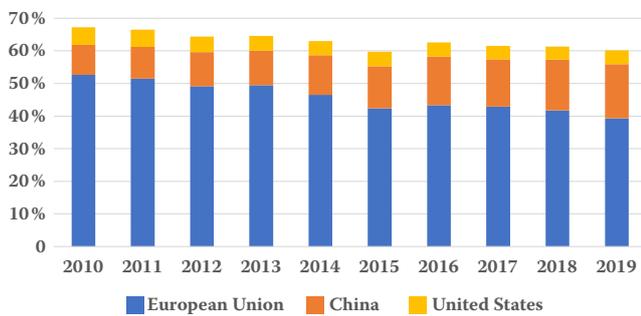


Figure 10: Russian Goods Trade with the EU, China, and the United States as a Share of Total Russian Goods Trade

(Source: International Monetary Fund 2020 and author calculations)

For **China**, the picture is quite different in this respect. Its total trade with the EU, Russia, and the United States now only accounts for just over 28% of its total international trade, down from 34% a decade earlier (International Monetary Fund 2020). This decline reflects decreasing trade with the EU and the United States (down from 15.6% and 16% in 2010, respectively, to 13.8% and 12.2% in 2019) and a slight increase in trade with Russia (from 2% in 2010 to 2.4% in 2019). In trade terms, there is thus evidence that ties between Russia and China have strengthened, especially economically. Note, however, that this remains a highly asymmetric relationship: for Russia, trade with China accounts for one-sixth of its total trade, up from one-tenth a decade earlier. For China, the importance of trade with Russia has only marginally increased from one-fiftieth a decade ago, while combined trade with the EU and US still makes up just over one-quarter of its total trade.

Trade with each other remains very important for all four global players. According to data from the World Trade Organisation (WTO), China, the EU, and the United States were among each other's top non-agricultural trading partners in 2019 (World

Trade Organisation 2020).²⁷ With some qualifications, this also holds true for Russia, which was not among the top five for China or the United States in terms of the value of goods it exported to either country (Table 1).

	China	Russia	EU	US
China		2	2	4
Russia	--		4	--
EU	2	1		1
US	1	4	1	

Table 1: Non-Agricultural Trade Rank, Based on Exports Value to Partner

(Source: World Trade Organisation 2020)

While these trade data present only part of a more complex picture, they nonetheless convey a sense of the **structural parameters** within which the implementation of the BRI in the contested subregions of the OSCE occurs. Especially regarding trade between China, Russia, and the EU, the connectivities created by the BRI and related projects (including those implemented by the EU and Russia to enhance transport infrastructure and reduce trade barriers) within and across the three subregions are critical. In this sense, existing trade patterns and trends are important factors to consider when assessing the overall geopolitical and geo-economic implications of China's presence and activities in these subregions.

In one sense, therefore, the BRI constitutes an **additional challenge, and perhaps opportunity**, for the OSCE "as the inclusive and comprehensive organisation for consultation, decision-making and co-operation in its region" (Organisation for Security and Co-operation in Europe 1999a, 3). Within this network of relationships, all relevant states and organisations have agency of their own. However, the scope and autonomy of their agency are determined by the relative balance of power and interests between them. The resulting dynamics set the parameters within which the OSCE can perform its role in managing security and stability across all three of its dimensions.

²⁶ These figures must be put in perspective: the EU remains Russia's most important trade partner, and decreasing trade volume between Russia and the EU is in part a result of declining oil and gas prices and rouble depreciation. Yet the general point of decreasing trade between Russia and the EU and increasing trade between Russia and China remains. I am grateful to Alexandra Dienes for pointing this out to me.

²⁷ According to Eurostat (2020), China was the third-largest partner for EU exports of goods and the largest partner for EU imports of goods (19%).

Central Asia

What drives the BRI in the subregion?

There is broad consensus among the contributors to this OSCE Network Report and within the wider literature that **Central Asia exemplifies many of the key drivers behind the BRI**. From an economic perspective, the subregion is critical to road and rail transit connecting China to European markets. These connections also represent strategically important alternatives to existing maritime routes. In turn, they also allow China to invest in resource extraction²⁸ in countries along the economic corridors created and to secure vital energy, raw materials, and agricultural products for domestic consumption. Politically, improving the security situation in Xinjiang (from China's perspective) depends as much on economic development in the Uighur Autonomous Region as on development in the neighbouring Central Asian states to curb the so-called three evils of terrorism, extremism, and separatism (Bitabarova 2018; Silin et al. 2018; Pantucci 2019). Stability in this wider subregion will in turn promote resilience to negative spillover effects from Afghanistan.

Within the Central Asian subregion, **Kazakhstan** has been the key target state for China. It is the largest, economically strongest, and politically most stable of all the Central Asian states (Bayok 2020a). The country plays a “linchpin role in strengthening regional interconnectivity”, as a “bridge connecting China with Europe (Russia), the Caucasus, and Western Asia through both land and the Caspian Sea” (Bitabarova 2018, 158). Compared to the other Central Asian countries, Kazakhstan already has a relatively developed infrastructure network, and its territory is topographically easier to navigate, including for energy pipelines, with all oil and gas pipelines originating in the subregion entering China from Kazakhstan. The BRI priority of infrastructure development also dovetails with Kazakhstan's own priority in this respect (Bayok 2020b) and has contributed to Kazakhstan's aim of diversifying its otherwise heavily oil-dependent economy (Murat 2020). Nonetheless, and in line with China's own emphasis on diversifying its energy supplies, China has also invested heavily in Kazakhstan's own oil production, with Chinese companies now in control of approximately 25% of that sector (Silin et al. 2018, 306).

Kazakhstan is also important to China for its demonstration effect. Nazarbayev University was the venue where President Xi launched the then ‘One Belt, One Road’ initiative in 2013, and Kazakhstan has since seen significant investment from China extending beyond transport and energy infrastructure. As Gubaidullina and Nurdavletova (2020) point out, the Free Economic Zone Khorgos–Eastern Gate provides investors with a full range of transport and logistics services under the ‘one window’ principle and has attracted over 50 large Chinese projects, with a total investment commitment of \$27bn,

including in mechanical engineering, agriculture, renewable energy, chemical and light industries, building materials, powdered polypropylene, and JAC-brand cars. This has been possible in part because Kazakhstan is closely co-ordinating its own national development plan, Nurly Zhol (Bright Path), with China's BRI (Bayok 2020b), thereby creating opportunities for co-investment in a wider range of projects beyond those more commonly associated with the BRI's focus on trade, transport, and energy connectivity in Central Asia and other countries and subregions along the SREB.

In Kazakhstan, but also more generally in other cases where a **national development strategy** exists, China takes the view that co-ordination between BRI and national priorities is “based on the principle of ‘planning, building, and sharing together’” (Pushkina and Pan 2020). From China's perspective, Kazakhstan demonstrates the oft-mentioned ‘win–win’ co-operation generated by BRI projects, one of the key selling propositions of the initiative to other (potential) partner countries that also downplays fears of the BRI's being a Chinese tool of predatory economic practices. Success in Kazakhstan is thus critical to China's ability “to reassure those partners of the peaceful nature of its rising power and to deter the formation of any anti-China coalition or ‘anyone but China’ club” (Zhou and Esteban 2018, 493).

Finally, Central Asia is essential to China's ability to manage its **relationships with a broader set of key stakeholders** in the BRI. It is an area where the BRI intersects with the security-focused SCO, the Russian-led EAEU integration project, and the OSCE, while also interacting with the EU and the United States and their respective strategies in the subregion. By establishing a strong foothold in the subregion through the BRI, China can gradually expand its control over this strategically pivotal subregion and bring it within its sphere of influence, where the EU and the United States have, at best, very limited links and leverage.²⁹

The current **relationship with Russia** is still predicated on the notion of a division of labour with China. The latter is gradually emerging as the economically dominant power. As a result of the Soviet legacy, Russia (until most recently the preeminent political and economic player in the subregion) remains the main security provider. Central Asia therefore also provides China with a testing ground for the operationalisation of the BRI in areas of geopolitical rivalry and for leveraging the economic potential of this initiative for broader political gains. Central Asia's significance in the ‘bigger picture’ of the geopolitical and geo-economic dynamics currently at play in the OSCE region as a whole is epitomised in former Kazakh President Nursultan Nazarbayev's vision of a Greater Eurasia, also embraced by Russian geopolitical thinkers (Bordachev 2019b; Luzyanin 2018; Lukin and Yakunin 2018; Karaganov 2018), as a “single integration project for the 21st century” that “will merge the Eurasian Economic Union, the Silk Road Economic Belt, and the European Union” (Nazarbayev 2015, 2). Although in its very early

²⁸ For example, approximately 75% of all Chinese uranium imports are from Kazakhstan (Silin et al. 2018, 306). As of 2020, China owns the majority of mining rights in Tajikistan, cornering an economy that is heavily reliant on exports of primary resources (Yau 2020).

²⁹ For example, China has already managed, in co-operation with Russia, to all but eliminate any significant US presence in Central Asia. This has certainly been helped by a decreasing US willingness to maintain a real presence following its drawdown from Afghanistan. I am grateful to Sergey Radchenko for pointing this out to me.

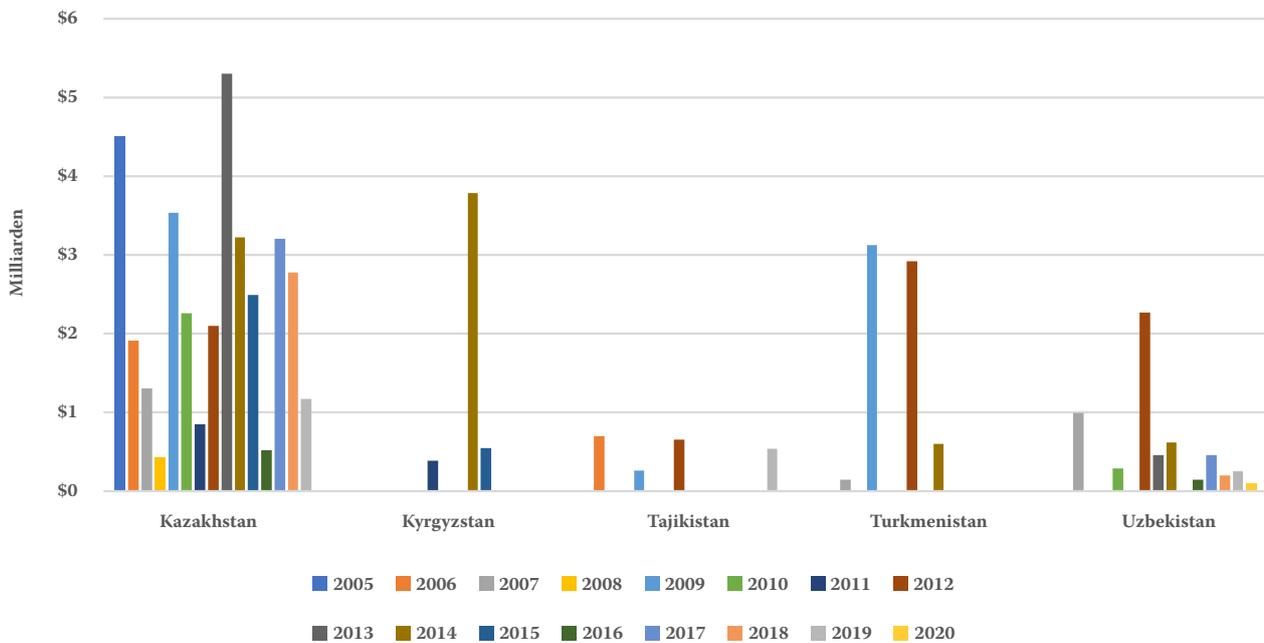


Figure 11: Chinese Investments and Construction Transactions in Central Asia, 2005–2020

(Source: Scissors 2020)

stages, the economic and trade co-operation agreement between China and the EAEU (Eurasian Economic Union 2018), which has only been in force since 2019, is a first step in this direction.

What has been accomplished so far?

The amount of Chinese investment and construction transactions in Central Asia is impressive (Figure 11). Kazakhstan clearly dominates this picture, receiving funds every year (except for 2020) and accounting for nearly two-thirds of the total Chinese funds committed to the subregion since 2005.

Unique to the Central Asian subregion, the Central Asia Data-Gathering and Analysis Team, a joint project by the Norwegian Institute of International Affairs and the OSCE Academy in Bishkek, have compiled a unified database of **Chinese projects across the subregion** that is current as of 2018 and lists a total of 261 projects (Aminjonov et al. 2019).³⁰ This allows for a further and more detailed breakdown of Chinese investment. These 261 projects include 52 that started before 2013, the earliest being the 1997 acquisition by China's National Petroleum Company (CNPC) of a two-thirds stake in Kazakhstan's JSC AktobeMunaiGas and an accompanying pledge to invest \$4bn in the company over twenty years. With this and another 21 pre-2013 projects, which are all aligned with what emerged as BRI strategic priorities, Kazakhstan had received the bulk of Chinese investment in Central Asia even prior to the official launch of the BRI.

Kazakhstan's privileged position has continued throughout the period of BRI implementation to date. The Central Asia Data-Gathering and Analysis Team (Aminjonov et al. 2019) identified **183 projects launched between 2013 and 2018**. Of these, 68 were carried out in Kazakhstan, at a total cost of more than \$36bn. In terms of project volume, Uzbekistan comes second with 40 projects (approximately \$4.5bn), followed by Kyrgyzstan with 32 projects (\$2.6bn), Tajikistan with 24 (\$5.5bn), and Turkmenistan with 20 (\$15bn).³¹ The overwhelming majority of these projects are carried out on a bilateral basis (Bayok 2020a). Of the 25 projects planned as of 2019, ten are situated in Kazakhstan, nine in Tajikistan, and six in Kyrgyzstan (Aminjonov et al. 2019).

Looking at **different sectors** of post-2013 Chinese engagement, the largest in terms of number of projects is Industry (37 projects), followed by Road and Rail (35), Energy (31), Mineral and Petroleum Extraction (28), Agriculture (23), People-to-People (19), and Finance and IT (10). As Figure 12 shows, Kazakhstan has again been home to the largest number of projects in most sectors.

³⁰ Note that a large number of these projects are not branded as BRI projects. They are nonetheless included in the following analysis as the dataset as a whole provides as comprehensive a picture as possible on Chinese projects in Central Asia.

³¹ Costs are approximate as financial information is incomplete. For example, of the 20 projects listed for Turkmenistan, data on costs is unavailable for 15.

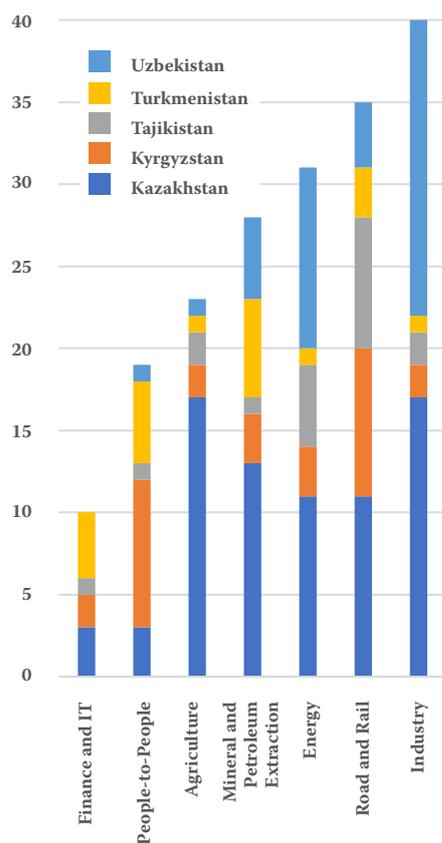


Figure 12: Chinese Projects in Central Asia by Country and Sector

(Source: author calculations based on Aminjonov et al. 2019)

There is also a clear distinction in terms of the ‘status’ of Central Asian countries in their relationship with China:³² while Kazakhstan now has a permanent strategic partnership, Tajikistan and Turkmenistan have strategic partnerships. The relationship between China and Uzbekistan and Kyrgyzstan was elevated to comprehensive strategic partnerships in 2017 and 2018, respectively. This, in turn, is also reflected in the number of Chinese companies registered in each country: 2,800 in Kazakhstan, 1,268 in Uzbekistan, 574 in Kyrgyzstan, 400 in Tajikistan, and at least 21 in Turkmenistan (Yau 2020).

What are the critical risks of BRI implementation in the subregion?

Security challenges and stability concerns. The countries of Central Asia have faced challenges in terms of terrorism and religious extremism, including regional spillover effects from Afghanistan and ‘domestic’ instability associated with regime transitions and elections (Figure 13). While Kazakhstan remained the most stable country in 2019, its level of political stability has decreased, as has that of Turkmenistan, the second most stable country in the subregion. By contrast, the other three countries in the subregion—Kyrgyzstan, Uzbekistan, and Tajikistan—which have historically been less stable, have seen improvements in this regard.

The seriousness of these challenges has varied over time, and questions have been raised about the actual (rather than the perceived or declared) threat level (Lemon 2018) and the appropriateness of government responses, including in terms of their human rights implications (Rahmani 2018). Some of the countries in the subregion also continue to experience civil unrest (such as in the context of the 2020 elections in Kyrgyzstan) and are exposed to different forms of transnational organised crime (Haiquan 2017; Pantucci 2019; Yau 2020; Zhao 2020).

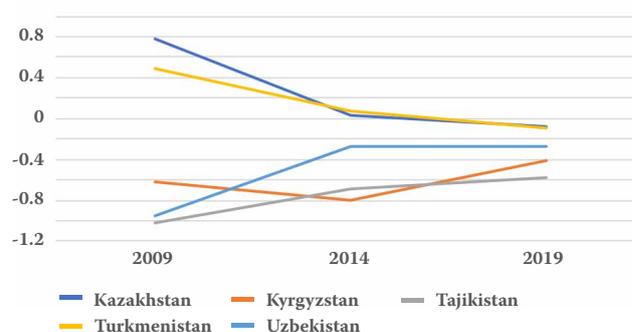


Figure 13: Political Stability in Central Asia, 2009–2019

(Category value for all countries in 2009, 2014, 2019; the lower the score, the greater the political instability experienced.)

(Source: World Bank 2020b)

Regardless of the actual severity of these challenges, the security and stability discourse surrounding the BRI has been important in both shaping and justifying policy responses in at least two ways. First, security co-operation between China and countries in the subregion has intensified over time both on the bilateral level and within the multilateral SCO setting. Second, risks associated with a lack of security and stability have also increased China’s security footprint in the subregion, including through the use of Private Military and Security Companies (PMSCs).

Governance problems. Relative institutional fragility, lack of transparency and democratic accountability, high levels of corruption, and weakly developed rule of law together create an unfavourable business environment in Central Asia (Indeo 2020). They may at times facilitate the approval and implementation of particular projects and have short-term economic benefits, but in the longer term they are detrimental to professed BRI goals, including achieving greater levels of sustainable social and political stability through economic development. Weak governance, including at the subregional level, is also likely to exacerbate longstanding water resource issues in the subregion and the cross-border tensions to which they have given rise in the past (Howard and Howard 2016).

It is also important to note in this context that the extent of governance problems varies across the five Central Asian countries. According to the World Governance Indicators (World Bank 2020b), Kazakhstan is by far the best performer when it comes to government effectiveness, regulatory quality, control of corruption, and rule of law (Figure 14). Given the country’s pivotal geographic position in the New Eurasian Land Bridge, its relatively higher levels of governance, alongside fewer security challenges and stability concerns, are hardly a key driver of Chinese investment in Kazakhstan, but they create a broadly

³² I am grateful to Yanliang Pan and Sergey Radchenko for providing me with up-to-date information in this context.

more favourable business environment. This, as further detailed below, is also reflected in China's efforts to respond more constructively to local concerns and to eliminate other sources of friction in the bilateral relationship.

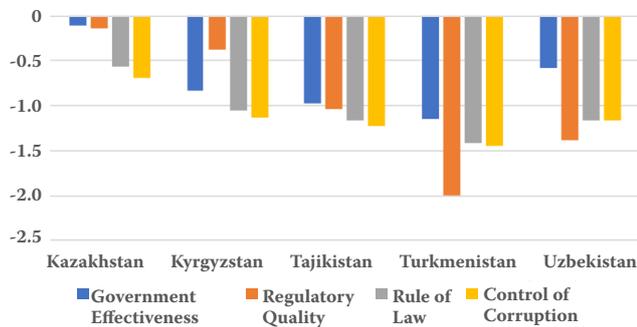


Figure 14: Governance Indicators in Central Asia, 2009-2019

(Category value for all countries in 2009, 2014, 2019; lower values indicate poorer governance.)

(Source: World Bank 2020b)

Economic viability. For the time being, overland transport, while faster, is still more expensive than transport by sea. In addition, expected additional benefits from infrastructure investment in transit countries in Central Asia are constrained because of the “economic immaturity of markets, limited market size, corruption, cumbersome customs clearance, low administrative efficiency and high default risks” (Grieger 2016, 10). The profitability of several large infrastructure investments aimed at developing transport connections across Central Asia is currently still inhibited by the often excessive trade imbalance between China and countries in Central Asia, and along the SREB more generally, which means that trains are often returning to China empty. Moreover, Chinese loans and investments are, at least in part, also driven by a geopolitical imperative that often trumps the economic logic of many BRI projects (He 2019).

