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CHINA AND EUROPE:

Reconnecting Across a New Silk Road

BY XIANGMING CHEN AND JULIA MARDEUSZ

Since 2013, economic and trade relations between China and Europe have grown significantly. In this article, the authors look beyond conventional economic indicators, like trade, and political issues, like human rights, instead focusing on transport infrastructure, real estate and tourism to show that a new page is unfolding in the history of China-Europe relations.

China and Europe have been closely linked since the Opium Wars, but the relative economic positions and power have reversed. Nothing illustrates this more symbolically than a stroll along the Bund in Shanghai: the low rise and old European-style buildings on the West side of the Huangpu River are dwarfed and eclipsed by the sparkling skyscrapers in Pudong on the east bank. The built environment of Shanghai, with its historic European-style buildings and modern China-built skyscrapers, is a physical manifestation of the reconfigured dynamic between China and Europe.

Since 2013, China's connections with Europe have expanded since developing its official policy of building a westward economic corridor – a new Silk Road – along its ancient route. Most recently, in December 2014, China agreed with Hungary, Serbia, and Macedonia to build a rail link between Budapest and Belgrade, which will be financed by Chinese companies and completed by 2017. This rail line will then be connected to the Macedonian capital of Skopje and the Greek port city of Piraeus where COSCO, the Chinese shipping giant, operates two piers for container units. While the linked land-sea project will strengthen cross-border transport between Central and Southeastern Europe by reducing train travel times between Budapest and Belgrade from eight to three hours, it really is designed to enlarge and accelerate the movement of goods between China and Europe.

Having grown fivefold since 2003, trade between China and Europe reached \$559 billion in 2013, solidifying the EU as China's largest trading partner for the past 10 years. While the EU has invested more in China than the latter's direct investment in the former, a US consulting company expects the EU to attract

\$250-500 billion more Chinese direct investment by 2020.¹ A scenario likely to occur in the next few years is that China will invest more in Europe, instead of vice versa. This will be another telling sign that fortune and power are shifting in China's favour.

These developments are not isolated and random. They represent a new structure of interactions between the older European economies and a rising Chinese power. We can understand this structure well by examining its conventional macroeconomic dimensions of bilateral trade and investment. In this essay, however, we make better sense of the new China-Europe relationship through a set of less used lenses: transport infrastructure, real estate, and tourism. They offer new insights into areas where China exerts a large and heavy footprint in Europe, via official channels and from the ground up.

Transport Infrastructure and Connectivity

In thinking about China and Europe today, transport infrastructure does not usually come to mind due to the long distance between them and Europe's own well connected transport networks. Having built the world's longest highway, railway, and more bridges and buildings than any other country over the past two decades, China has been constructing an extensive transport and municipal infrastructure within its Asian neighbours and far-flung African cities.² More recently, China has also turned to Europe in strengthening their long-distance transport connections, aiming to improve the overland movement of traded goods. Less expected is China's new foray into the domestic

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infrastructure sector of a few European countries. Both moves make infrastructure a major avenue for China to forge direct physical connections to Europe.

The most important connection thus far is the Trans-Eurasia railroad from the city of Chongqing in southwestern China to Duisburg, Germany. Launched into operation in 2011 by a joint venture with Germany, China, Kazakhstan, and Russia, the 11,179-kilometre rail line snakes through six countries including Belarus and Poland (see Figure 1). China is the largest beneficiary of this freight-focused rail network, having already shipped \$2.5 billion worth of goods on this route to Europe since 2011. As labour and land costs in coastal cities like Shanghai and Shenzhen have gone up, the Chinese government has been pushing and inducing foreign investors and domestic producers to move inland through its "Go West" policy. Interior megacities like Chongqing and Chengdu have been booming as major destinations for large new manufacturing projects. Having set up what would be Asia's largest laptop factory in Chongqing, US computer giant Hewlett Packard has already shipped more than four million notebook computers to Europe by the Chongqing-Duisburg rail since 2011.