With many Chinese projects financed by loans, Tajikistan and Kyrgyzstan are considered to be at high and moderate risk of debt distress, respectively (Hurley, Morris, and Portelance 2018a). At the same time, both countries are also highly vulnerable to security and stability risks (Bayok 2020a), thus compounding economic viability risks.³³

Geopolitical competition. China–Russia relations in Central Asia are highly sensitive but are becoming more regulated.³⁴ Central Asia has traditionally been part of the Russian sphere of influence. Two of the five current members of the EAEU are Central Asian countries, namely Kazakhstan and Kyrgyzstan, while Tajikistan and Uzbekistan (officially an observer since December 2020) are considered likely future members. Apart from Turkmenistan, all Central Asian countries are members

33 These risks cut both ways, however. As many of these loans are provided by Chinese (state-owned) banks, unsustainable debt levels may require write-offs (especially of so-called zero-interest loans) or various deferral options (Kratz et al. 2019). There is, however, also a risk of China's potentially taking over important assets in cases of default. As of now, this risk is overstated. For example, in the frequently cited example of the Hambantota Port in Sri Lanka (Abi-Habib 2018), Chinese firms acquired equity in projects financed by Chinese loans (Kratz, Mingey, and D'Alelio 2020).

34 An example of this is the China–EAEU Agreement on Economic and Trade Co-operation (Eurasian Economic Union 2018), signed in 2018 and in force since 2019.

of the SCO. China's increasing economic footprint in the subregion has partly benefitted Russia in the sense that both were keen to eliminate US influence in the subregion, but it has also exposed the fact that Russia cannot offer similar levels of investment and that, following the departure of the US, China has become the default economic partner for the subregion, with the partial exception of Kazakhstan. According to Makarov and Sokolova (2016, 36–37), “Chinese funds are the principal source of investments for the Central Asian republics, vital for political stability under conditions of weak institutions and tough international circumstances, including the withdrawal of American troops from Afghanistan and ISIS activity”.

The inevitable consequence of this is a further decrease in Russia's influence in the subregion, including in terms of political and security issues. For now, China and Russia still abide by a tacit division of labour in this regard, partly because Russia retains more suitable and fine-tuned resources to ensure military stability in Central Asia. As long as this division of labour accomplishes its objective of stability, it serves both Russia's and China's interests. Even if there is a further shift in the balance of power between them, it is not inevitable that this will lead to conflict and confrontation. However, if and when Chinese military capabilities grow and have the potential to replace Russia's, countries in the subregion will likely have to take sides, complicating relationships and posing challenges to overall subregional stability.³⁵

Intraregional inequality. The severity of the problems facing each individual Central Asian country differs from case to case, of course, but two general observations can be made on the basis of available data. First, Kazakhstan is consistently the best performer. In addition to the four World Governance Indicators already discussed above, this also holds true for human development (Figure 15).³⁶ Second, for all five countries in Central Asia, the overall development trend over the decade is positive: the level of human development has increased, state fragility has decreased, and perception of corruption has diminished. No causal claim can be made that any of this is the result of BRI implementation, but there is also no evidence that China's presence and activities have worsened the situation in relation to these three indicators.

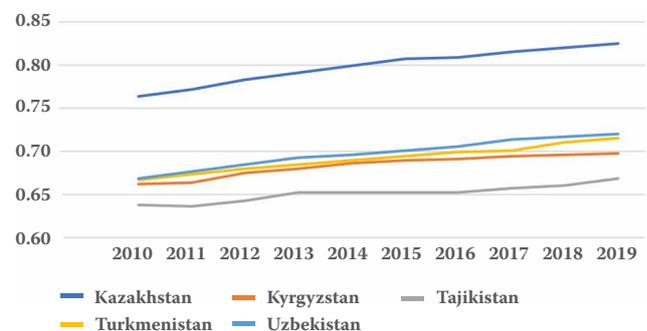


Figure 15: Human Development in Central Asia, 2010-2019

(Source: Human Development Report Office 2020)

35 By that time, Russia would also no longer be in a position to resist or challenge Chinese dominance but could still contribute to destabilisation, as it arguably has done (according to Western and local perceptions) in relation to its involvement in the protracted conflicts in Georgia and Ukraine.

36 The only outlier in this regard is ‘voice and accountability’, where Kazakhstan has fallen behind the Kyrgyz Republic but still outperforms all other countries and the subregional average (see below).

There is, however, a risk that the differential levels of engagement by China across the subregion could further exacerbate these inequalities and compound other risks already noted above. As Bayok (2020a) observes, the BRI is not the only factor that has an impact on the trajectory of intraregional inequalities. Much depends on the states themselves, which often lack the political will and frameworks for intraregional co-operation (Krapohl and Vasileva-Dienes 2019). Moreover, persistent competition between the two countries aspiring to subregional leadership, Kazakhstan and Uzbekistan, has hampered efforts to create a subregional platform, let alone a consensus, on how to strengthen the subregion's bargaining power vis-à-vis China.

If intraregional inequalities are not effectively addressed, they are likely to intensify already apparent fragmentation processes. Because of the way these affect, and are affected by, other risk factors detailed above, intraregional inequalities could become a much more serious challenge in the future, including as a risk to the feasibility and viability of economic corridors through and beyond Central Asia.

How have local actors reacted?

When considering local reactions to the BRI in Central Asia, a distinction needs to be made between **elite and public reactions**. In addition, it is important to bear in mind that 'voice and accountability' differ between countries in the subregion (Figure 16), and the level of political freedoms and civil liberties enjoyed by their citizens is limited overall compared to the other two subregions, which makes a comprehensive assessment of public reactions more difficult because of the limitations placed on independent media, to the extent that these exist at all.

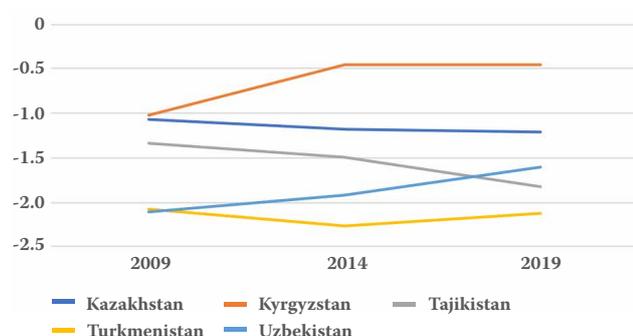


Figure 16: Voice and Accountability in Central Asia, 2009–2019

(Category value for all countries in 2009, 2014, 2019; the lower the score, the lower the level of political freedoms and civil liberties.)

(Source: World Bank 2020b)

Political elites across the subregion have had predominantly positive reactions to the BRI, emphasising the economic development benefits of BRI projects. Despite this, there are concerns among political elites in Central Asian states about economic overdependence on China and the inevitably growing political influence that this will afford China (Bayok 2020a). In the absence of credible alternatives to Chinese economic engagement and a lack of subregional consensus on how to address this problem, individual countries in the subregion are relatively powerless. This situation is sustained in part by

China's preference for bilateral rather than multilateral (regional) engagement and the very differential loans and investments available to individual countries. This, as mentioned above, increases intraregional inequality and, in areas other than connectivity projects, is likely to lead to greater competition among Central Asian states for Chinese projects, making a joined-up subregional approach to China even less likely.

At the same time, political elites in Central Asian countries are not immune to public pressure. As Bayok (2020b) notes in the case of Kazakhstan, the main points of public criticism centre on Chinese labour, an often complete lack of transparency regarding projects and their possible economic and environmental risks, an absence of public consultation on proposed projects, and often opaque decision-making at the highest political levels without any local input.

Recent **survey data** (Trilling 2020), moreover, indicate that perceptions of foreign direct investment by China in Kazakhstan, Kyrgyzstan, and Uzbekistan have become increasingly negative, and while perceptions in Uzbekistan are still more positive on the whole than in the other two Central Asian countries, the overall trend there is still negative. This increasing scepticism towards China is reflected in all three countries across a spectrum of issues, from job creation to land purchases and increasing national debt.

Such criticisms need to be seen in the context of Central Asia's **generally poor living standards**, however. According to Pushkina's and Pan's (2020) review of Russian, American, and Chinese sources on the subject, the fact that BRI projects often predominantly employ Chinese rather than local workers, that Chinese employees are frequently better paid than their local counterparts, and that they tend to occupy more senior managerial posts, for example in the Kazakhstani oil sector, has added to anti-Chinese sentiment (Pushkina and Pan 2020).

Such **public criticism** can also result in policy change. Notable in this regard are the Kazakh government's reversal of its plans to allow foreigners to buy land (Sholk 2016; Auyezov and Richardson 2020) and Kyrgyz prosecutions of corrupt officials linked to Chinese investments (Palickova and Gotev 2019; Mambetova and Kilner 2018). These issues are replicated in other Central Asian countries and have led to the persistence of Sinophobia across their respective populations. For example, Yau (2020) notes that outside the capital of Bishkek, local Kyrgyz in remote towns and villages that host Chinese projects remain overtly hostile to Chinese workers and businessmen.

This reflects a general trend in which **Sinophobia** and other irritants in China's relationships with individual Central Asian countries and their populations are further exacerbated by a lack of cultural ties and Chinese soft power deficiencies. The former is the result of a Soviet legacy that established Russia as the primary and historically most prominent 'reference point' long before China's recent emergence in the subregion, including culturally through Confucius institutes. The latter is also obvious in terms of the relatively small number of so-called people-to-people projects across the subregion compared to other Chinese investments (Aminjonov et al. 2019). Moreover, comparing the

number of Chinese Confucius Institutes and Classrooms across all subregions, Central Asia is lagging behind Eastern Europe, and while Kazakhstan—undoubtedly one of the key countries for China in the SREB context—still has the largest number of Confucius Institutes in Central Asia, it comes in only third overall, behind Ukraine and Belarus.

Chinese policies in Xinjiang have been a main source of friction in the past several years, with credible claims regarding the mistreatment of ethnic Uighurs, Kazakhs, Kyrgyz, and Tartars in so-called re-education camps emerging from 2017 onwards (Murat 2020). In the Kazakh case, this led to a number of public protests in the country's major cities and meant that Kazakhstan, unlike Tajikistan and Turkmenistan, did not publicly defend China over its policies in Xinjiang (Murat 2020). Since at least 2018, Kazakhstan has also refused to deport ethnic Kazakh Chinese citizens (Putz 2018) and more recently started to grant them refugee status (Rozanskij 2021).

This has fuelled pre-existing Sinophobia, which has also been sustained and exacerbated by a fear of Chinese mass migration, anger at the fact that Chinese workers are significantly better paid than local Kazakhs or Kyrgyz, for example, and a lack of cultural awareness and sensitivity on the part of Chinese migrants (Bayok 2020a; Murat 2020; Pushkina and Pan 2020; Yau 2020).

These issues in turn put **pressure on national governments** to change their approach to China. For example, Kazakhstan had to reverse a decision to allow the leasing of land to foreigners for 25 years in 2016 because of public pressure fuelled by anti-Chinese sentiment (Murat 2020; Bayok 2020b).

These examples of local resentment of Chinese projects reflect not only an obvious hostility to some aspects of the BRI but also a lack of satisfaction with local and national governments, including how they manage relations with China. Pushkina and Pan (2020) cite the opinion, held by Russian observers, that Kazakhstan's domestic politics and governance problems, including power struggles between Kazakhstan's central and local elites and between the authorities and the opposition, may be the real drivers of anti-China protests, reflecting longstanding and deep-seated mistrust of Kazakhstani elites suspected of rent-seeking and corruption.

That said, the BRI has brought genuine benefits to Kazakhstan—more so than to other Central Asian countries. In this sense, Kazakhstani political elites' enthusiasm for the initiative is not completely unfounded or self-serving (Bayok 2020b). Engagement with China through the BRI has enabled Kazakhstan to balance Russian influence more carefully, to consolidate its subregional leadership role, including through its participation in the EAEU and SCO, and to attract Chinese investment in its infrastructure and other sectors that have contributed to a gradual diversification of its otherwise overly oil-dependent economy.

How do the other main players view the BRI?

The three main other players in the context of the BRI in Central Asia (and beyond) are **Russia, the United States, and the EU**.

For historical and geographic reasons, Russia is more present and has higher stakes (and potentially vulnerabilities) as far as the growing Chinese presence and influence in the subregion is concerned. This is not to say that the United States and EU do not have views on the BRI in Central Asia, but based on geographic distance alone their potential vulnerabilities, at least in the short term, are not as acute as Russia's.

The **general consensus** among Russian, US, and EU sources is that, regardless of how much China may emphasise the economic focus of the BRI, its win-win approach, and the absence of geopolitical aspirations connected to the BRI, there are inevitable geopolitical consequences that flow from a project as extensive and ambitious as the BRI. Nevertheless, there is uncertainty about what these are, when and how they will materialise, and whether they are inevitable but unintended consequences or merely part of an as yet unarticulated Chinese grand strategy.

It is these uncertainties that have particularly affected **Russia** thus far, not least because its national interests are closely tied to the subregion. Moreover, the successful establishment of viable economic and transport corridors that bypass Russia could threaten the country's status as a hub for the overland transit of goods between China and Europe (Pushkina and Pan 2020). From Russia's perspective, this makes Kazakhstan particularly important, as it is one of the key strategic connectors between China and Russia on the way to Europe, while simultaneously playing a critical role in the EAEU for both China (providing access to the EAEU market) and Russia (connecting to southern Central Asian current and potential members). Close Kazakh political and economic co-operation with China is thus a double-edged sword from a Russian perspective as it potentially undermines the coherence of the EAEU, concerns that are further heightened by the Chinese preference for bilateral rather than multilateral relationships and the difficulties thus far in achieving meaningful levels of co-operation between China and the EAEU (Bitabarova 2018; Gabuev 2016; Pushkina and Pan 2020).³⁷ The 2018 EAEU–China economic and trade co-operation agreement (Eurasian Economic Union 2018) may go some way in addressing these concerns, but it is too early to judge its effectiveness as it only entered into force in 2019.

Keeping the geopolitical and geo-economic dimensions separate, partially on the basis of the mistaken belief that China would forever respect Russia's predominance as a guarantor of Central Asian security, has led to a situation in which “the question of security can be[come] the tipping point for increased Sino-Russian conflict over Central Asia in the future” (Gabuev 2016, 63). This is less of a short-term concern, however, as Russia currently has a physical troop presence in the subregion and maintains formal alliance arrangements in the form of the Collective Security Treaty Organisation (CSTO)—neither of which China can claim (Kaczmarek 2017). What is concerning from a Russian perspective, however, is that China has both boosted its joint (and, in the Kyrgyz and Tajik cases, its bilateral)

³⁷ In 2015, the Supreme Council of the Eurasian Economic Union decided to open negotiations with China on a trade and economic co-operation agreement which were successfully completed in 2018, resulting in a mostly symbolic non-preferential trade agreement (Supreme Eurasian Economic Council 2015; Eurasian Economic Union 2018).

military training exercises in the subregion and has begun to supply military equipment (Pantucci 2019). In addition, China has also started supporting a wider range of security forces in BRI partner countries, including police forces and border guards, and has deployed PMSCs (Farkas 2020; Office of the Secretary of Defense 2020; Yau 2020).

In the **United States**, perceptions of the BRI in Central Asia have a different focus. As evident in the existing views summarised by Pushkina and Pan (2020), there is a similar concern of a loss of influence in Central Asia (and Eurasia more broadly), as the BRI allows China to become the preponderant power in the subregion, displacing US-led institutions and undermining the liberal international economic order, including through the spread and consolidation of authoritarianism and economic coercion. These latter concerns go hand in hand with fears that a state-led approach to development will neglect issues of good governance and social and environmental impacts while encouraging risky lending practices, thereby leading to unsustainable debt.

Like their Russian counterparts, US analysts also maintain that China's economic ambitions will generate military corollaries that will inevitably increase competition between Russia and China and potentially lead to conflict between them (Pushkina and Pan 2020). This, in turn, may increase the likelihood of wider competition in the subregion as Japan, Turkey, and the EU, for example, become more assertive in the future (Bayok 2020b).

The EU suffers from a weakly developed approach to China and the BRI in general, which also affects its perception of the BRI in Central Asia. The Union's overall strategy towards China has developed slowly, and the main policy documents now date back several years. Among them, the EU–China 2020 Strategic Agenda for Cooperation of 2013 mentions Central Asia only once in the context of Peace and Security, when it notes the two sides' intention to “strengthen dialogue and communication on international and regional issues with major implications at the global level ... [and to] enhance consultations on ... Central Asia ... and the respective neighbourhoods of the EU and China” (European External Action Service 2013, 3). The 2016 Council Conclusions on the EU Strategy on China are similarly vague, merely stating that “the EU should work with China to ensure that its involvement in the EU's Eastern and Southern neighbourhoods as well as in Central Asia reinforces rules-based governance, sustainable development and regional security” (Council of the European Union 2016, 6).

The review of that document in 2019 makes no reference to Central Asia at all (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2019a). Nor does it mention the Belt and Road Initiative, although it clearly alludes to the BRI when it raises concerns about a so-called ‘level playing field’ and suggests that the EU “should continue to promote stability, sustainable economic development, and respect for good governance, in partnership with third countries and with even greater vigour”. The EU's view of China and its increased international presence and activities is very nuanced, noting differences across policy areas that make China “a co-operation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the

EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance” (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2019a, 4).

This reflected a position similar to that suggested in the joint communication from the Commission and the High Representative in 2016 (which informed the 2016 Council Conclusions on the EU's China strategy). Here, the Commission and the High Representative had suggested that “co-operation with China on its ‘One Belt, One Road’ initiative should be dependent on China fulfilling its declared aim of making it an open platform which adheres to market rules and international norms in order to deliver benefits for all” (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2016, 10). Most tellingly, perhaps, and in line with the assessments of other external stakeholders, the Commission recognised that “behind the major ‘One Belt, One Road’ initiative lie largely economic and domestic considerations, but there will be major geostrategic consequences” (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2016, 10).

The update of the EU's China strategy published in March 2019 and the subsequent review of the EU's global strategy only three months later, in June 2019, continue a trend of growing scepticism towards China within the EU. The Union recognises “the challenges posed by China's rise as an economic and technological superpower and a systemic competitor” and notes that, as a result of the Union's commitment to a “coherent approach to China's connectivity drives westwards”, €1.1bn were made available to “back regional co-operation in Central Asia—in particular on trade, counter-terrorism and on the Afghan peace process ... [and to invest] in resilience and prosperity, supporting democratic reforms, clean energy and higher education” (European External Action Service 2019, 15, 48). Support for subregional co-operation is also noted as an imperative in a joint communication from the Commission and the High Representative on a Europe–Asia connectivity strategy, which suggests that “the EU should also promote regional co-operation on sustainable connectivity as a key aspect of its Central Asia strategy” (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2018, 8).

The Central Asia strategy is in turn almost completely devoid of any recognition of China's role. The joint communication from the Commission and the High Representative notes that “renewed international efforts [in the promotion of Euro-Asian connectivity], including the extension of the Trans-European Transport Networks (TEN-T) to the EU's neighbouring countries, China's Belt and Road Initiative and other initiatives, can create significant opportunities to address the major needs of Central Asia” (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2019b, 11). The subsequent Council Conclusions (Council of the European Union 2019) that endorse the joint communication do not mention China or the BRI at all, however.

Thus, in general, the EU does not oppose China in Central Asia; it merely wants to engage and co-operate with it (Bayok 2020b) on its own terms. Nevertheless, the EU's and China's visions of both connectivity and a rules-based international order are quite far apart from each other, and increasingly so as the EU takes a harder stance on Chinese human rights violations, the lack of transparency in procurement practices, and perceived divide-and-rule tactics seeking to undermine EU coherence.

How has China responded to local and other actors' perceptions?

Chinese responses to local and external perceptions of BRI projects in Central Asia can be grouped into three categories. External criticism of the BRI, be it in terms of the negative social, political, or economic consequences of specific projects or the initiative in general, are either ignored or countered with examples of success and praise from local partners. This is particularly evident in **official assessments** of the BRI, which constantly reiterate that the "Belt and Road Initiative is an initiative for peaceful development and economic co-operation, rather than a geopolitical or military alliance ... [which] upholds the principles of extensive consultation, joint contribution, and shared benefits" (Office of the Leading Group for Promoting the Belt and Road Initiative 2019).

At the same time, where there are **undeniable problems**, the response usually involves commitments to improving the situation. When the Chinese Academy of Social Sciences released its annual report on the BRI in 2017, the announcement included the acknowledgement that as a consequence of "risks related to politics, culture, business, law and morality ... 65 percent of Chinese foreign direct investments make a loss". To address this issue, the report recommended both specific business strategies and "deepening political mutual trust ..., refining implementation strategies and increasing cultural exchanges to further promote [BRI] implementation" (H. Chang 2017a).