As manufacturing becomes more concentrated in Chongqing and Chengdu, it will reap more savings from reduced transport costs. About 60% of the material inputs for laptops and 30% of the finished laptops depend on rail transport. Bringing them in and out by sea is very expensive and time-consuming. It requires a long train ride to Shanghai or Hong Kong from where container units are shipped to Europe. In the other direction, growing demands in interior China for European foods and cars can also benefit from a greater use of the Chongqing-Duisburg rail connection. It typically takes 2-3 months for a customer in Chengdu to receive the delivery of a European car by sea as it has to come through the port city of Tianjin. This wait can be reduced to 25 days if the car is transported by train from Europe to Chengdu.³

While this overland rail route can yield major economic benefits for China and Europe, its greater potential won't be realised without policies for overcoming existing barriers. The Chinese government has recently approved the status of an international land port for Chengdu and Chongqing. This allows the direct and full import of European meats and cars to fill the train cars going back to China that would otherwise only be partially filled after carrying full loads of exported electronic products to the European markets. A fully loaded train has recently brought car parts from Germany to a Ford plant in Chongqing using the Trans-Eurasia railroad.

Another obstacle is that Chinese and European railways use different gauges than Russia and its former satellite states. So far the Chongqing to Duisburg route has met this standardisation challenge by transferring to cars with new gauges at relevant border crossings to meet varied national track requirements. It



TRANS-EURASIA RAILROAD

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SCHENGEN AREA

It is an area without internal borders, within which citizens, many non-EU nationals, business people and tourists can freely circulate without being subjected to border checks. Since 1985, it has gradually grown and encompasses today almost all EU States and a few associated non-EU countries.

http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/schengen/index_en.htm



http://usa.chinadaily.com.cn/epaper/2013-10/30/content_17069634.htm

Figure 1: The Chongqing-Duisburg Trans-Eurasia Railroad & Schengen Area

will need to adapt to other differences in technologies, signalling systems, and gauges that add costs to coordination across several countries.⁴ However, the existing and potential benefits for China and the other countries along this rail route will motivate them to co-operate in overcoming the remaining hurdles. So far it is China that has been moving at full speed. It has already sent a total of 239 (100 during the first seven months of 2014) trains carrying container units to Europe, including a train from the city of Zhengzhou in the central province of Henan bound for Hamburg.⁵

As China's rail transport connections to Europe multiply, China has also launched an infrastructure build-up within Europe with an initial focus on the geographically closer and

economically weaker Central and Eastern Europe. In December 2014, China and Serbia inaugurated the first ever bridge in Europe across the Danube River financed and built by China. Named after Mihajlo Pupin, a renowned Serbian scientist, the 1,500-metre bridge connects the southern industrial district of Zemun with the northern residential area of Borca in Belgrade, cutting the travel time across the Danube from more than one hour to just 10 minutes. China has also landed the contracts for the Stanari Thermal Power Plant in Bosnia (up to \$1.7 billion) and the Bar-Boljare motorway in Montenegro with a link to Serbia (\$984 million).⁶ Infrastructure projects of this scale have been very rare in these countries for more than 20 years, given

the bad economic conditions in Croatia, Serbia, and Bosnia-Herzegovina, with nearly 1.5 million unemployed, due to the post-Yugoslavian political instability, ethnic conflicts, and natural disasters like flooding. China's major efforts to finance and upgrade the outdated transport and municipal infrastructure in these countries opens up a new era of China's local presence and influence in Europe.

Going After European Property

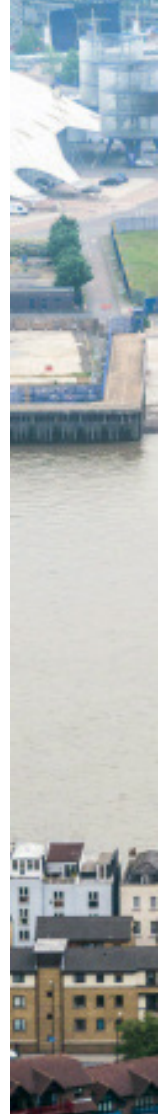
As China is making inroads into Europe's infrastructure sector, the real estate sector cannot be far behind as an investment target. Southern European countries like Italy and Portugal, which have been adversely affected by the financial crisis, are seen as especially good opportunities for Chinese investors, as the property prices there are lower than in other European countries, like the United Kingdom and France, that have managed to weather the crisis better. Homes in southern Europe are also attractive compared with those of China as 300,000 euros buys a 200 square metre villa facing the sea. That amount only buys an apartment of 68 square metres in central Shanghai⁷ where property prices have been artificially inflated due to years of speculative supply and persistently strong demand.