When it comes to the **risks** associated with the BRI, Chinese official and semi-official sources generally accept that there are risks but portray Western assessments as exaggerated. For example, the SCO Yellow Book of 2017 acknowledges that there are significant security risks in Central Asia, especially those related to Afghanistan and IS, but then goes on to note that "the security environment in Central Asia is not as serious and dangerous as the West has suggested, and relations between Central Asian countries are on a good trend, which is conducive to stability in the region" (H. Chang 2017b).

The fact that **security concerns** are nevertheless high on the agenda for Chinese policymakers is evident in two parallel sets of developments. In 2010, the Ministry of Commerce issued a "Regulation on the Safety Management of Overseas Chinese-Funded Companies, Institutions and Personnel", which, according to Yau (2020), "called on Chinese companies with overseas projects to expand their security budgets, conduct risk assessment as part of initial business research, and employ local armed police or security measures if needed". Crucially, it also included "a strict rule to 'send no untrained personnel overseas,' [thereby encouraging] increased Chinese PMSCs efforts

overseas" (Yau 2020). Further implementation guidelines were issued in March 2018. These asked companies investing overseas to prioritise Chinese PSMCs, which are subject to regulation by the Ministry of Public Security, prohibiting them from being fully private (Yau 2020).

In parallel, as noted earlier, China has also intensified its participation in **military exercises** in Central Asia. Some of these are multilateral in character and focus on the interoperability of different SCO forces, whereas others are bilateral and focus on specific concerns such as counterterrorism and border security. This has also involved the provision of more training and equipment by Chinese forces to Central Asian partners, including in the area of cybersecurity (Pantucci 2019).

Finally, China has also become more sensitive and responsive to local civil society concerns about the impact of BRI projects on the communities that are directly affected by them. This has included better preparation of Chinese workers and managers before their deployment, while greater attention is also being paid to labour standards and the living conditions of local and Chinese employees. Alongside this, China has begun to work harder on local media penetration in order to communicate the alleged benefits of the BRI more effectively at the local and the national level and to improve China's image more broadly, as well as its cultural appeal (Pushkina and Pan 2020). The latter is part of a broader **soft power strategy** that is particularly focused on key target states such as Kazakhstan, which are also important to China in terms of their demonstration effect for the BRI. Here, so-called people-to-people projects are particularly significant, involving language education, scholarships for study in China, and engagement with think tanks in a co-ordinated effort to improve understanding and appreciation of China and its BRI (Chen, Cheng, and Wu 2019; Dellios 2017; Indeo 2020). This is also evident in China's efforts to publicise its investment in green energy along the SREB and to establish a discourse on Chinese-led environmental sustainability (Gubaidullina et al. 2019).

Moreover, while Central Asia may be lagging behind other subregions in relation to the use of Confucius Institutes for soft power purposes, the countries of the subregion are well integrated in the **SCO Universities initiative**, an international educational programme akin to the (Bologna) Common European Educational Space. Of the 79 universities that took part in the initiative in 2018, 14 were from Kazakhstan, 10 from Tajikistan, and eight from Kyrgyzstan. SCO Universities run joint BA and MA programmes in a range of areas (including information technology, energy, and economics). Originally proposed at the 2007 SCO summit in Bishkek, the initiative officially started in 2008 and is among the areas to be strengthened as part of the "Action Plan for 2021–2025 for the implementation of the Program of Multilateral Trade and Economic Cooperation", which was approved at the meeting of the Council of Heads of Government of SCO Member States in Delhi in November 2020 (Shanghai Cooperation Organisation 2020).³⁸

³⁸ I am very grateful to Mara Gubaidullina and Saniya Nurdavletova for information on the SCO Universities initiative. See also Gubaidullina (2019) and Nurdavletova (2019).

The South Caucasus and the OSCE's Eastern European Participating States

What drives the BRI in the subregion?

The South Caucasus and Eastern Europe are occasionally considered a critical node in China's march westward (Fasslabend 2015, 299), but such an assessment comes with several caveats. Along the New Eurasian Land Bridge, BRI implementation at present has only resulted in major projects in Belarus, which is an indispensable **transit** country along the China–Kazakhstan–Russia–Belarus route to the EU market, but has also seen additional Chinese investment in industrial projects, and to date Chinese banks have provided \$4.5bn in loans to Belarusian companies (Malyarenko 2020a). Apart from Belarus's geo-economic significance to the BRI, there are also geopolitical factors at play insofar as China considers Belarus an ally in an anti-Western (and especially anti-American) coalition (Malyarenko 2020a) while also remaining mindful of Russia's traditionally close links with the country. Partly also reflecting China's economic interests in continuity and stable relations with Belarus, the geopolitical signal sent by its support of Alyaksandr Lukashenka in the contested outcome of the 2020 presidential elections should not be underestimated in terms of endorsing a more outspoken Russian position against perceived Western interference in the post-Soviet space (Radio Free Europe/Radio Liberty 2020).

While Belarus is generally hailed as one of the great success stories of the BRI (e.g., most recently, Liu, Dunford, and Liu 2021), in terms of actual investment China's engagement with Ukraine has by far exceeded its engagement with Belarus and Moldova, both in the period before and since the inception of the BRI (Figure 17). Ukraine could potentially be interesting to China as a transit country for the existing New Eurasian Land Bridge, as part of the EU–Asia connectivity strategy, and as a node in a potential future connection via the Black Sea. This potential has yet to be realised, however, given **geopolitical tensions** around, and social, political, and economic instability within, Ukraine (Malyarenko 2020b; Tytarchuk 2020). As far as Moldova is concerned, the main reasons for non-integration with the BRI are its relatively peripheral location (away from the main relevant economic corridors) and its low levels of economic development, the small size of its domestic market, and its predominantly rural economy (Malyarenko 2020a).

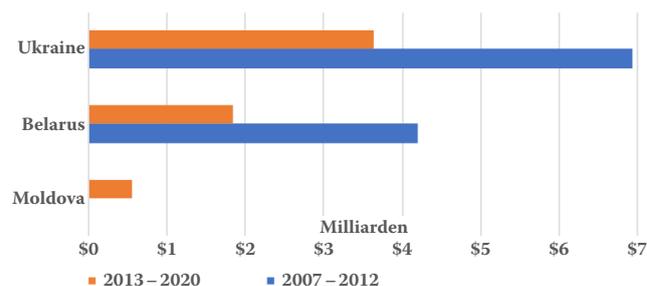


Figure 17: Chinese Investment in Belarus, Moldova, and Ukraine, 2007–2012 and 2013–2020

(Source: Scissors 2020)

When it comes to the South Caucasus, the potential again outweighs the current reality. The existing China–Central Asia–West Asia Corridor could be complemented by Trans-Caspian land and sea corridors through Kazakhstan, and potentially Turkmenistan, using existing deep-sea ports in Aktau and Kuryk and in Turkmenbashi, respectively, and then through Azerbaijan (using the Baku–Alyat deep-sea port), Georgia and Turkey, using the Baku–Tbilisi–Kars (BTK) railway (Indeo 2019, 71). The BTK only presents one option for **connecting China to the EU market**, however. The other is a thus far unrealised route across the Black Sea, either to Romania and/or Bulgaria directly into the EU or via Ukraine and from there (potentially) connecting to the existing New Eurasian Land Bridge via Belarus or Poland or to the ‘Balkan connection’ via Hungary. This would make Georgia a critical node, offering both rail and maritime connection points (Kemoklidze 2020b).

Beyond transport connectivity, Georgia, like other countries along the SREB, has become a source of minerals (especially copper ore) and agricultural products (especially wine) for the Chinese market, and Chinese companies have established a presence in various sectors in Georgia, including finance, telecommunications, and tourism (Kemoklidze 2020b).

Georgia is also interesting to China from another perspective insofar as it is presently the only country in the subregion with a preferential trade regime with the EU—through the Deep and Comprehensive Free Trade Area (DCFTA) since 2016—and a Free Trade Agreement with China that has been operational since 2017. In addition, Georgia has further **free trade agreements** in place with Turkey and eight other CIS member states (Kemoklidze 2020b).³⁹ What Georgia cannot offer China, however, is access to the EAEU market, which is something only Armenia can provide in the South Caucasus. Given the country's geographic and relative political isolation, however, Chinese engagement there has been limited thus far.

Against this background, the **drivers of Chinese engagement** with the countries in the South Caucasus and Eastern Europe are similar to those in the other two OSCE subregions considered in this Report: transit, access to domestic markets, and resources. However, and in light of a complex set of geopolitical factors (see below), this has resulted in significantly more limited engagement

39 These are: Armenia, Azerbaijan, Belarus, Kazakhstan, Moldova, Turkmenistan, and Ukraine.

in the subregion as a whole and in more focused economic and political investment, in particular in Ukraine and Belarus. Put differently, while China's focus on Ukraine and Belarus as key target states is similar to its focus on Kazakhstan and Serbia, there has been considerably less comparable investment in the surrounding subregion (Figure 18).

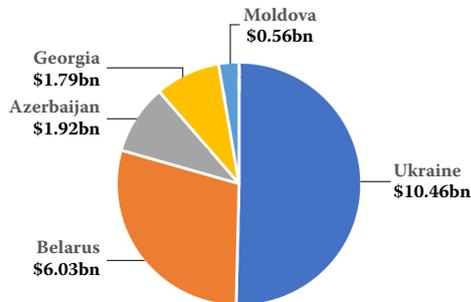


Figure 18: Country Share in Overall Chinese Investment and Construction Transactions in the South Caucasus and Eastern Europe, 2005–2020

(Source: Scissors 2020 and author calculations, no data available for Armenia)

What has been accomplished so far?

Open-source data on BRI implementation in the South Caucasus and Eastern Europe is very sketchy, in part reflecting China's smaller presence across the countries in the subregion, with the notable exception of Ukraine and Belarus, which account for just under 80% of all Chinese funds (Figure 18).

Ukraine has already received the most Chinese funds in the period, accounting for just over half of all Chinese financial flows into the subregion. In terms of value, most of these predate the official launch of the BRI. While most of these have been investments in the energy and agri-food sectors, the country has significant potential for the BRI as a connection to EU markets, either as a branch of the New Eurasian Land Bridge or as a node in the Trans-Caspian/Black Sea route. However, this potential remains largely unrealised to date, particularly due to a range of geopolitical factors (Malyarenko 2020b). Ukraine is a key 'battleground' for influence between Russia and the West and is now also one of the countries in the subregion that has seen significantly more US pushback against Chinese engagement (see further below). The challenges affecting China–Ukraine relations are also evident in the fact that formal meetings at the level of the two countries' presidents are relatively rare: in 2013, then Ukrainian President Viktor Yanukovich and his Chinese counterpart, Xi Jinping, signed the China–Ukraine Strategic Partnership Development Plan (2014–2018), and at least two further meetings took place between Xi and President Petro Poroshenko in the margins of international gatherings in Davos and Washington, but with few details available on the content of the discussions.⁴⁰ Moreover, a recent agreement between the

Ukrainian and the Chinese governments has been shrouded in secrecy: apparently concluded in late December, it involves a \$1bn loan for investment in two infrastructure projects (Markarova 2020).⁴¹

As noted above, there has nonetheless been significant Chinese investment in Ukraine, including in the energy sector (especially solar power production), agriculture (e.g., a newly built grain terminal in Mykolaiv facilitating Ukrainian exports to China), and the military-industrial complex. Almost 70% of these investments by value (\$6.9bn out of \$10.3bn) predate the official launch of the BRI in 2013 (Scissors 2020). The same is true for Chinese soft power projection in Ukraine. Four of the six Confucius Institutes in the country were established before 2013, with the remaining two launching in 2013 and 2019. Yet the fact that China has continued to invest in Ukraine, and at a higher rate than in Belarus, also indicates that Ukraine remains of significant interest in the context of the BRI, despite the many risks and difficulties associated with this relationship.

The most notorious project in relation to Chinese investment in the Ukrainian military-industrial complex is the acquisition by Beijing Skyrizon Aviation of a controlling stake in Motor Sich, one of the world's most advanced producers of military aircraft engines and engine parts, for which it also provides maintenance services (Hurska 2020). China became Motor Sich's biggest customer after the collapse of the company's Russian market when the conflict in Ukraine broke out in late 2013. In 2016/17, several Chinese offshore companies linked to Beijing Xinwei Technology together acquired approximately 80% of shares in Motor Sich. These individual acquisitions have been investigated by Ukraine's antimonopoly commission since 2017, when trading in Motor Sich shares was suspended following accusations that anti-monopoly legislation had been violated in the share acquisitions (Polyshchuk 2020). Following three years of procrastination on the issue, in September 2020, Skyrizon officially notified the Ukrainian government of their intention to pursue international arbitration and separately moved to consolidate their holding through Skyrizon and its Ukrainian partner, DCH Group, in an application to the antimonopoly commission (Gorchinskaya 2020; Polyshchuk 2020). Much like the fate of the deep-sea port in Anaklia, China's failure to invest in strategic assets along the SREB is a consequence of the increasingly intense geopolitical competition that has resulted from deteriorating relations between China and the US (Malyarenko 2020b) and the increasing pressure that the latter has put on its allies to limit engagement with China.

In terms of investment, **Belarus** comes in second place, after Ukraine, but as an all-important transit hub to the EU market it remains the most critical node in the subregion. China and Belarus have developed a comprehensive strategic partnership since 2013 (Zeng 2016, 530), when the two countries' presidents issued a "Joint Statement on Establishing a Comprehensive Strategic Partnership". In 2015, the two sides signed a Treaty of

40 By contrast, Xi and Lukashenka have met at least once every year since 2015. In the Moldovan context, the most high-profile meeting was that between China's State Councillor and Foreign Minister Wang Yi and then Moldovan Minister of Foreign Affairs and European Integration Tudor Ulianoschi on the side-lines of the 12th Davos Summer Forum in Tianjin in 2018.

41 The timing of the agreement is interesting: it occurred during the Christmas holidays in (Western) Europe, at a time when the EU was preoccupied with finalising the investment agreement with China and the United States was consumed with the turmoil of a contentious presidential transition. I am grateful to Tatyana Malyarenko for pointing this out to me.

Friendship and Cooperation and issued a “Joint Statement on Further Developing and Deepening Comprehensive Strategic Partnership”. This was followed in 2016 by the two presidents’ “Joint Statement on Establishing Comprehensive Strategic Partnership Featuring Mutual Trust and Win-Win Cooperation”.

Apart from investment in transport infrastructure along the Belarusian segment of the New Eurasian Land Bridge, the 91.5 square kilometre Great Stone China–Belarus Industrial Park, founded in 2010, is now considered one of the BRI’s flagship projects. It hosts a wide range of companies, including China–Belarus joint ventures, operating in diverse sectors from biotechnology and pharmaceuticals to data storage, processing, and e-commerce. Similar to developments in Kazakhstan, where the BRI has been linked to the Nurly Zhol national development strategy, the Great Stone Industrial Park is an example not only of the potential of ‘win–win’ co-operation between China and BRI partner countries but also of “the reconfiguration of Eurasian geopolitics and geoeconomics” (Liu, Dunford, and Liu 2021, 12).

In addition, there has been significant investment in Chinese soft power in Belarus, with six Confucius Institutes and one Confucius classroom, the second highest number of such institutions anywhere among the countries considered in this Report. Yet China and Belarus also have ties in the security sector, which are evident, for example, in Chinese supplies of military equipment such as armoured vehicles (Parameswaran 2017).

The importance of **Azerbaijan** to a potentially strengthened Trans-Caspian route is evident from several high-level meetings between Presidents Xi and Aliyev in 2014, 2015, and 2019. In 2015, the two sides signed a “Joint Statement on Further Developing and Deepening China-Azerbaijan Friendly Cooperative Relations” and a “Memorandum of Understanding on Construction of the Silk Road Economic Belt”, which significantly increased bilateral trade between the two countries following the 2014 oil crisis. In 2019, at the Second Belt and Road Forum for International Cooperation, the two countries signed bilateral agreements for an estimated \$821m economic package for Azerbaijan that focused on Chinese investment in the non-oil sector (Baghirov 2019; Kemoklidze 2020a).⁴²

This Trans-Caspian route has been developed relatively independently of China, however, or rather with little involvement on China’s part. Azerbaijan, Georgia, and Kazakhstan had already established the International Association Trans-Caspian International Transport Route (TITR) in 2013, which was subsequently joined by Turkey and Ukraine (Kemoklidze 2020b), indicating potential ‘onward connections’ from the South Caucasus to Eastern Europe and the New Eurasian Land Bridge, as well as to the China–Central Asia–West Asia corridor, thus providing a potential alternative route for goods from the Khorgos dry port on the Sino-Kazakh border to Europe (Indeo 2019; Kemoklidze 2020b).

The main problem for the route is the absence of a viable deep-sea port on **Georgia’s** western coast. Plans to develop one have been in place since before the BRI was inaugurated (Rukhadze 2015) but have failed to make significant progress over the past eight years. Initially, a joint bid by Power China and Georgia’s Anaklia Industrial Eco Park and Port Ltd., which would have involved a total \$5bn in investment, was considered the leading contender for the development of a deep-sea port in Anaklia (Menabde 2015). In 2016, however, the contract for developing it was awarded to the US-led Anaklia Development Consortium (Menabde 2016). Subsequent efforts to bring China back into the development through China COSCO Shipping (also the majority stakeholder in the port of Piraeus and a range of other EU ports) failed in 2019 (Menabde 2019). In 2020, the Georgian government suspended the contract with the Anaklia Development Consortium (Daly 2020; Kemoklidze 2020b), and the project has been on hold ever since.

Until recently, **Armenia’s** involvement with the BRI was the most marginal in the subregion, given that blockades by Turkey and Azerbaijan and international sanctions on Iran have severely limited the country’s transit potential in all directions (Kemoklidze 2020a). Nonetheless, Armenia is important to China precisely because it is a critical node in the potential larger trade corridor—sometimes referred to as the seventh economic corridor of the BRI (Belt & Road News 2019c)—stretching from Iran, one of China’s most important partners in the Middle East and the Persian Gulf, to the Black Sea, the Caspian Sea, and Russia.

In August 2020, signalling China’s growing presence and activity in Armenia, the two countries signed an agreement on the joint development of a ‘smart city’ for about 15,000 people in Armenia, constituting an investment worth approximately \$10–15bn over the next 15 years (Kemoklidze 2020a). While this would make Armenia a much more significant partner in the implementation of the BRI in the South Caucasus (and potentially the largest recipient of Chinese investment in the subregion as a whole), it remains to be seen whether these plans will be realised in light of the recent re-escalation of military hostilities between Armenia and Azerbaijan and the new geopolitical reality this has created through the introduction of Russian peacekeepers and the formal involvement of Turkey.

The limited connectivity options that the South Caucasus offers to China because of the absence of a viable deep-sea port in Georgia (leaving only a southern option via the BTK railway line to Turkey) have also had an impact on BRI implementation in Eastern Europe. While this has already been discussed in relation to Ukraine above, it has meant that **Moldova** remains an extremely marginal player in the BRI (also due to its generally more peripheral location).

Chinese engagement in Moldova is extremely limited, with only two projects on record to date. The first is China’s investment in Moldova’s Black Sea port of Giurgiulesti in 2015, which made Moldova a destination for China Shipping Container Lines and included an option for the development of a special economic zone within Giurgiulesti International Free Port for future investments by other Chinese companies (Giurgiulesti

42 In 2016, the AIIB provided a \$600m loan to the Azerbaijani state-owned Southern Gas Corridor company to co-finance the Trans-Anatolian Natural Gas Pipeline Project, which connects Azerbaijan’s Shah Deniz 2 natural gas field to Turkey and Southern Europe (Asian Infrastructure Investment Bank 2016).

International Free Port 2015). The second is a deal negotiated in 2019 for two road construction projects, worth approximately \$400m, which would build a ring road around the Moldovan capital of Chişinău and a road connecting the north of the country to neighbouring Ukraine (Belt & Road News 2019a; 2019b).

What are the critical risks of BRI implementation in the subregion?

As has been the case in Central Asia, there is relatively broad consensus in the existing literature on the risks for, and from, BRI implementation in the South Caucasus and Eastern Europe. What is striking is that these risks are concentrated in relatively few areas and are closely connected to each other. This reflects a particular feature of the subregion (as perhaps the most contested of the three subregions considered in the Report). The geopolitical tug of war between Russia and the West, and the risks associated with it, has shaped the nature of China's engagement with the subregion. In turn, geopolitical risk considerations have also driven how national governments, Russia, and the West have responded to China's increased presence and activities in the subregion.

Security challenges and stability concerns. There is no shortage of security-related risks in either the South Caucasus or Eastern Europe (Figure 19). Belarus has been the most stable country throughout the period, which does not reflect the recent contested presidential elections in the country. With the exception of Ukraine, all other countries have experienced a decline in their political stability levels over the past decade. In the context of the conflict since late 2013, Ukraine experienced the steepest decline between 2009 and 2014 and has enjoyed only a moderate recovery since then.