Besides their low property prices, countries such as Cyprus, Portugal, and Greece are offering resident permits to property buyers who are not already residents of the European Union. This appeals to Chinese investors who have the capital to buy the properties but not the residency or citizenship benefits to use them within Europe. In exchange for a minimum amount of investment in property in a European country (amounts vary depending on the country, but the starting price is generally upwards of 250,000 euros), the investor may be granted a visa that allows him or her to live and travel within the Schengen Area, which consists of 26 European countries. A recent trend among Chinese investors is to buy a



property in Southern Europe and then secure permanent residency there once their visas have been approved. A reporter from Bloomberg observed that "most (Chinese investors) are getting homes for personal use or to send their children to schools there."⁸ By July 2014, Chinese citizens had received 282 of the 1,880

Clockwise from top left: Madrid, Spain. Edificio España, one of the tallest buildings in Madrid; London, UK. Aerial view of the river Thames in Docklands; Shanghai, China, a striking contrast between the Bund on the old and west side of Huangpu River and the new skyline on the east side





“golden visas” or permanent residencies granted by the Spanish government to those who bought local property.⁹ Since October 2013, the Portuguese immigration office has approved 1,681 property purchase applications, 1,429 of them from China, about 85% of the total.¹⁰

Besides property value and permanent residency, the measure of the Chinese yuan (RMB) against the euro is another important consideration, and one that has contributed to the rise of Chinese investment in European property. The euro depreciated approximately 17% against the yuan from 2010 to July 2014. Chinese investors bought 3.05 billion euros’ worth of European property in 2013, an increase from the 978 million euros spent in 2012. *The Financial Times* found that Chinese direct investment in Europe tripled in just two years (2010–2012), from 9 billion euros to 27 billion euros.¹¹

The large volume of this investment in European property reflects a major shift in China’s overall outbound investment, from securing natural resources in developing countries to acquiring brands, technology, and other assets in developed countries. A major Chinese real estate developer has recently committed \$1.6 billion to convert the derelict Royal Albert Dock in London into a global trading hub. Intended to attract Chinese companies as tenants, this project is planned for 4.5 million square feet of office space to be developed in phases through 2020. London’s Mayor Boris Johnson has strongly endorsed this project for its prospect of generating about \$10 billion for the national and local economies. He has lauded the project’s potential ability to turn what was once one of “the throbbing arteries of UK trade and commerce” into “a world-class international business district.”¹²

In June 2014, Wang Jianlin, one of China’s largest real estate investors and richest men, bought the 25-story Edificio España in Madrid, a landmark Franco-era building that was also Spain’s tallest, for 265 million euros or \$340 million. Sitting empty since the Spanish real estate market’s collapse in 2008, the building will be renovated to include luxury apartments and a hotel as part of a larger-scale neighbourhood regeneration.¹³

The scope of Chinese investment in European property represents a powerful combination of China’s surplus corporate and private capital that can affect the urban landscape in European cities. Its long-term impact, however, will depend on the pace and volume of its outflow from China, and its geographical concentration and spread within Europe.

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Big-Spending Chinese Tourists

As a relatively small but growing number of wealthy Chinese investors put their money into European real estate, a much larger number of middle and upper middle class tourists from China are coming to Europe to buy a lot of luxury goods. China's rapid economic growth has created a huge number of middle and upper middle class consumers with insatiable desire and startling purchasing power. In 2013, Chinese citizens made approximately 100 million overseas trips and spent over \$100 billion on their trips, mostly on luxury goods, overtaking the United States and Germany as the world's number one tourist spending nation. Today nearly one-third of the world's personal luxury goods are bought by Chinese consumers.