In the **South Caucasus**, unresolved conflicts in relation to Georgia's separatist territories of Abkhazia and South Ossetia continue to pose challenges (including beyond the subregion) in terms of the management of relations between Russia and the West, while also impeding north–south connectivity (Kemoklidze and Wolff 2020; Remler et al. 2016; Wolff, Remler, and Davies 2017). More important at present is the recent escalation of violence between Armenia and Azerbaijan over Nagorno-Karabakh, which directly affects existing and planned Chinese investment and threatens the carefully preserved balance that Beijing has struck in navigating between Armenia and Azerbaijan (Asian Infrastructure Investment Bank 2016).

In the **Eastern European countries**, with Moldova being relatively low on China's radar,⁴³ the conflict over Transnistria is not particularly important in the context of the implementation of the BRI—in contrast to the continuing conflict in Ukraine, which is testing Russia–China relations as well given that China has always been a strong defender of sovereignty and territorial integrity (Malyarenko 2020b; Tytarchuk 2020).

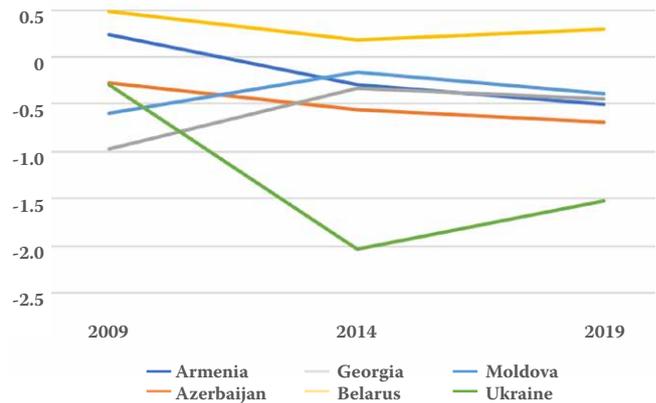


Figure 19: Political Stability in the South Caucasus and Eastern Europe, 2009–2019

(Category value for all countries in 2009, 2014, 2019; the lower the score, the greater the political instability experienced.)

(Source: World Bank 2020b)

A different kind of challenge has (again) arisen in the context of the disputed presidential elections in Belarus in August 2020. Siding with Russia in rejecting alleged Western interference (Radio Free Europe/Radio Liberty 2020), China endorsed Lukashenka as the election winner (Lau 2020). This reflects China's interests in political continuity in Belarus and its fear of a Ukrainian, Georgian, or other 'colour' revolution (Malyarenko 2020a). It is also a relatively low-risk strategy: it implicitly endorses Russia's backing of the incumbent but does not commit China to anything beyond rhetorical support, and it does so in full awareness that the significance of its substantial economic foothold in the country cannot be ignored by any of Lukashenka's potential successors (Umarov 2020).

Governance problems. With the exception of Georgia, corruption is systemic and pervasive across the subregion and is reflected in weakly institutionalised rule of law, poor regulatory quality, and low levels of government effectiveness (Figure 20). The recent unrest that followed fraudulent presidential elections in a context of severe pandemic mismanagement has put an end to this state of affairs. Governance problems, which also contribute to the entrenchment of different degrees of state capture by powerful oligarchs across the subregion, are therefore one among several factors that make investment unattractive to China, especially where there is (as yet) no overarching geo-economic or geopolitical reason to invest.

⁴³ This is unlikely to change under incoming President Maia Sandu, who has prioritised ties with the EU in her foreign policy agenda, notwithstanding statements released after her meetings with China's ambassador to the country in July 2019 (shortly after her inauguration as prime minister) and in November 2020 (after her victory in the presidential elections), in both of which the two sides pledged to explore future opportunities for economic co-operation (Belt & Road News 2019c; Jamshaid 2020).

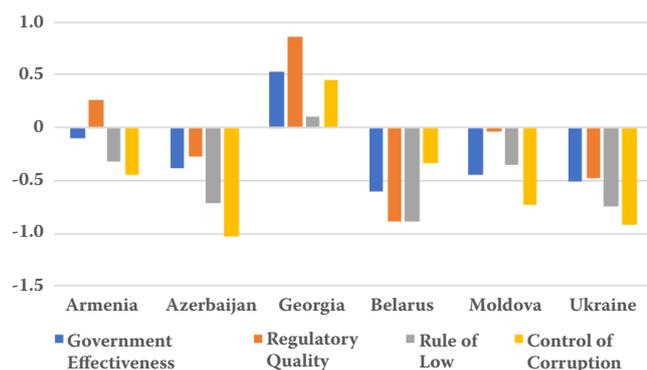


Figure 20: Governance Indicators in the South Caucasus and Eastern Europe, 2009–2019

(Category average for all countries in 2009, 2014, 2019; lower values indicate poorer governance.)

(Source: World Bank 2020b)

At the same time, better governance alone is not sufficient for Chinese engagement either, nor does poor performance deter Chinese investment. The former is illustrated by Georgia: the best performer across the subregion on all World Governance Indicators, Chinese investment in the country has slowed since 2016, after China's bid for the development of the Anaklia deep-sea port was rejected. By contrast, and despite its overall poor performance on governance indicators, Ukraine has continued to attract Chinese investment since 2016, after a two-year hiatus in 2014 and 2015 at the height of the conflict there.

In contrast to the other two subregions covered in this Report, **economic viability** and **intra-regional inequality** do not feature in the reported risks. Regarding the former, this is because, according to the China Global Investment Tracker (Scissors 2020), many Chinese investments in the subregion predate the launch of the BRI and were focused on sectors with relatively few concerns regarding their overall viability. Of the cumulative Chinese investments in Ukraine, for example, 70% were made before 2013, and 70% were investments in the relatively dependable energy sector (again, 50% predating the BRI).

Regarding intra-regional inequality, data from the Human Development Index suggest that the differences between the best- and worst-performing countries are much smaller than in Central Asia, again against the background of overall improvement over the past decade (Figure 21).

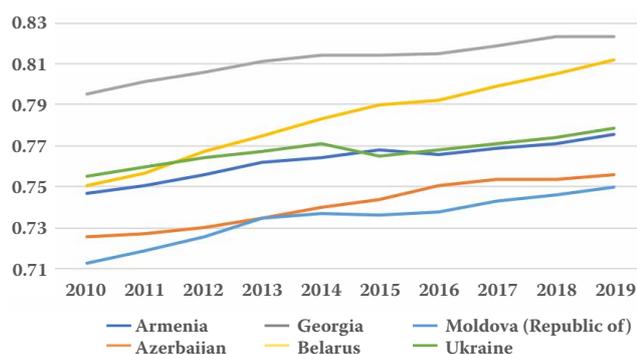


Figure 21: Human Development in the South Caucasus and Eastern Europe, 2010–2019

(Source: Human Development Report Office 2020)

Geopolitical competition, by contrast, remains the major risk identified in existing studies (Fasslabend 2015; Gabuev 2016; Haiquan 2017; Kratz, Feng, and Wright 2019) and in the original research (Malyarenko 2020a; 2020b; Kemoklidze 2020b; 2020a; Tytarchuk 2020) carried out for this Report. The key dynamic here is the longstanding competition for influence between Russia and the West (i.e., the United States, the EU, and NATO) in this part of the post-Soviet space. This has been particularly significant in the cases of Georgia, Moldova, and Ukraine. All three are deeply divided, albeit to different degrees, between broadly pro-Russian and pro-Western segments of the population. In Georgia and Ukraine, these geopolitical divisions largely overlap with territorial divisions between areas controlled by the government and those that are not. In Moldova, the division extends beyond that, with a sizeable segment of the population also backing political parties that advocate for stronger ties to Moscow. In all three cases, this has created and sustained perpetually unstable domestic political environments, which is further exacerbated by the protracted conflicts that these three countries continue to face.

Together, the United States, the EU, and NATO have considerably greater sway over Georgia, Moldova, and Ukraine than Russia and China do. This has been evident, for example, in the success that the United States has had in pushing Chinese investors out of the Anaklia deep-sea project in Georgia (which was also opposed, albeit for different reasons, by Russia and Turkey) and in preventing the consolidated takeover of Motor Sich in Ukraine. Similarly, Ukraine's declination of an invitation to join the BRI as part of the New Eurasian Land Bridge in 2017 indicates Kyiv's significant reluctance to jeopardise strong ties with the West over uncertain benefits from co-operation with China (Malyarenko 2020a). Consequently, China's presence and activities in Ukraine and Georgia, as well as in Moldova, are unlikely to increase significantly.

At the same time, Russia's role in the conflict in Ukraine and its recognition of Abkhazia's and South Ossetia's independence in 2008 sit uncomfortably with China's declared foreign policy imperative of non-interference and respect for sovereignty and territorial integrity. The strategic importance (for the time being) of good relations with Russia therefore also limits Chinese options in its bilateral relations with Ukraine and Georgia. At the same time, countries like Belarus (and Kazakhstan) have rejected Russian plans for deeper political integration within the EAEU and have emphasised its economic dimension, while again viewing China as an important counterweight to Russia. However, given the depth of the economic ties between Russia and Kazakhstan and Belarus, and the additionally strong political ties between Russia and Belarus, the notion of China as a counterweight to Russia is still more aspirational than real. The BRI could nonetheless potentially be a win–win scenario, at least in the medium term, strengthening Chinese influence in and on key EAEU (and SCO) member states while lessening their dependence on Russia. As the balance of power between Russia and China is likely to tilt further in Beijing's favour over time, however, this win–win scenario could eventually shift to one in which China emerges as the sole victor.

By contrast, Russian and Chinese interests are more aligned in relation to Belarus and, to some extent, Armenia. Both countries are members of the CSTO and the EAEU and are thus heavily dependent, in economic and security terms, on Russia. Given the critical importance of the Belarusian node in the New Eurasian Land Bridge and the importance of Armenia in the potential north–south corridor from the Persian Gulf, Russia and China, jointly and individually, are more likely to push back against perceived Western interference in these two countries.

This tentative delineation of zones of influence that cut across the South Caucasus and Eastern Europe limits Chinese options when it comes to implementing BRI projects, but at the same time it consolidates Chinese influence in those countries, especially Belarus, where the BRI is already well established. Given the increasingly hard-line approach that the West has taken towards China and Chinese involvement in Europe, this is likely to push Russia and China into even closer geopolitical co-operation in the South Caucasus and Eastern Europe. This, in turn, will also increase the dependency of countries in the subregion on their respective external supporters, limiting their own agency and autonomy when it comes to engaging with China.

How have local actors reacted?

Compared to the other two subregions covered in this Report, local reactions to the implementation of the BRI have been relatively muted. **There has been no indication of widespread public disapproval of China's presence or activities in any of the six countries.** This is unsurprising given that, with few exceptions, projects are fewer and less high profile in the South Caucasus and Eastern Europe. While the failure of Chinese investment in the Anaklia deep-sea port and in Ukraine's Motor Sich raised questions among the general public about the transparency of decision-making (Kemoklidze 2020b; Malyarenko 2020b), these were more directed at national authorities than at China, also reflecting relatively higher levels of political freedoms and civil liberties (Figure 22).

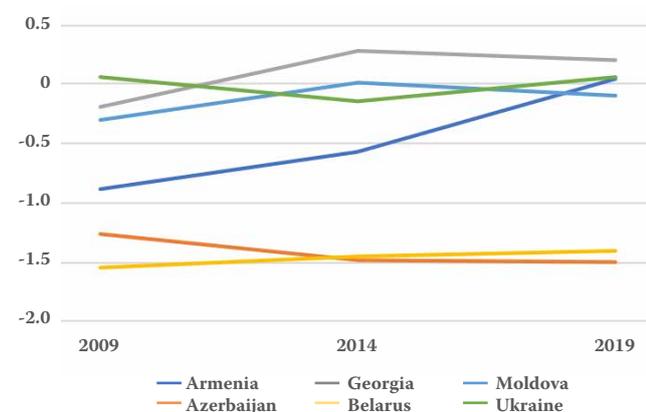


Figure 22: Voice and Accountability in the South Caucasus and Eastern Europe, 2009–2019

(Category value for all countries in 2009, 2014, 2019; the lower the score, the lower the level of political freedoms and civil liberties.)

(Source: World Bank 2020b)

At the **elite level**, bilateral relations with China are generally cordial. Even countries that are currently reluctant to engage more deeply with China (such as Ukraine and to some extent Georgia) continue to hedge their bets in order to retain the option of possibly deepening co-operation in the future.

According to some Russian analysts, countries in the South Caucasus and Eastern Europe consider China a **potential counter-weight** to Russian influence while also recognising that the price of diminishing Russian influence in this way may be greater dependence on China (Gabuev 2016). For some states, however, although not consistently, the EU and the US are the more important factors in balancing Russia. For Ukraine and Georgia, for example, calculations have changed over time. In the case of Ukraine, the predominantly pro-Russia orientation under President Viktor Yanukovich facilitated the signing of the strategic partnership agreement with China in 2013, while the subsequent shift towards a more pro-Western geopolitical orientation under his successors led to the country's distancing from China. As the BRI (and in particular the New Eurasian Land Bridge) is seen as a potential tool of influence for Moscow as well, collaboration with China is increasingly framed in similar civilisational terms, as a choice between Russia and the West (Malyarenko 2020b). Put differently, "Ukraine's possible involvement in[] a Eurasian geo-economic project with Russia, Belarus, and Kazakhstan is interpreted as a betrayal of Ukraine's national interests" and limits the policy options that the current administration in Kyiv enjoys in terms of its engagement with China (Malyarenko 2020a).

The underpinning dynamic of a pro-Western choice and consequently increasing dependence on, and influence by, the West (especially the United States) also applies to Georgia, where the initial enthusiasm that accompanied the signing of the free trade agreement with China in 2016 has waned. A similar trend is likely to become more obvious in Moldova under its new president as well.⁴⁴

How do the other main players view the BRI?

Compared to Central Asia and the Western Balkans, the South Caucasus and Eastern Europe is the **least-settled subregion in geopolitical terms**. Given the well-established competition for influence between Russia and the West, China's growing penetration of the subregion is viewed in largely geopolitical terms.

For **Russia**, China's BRI is overall beneficial in the short to medium term, as it contributes to economic development on a scale beyond Russia's own ability. This is particularly the case in Belarus and could also apply to Armenia in the medium term if planned Chinese investments there go ahead. Moreover, Russia and China share an interest in limiting Western influence in the subregion, and thus the prospects of increasing Chinese political

⁴⁴ While Moldova–China relations were relatively less developed compared to other countries in the subregion, then President Igor Dodon had scheduled a high-level visit to China for late June/early July 2020, which had to be cancelled because of the global pandemic. Shunned by the EU, Moldova could only look to China as a potential counterweight to increasing dependence on Russia. While arguably Dodon's choice, he, like Yanukovich during his tenure as Ukraine's president until 2014, was keen to use engagement with China as a way to regain some autonomy vis-à-vis Russia.

influence on the back of BRI projects in countries where Russian influence has diminished is generally viewed positively in Moscow (Bordachev 2019a). However, this has not stopped Russia from opposing Chinese projects that it considers detrimental to its own national security interests, such as the Anaklia deep-sea port in Georgia (Kemoklidze 2020b).

By contrast, **American**, and increasingly **European**, views of China's growing presence and activities in the subregion consider it "a long-term challenge to America's global leadership role and its position as the central player in the global trading order" (Tybring-Gjedde 2020, 10). Moreover, China is now also perceived as a more credible (and hence more dangerous) challenger in security terms, as the country has increased its "defense and security outreach [and] has sought to extend its ability to project military power to safeguard its overseas interests", including along the economic corridors of the BRI (Office of the Secretary of Defense 2020, 124).

With China increasingly seen as the United States' main rival by Washington and its allies, involvement in the BRI is becoming increasingly difficult for those countries in the subregion, like Georgia, Moldova, and Ukraine, that have a generally pro-Western geopolitical outlook in terms of their foreign policy and that harbour aspirations for closer integration into Euro-Atlantic security and economic institutions.

How has China responded to local and other actors' perceptions?

As in Central Asia and the Western Balkans, China has generally trodden carefully in its implementation of BRI projects and its broader engagement with the subregion. By and large, Beijing has **respected Russian sensitivities** in the South Caucasus and Eastern Europe. Chinese interests are most closely aligned with those of Russia and the local elites in Belarus, which at present remains the most important country in this subregion for China from the perspective of providing connectivity to the EU market.

Chinese engagement with Ukraine has progressed little since the signing of the Strategic Partnership Agreement in 2013, and China suffered a significant recent setback in its attempts to consolidate control over Motor Sich. Given **Western leverage** over Ukraine and Ukraine's tense relations with Russia, which limit prospects for closer co-operation with China as well, Beijing has now threatened legal proceedings in the Motor Sich case. This does not necessarily indicate China's full-scale disengagement from a country in which it already has significant investments (totalling approximately \$10bn since 2005). Rather, it could be an indication that China will refocus its engagement with Ukraine on the kind of infrastructure projects that leave open the possibility of Ukraine's eventually becoming an alternative and complementary route to the existing New Eurasian Land Bridge economic corridor.

In comparison to the OSCE participating States of Eastern Europe, the scale of China's activities in the South Caucasus to date has been more modest. This is partly a reflection of Russian and Western influence in the subregion, which in turn shapes the domestic 'space' for engagement with China. Nevertheless, the South Caucasus will remain an area of Chinese interest overall, despite the obvious security and stability risks that it poses.

The Western Balkans

What drives the BRI in the subregion?

The main driver of the expansion of the BRI into the Western Balkans is **access to the European market**. This has two dimensions. On the one hand, the EU's single market remains among the most important Chinese export destinations and is facilitated through direct (and potentially growing) access to the EU through member states in the subregion (Van Der Putten et al. 2016). Various infrastructure development projects that connect the port of Piraeus in Greece with Budapest (i.e., the Mediterranean with the Danube), once completed, will significantly reduce shipping times and costs of products destined for local and EU markets, in some estimations from 30 to 20 days, thus maintaining their competitiveness in light of increasing production costs (Casarini 2016, 102).

Access to local markets in the Western Balkans is clearly not the main driver of BRI projects in the Western Balkans, but China is a **significant trade partner** for countries in the subregion, exporting predominantly low-priced consumer goods such as clothing, mobile phones, and other consumer electronics. In the case of Serbia, there has also been a recent trend of Chinese exports of military and surveillance technology.⁴⁵ Significantly, as in other countries and subregions considered in this Report, China is also an export destination for the Western Balkans, albeit with a significant trade deficit remaining. Albania, Montenegro, and North Macedonia export mainly raw materials to China, namely chromium ore, aluminium ores and lead ores, and iron alloys, respectively. Croatia, Serbia, and Slovenia export higher value-added products, such as machinery and electronics, while Serbia's and Bosnia and Herzegovina's exports additionally include agricultural products (Savaris 2020a; United Nations Statistics Division 2020).

On the other hand, "Europe is also the most promising potential source of advanced technology for China, given the political tensions that exist between China and the United States, and between China and Japan" (Van Der Putten 2014, 19). Even though this **need for technology** is at present satisfied predominantly by the more advanced economies in Western Europe, for the past five years Slovenian exports of automotive components to China have significantly increased and currently account for more than 20% of the country's total exports to China of approximately \$600m (Savaris 2020a; United Nations Statistics Division 2020). It is also important in this context to note that the relatively unrestricted access enjoyed by Chinese companies thus far, including state-owned enterprises (SOEs), is likely to come to an end in light of the EU–China Comprehensive Agreement on Investment (European Commission 2020e) and

as the EU and the US have begun to better co-ordinate their strategies on China.

Beyond market access, the Western Balkans are also an important subregion when it comes to the BRI's **demonstration effect**. This is important in several respects. First, while there is little in terms of a common historical or cultural background to China's relationships with the subregion, China has been able to present itself as a neutral business partner willing to co-operate irrespective of any differences (Savaris 2020a). Through its pursuit of (again predominantly bilateral) arrangements, China has also been able to offer projects "tailored to the specificities of each country, including to its key industrial assets, leading economic sectors, geographical location ... as well as its legal and policy framework" (Savaris 2020a). The latter is particularly important in terms of relations with the EU. For example, the relationship between China and Croatia, an EU member state, was "boosted when the China Road and Bridge Corporation was chosen as the Pelješac Bridge contractor". The construction of the bridge was also supported with EU funds, thus serving as a "model of tripartite co-operation" between China, the EU, and Croatia that produced much-touted "mutual benefits and win–win results" (Kartsonaki 2020a). This in turn signals a degree of adaptability and flexibility on China's part when it comes to playing by the rules of other actors, in this case accommodating EU principles and standards that it has resisted elsewhere.

Second, and closely related, the Western Balkans are another area where China can demonstrate its no-strings-attached approach to development, offering the capital for much-needed investment in the subregion—especially to countries that have few other options, such as Serbia, which has long found **EU conditionality** difficult to accept while being unable to attract the necessary financing from Russia, its other main international partner, for the modernisation of its aging transport and energy infrastructure.

What has been accomplished so far?

There are clear **incentives for China** to engage in the Western Balkans through the BRI, including the opportunity to present itself as a responsible provider of global public goods and as offering a potentially more attractive vision of an international order that benefits all participants in the BRI. The pursuit of this opportunity is reflected in the projects that have been implemented in the subregion so far, and many of the countries there initially showed significant enthusiasm for co-operation with China, although the actual extent of the concrete benefits to the countries and their local populations is not always clear (Cheng 2016, 313). There also remains uncertainty regarding the actual extent of, and commitment to, Chinese involvement in specific countries, as some projects have stalled or have even been cancelled (Kartsonaki 2020a). Overall, China has concluded fewer investment and construction contracts in the Western Balkans than in the other two subregions covered in this Report (Figure 23).

⁴⁵ In September 2018, for example, Belgrade and Beijing agreed that Serbia would acquire Chinese Chengdu Pterodactyl-1 military drones and technology transfers to help it finalise the development of its own 'Pegaz' drone. Similarly, the so-called 'Safe City' project, agreed in 2017 and implemented by Huawei, foresaw the delivery of 1,000 high-definition cameras to the Serbian capital, with the aim of modernising Belgrade's surveillance system. The agreement also provided for the establishment of a Huawei Innovation Centre for Digital Transformation (Savaris 2020a).

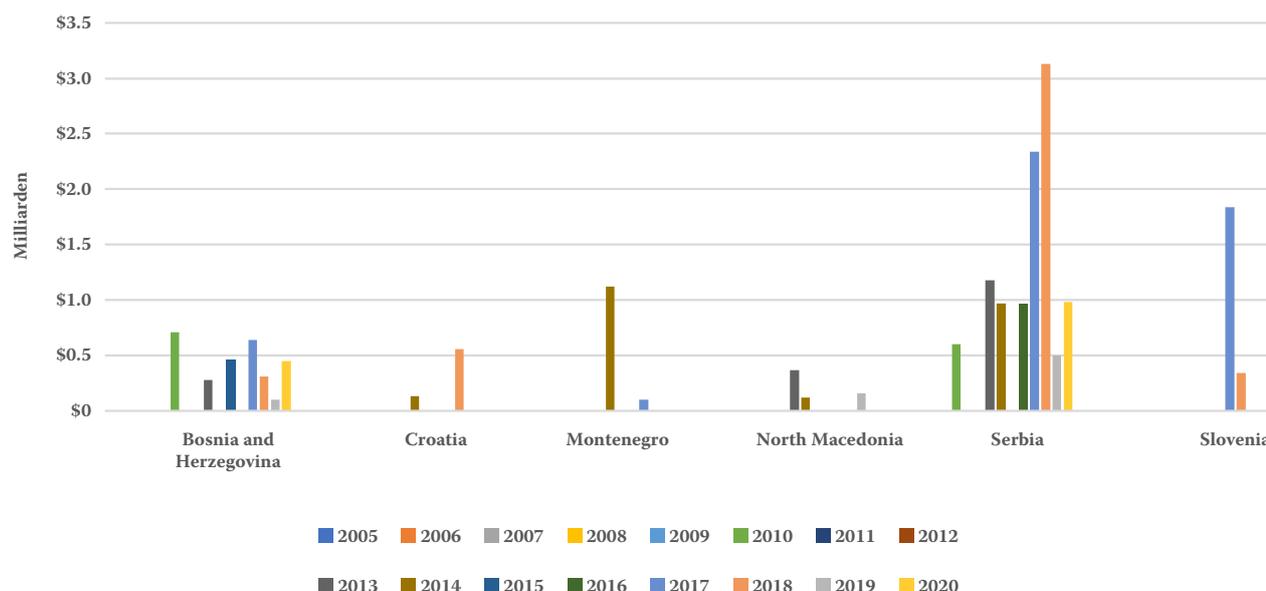


Figure 23: Chinese Investment and Construction Transactions in the South Caucasus and Eastern Europe, 2005–2020

(Source: Scissors 2020 and author calculations, no data available for Albania)

There is no comprehensive database of BRI projects in the Western Balkans, but to the extent that information is in the public domain, the predominant pattern that emerges is one of Chinese engagement in transport infrastructure and energy.⁴⁶

Among the other countries in the Western Balkans, **Serbia** clearly stands out as China's most important partner, with a long track record of projects, particularly in relation to energy and transport infrastructure (Savaris 2020b). Serbia accounts for almost 60% of all Chinese investment and construction transactions in the subregion, making it as important as Kazakhstan and Ukraine in this respect. Some of these projects predate the launch of the BRI, such as the Mihajlo Pupin Bridge in Belgrade, financed by a €260m Chinese loan and implemented by the China Road and Bridge Corporation (CRBC) from 2010 onwards. Apart from this history of successful co-operation, Serbia's strategic importance to China derives primarily from its geographic location, the numerous trade agreements that the country has signed with other major subregional players, such as the EU, Russia, and Turkey, and its growing relations with the UAE (Konrad Adenauer Foundation 2018).

While a wide range of projects in the energy sector and in local transport have been pursued, the flagship project of the BRI in Serbia remains the construction of the Belgrade–Budapest railway linking the Serbian and Hungarian capitals, which is a critical node in the Balkan Silk Road from Piraeus to the EU and is viewed by China as “part of a combined infrastructure and logistics project that, in turn, is a key component and symbol of its BRI aspirations in, and for, Europe” (Ferchen et al. 2018, 2).

A similarly important project is the construction of a part of the Belgrade–South Adriatic E-763 highway, which, as a branch

of the Trans-European Highway, is of strategic importance not only to Serbia but to the entire Western Balkan subregion and beyond. Serbian transport infrastructure development is also likely to benefit from BRI engagement in the future, including the modernisation of the high-speed railway linking Belgrade to Niš, announced in July 2020 as a €2bn project to be implemented by CRBC.

In **Albania**, the government and China's Exim Bank agreed in 2014 on the construction of the Arbër motorway (connecting the capital Tirana to the North Macedonian border) as part of a transport corridor intended to connect the Ionian Sea to the Bulgarian coast of the Black Sea. In 2016, China's Geo-Jade Petroleum Corporation purchased the controlling rights to two Albanian oil fields, including Europe's largest on-shore oil field, Patos Marinza, which accounts for most of Albania's crude oil reserves and production. Also in 2016, China Everbright and its partner, Friedmann Pacific Asset Management, acquired the operating rights to Tirana International Airport, the country's only mixed-use civilian–military airport, which has particular strategic significance for Albania as a NATO member.

The main Chinese investment in **Bosnia and Herzegovina** to date has been in the energy sector: a combined \$1.3bn for the Tuzla 7 Lignite Power Plant and the Stanari Power Plant (which predates the BRI). Agreed in 2017 and funded with a €700m loan from Exim Bank, the renovation of the Tuzla power plant runs counter to obligations undertaken by Bosnia and Herzegovina to comply with EU state aid rules and environmental safeguards. It also violates Sarajevo's commitment, made under the Energy Community Treaty (ECT), to move towards more sustainable energy sources and to decarbonise its energy production. Given its significant lignite coal reserves, however, coal-fired power plants have long been at the heart of the country's energy strategy. With other funders like the World Bank no longer supporting coal-based energy generation, “China has emerged as a recent,

⁴⁶ Unless indicated otherwise, the following overview draws on data compiled by Kartsonaki (2020a) and Savaris (2020a). See also Karásková et al. (2020, 17).

large funder of these projects, with proposed financing for six coal plants in the country” (Shearer, Brown, and Buckley 2019, 19). This is in line with China’s strategy for addressing domestic overcapacity issues related to obsolete technological know-how; China has the knowledge and the people to build coal plants, and as it is limiting the expansion of its own coal-based energy production, this human and technological capacity has become an asset it can export to BRI partner countries (Inskeep and Westerman 2019).

In the margins of the 2019 annual summit of the 17+1 platform in Dubrovnik, **Croatia** and China signed ten bilateral agreements on infrastructure, agriculture, finance, telecommunications, and tourism, including a Memorandum of Understanding between Huawei and the Croatian Central State Office for the Development of Digital Society on co-operation in the area of digitalisation. These potential projects have been dwarfed, however—including in terms of their symbolic value—by the construction of the Pelješac bridge, which is the largest Croatian–Chinese joint project and which is being implemented by CRBC with EU funds. This project is a good example of the demonstration effect of certain BRI projects in that it demonstrates that Chinese companies have the capacity, if required, to act in line with EU standards and to compete successfully for EU funding (in this case, €357m from EU Cohesion Policy funds) in co-operation with local partners (in this case, the Zagreb-based Chinese Southeast European Business Association, which supported the preparation of the bid).

The construction of the Bar–Boljare highway is the major Chinese project underway in **Montenegro**. Funded by an €800m loan from Exim Bank and implemented by China’s CRBC, the motorway, once completed, will link the Montenegrin port of Bar on the Adriatic Sea to Serbia. Although this would be a strategically important element of the Balkan Silk Road, questions have been raised about the project’s economic viability and its implications for the financial stability of the country, with the level of Montenegro’s indebtedness lying at around 80% of the country’s GDP (Hurley, Morris, and Portelance 2018b).

North Macedonia’s strategic geopolitical importance to China is based on its location in the transport corridor linking the Greek port of Piraeus to the Hungarian capital of Budapest. Several Chinese companies are currently active in North Macedonia, including China International Water & Electric Corporation (CWE), which is involved in the construction of the Kozjak hydropower plant, Huawei, which is engaged in the implementation of an e-education project, and Sinohydro, which has been contracted for the construction of two motorways aimed to facilitate transport connectivity across the country (the Kičevo–Ohrid and the Miladinovci–Štip highways).

Co-operation between China and **Slovenia** has significantly increased since 2018. In that year, the Chinese company Hisense purchased the main Slovenian home appliance manufacturer Gorenje for over €340m, Chinese-controlled Aerodrom Maribor

acquired the operating rights to Maribor airport,⁴⁷ and the operator of Port of Koper, Luka Koper, signed a deal to increase ship connections and trade with China’s Ningbo Zhoushan Port Group, thus making the Slovenian port an official part of the BRI.

What is also noteworthy in the Western Balkan subregion more generally is **China’s increased investment in soft power tools** that focus on both people-to-people exchanges and the dissemination of positive information on China and the BRI, with the latter being viewed increasingly critically by Western observers (Munich Security Conference 2019). In this context, China has been using its network of Confucius Institutes and cultural centres, in addition to the China-sponsored Kina Danas (China Daily) news website in Bosnia and Herzegovina, which covers Bosnian and Chinese news, usually taken directly from state-controlled Chinese media outlets. Bosnia and Herzegovina is also host to two Confucius Institutes in Sarajevo and Banja Luka, which testifies not only to the importance that China attaches to strong cultural links with the subregion but also to its recognition of the significance of relationships with subnational authorities and the important transnational links that they involve in a highly fragmented subregion.

What are the critical risks of BRI implementation in the subregion?

Security challenges and stability concerns. The countries in the Western Balkans are relatively more stable than their counterparts in other subregions, but there are quite significant differences between them, which also reflect variations among them in relation to their integration in European and Euro-Atlantic structures (Figure 24).

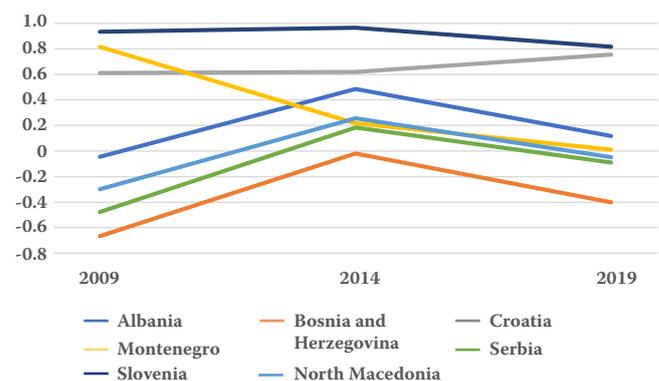


Figure 24: Political Stability in the Western Balkans, 2009–2019

(Category value for all countries in 2009, 2014, 2019; the lower the score, the greater the political instability experienced.)

(Source: World Bank 2020b)

With the exception of Slovenia, they all suffer (albeit again to varying degrees) from internal, external, and transboundary challenges to their identities as states and nations. Internally,

⁴⁷ Less than two years after this agreement was signed, Aerodrom Maribor unilaterally withdrew when its application for state aid was rejected by the Slovenian government (Pavlova 2019). I am grateful to Argyro Kartsonaki for alerting me to this.

state and nation are more intensely contested in Bosnia and Herzegovina and North Macedonia than in Croatia and Montenegro. However, they are all connected to another legacy of the violent disintegration of the former Yugoslavia and the much longer history of state-building and nation formation in the Western Balkans, namely the incompatibility of political and ethno-national boundaries. Although no longer pursued by violent means, it has been impossible to put these issues to rest, and “the repercussions of these conflicts are still unfolding in the region” (Musabelliu 2017, 69). Perhaps most challenging, however, are the transboundary contestations in which ethno-nationalist projects threaten the integrity of borders in the post-Yugoslav space. The most pronounced ethno-nationalist projects in the Western Balkans include visions of a Greater Serbia, which would endanger stability in Bosnia and Herzegovina and Kosovo, and of a Greater Albania/Greater Kosovo, which would destabilise North Macedonia, Serbia, and Montenegro. Together with internal and external challenges to state and national identities, these transboundary contestations create a web of interconnected potential triggers of violent conflict that could destabilise the entire subregion (Kartsonaki and Wolff, n.d.).

Most of these challenges are exemplified in the case of Bosnia and Herzegovina. The country remains politically unstable and deeply fragmented, with a highly complex system of institutions that are costly and time-consuming to navigate. This is often considered one of the main factors hindering the expansion of BRI-driven economic co-operation in the country (Bastian 2017) and also explains, in part, the more direct engagement that China has pursued with the Republika Srpska entity within Bosnia and Herzegovina (Kartsonaki 2020a).

Governance problems. As the Bosnian case illustrates, security and stability challenges are closely linked to governance problems, often in mutually constitutive and exacerbating ways. Social, financial, and economic instability, contested elections, persistently high levels of corruption, and weak rule of law reflect and reproduce a remarkable degree of institutional fragility (Figure 25).

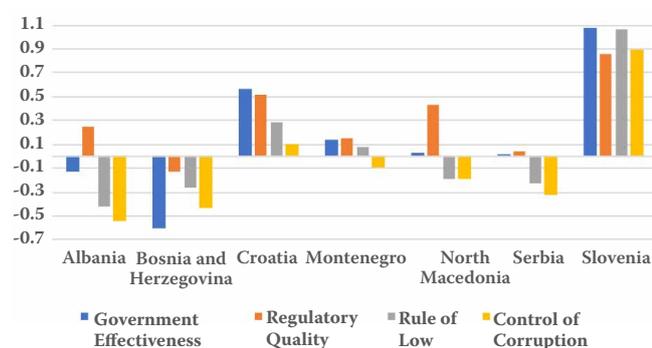


Figure 25: Governance Indicators in the Western Balkans, 2009–2019

(Category average for all countries in 2009, 2014, 2019; lower values indicate poorer governance.)

(Source: World Bank 2020b)

Another telling example in this respect has been the fraught implementation of the main Chinese investment in North

Macedonia: the construction of the Kičevo–Ohrid and the Miladinovci–Štip highways. Envisaged as a flagship development of the 17+1 initiative—as the first contracted project by a participating country, drawing from the \$10bn credit line provided by China—it soon became a symbol of local corruption and the lack of transparency of Chinese practices in the Western Balkans. Following an investigation, a former prime minister, his deputy in charge of economic affairs, the transport minister, and the director of the Macedonian Public Enterprise for State Roads were charged with abuse of power and the embezzlement of €155m from public funds (Kartsonaki 2020a; Krstinovska 2019).

The North Macedonian example points to a potentially dangerous dynamic. Rather than contributing to governance reforms, Chinese engagement benefits from, and further fuels, corruption in pursuit of politically motivated (rather than market-driven) projects as it depends on the co-operation of local elites. Non-transparent procurement practices then contribute to creating opportunities for local elites to sustain the patronage networks that underpin their hold on political power (Kartsonaki 2020a), further undermining already fragile institutions that contribute to the persistence of an environment that is not conducive to the long-term success of the BRI and that limits the ‘win-win’ scenario to a narrow circle of elites, while simultaneously heightening the risk of elite capture in those countries with the weakest or most fragile governance structures (Ruta 2018).

The **economic viability** of several Chinese projects in the Western Balkans is questionable and contributes to the perception that there is more to the logic of this initiative than the provision of global public goods and mutually beneficial socio-economic development. In terms of individual projects, the concern is primarily that, while these projects may boost economic productivity and create jobs in the short to medium term, they are unsustainable in the long term as their revenue streams may not even cover the necessary maintenance costs (Bastian 2017).⁴⁸ Aging and degrading infrastructures would then further endanger future economic development and drain governments’ already limited financial resources.

This situation could be further exacerbated by a broader underlying financial problem. The financing model of most BRI projects is on the basis of an 85% loan (usually from a Chinese bank) and 15% local co-financing. Co-financing has become increasingly challenging because of a simultaneous lack of government resources and a generally limited (and decreasing) appetite on the part of other development partners—like the EBRD, the World Bank, and the IMF—to contribute to projects that appear primarily to reflect Chinese interests. The loan component, meanwhile, tends to create or exacerbate debt problems.

The prime example here is Montenegro, which only has one BRI-related project—the Bar–Boljare highway connecting the Montenegrin port of Bar with Serbia—but has seen its debt-to-GDP ratio increase to over 80%. The first phase of the project alone cost over \$1bn, equivalent to around 25% of the country’s

⁴⁸ An example of this is the failure of the Slovenian-registered (but Chinese controlled) SHS Aviation to turn its acquisition of Aerodrom Maribor into a financially sustainable operation (Pavlova 2019).

GDP (Hurley, Morris, and Portelance 2018a, 18). While the project is strategically significant in that it promises to connect Montenegro as a whole more sustainably to the transport network of the Western Balkans and beyond, it poses a significant threat to the country's macro-financial stability, including the risk of sovereign default, and has already led to tax increases, partial wage freezes in the public sector, and benefit cuts (Brinză 2019; Kartsonaki 2020a).

Geopolitical competition. The geopolitical and geo-economic dynamics of the Western Balkan subregion are driven by a very different balance of power and influence than in the other two subregions covered in this Report. Geographic proximity, the steady progress of Euro-Atlantic integration, a dense on-the-ground presence, and well-established political, economic, and social linkages give a decisive but not necessarily unassailable advantage to the EU and the United States. Over the past quarter century, all of this has contributed to the stabilisation of a subregion that was plunged into all-out war in the early 1990s and saw further violence at the end of that decade, in both cases triggering a large-scale, Western-led intervention. With that said, the disputes and antagonisms that triggered the upheavals of the 1990s are far from fully resolved (Kartsonaki 2020b; Kartsonaki and Wolff, n.d.). At the same time, further progress on EU accession remains slow, and of the remaining three non-NATO members, only Bosnia and Herzegovina has a membership action plan, while Kosovo and Serbia do not.

Concern over increasing Chinese and decreasing Western influence “reflect[s] an undeniable shift in China's level of ambition and the receptiveness of local political elites to Beijing's blandishments” (Webber 2020). The latter is particularly, but not exclusively, true of non-EU and non-NATO member states in the subregion, who have grown increasingly frustrated with conditionality in the accession process and, in the EU case, with investment conditionality more generally. Substantial infrastructure investment—regarded as necessary not only for the economic connectivity of the subregion with the EU but also for its political integration—has come to be seen as being more easily available from Chinese sources (Kartsonaki 2020a) and as being linked to the transferability of a successful development model that contrasts sharply with the Western Balkans' rather “meagre performance” over the past 25 years (Vangeli 2018, 684).

Compared to Central Asia in particular, the political and economic hard and soft power effects of Chinese efforts in this subregion are “still limited and their effects probably over-stated” (Webber 2020; see also Vangeli 2019). Nonetheless, the EU has reiterated its commitment to the subregion and has stepped up its efforts, including in financial terms (Council of the European Union 2020). This indicates not only an increasing awareness of a changing dynamic in EU–China relations that has been apparent in EU policy documents for the past few years but also a more assertive stance when it comes to EU policies, with the EU defending, in classical geopolitical terms, a sphere of influence in which it is well-entrenched and holds unrivalled leverage, despite local misgivings about conditionality.

There has been similar US pushback against perceived growing Chinese influence in the subregion, particularly in relation to

5G technology. Serbian and Kosovan commitments to keeping Huawei out of their digital infrastructure in the Washington-brokered economic normalisation agreement was followed by Kosovo's and North Macedonia's signing up to the Clean Network initiative, which is aimed at curtailing Chinese access to the digital infrastructure of the US and its allies (Pompeo 2020). Shortly after the announcement of this initiative by then US Secretary of State Mike Pompeo in early August 2020, Albania and Slovenia aligned themselves with the effort in a joint declaration with the United States on 5G security (Office of the Spokesperson of the United States Department of State 2020), followed by North Macedonia.

To the extent that there is any actual geopolitical or geo-economic competition, it remains limited to Serbia—the largest recipient of Chinese investment and the remaining main Russian partner in the subregion (and arguably the country that is furthest away from meaningful progress on EU, and especially NATO, integration). Serbia is the only country in the subregion to which China has sold military equipment and where there have been joint military and counterterrorist exercises (Webber 2020). Belgrade and Beijing have also intensified their police co-operation in recent years, with joint patrols by Serbian and Chinese police officers in the Serbian capital and other cities, including Novi Sad and Smederevo, where the Chinese-owned Železara Smederevo steel mill is located (Savaris 2020b). Moreover, the Serbian government, especially since 2018, has aligned itself more closely with China's non-interference approach than with the EU's criticism of human rights violations in third countries and has refused to join EU initiatives condemning China's human rights record in international forums (Kartsonaki 2020a).

At the same time, Serbia is also the only Western Balkan country in which Russia maintains a significant political and economic foothold—one that stretches into the Republika Srpska in Bosnia and Herzegovina, in parallel with other influence operations elsewhere in the Western Balkans (Eisentraut and de Leon 2018; Stradner and Jovanović 2020). Despite opposition from the EU, Serbia also signed a free trade agreement with the EAEU in October 2019, adding potentially further impediments to its EU accession negotiations (Stojanovic 2019). Overall, however, Russia cannot match China, let alone the EU, in terms of economic benefits, and neither China nor Russia represents a credible political alternative to Euro-Atlantic integration across the subregion.

That said, and while Russia may resent growing Chinese influence in the subregion, “a Chinese challenge to European influence in the Balkans is the best alternative” (Van Der Putten et al. 2016, 30) for Russia in a situation in which its own influence has declined over the years. Although the “strategic goal of Russia's policy in the Balkans is preserving positions in its own civilisational area, which has historically included the South Slavic space” (Entina 2019), its role has declined mostly to that of a spoiler, frustrating Western influence without offering credible alternatives to the pro-EU and pro-NATO orientations of the countries in the Western Balkans (Webber 2020). Tellingly in this context, Russia's 2016 Foreign Policy Concept, in contrast to the 2013 version, no longer makes mention of the Balkans (Pivovarenko 2019).

China, in contrast to Russia, therefore has an overarching interest in stability in the subregion insofar as it is critical to its access to the EU market (Bieber et al. 2020; Webber 2020). The limited geopolitical competition that has arisen from the extension of the BRI to the Western Balkans reflects China's interest in stability. In other words, China is not challenging the prevailing balance of geopolitical and geo-economic power in the subregion. Rather, it is adjusting to opportunities as they arise: exploiting weaknesses in local governance structures to secure contracts in contravention of such rules (as in Bosnia and Herzegovina, North Macedonia, and Serbia) while, importantly, abiding by EU standards where this facilitates access to EU funding (as in the case of Croatia).

Intraregional inequality. While there are inequalities within the Western Balkan subregion in relation to human development levels (Figure 26), what matters more in terms of the effects of (and on) BRI implementation is the degree to which integration into Euro-Atlantic structures has become a key driver of intraregional differentiation, including with regard to applicable regulatory frameworks. The seemingly greater attractiveness of Chinese investment, as noted above, has resulted in some countries in the subregion seeing greater expediency in the short-term gains that derive from BRI projects but contravene EU accession requirements than in long-term reforms that more closely approximate the *acquis communautaire*. This is particularly apparent in relation to Chinese investment in coal-fired electricity plants, which run counter to both EU environmental standards and commitments and rules on state aid, and in the frequent lack of transparency regarding procurement procedures (Savaris 2020a). In turn, this creates friction in these countries' relationships with the EU and potential, albeit not immovable, roadblocks on the path to future accession.

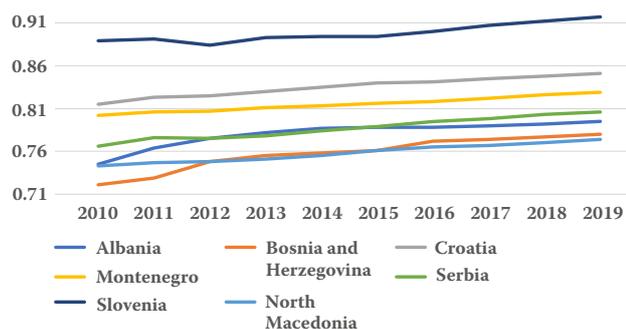


Figure 26: Human Development in the Western Balkans, 2010–2019

(Source: Human Development Report Office 2020)

Another issue that potentially complicates the smooth implementation of transnational transport infrastructure projects in particular is the persisting antagonism between countries in the subregion, already noted in relation to the security challenges and stability concerns outlined above. Although “not an existential threat to the co-operation mechanism” (Musabelliu 2017, 69), it has meant that intraregional integration has progressed slowly and lacks a solid political foundation. Until there is further alignment between China and the EU on the rules that govern the further economic development of the subregion,

intraregional integration will remain susceptible to disruption by short-term political and economic considerations.

How have local actors reacted?

In the absence of Sinophobia and other bilateral irritants, local reactions to the BRI reflect, on the one hand, the expected benefits of greater Chinese engagement in the subregion and, on the other, the risks associated with its implementation.

The familiar pattern of **elite praise and public scepticism** in relation to BRI projects is as prevalent in the Western Balkans as it is in the other subregions covered in this Report (Kartsonaki 2020a; Savaris 2020a), but it occurs against the background of the highest levels of political freedoms and civil liberties, in comparison to the other subregions (Figure 27).

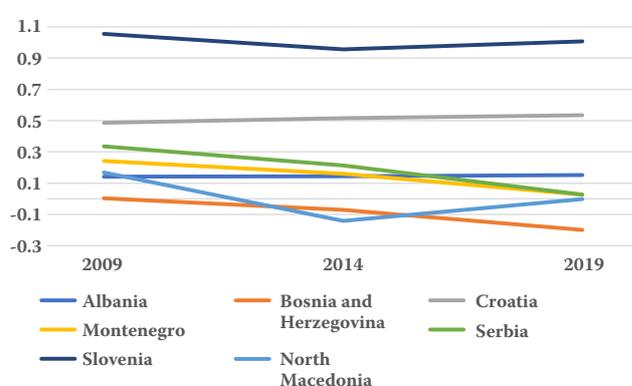


Figure 27: Voice and Accountability in the Western Balkans, 2009–2019

(Category value for all countries in 2009, 2014, 2019; the lower the score, the lower the level of political freedoms and civil liberties.)

(Source: World Bank 2020b)

Criticisms include (among others) the dangers of overreliance on Chinese financing, lack of transparency in procurement procedures, the use of Chinese labour, and a lack of adherence to quality and environmental standards (Brinza 2019; Rimmer 2018; Van Der Putten et al. 2016). In addition, Kartsonaki (2020a) notes that “road construction projects improve the quality of life of the local population and are therefore popular” in the Western Balkans, where the difficult terrain often makes them too expensive for other funders, such that only China is willing to step in. Similarly, Mardell (2019) makes the point that the Bar–Boljare highway, while problematic in many other respects, “will save lives lost on the dangerous existing road, as well as better integrate the impoverished North of the country”.

By contrast, Albania's government has treated calls for closer ties with China and more active participation in the 17+1 platform with significant scepticism of late, emphasising the **risks associated with Chinese investment**—an unusual departure from the enthusiasm that local elites usually show towards China (Kartsonaki 2020a).

Albania's reduced appetite for Chinese projects may well be a sign of things to come. For example, North Macedonia “tacitly withdrew from the project for the modernisation of the Corridor

10 railway with Chinese funds, while at the same time, a number of new sizeable infrastructure deals have been announced to be funded by the European banks, such as the railway along Corridor 8 to Bulgaria” (Krstinovska 2019).

At the same time, **popular resistance** has increased at the local level in particular, with demonstrations being held against the environmental consequences of several BRI projects, for example against the Tuzla coal-fired power plant in Bosnia and Herzegovina, the Drmno mine expansion in Serbia, the increased pollution that followed the Chinese takeover of the Bor copper mine and Železara Smederevo in Serbia, and the pollution of the Tara River basin in Montenegro. Public protests have gradually also begun to influence local authorities, as in the case of Bor, where they filed a criminal complaint against Zijin Bor Copper, in which China's Zijin Mining gained a majority stake after acquiring 63% of the company under a deal with the Serbian government in 2018 (Savaris 2020a).

This implies that there are potential “risks associated with a growing scepticism towards China turning into racist attitudes towards the Chinese diaspora, students and tourists” and thus that “clear divisions should be drawn between public criticism of government or party-led activities and Chinese nationals and their presence in the region” to mitigate these risks effectively (Karásková et al. 2020, 20).

How do the other main players view the BRI?

Russia, the United States, the EU, and to some extent NATO are the other main players in the Western Balkans. As noted earlier, the ‘West’ is the predominant geopolitical and geo-economic power in the subregion. Russia has lost much of its historical influence but remains relevant, particularly in Serbia and the Republika Srpska in Bosnia and Herzegovina. The assumption that it will also regain some influence in Montenegro in light of the outcome of recent parliamentary elections in Montenegro is unlikely to materialise (Mally 2020).

Despite its gradual retreat from the Balkans since the 1990s, the **United States** has maintained a strong influence in the subregion. This is particularly apparent from the effective pushback that the US has mounted against the expansion of China's Digital Silk Road into the subregion, with Albania, Kosovo, North Macedonia, Slovenia, and Serbia now all committed to banning Chinese 5G equipment from their digital infrastructure. Given that China's presence and activities in the Western Balkans are predominantly focused on transport and energy infrastructure, and given that China largely views the subregion as a transit point towards the all-important EU market, it is unlikely that US efforts to deny Chinese penetration of national and subregional digital infrastructure will do much to curb the expansion of these (from China's perspective) strategically more significant BRI projects. After all, even though China remains committed to potential co-operation with the subregion “when it comes to the digital service industry and 5G implementation”, the main purpose of the BRI in the Western Balkans, and the 17+1 more widely, is to “transform the area from a marginal region in Europe to a vital link in the connection between Europe and China” (Yiwei 2020).

Nevertheless, given that China and the United States are, and are likely to remain, on a confrontation course that will “define the entire spectrum of the US–Chinese relationship—military, economic, financial, technological, ideological—and increasingly shape Beijing's and Washington's relationships with third countries” (Rudd 2020), earlier US concerns that “China is enthusiastically providing governments across the subregion with no-strings funding for investment in infrastructure, undermining the West's attempts to promote conditions-based internal reform” (Less 2016), may re-emerge and prompt further US engagement in the Balkans and closer US–EU realignment on their China–Balkans policy. This is particularly likely given the view, shared by Washington and Brussels, that “democratic values and human rights principles are often, if not systematically, overlooked by Beijing” (Savaris 2020a), which increases the risk of authoritarian diffusion and consolidation in countries that are participating in the BRI. Where these countries are part of US and EU spheres of influence, as in the Western Balkans, more assertive policies to constrain China's presence and activities are likely to follow. For example, the recent US-brokered agreement between Serbia and Kosovo will curtail market access for Huawei and other Chinese technology companies.

There is already evidence of increasing **alignment when it comes to the EU's and the United States' positions on 5G**. A joint statement on the “Importance of the EU and US Partnership for Security Telecommunications Infrastructure”, released on 1 October 2020 by US Under Secretary of State for Economic Growth, Energy and the Environment, Keith Krach, and the European Commissioner for the Internal Market, Thierry Breton, emphasised the need to “carefully assess the long-term impact of allowing ‘high-risk suppliers’ access—directly or indirectly—to their 5G networks when building their telecommunications infrastructure and services”, while 41 MEPs from across the political spectrum expressed their concern that “Huawei and ZTE are ‘high-risk’ vendors, whose technology in Europe's 5G networks would constitute a security threat” (Auštrevičius et al. 2020).

For the **EU**, however, of greatest concern are the long-term strategic implications of China's BRI in the Western Balkans, and in particular the worry that China's divide-and-rule policy is using economic leverage to achieve political influence. In 2016, for example, Hungary, Croatia, Slovenia, and Greece blocked an EU statement condemning China's actions in the South China Sea, forcing the Union to adopt a greatly watered-down version that did not even mention Beijing, while Greece blocked an EU statement at the UN criticising human rights violations under Xi Jinping (Kartsonaki 2020a; Van Der Putten et al. 2016).

This has led to greater assertiveness in EU policies towards the Western Balkans, which appears to combine a more pragmatic stance with greater emphasis on traditional conditionality, relying on the Union's significant leverage over the subregion. Accession talks with Albania and North Macedonia were therefore opened in March 2020, and the Union mobilised a further €3.3bn to support its Western Balkan partners (European Commission 2020c). At the same time, the EU has made it very clear that Western Balkan countries must “keep delivering on their reform commitments and produce tangible results in

their implementation. This is key to realising their European perspective. In addition to continued economic reforms, this requires a stronger focus on the rule of law, the functioning of democratic institutions and public administration” (European Commission 2020a).

The more assertive stance taken by the EU both vis-à-vis China in general (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2019a) and in the intensification of the EU’s engagement with the Western Balkans following the Zagreb summit (Council of the European Union 2020) could lead to further friction between China and individual countries in the subregion. This should also be seen in the broader context of EU–US alignment over their respective China policies and the EU’s drive for greater strategic autonomy, which, among other things, may also lead to more direct competition between the EU and China for the subregion’s critical raw materials (European Commission 2020b).⁴⁹

In contrast to EU and US perceptions and responses, **Russian influence** in the Western Balkans has largely been eroded in the last decade following the success of Euro-Atlantic integration and general rapprochement with the West (Kartsonaki 2020a). Even Serbia, which comes closest to being a Russian ally in the subregion, has been negotiating its accession to the EU since 2013 and is co-operating discretely but closely with NATO (Webber 2020). Moreover, the most recent rapprochement with the US in the context of the economic normalisation agreement with Kosovo came as something of a surprise to Moscow, and only after the fact (EURACTIV 2020).

As early as 2015, in the context of a visit by Prime Minister Dmitry Medvedev to Slovenia, Russia had to acknowledge the limits of its leverage and that it “cannot expect a breakthrough in [the] lifting of sanctions yet” (Shishelina 2015). Pointing to the then 16+1 mechanism, Russian analysts noted that “poorer Eastern European countries are seeking to develop investment partnerships with China, bypassing EU institutions and standards”—a trend that they viewed in part as evidence of the “relative erosion of pan-European institutions and collective decision-making mechanisms, and the unprecedented loss of appeal of the EU both within its borders and beyond” (Bordachev 2017). It was hoped that the conclusion of a free trade agreement between the EAEU and Serbia in 2017 would “pave the way for other potential alliances in the region, including possibly with Macedonia” (Lissovolik 2017), but no further such deals have materialised, despite further assertions elsewhere that “Macedonia, Bosnia and Herzegovina, Albania as well as Slovenia ... could follow in its footsteps” (Entina, Pivovarenko, and Novaković 2018). Russia’s focus in the subregion has therefore remained on Serbia, where it has retained some of its influence but also faces a much larger Chinese footprint. During Putin’s visit to the country in January 2019, over twenty agreements were signed, aimed at strengthening the countries’ economic ties (Novaković 2019). Yet there is some acknowledgement that these agreements are also of tactical value to Serbia given that such “a broad package of agreements meets Belgrade’s interests by

giving it extra room for manoeuvre in relations with Brussels and Washington” (Pivovarenko 2019) and insofar as their relatively limited financial scope, together with the failure to finalise an FTA between Serbia and the EAEU prior to Putin’s visit,⁵⁰ “provide Brussels with an opportunity to show the exiguity of Russia’s economic role in the region” (Entina 2019).

What this assessment fails to take into account, however, is that Serbia has explicitly adopted a four-pillar foreign policy, aiming to balance its relations with Beijing, Moscow, Brussels, and Washington (B92 2009). Moreover, the view—held by some Russian analysts—that the success of China’s “more extensive penetration into the Balkan region” rests on the “enormous advantage China has over all other players in the Balkans ... [and] that no one sees it as a threat—as a hegemon, radical force or spoiler” (Entina, Pivovarenko, and Novaković 2018, 13), has turned out to be ill-founded. The more assertive stand taken by the EU and the US against China now actively seeks to limit and push back on Chinese engagement in the subregion, precisely because China is considered their main rival in the subregion and beyond.

How has China responded to local and other actors’ perceptions?

China’s position in the Western Balkans remains politically precarious, and several of the risks of BRI implementation identified above are particularly prominent and likely to affect its economic aspirations in the subregion.

China therefore remains concerned about its image and has sought to influence public perceptions through “media co-operation in the form of supplements [and] content sharing agreements” (Bachulska et al. 2020). As noted earlier, this is particularly the case in Serbia, which is the key target state for BRI activities in the subregion and where success is particularly important in part because of its demonstration effect.

Overall, China remains optimistic about the prospects of the BRI’s success in the subregion. That said, where there are obvious problems, they are acknowledged. For example, the Chinese Ambassador to Slovenia, Wang Shunqing, has acknowledged that “it is true that Slovenia records a trade deficit with China, but the countries are striving to balance the trade”, including by promoting Slovenian products across a variety of platforms, such as the annual China International Import Export fair in Shanghai (Kartsonaki 2020a).

⁴⁹ I am grateful to Alessandro Savaris for pointing this out to me.

⁵⁰ The FTA was eventually signed on 25 October 2019 (Eurasian Economic Commission 2019; RFE/RL Balkan Service 2019).

3

Policy Implications

Unending geopolitical competition is not a destiny; it is a choice. Relationships between East and West (including within the OSCE) and between China and the West may have significantly deteriorated, but this should not detract from the fact that there is an overarching interest in security and stability across the Euro-Atlantic and Eurasian area—one that all OSCE participating States share with each other and with China. This, above all, represents an opportunity for the OSCE to engage with China on the basis of an existing consensus among the Organisation's participating States.

The **clout** that an organisation of 57 participating States that stretches across the entire Euro-Atlantic and Eurasian area could bring to such an engagement, however, depends significantly on the OSCE's ability to reaffirm and reinvigorate its spirit as a comprehensive and co-operative security organisation. This is particularly important insofar as China's increasingly assertive role in international affairs also poses a challenge to its very relevance, at a time when the OSCE faces serious internal problems that affect its ability to deliver on its comprehensive security mandate.

China represents a seemingly attractive model of stable governance and successful economic development domestically and has demonstrated a willingness and ability to contribute to, and shape, global governance. It is now the second-largest financial contributor to UN peacekeeping operations, second only to the US and with a share in the budget that exceeds the combined contributions of Russia, France, and the UK (United Nations General Assembly 2018). China's creation of the Asian Infrastructure and Investment Bank, which became fully operational in January 2016, has attracted 82 regional and non-regional members to date, as well as an additional 21 prospective members. By 2020, it had net committed investments in the amount of just over \$8bn (Asian Infrastructure Investment Bank 2019), which, although impressive, is still significantly below the IBRD's net commitment of just under \$28bn (World Bank 2020a). This **increasing engagement in the provision of public goods** has given China a greater stake in the rules according to which the global governance system is run and in the processes through which these rules are made and enforced. While the BRI, because of its predominantly bilateral character, is (not yet) a typical integration project that will create its own rules-based system of governance (like the EU or EAEU), there is potential for this to occur in the future, including in ways that would rival and potentially replace existing international governance structures.

For example, the **membership of the SCO has expanded** to eight full member states (including OSCE participating States

Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan, as well as China, India, and Pakistan), four observer states with membership aspirations (including Belarus and Mongolia, as well as Afghanistan and Iran), and six dialogue partners (including Armenia, Azerbaijan, and Turkey, as well as Cambodia, Nepal, and Sri Lanka).

What currently distinguishes the SCO from the OSCE is that it lacks a human dimension and a commitment to democracy as the only legitimate form of government. Institutionally less capable as an organisation than the OSCE (at least so far), the SCO's mandate is otherwise not too dissimilar to that of the OSCE, focusing on “strengthening mutual trust, friendship and good neighbourliness between the member states; encouraging effective co-operation between them in the political, trade, economic, scientific, technical, cultural, educational, energy, transport, environmental and other fields; making joint efforts to maintain and ensure peace, security and stability in the region and establishing [a] new, democratic, just and rational international political and economic order” (Shanghai Cooperation Organisation 2001, 1–2). It is also important to note in this context that China has promoted a more comprehensive security concept for some time. In a speech at the Fourth Summit of the Conference on Interaction and Confidence Building Measures in Asia (CICA) in Shanghai in 2014, Chinese President Xi argued for a “common, comprehensive, cooperative, and sustainable security” concept. For Xi, “comprehensive security means upholding security in both traditional and non-traditional fields,” including “ethnic and religious problems ... terrorism, transnational crimes, environmental security, cyber security, energy and resource security and major natural disasters” (Xi 2014b). This vision of security has been firmly integrated in the BRI: in its report on the implementation of the initiative in 2019, the Office of the Leading Group for Promoting the Belt and Road Initiative reproduced Xi's 2014 remarks almost verbatim, stating that “all countries should foster a vision of common, comprehensive, cooperative and sustainable security” (Office of the Leading Group for Promoting the Belt and Road Initiative 2019, 50).

There is scope for the SCO to become a more comprehensive security organisation. The BRI could play a significant role in establishing certain **facts on the ground** and along existing economic corridors. For example, the China–Central Asia–West Asia Economic Corridor links China with SCO members and OSCE participating States Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan, with SCO observer and aspiring member Iran, and with OSCE participating State and SCO dialogue partner Turkey. This corridor also passes through Afghanistan, which has been identified as a source of significant regional and global instability by all the relevant actors in this context, including the OSCE, the SCO, and China. The New Eurasian Land Bridge, in turn, links China with OSCE participating States and SCO

members Kazakhstan and Russia and with OSCE participating State, SCO observer, and aspiring member Belarus, before extending further into the OSCE region to Poland, Germany, and beyond.

The SCO is by no means a credible alternative to the OSCE in its current form. Should the **current divisions within the OSCE** lead to increasing dysfunctionality and an inability to deliver on core aspects of its comprehensive security mandate, however, the SCO may become more of a credible alternative for certain OSCE participating States that are already tied more closely to China (such as those in Central Asia) or that have pivoted to China for various geopolitical and geo-economic reasons, such as Russia. This is not to gloss over the difficulties faced by the SCO itself—including the fractious relationship between India and Pakistan, border disputes between China and India, and regional and geopolitical rivalries between China, India, and Russia, to name but a few.

With that said, **the SCO should not be dismissed**, precisely because it is led by China, closely mirrors parts of the OSCE's mandate, and complements the BRI not least in representing a multilateral mechanism for addressing a number of security risks to its successful implementation. With the conclusion of an agreement “on favourable conditions for road transportation ... [the SCO has] established the legal basis for parity conditions for road transporters and [has] set forth a single platform for international road transportation from Eastern Europe to Russian Far East and China” (Alimov 2017, 3), further cementing its complementarity with the BRI. This complementarity has also been emphasised by Chinese, Russian, and Central Asian analysts for some time and may further indicate a gradual shift away from Russian opposition to a genuinely broader mandate for the SCO in practice (Dawei 2018; Khasanov 2019; Suslov 2020).

The key objective on the road ahead is thus for the **OSCE and the SCO** to continue their dialogue and strengthen their co-operation in dealing with the common challenges and threats that both organisations face across the Eurasian space (Gubaidullina and Nurdavletova 2020; Sadik 2020). This is not a substitute for direct engagement between the OSCE and China, but it represents a potentially effective component of a broader strategy in this regard and strengthens the multilateral and co-operative basis of a comprehensive security concept.

With no evidence to date of a functioning multilateral mechanism or well-established platform for concrete multilateral communication and co-operation among states participating in the BRI (Bayok 2020b), this again underscores **the opportunity available to the OSCE** and its participating States when it comes to using its track record to manage complex security challenges through dialogue and to fill this critical gap in engaging with China and the implications of the BRI for the OSCE region. All of the main actors share an interest in security and stability in the OSCE region, but increasingly less so as a co-operative endeavour.

As major powers continue to pursue their interest in securing and expanding their sphere of influence, and as this interest increasingly drives foreign policy in and towards the region, the OSCE's potential role as a **forum for negotiating** these rival aspirations increases

as well (as it has in the past). China must be brought into such negotiations, albeit not necessarily into the Organisation itself, but doing so depends on participating States' ability and willingness to develop and implement a coherent strategy to underpin such an approach, including by fostering the capacity, in their own foreign ministries, to ‘understand’ China (Kartsonaki 2020a). This in turn depends on a realistic and evidence-based assessment of China's current presence and activities in the OSCE region and an understanding of future scenarios. It also raises the question of the extent to which the OSCE's institutional infrastructure is prepared to take on this task given the skills and resources required.

Opportunities and challenges in the politico-military dimension of the OSCE

The first dimension of the then CSCE was predicated upon “the need to contribute to reducing the dangers of armed conflict and of misunderstanding or miscalculation of military activities which could give rise to apprehension, particularly in a situation where the participating States lack clear and timely information about the nature of such activities” (Conference on Security and Co-operation in Europe 1975, 10). It sought to address these dangers through a range of confidence- and security-building measures (CSBMs) that have significantly evolved over the decades into the now third-generation CSBM regime codified in the 1999 Vienna Document, which reiterates the participating States' recognition that the agreed CSBMs “serve by their scope and nature and by their implementation to strengthen confidence and security among” them (Organisation for Security and Co-operation in Europe 1999b, 1). While this regime has been seriously undermined by Russia's decision to suspend its participation in the 1990 Treaty on Conventional Armed Forces in Europe (the so-called CFE Treaty), there have been no further defections from the Treaty since (Anthony 2019, 6). With that said, Russia announced on 15 January 2021 that it would withdraw from the Open Skies Treaty, following the United States' withdrawal from the Treaty in November 2020.

Although questions remain concerning the OSCE's effectiveness in the first dimension, especially in light of the 2008 war in Georgia, the conflict in Ukraine since late 2013, and the renewed military escalation between Armenia and Azerbaijan in the autumn of 2020, the **value of the CSBM regime** cannot be in doubt, and the establishment of the Special Monitoring Mission in Ukraine serves as a key example in this context. The questions that arise concerning the impact of the BRI thus relate to the potential for co-operation with China through the SCO (Gubaidullina and Nurdavletova 2020; Sadik 2020), the OSCE region's protracted conflicts (Tyarchuk 2020), and the role of Chinese private security companies tasked with protecting Chinese assets and investments (Yau 2020).

As noted earlier in this Report, China has recognised the need for more **formalised security co-operation** along the SREB. In its 2019 report, the Office of the Leading Group for Promoting the Belt and Road Initiative noted that, “to ensure the smooth implementation of the Belt and Road Initiative, China will work together with all other countries involved to establish a dispute settlement mechanism, a security risk early warning and monitoring mechanism, and an emergency response mechanism”

so that parties involved in a potential dispute “can discuss their interests and concerns through dialogue rather than engag[ing] in confrontation”, which will enable them to “respect each other’s core interests and settle disputes by peaceful means” (Office of the Leading Group for Promoting the Belt and Road Initiative 2019, 50–51). While no such mechanisms have been formally established thus far, China has intensified security co-operation with countries in Central Asia through the SCO Regional Anti-Terrorist Structure (RATS) (Sadik 2020), which does not bode well from a human rights perspective, given China’s approach in Xinjiang.

At the same time, there are already established **links between the SCO and the OSCE** which predate the BRI, going back to 2003–2005 and rekindled in 2010, when Kazakhstan served as Chair-in-Office of the OSCE. In 2017, the then Secretary-General of the SCO, Rashid Alimov, addressed the OSCE Forum for Security Co-operation, noting that “among the priorities of the Organisation are active development of contacts and co-operation with international and regional organisations” (Organisation for Security and Co-operation in Europe 2013), while his successor, Vladimir Norov, reiterated two years later (in the same setting) that “the SCO, acting as a guarantor of stability in Central Asia, is ready to work together with the European Union, the OSCE and other European international organisations” (Organisation for Security and Co-operation in Europe 2019). Interestingly, Norov’s remarks very closely reflected the Chinese discourse on the BRI, emphasising that “the SCO is committed to promoting co-operation in building a *new type of international relations*, based on the principles and norms of international law, primarily justice, equality, *mutually beneficial co-operation*, and a *common vision of creating a community with a shared future for humankind*” (Organisation for Security and Co-operation in Europe 2019, emphasis added).

Rhetoric aside, one particularly important area in which the OSCE could be instrumental in contributing to security and stability, serving as a forum for engagement with China, is the **evolving situation in Afghanistan** (one of the OSCE’s Asian Partners for Co-operation). Instability in Afghanistan has long been recognised by the OSCE and the SCO, as well as their respective participating and member States, as posing a significant transnational security challenge. However, just how this challenge is being handled has acquired a new dynamic in light of the ongoing negotiations between the Afghan government and the Taliban and the US troop drawdown. Given the tense relations between the United States and China, despite their shared interest in stability in Afghanistan and the Central Asian subregion, the OSCE may offer an opportunity for constructive engagement in managing this particular security challenge. Given their thematic, geographical, and institutional overlap, the OSCE could co-convene such an engagement with the SCO and the Conference on Interaction and Confidence Building Measures in Asia (CICA).

As noted above, OSCE–SCO (or for that matter OSCE–CICA) co-operation is **no substitute for direct OSCE–China engagement**. Nor is it sufficient to cover the complexity of the relationships in spaces where the OSCE and the SCO overlap, especially in Central Asia, where the CSTO has member states (Kazakhstan, Kyrgyzstan, and Tajikistan) and where the EU, NATO, and the United States

retain significant strategic and security interests of their own, albeit with a somewhat diminished presence. Nonetheless, and bearing in mind that the relationship between the two organisations is characterised not only by complementarity but also by a degree of rivalry, co-operation between the OSCE and the SCO is a potentially promising avenue for engaging in dialogue with China on issues related to the first dimension.

Such efforts can also be augmented by engaging with China on the role of PMSCs, which China has increasingly used as a form of power projection that simultaneously complements and protects its economic statecraft projects along the SREB and beyond. As Yau (2020) notes, this is particularly significant given that “the private security industry itself is structurally tied to the CCP”, including through a rule of 51% state ownership of all overseas Chinese PMSCs. At the same time, China has been engaged in efforts at the international level to regulate the use of PMSCs. Alongside ten OSCE participating States, the country was among the seventeen original signatory states of the **Montreux Convention** in 2008 (International Committee of the Red Cross 2008), which has since been formally supported by the EU, the OSCE, and NATO. China has also supported the regular renewal of the mandate of the Working Group on the use of mercenaries set up by the UN Human Rights Council, of which it was a member until 2019. In its 2020 report to the UN General Assembly, the Working Group, among other issues, recommends that “dialogue on the new and evolving forms of mercenary and mercenary-related activities ... should include international and regional organisations”, identifying cyber mercenaries as an emerging threat to international security and human rights in this respect (Kwaja et al. 2020, 19, 22).

Cyber security has been an issue area within the OSCE for some time, and in 2016 it was the subject of Permanent Council Decision 1202 on “OSCE Confidence-Building Measures to Reduce the Risks of Conflict Stemming from the Use of Information and Communication Technologies” (Permanent Council of the Organisation for Security and Co-operation in Europe 2016). This Decision was recently reconfirmed as “a platform to build trust and capacities, enhance co-operation and reduce tensions that may stem from the use of ICTs” at a high-level conference of the Albanian CiO on co-operation for a stable cyber environment (Organisation for Security and Co-operation in Europe 2020a). In addition, co-operation between the OSCE’s Office of the Co-ordinator of OSCE Economic and Environmental Activities and the United Nations Economic Commission for Europe (UNECE) on enhancing the cyber resilience of intelligent transport systems (Office of the Co-ordinator of OSCE Economic and Environmental Activities 2020) underscores the relevance of this topic for China and the BRI and offers an additional opportunity for dialogue, cutting across the first and second dimensions. Engagement with China to establish regional standards is also important for OSCE participating States themselves, given that China has repeatedly been accused of cyber espionage, including in the context of the BRI (Plan et al. 2019).

A final issue area to consider, which also cuts across the second and third dimensions of the OSCE, is the impact of BRI implementation (and of China’s presence and activities in the OSCE region more generally) on **protracted conflicts**. As already noted, the OSCE, its participating States, China, and a range of

other regional organisations (such as the EU, NATO, the SCO, and the CSTO) have a shared interest in security and stability. Thus far, China has mostly steered clear of those OSCE participating States that continue to be affected by protracted conflicts. Chinese engagement with Armenia and Azerbaijan, Georgia, and Moldova has been relatively limited since the inception of the BRI. The only exceptions in this context are Serbia, which has been very important to China in relation to BRI implementation in the Western Balkans, and Ukraine, where the bulk of China's investment indeed occurred prior to the start of the conflict in late 2013.

Increased Chinese engagement in countries suffering from protracted conflicts is unlikely to occur in the near future for two other main reasons that are not directly related to the existence of protracted conflicts. First, hybrid land–sea routes across the Caspian and Black Seas that would require further engagement with Azerbaijan, Georgia, and Ukraine face multiple logistical obstacles, including the absence, so far, of a credible deep-sea port in Georgia (Kemoklidze 2020b). Such a route, effectively making use of the Middle Corridor proposed by Turkey, would also be inhibited by higher costs, longer time frames, and lower volumes compared to existing overland routes, especially the New Eurasian Land Bridge (Colakoglu 2019).

The second reason is more geopolitical in nature. China continues to tread carefully in managing its relations with Russia, which is a key partner in the BRI for logistical reasons, as a potential supplier of energy, and as an influential actor in Central Asia and in the South Caucasus and Eastern Europe. Without any economic incentives for deeper BRI-related engagement in countries where Russia uses protracted conflicts as political leverage to retain influence, it is highly improbable that China will risk potential confrontation with Russia (Kemoklidze 2020b; Malyarenko 2020a; Tytarchuk 2020).

From the perspective of the first dimension, the BRI is therefore unlikely to have a significant impact on the dynamics of the OSCE region's protracted conflicts in the short to medium term. This avoids adding further complexity to already geopolitically complicated situations but also creates room for informal dialogue between the OSCE and China on conflict settlement that could be explored in relation to the second and third dimensions, as detailed below.

Opportunities and challenges in the economic and environmental dimension of the OSCE

Whereas the first dimension appears to present something of a challenge to the OSCE, the second dimension may offer **genuine opportunities** for direct co-operation with China. Both the vision of the BRI and its implementation so far dovetail with the OSCE's connectivity agenda, and both could benefit from closer co-ordination. For example, a recent World Bank Study found that “Belt and Road transport corridors could substantially improve trade, foreign investment, and living conditions for citizens in participating countries—but only if China and BRI participants adopt deeper policy reforms that increase transparency, expand trade, improve debt sustainability, and mitigate environmental, social, and corruption risks” (Kunaka 2018). While on one

level the BRI clearly aligns with an OSCE assumption that links “economic and environmental co-operation with peaceful inter-State relations” (Organisation for Security and Co-operation in Europe 2010), the magnitude and reach of the Initiative will inevitably have political consequences—both intended and unintended (Flint and Zhu 2019). This, in turn, underscores the importance of the OSCE's comprehensive security concept; that is, the three dimensions of security—politico-military, economic and environmental, and human—are closely linked, and security in the OSCE area and its subregions can only be achieved and sustained across all three.

Even if the **visions of connectivity** embraced by China, the OSCE, Russia, and the EU differ in terms of their normative underpinnings and strategic goals, these differences are often less significant at a practical level. What the EU refers to as “sustainable, comprehensive and rules-based connectivity” (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2018, 2) is as much reflected in China's five BRI co-operation priorities, including policy co-ordination, facility connectivity, unimpeded trade, financial integration, and closer people-to-people ties (National Development and Reform Commission 2015, 210–17), as it is in the EAEU members' “commitment to further strengthen mutually beneficial and equal economic co-operation with other countries, international integration associations, and other international organisations” (Eurasian Economic Union 2015, 2) and in aspects of the OSCE's efforts to “promot[e] connectivity through transport and trade facilitation” and to “strengthen[] good governance through adherence to labour, social, and environmental standards” (Organisation for Security and Co-operation in Europe 2016, 4–5).

This represents both a challenge and an opportunity for the OSCE. While China, Russia, and the EU all recognise the value of connectivity and are pursuing more or less similar projects, especially in enhancing trade, energy, and digital infrastructure, the rules and standards they apply differ significantly, as do their long-term objectives (Saari 2019). This poses a **challenge to the OSCE** in the sense that a number of its participating States now find themselves exposed to different incentives and pressures from each of the three geo-economic projects and often lack control over the geopolitical fallout from competing visions of economic diplomacy, connectivity, and integration. At present, this is most visible and most unresolved in relation to Chinese involvement in digital infrastructure, especially in the Western Balkans. On the other hand, recent progress in negotiations on the EU–China Comprehensive Agreement on Investment (European Commission 2020d) indicates that a basis for commonly agreed rules can be found with China, including in a multilateral context.

For some countries, there are also **competing incentives and effective legal limits** regarding the extent to which they can embrace aspects such as China's financing model for BRI projects. Grant-based EU co-financing, for example, is more attractive than a Chinese loan; state guarantees for Chinese loans could be illegal under EU law to the extent that they can be shown to constitute competition-distorting state aid; and the requirement to contract Chinese companies for project implementation would be an infringement of EU procurement regulations (Bērziņa-Čerenkova 2020). Nevertheless, as Chinese engagement with Croatia and

Slovenia has shown, China is aware of such constraints and is willing to adjust its approach accordingly (Savaris 2020a).

While it is important not to overstate the likelihood of reaching consensus with China on the precise rules that are to underpin rules-based connectivity, growing Chinese awareness of risks to the BRI emanating from a lack of rules could be another **driver of engagement** between the OSCE and China in the second dimension that would start from an acknowledgement of shared interests. In its most recent report on the implementation of the BRI, for example, the Office of the Leading Group for Promoting the Belt and Road Initiative (2019, 63) insisted that “clean government is the moral principle and the legal red line that we should never cross in Belt and Road co-operation”, adding that all countries participating in the BRI “should work together to foster a modern business environment which is corruption free and efficient, strengthen supervision and management and control risk in Belt and Road projects, and create a public resource market which is procedure-based and transparent”.

BRI implementation in the OSCE subregions covered here has some way to go before it can even approximate this aspiration. Nevertheless, it constitutes a useful starting point for capitalising on the OSCE's ability to convene relevant parties and to provide an arena in which to negotiate a set of shared rules. Economic (and environmental) affairs have never received as much attention as the first and third dimensions. However, they have grown in importance over the years, and economic diplomacy and connectivity have risen on the OSCE agenda, including, for example, in relation to trade facilitation, good governance, and digitalisation. Given that all stakeholders have an interest in ensuring that enhancing connectivity leads to **sustainable and inclusive economic growth**, the OSCE's second dimension is a potential forum in which participating States can search for consensus on the applicable norms and standards that should apply to connectivity projects regardless of their origin.

This would not necessarily resolve **incompatible strategic goals among Chinese, Russian, and EU visions of connectivity**, but it would create a framework in which they can co-exist and be constrained. A common OSCE position in this regard would also strengthen the position of weaker participating States in bilateral negotiations with China and would reassert OSCE multilateralism over Chinese bilateralism. Such an approach could be further subregionally differentiated within the OSCE, thereby assisting in overcoming fragmentation and preventing the further growth of intraregional inequalities.

In this context, it would also be important to ensure that discussions on connectivity standards and best practices draw on, and integrate, already **existing OSCE structures and policies**. Particularly relevant to the OSCE's Second Dimension is the Aarhus Convention of 1998, which established legally binding principles of participatory environmental governance (United Nations Economic Commission for Europe 1998). In light of the potentially enormous social, economic, and environmental impact that BRI implementation could have on individual OSCE participating States and their populations, stronger mechanisms for public participation would be in line with the OSCE's human security approach and would address justifiable concerns about a

lack of transparency in the procurement and implementation of BRI projects.

Engagement with China on what would constitute meaningful **social and environmental standards** in the planning, implementation, and operation of BRI projects would add another dimension to the establishment of a more comprehensive set of rules to underpin economic connectivity. While existing standards vary both nationally and in the context of existing regional and international agreements, discussions could start from the premise that any commonly agreed standards “should not be lower than those currently adopted domestically by the Government of China” (Tracy et al. 2017, 78). This may not always be sufficient, nor should it be seen as a desirable endpoint. However, in combination with existing commitments that OSCE participating States have made under the Aarhus Convention, it could provide a framework within which another set of rules could gradually be developed, together with workable mechanisms for monitoring implementation and compliance.

Importantly, across the second dimension as a whole, there is an important role for the private sector to inform, and as appropriate participate in, OSCE engagement with China. Within the OSCE context, there is a long tradition of the involvement of businesses and business organisations especially in the second dimension and in relation to the OSCE's connectivity agenda.

Opportunities and challenges in the human dimension of the OSCE

China's increased presence and activities across a large number of OSCE participating States in the Organisation's already contested subregions has heightened the importance of recognising the links across all three dimensions and has underscored the extent to which sustainable security can only be achieved across all of them.

This poses a **significant challenge** in the OSCE context, in particular in relation to the third dimension, where there are already disagreements within the OSCE that have been further exacerbated by the seeming attractiveness of the Chinese model of domestic governance (achieving political stability and economic development) and its approach to international relations and international order (emphasising non-interference, peaceful coexistence, and ‘win-win’ co-operation).

There appears to be little if any room for engagement with China on **human rights**. The more participating States embrace China as a development partner, the less the OSCE will be able to fulfil its mandate as a comprehensive security organisation that does not sacrifice the protection of human and minority rights for the preservation of political stability and economic relations. As past gains in promoting a commitment to the rule of law, social welfare, and a market economy are lost, China's promotion of its own model of political and economic governance poses a major threat to OSCE values in the third dimension.

While there may be some scope to engage with China on a narrow range of **economic and environmental rights**, including labour standards, there is likely little space for engagement beyond that. China will not make BRI implementation conditional on human

or minority rights standards, and states that participate in the BRI, especially those in desperate need of financing for their economic development, will not criticise China's policies in this regard and may potentially prevent others from doing so, as has been the case with Hungary and Greece in the EU.

While the OSCE is already divided on the issue of **human and minority rights** along the traditional East–West fault line, there is little need for China to adopt an openly confrontational course. In fact, China has demonstrated a degree of willingness and an ability to accommodate specific issues. For example, Kazakhstan was able to negotiate the release of around 2,000 ethnic Kazakhs with dual Kazakh and Chinese citizenship who were detained by Chinese authorities in Xinjiang since 2019 (Murat 2020). Similarly, China appears to be prepared to respect local norms and standards and to respond to criticism of its compliance with national customs and legal frameworks where its own image and that of the BRI would otherwise be damaged (Bayok 2020a; Savaris 2020a).

Concerns about a **negative demonstration effect** are of course a far cry from a deep-seated commitment to respecting, let alone promoting, human and minority rights. Nevertheless, the little room for engagement with China that does exist on this front presents an opportunity for the OSCE. China clearly accepts that fragile institutions and weak rule of law pose a challenge to BRI implementation, especially in relation to corruption. Equally, China recognises that social and economic inequalities fuel grievances that drive conflict and instability. China's answer to this so far has been economic development without any concomitant political liberalisation, and this is unlikely to change in its own domestic policies. Within an OSCE context, however, shared interests in stability and security along the SREB create opportunities for involving China within a framework where human and minority rights are firmly established within a comprehensive concept of security. For example, China has increasingly participated in multilateral mediation efforts on high-profile international issues like the Syrian civil war, the Iran nuclear deal, and the crisis on the Korean Peninsula. In addition, China has also contributed to such efforts in countries along the BRI (Legarda 2018), although not in any of the subregions considered in this Report. This could change in the future, however, for example if the so-called Middle Corridor garners more Chinese interest and investment (Kemoklidze 2020a; 2020b) or if Ukraine and or Moldova become more important transit countries (Malyarenko 2020a; Tytarchuk 2020).

In the medium term, this creates opportunities for efforts to socialise China into the OSCE's **approach to conflict resolution and crisis management**, which would be important and should be explored, if initially only informally, before China becomes actively involved in any crisis that it perceives to be a direct challenge to its interests. This could happen 'bilaterally' between China and the OSCE, including at the level of Track 2 exchanges, or multilaterally through engagement between the OSCE and the SCO or the CICA. Such an approach could also utilise existing CSBMs across all three dimensions, thereby strengthening the connections between the different components of the OSCE's comprehensive security concept.

Policy Recommendations

The BRI is an unprecedented project that poses unique challenges for the OSCE and its participating States. Although in existence for seven years now, and building on China's earlier presence and activities across the OSCE region, the Initiative has no clearly identifiable endpoint, its parameters remain only vaguely defined, and the rules and principles that underpin its implementation appear highly adaptable to context. At the same time, there is little doubt that China will continue to pursue the BRI, including across the OSCE region.

Challenging as this might be, it also presents an opportunity to negotiate the terms under which the BRI is implemented in the OSCE region. This opportunity comes with **several caveats**, however.

While all of the OSCE's participating States are sovereign with regard to their decisions on how to manage their bilateral relations with China in the context of the BRI and beyond, it is equally in their interest to seek safety in numbers when it comes to mitigating the risks emanating from the BRI. These risks play out differently across the three subregions covered in this Report. The OSCE participating States in these subregions are thus affected differently by China's activities and presence, especially as these intersect with, and cut across, pre-existing political and economic integration projects, as well as regional and international structures in the OSCE region. The **first caveat** is therefore that, when seeking safety in numbers, the OSCE is not the only option available to participating States. Nor does engagement with China through the OSCE offer them equal, or any, added value compared to other options. In fact, for some, engagement through the OSCE may limit the value they can obtain through direct bilateral dealings with China or undermine an already existing relationship.

The **second caveat** relates to the OSCE itself. On the one hand, one could argue that taking advantage of this opportunity is critical to the OSCE's ability to maintain its relevance as a co-operative security organisation with a comprehensive vision of security. On the other hand, given the current problems already faced by the Organisation in terms of constructively managing the fractious relations between its participating States, one could question whether China is a 'bridge too far,' potentially undermining the OSCE's capacity to deliver on its existing mandate and to preserve its established norm consensus.

The **third caveat** concerns China. It is far from clear that the OSCE is the kind of forum with which China would want to engage, and under what conditions. Whatever initial enthusiasm China might have had for the OSCE in the early 2000s seems to have long disappeared. 'Precedents' set by direct relations that China has established with the EU and the EAEU only work to a limited degree: both the EU and the EAEU are markets, and relations with them are predominantly economic in nature. The OSCE, by contrast, is not a market, and its purpose is undeniably political.

This Report concludes by suggesting a number of **concrete steps and practical actions** that the institutions and participating States of the OSCE could take as they turn the challenge of the BRI into an opportunity to enhance security and stability across the OSCE region and as they mitigate the inevitable risks associated with the Initiative. In doing so, it does not cast aside the caveats outlined above but seeks to demonstrate that, against these considerable odds, there are several options available to the OSCE and its participating States, should they choose to engage with China.

Forming consensus within the OSCE on engagement with China

The OSCE, its institutions, and participating States can no longer avoid recognising China's significance as an actor within the OSCE region. As detailed in this Report, China has steadily increased its presence and activities in individual participating States over the past two decades. OSCE participating States have been affected differently by, and have responded in different ways to, these developments—without having formed a consensus on how they should engage with China collectively as, and through, the OSCE. Consensus in this regard need not initially amount to a fully formed China strategy. Rather, it should involve a decision in principle on engagement, based on recognition of China's importance.

In order to foster even minimal consensus of this sort, OSCE institutions should begin by identifying future scenarios for relations with China. Using scenario planning as a tool for both consensus building and policymaking could be helpful in sensitising participating States to the implications of China's presence and activities for themselves and for the Organisation, enabling a better understanding of the related challenges and opportunities and imbuing them with a sense of agency.

Developing consensus and implementing it will require much of the initial work to be carried out by a suitably mandated and resourced Secretariat and Secretary General, who would need to serve a co-ordinating function as engagement with China begins to involve further actors within the OSCE. Similarly, successive CiOs and the 'Troika' could be involved in setting priorities for the OSCE's China agenda and could ensure a degree of continuity in collaboration with the Secretariat. CiOs could also conceivably appoint Personal Representatives to carry out this co-ordinating function, and there is a precedent for having the same Personal Representatives hold such posts for a number of years under several CiOs. While successive CiOs, the Secretariat, and the other institutions of the OSCE have some autonomy in setting priorities for their own activities, the highly sensitive nature of engagement with China is likely to constrain their ability in this respect.

Prioritising issue areas for engagement

As a consensus-based organisation, the OSCE and its institutions can only act on the basis of the mandate provided by the participating States. While scenario planning may instil a sense

of urgency regarding more formal engagement with China, it will still be necessary to prioritise issue areas for engagement that reflect the interests and concerns of participating States, that take account of the existing capacity and capabilities of the OSCE, and that carefully consider the likelihood of a constructive response by China.

As noted earlier in the Report, strengthening institutions and curbing corruption nationally and subregionally creates a more positive business environment in general, including for Chinese investment. Combating corruption has also been on the OSCE agenda for some time, including in relation to its connectivity agenda, and especially since the 2016 Ministerial Council Decision in this regard (Organisation for Security and Co-operation in Europe 2016).⁵¹ China has also recognised the importance of curbing corruption (Office of the Leading Group for Promoting the Belt and Road Initiative 2019).

The OSCE should engage with China (for example through the Office of the Co-ordinator of OSCE Economic and Environmental Activities) on how to fight corruption and promote transparency and accountability in tendering, procurement, and project management. This could involve initial exchanges of information on existing standards and frameworks, extend to workshops aimed at identifying common approaches, and involve training activities at the local and the subregional level. Such an approach should ultimately be aimed at achieving a common understanding of minimum standards and best practices, involving, as necessary, other relevant organisations such as the EU, the EAEU, UNIDO,⁵² and UNECE.

Another issue area in which interests overlap significantly (and where there have been rhetorical commitments on both sides) is environmental protection, including climate change. Given that OSCE participating States have already made an explicit commitment to participatory environmental governance as part of the Aarhus Convention of 1998, engagement with China in this context could focus, for example, on mechanisms for public participation that would create meaningful avenues for discussion of applicable environmental standards in the planning, implementation, and operation of BRI projects and how the implementation of, and compliance with, agreed standards can be effectively monitored. Focusing on public participation, increased transparency, and accountability is also important from the perspective of political stability and increasing trust in, and the resilience of, local democratic institutions and processes. Thus, and beyond the environmental domain, it speaks to the broader good governance agenda of the OSCE and cuts across the Organisation's second and third dimensions.

⁵¹ The importance of fighting corruption was reiterated in subsequent Ministerial Council Decisions in 2017, 2018, and 2020 (Organisation for Security and Co-operation in Europe 2017b; 2018; 2020d).

⁵² The United Nations Industrial Development Organisation (UNIDO) is headquartered in Vienna. Its current Director General is Li Yong, a former vice minister of finance of the People's Republic of China and member of the Monetary Policy Committee of the Central Bank.

Using existing international frameworks like the Aarhus Convention, the OSCE should consider initiating a formal dialogue with China on managing the environmental impact of the BRI in its participating States. This could also be tied more broadly to discussions about relevant UN Sustainable Development Goals (SDGs), such as SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 13 (Climate Action), and SDG 15 (Life on Land). Co-operation with the UN and UNECE should be considered to anchor discussions within existing global and regional frameworks.

In its current manifestation, the BRI is focused on connectivity. This is an area in which the OSCE also has a clear agenda and a track record of successful activities at the level of its participating States. Moreover, various aspects of connectivity are also important to the EU and the EAEU. From the OSCE's perspective, and especially because of the Organisation's comprehensive security mandate, connectivity, even if narrowly defined in economic terms, does not exist in a vacuum, independent of political, military, environmental, and social factors. Given the emerging realities of a post-pandemic world, the OSCE has an opportunity, and an obligation, to think about the resilience and sustainability of connectivity in broader terms.

The OSCE should consider developing a Connectivity 2.0 agenda that ensures that the overlapping (but not identical) visions of connectivity promoted by the EU, the EAEU, and the BRI can become and remain compatible and complementary. This would centre not on the 'integration of integrations' but on learning and adaptation. Building on existing dialogue formats between Beijing, Brussels, and Moscow, the OSCE could foster a dialogue on the future of connectivity in its own region that would give the countries that participate in, and are affected by, the three connectivity projects a greater voice. Such discussions could focus on both connectivity needs and gaps on a country-by-country and subregion-by-subregion basis and could gradually begin to involve consideration of a common approach to developing a rules-based connectivity environment that is respected and enforceable by and in OSCE participating States.

Developing a Connectivity 2.0 agenda of this sort would require conceptual work within OSCE institutions and participating States to complement the more long-term strategic, high-level political dialogue. At the same time, and in light of the current pandemic and emerging post-pandemic conditions, any developing Connectivity 2.0 agenda will have to factor in and address current vulnerabilities within existing systems of connectivity. In this context, it might also be worth reconsidering, in one form or another, an earlier proposal by Kazakhstan for the creation of a centre on sustainable connectivity. Such a centre could offer opportunities for gradually institutionalising an OSCE–China connectivity dialogue.

At the practical level of learning and adaptation, the OSCE should create opportunities for officials at the technical level, business managers in the private and state sectors, researchers in higher education institutions, analysts in think tanks, journalists, and representatives of civil society to develop better insights into the nuts and bolts of how connectivity is operationalised on the ground and on a day-to-day basis. Such opportunities could be focused on the subregional level, thereby enhancing subregional co-operation and countering the negative effects of intraregional inequalities and fragmentation. Such an approach could begin by issuing invitations to Chinese representatives to participate in OSCE-organised activities and events, gradually evolving into the bilateral organisation of such meetings on mutually agreed issues.

While opportunities for constructive engagement with China are most obvious in the OSCE's second dimension, engagement in the second dimension alone will not be enough to address the much broader range of implications that the BRI has for the OSCE as a comprehensive security organisation and for each and every one of its participating States.

As noted earlier, there is potentially significant scope for engagement with China in the context of OSCE–SCO relations. While not a substitute for direct engagement with China, further collaboration between these two organisations could raise the profile of the OSCE in China and create avenues for complementing China's preferred bilateral approach with more multilateral engagement. Given the nature and priorities of the SCO, issues related to the OSCE's politico-military dimension would be useful focal points for outreach and dialogue, including potential collaboration with other international organisations.⁵³

The OSCE should consider engaging with China in the context of the SCO on issues of mutual interest, including combatting organised crime (especially drug trafficking) and counterterrorism (especially related to the evolving situation in Afghanistan, how to deal with foreign fighters, and how best to protect critical national and transnational infrastructure). As respective organisational agendas and capabilities develop, this could be further extended to the Montreux Convention and into the cyber domain. As in other priority areas, this could also involve engagement with other international organisations, such as CICA and UNODC.

Another potential avenue for cross-organisational co-operation that offers opportunities for OSCE–China engagement in multilateral contexts is through CICA. This would reflect long-established OSCE capacities that stretch back to the early years of the CSCE and create a space in which approaches to conflict resolution and crisis management could be explored in light of Chinese perceptions of risks to BRI implementation in OSCE participating States that are vulnerable to instability.

⁵³ Transnational organised crime and Afghanistan remain high on the OSCE agenda, as evident in two recent Ministerial Council Declarations on "Cooperation with OSCE Asian Partners" (Organisation for Security and Co-operation in Europe 2020b) and on "Strengthening Cooperation in Countering Transnational Organized Crime" (Organisation for Security and Co-operation in Europe 2020c).

The OSCE should formalise and institutionalise co-operation with CICA to explore differences and similarities between the two organisations' approaches to CSBMs, crisis management, and conflict resolution. This could be implemented through regular Secretariat-level meetings and should be complemented by more focused workshops at the level of technical officials, possibly also involving researchers in think tanks and academic institutions, representatives from civil society, and media professionals. Such events could gradually become more geographically and/or thematically focused and involve specific discussions between China and the OSCE related to the challenges of, and to, BRI implementation in OSCE participating States.

Identifying formats for engagement

The OSCE is comprised of a variety of institutions, structures, and bodies, several of which could play a role in engaging with China.

Among the options for diversifying engagement with China, one could consider the OSCE Parliamentary Assembly, whose then President, Christine Muttonen, visited China in 2017. While this has been a single occasion so far, there may be scope for similar activities in the future, especially if the Parliamentary Assembly finds a permanent counterpart among Chinese institutions and is able to establish a joint working group, for example with the International Department of the Communist Party of China, one of the interlocutors during the 2017 visit. The value of such an arrangement would lie in the fact that the Parliamentary Assembly represents the views of elected representatives of OSCE participating States.

Other formats of engagement that are worth exploring are the other three executive structures of the OSCE—the OSCE Office for Democratic Institutions and Human Rights (ODIHR), the OSCE Representative on Freedom of the Media, and the OSCE High Commissioner on National Minorities (HCNM). While there can be no doubt that engagement with China on human rights and related issues is exceptionally difficult at the best of times, it is nonetheless important for the OSCE not to lose sight of its *comprehensive* security mandate. Thus, all three of these executive structures could initially be involved in an emerging dialogue with China through multilateral formats such as the SCO and CICA and could subsequently (also) engage with China in bilateral formats and joint activities. This could include election observation in the case of ODIHR, combatting online disinformation in the case of the OSCE Representative on Freedom of the Media, and early warning and early action on minority-related tensions in the case of the HCNM.

Representatives of the OSCE Parliamentary Assembly of the OSCE and of ODIHR, the HCNM, and the Representative on Freedom of the Media should be involved in identifying issue areas of engagement with China. The OSCE should explore ways in which these structures and institutions can be part of multilateral engagements with China and gradually develop their own bilateral dialogue and activities.

There are currently 15 OSCE Field Operations, including one in each of the Central Asian States and six in the Western Balkans (in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia). These Operations have vastly different mandates, and not all of them have either a responsibility or the capacity to engage with BRI-related issues. That said, Field Operations offer an opportunity for ad hoc and flexible engagement as concrete needs arise. If adequately supported by the Secretariat and by participating States, they could provide yet another channel for engagement with China and could contribute to the 'normalisation' of OSCE–China contact. Given the localised nature of potential responses, there is also an opportunity for closer, issue-specific co-operation between Field Operations and local Aarhus Centres, of which there were 60 in 14 of the countries considered in this Report in 2016. In addition, they could offer support to host states in their bilateral engagement with China and simultaneously feed information into OSCE-internal discussions about the Organisation's China 'strategy'. It may also be worth considering increasing the involvement of Chinese partners in the activities of the OSCE Academy in Bishkek and the Border Management Staff College in Dushanbe.

OSCE Field Operations should be enabled and given support to engage in specific issues related to the planning, implementation, and operation of BRI projects. This could involve, on a case-by-case basis, collaboration with local Aarhus Centres, the OSCE Academy in Bishkek, and the Border Management Staff College in Dushanbe.

Engagement with China: from pragmatism to strategy?

Engagement with China raises questions for the OSCE not only regarding its internal foundation, the issue areas that are to be prioritised, and the formats through which it should be pursued but also regarding its **ultimate goal**. As the OSCE stands for particular norms in the conduct of international relations, engagement with China therefore also raises the question of how to preserve these norms and whether they can form a sustainable basis for constructive engagement. In other words, does engagement with China provide an opportunity to bring it closer to the OSCE's approach to international relations?

This is not the question that this Report set out to answer. However, it is worth considering the issue of engagement with China in terms of its implications for the OSCE and its existing norm consensus. The challenge for the OSCE and its participating States is to be both **pragmatic and strategic** in its approach to China while remaining firmly **committed to its own comprehensive security concept**, which equally embraces a politico-military, economic and environmental, and human dimension.⁵⁴

⁵⁴ Otherwise, there is a danger of socialisation 'in the wrong direction' (Ambrosio 2008; Lewis 2012).

In terms of **pragmatism**, the OSCE should pursue a policy of multi-channel engagement with China that creates and embraces opportunities to enter into dialogue with it on issue areas that the Organisation considers priorities for its participating States while also being open to the issues it wants to raise. This should include an openness to ad hoc and informal modes of engagement.

This pragmatism, however, should nonetheless be guided by a **strategic vision** that reconsiders a future formal relationship with China as a Partner for Co-operation.⁵⁵ While this would depend on China's fulfilling the criteria for such a relationship (as set out by the OSCE), pragmatic engagement can contribute to building the foundations upon which a long-term vision of this sort could be realised, which could begin with granting China observer status in the OSCE. An equally pragmatic and strategic approach in this context could gradually also explore a different kind of partnership between the OSCE and China that would be more specifically tailored to China's size and significance. A potential OSCE Summit in 2025 would be an appropriate forum for formalising such a relationship.

A pragmatic approach to engaging with China needs to be complemented by **increasingly strategic engagement**. This would involve a move from ad hoc and informal to formal engagement and the creation of formats of engagement that 'normalise' the relationship between China and the OSCE, creating a form of bilateralism between them that is not dissimilar to relationships between China and the EU or the EAEU.

Rather than replacing existing bilateral relationships between China and OSCE participating States, a **more formalised bilateral relationship** between the OSCE and China would complement them. It would potentially also strengthen a set of rules for engagement with China that is more firmly anchored in existing OSCE commitments. As such, it would also serve as a testing ground for China's willingness to engage with the OSCE as an equal and would respect the existing norm consensus within the Organisation and across all three of its dimensions.

A successful **hybrid approach** to engagement of this sort—one that is simultaneously pragmatic and strategic—would require careful co-ordination within the OSCE. A hybrid approach would in turn contribute to the gradual evolution of an OSCE China strategy that would set the parameters for engagement through different channels and in multiple issue areas. Given the complexity of the dynamics of China's presence and activities within the OSCE area, as detailed in this Report, engagement with China undoubtedly represents one of the main internal and external challenges that the Organisation will face in the years ahead. Whether and how the OSCE and its participating States will rise to this challenge will therefore have a profound impact on its future as the only truly Euro-Atlantic and Eurasian comprehensive security organisation. **China and its BRI are a challenge that the OSCE must face, not ignore.**

⁵⁵ This option was debated among participating States in 2005. Although both China and a number of participating States appeared to be open to exploring this issue further, the consensus within the OSCE at the time was that conditions were not yet ripe for a more formalised relationship (Evers 2008, 407).

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The OSCE Network of Think Tanks and Academic Institutions (<https://osce-network.net/>) is a Track II initiative. Its members are research institutions from across the OSCE area engaged in academic and policy research on OSCE-relevant issues. Network members exchange information, provide expertise, stimulate debate, and raise awareness of the OSCE, thereby contributing to comprehensive and cooperative security. The Network is based on a proposal made by OSCE Secretary General Lamberto Zannier in July 2011. It was created by 16 research institutions on 18 June 2013 at Vienna Hofburg. Neither the Network nor its members represent the OSCE, and the views expressed by Network members are their personal opinions.