In 2014, Europe accounted for 3.5% of overseas travel destinations for Chinese citizens; this was the second most popular regional destination after Asia, which accounted for 70.4% of overseas tourism. Visa applications to enter the Schengen Area from China accounted for approximately 1.5 million of the total applications in 2013, ranking China third overall, behind Russia and Ukraine.¹⁴ In its 2014 report, hotels.com observed that "European destinations are the most popular amongst Chinese travellers in terms of places they wish to visit in the next 12 months." By surveying the number

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of rooms and the length of stay in hotels booked through its website, hotels.com placed France, the United Kingdom, and Italy in the top ten destinations for Chinese travellers in 2013 as all three countries experienced growth in the amount of tourism from China.¹⁵ The German National Tourist Board recently showed Germany, France, Italy, and Switzerland as the top four European destinations for Chinese tourists.

While many Chinese tourists in Europe are interested in seeing sites of historical interest and established landmarks like the Eiffel Tower and Venice's Grand Canal, they are there for a much more passionate interest: shopping, especially for brand-name and luxury goods. Paris is the most popular destination for this shopping spree. It is where Chinese tourists head to the Louis Vuitton shops in much larger numbers than to the Louvre. As early as 2009, Chinese tourists overtook Russians as the highest spending visitors to France. Wealthy Chinese tourists also head south to the wine country of Bordeaux where they snap up expensive wine, paying as much as \$800 for a bottle.¹⁶ They bring the wine back to China where it can be displayed and then drunk as a prized possession; red wine has become increasingly popular at dinner parties, replacing beer and traditional Chinese liquor.

McKinsey's survey of Chinese luxury consumers in 2012 found that "Europe is growing in appeal among Chinese luxury consumers, with about one-fifth of them reporting this year that their most recent overseas purchases occurred in a European city. That is more than double the European share two years ago."¹⁷ A study by the European Travel Commission estimated that Chinese tourists reserve more than a third of their trip budgets for shopping. To be able to do so, they compromise on eating and sleeping. A survey in 2006 found that Chinese travellers in Europe had eaten "European food" only once, and 10% not at all. Many in tour groups arranged by Chinese travel agen-



cies would stay in cheaper hotels and eat instant noodles, even though they could afford luxurious hotels and lavish meals.¹⁸ The average Chinese tourist spends around \$5,000 during a European trip, more than any other country. This is not surprising when one often sees groups of Chinese tourists getting dropped off at expensive stores and coming out with their suitcases full of brand name clothes, handbags, and cosmetics.

There are several reasons for Chinese tourists to buy luxury goods heavily in Europe. Besides the obvious factor of their rising affluence, Chinese tourists pay less for luxury consumption in Europe than in China. Taxes on certain items and tariffs on imported goods increase the price of luxury goods produced elsewhere and sold in China. According to *The Economist*, taxes and tariffs can increase prices in China to 50% more than a shopper would pay elsewhere. For example, a Louis Vuitton handbag costs 30% more in Beijing than in Paris.¹⁹ The purchase of luxury goods



Money and More

The sum of Chinese investment and spending in Europe's infrastructure, real estate, and tourism sectors amounts to a huge influx of money that reflects the changed economic positions of China and Europe and their long-distance connections. Many may see this as the relative decline of Europe and the continuing rise of China that implies a reversal of power and fortune. But there is both change and continuity to the new China-Europe relationship that makes it more complex than a one-way flow of surplus Chinese money. In 2013, the EU invested \$6.5 billion in China, up 21.9% from 2012, which doubled China's \$3.6 billion in the other direction, an increase of only 6.2%. While this sustains the earlier pattern of bilateral investment, individual European countries have taken more differentiated economic approaches in dealing with China. Through the agreement between the Bank of England and the People's Bank of China to clear and settle Chinese currency in London, the British government has gone ahead of most other European countries in making London the leading hub for trade with China. By the end of 2013, China's cumulative investment in the United Kingdom reached \$32 billion, far exceeding the \$18 billion the other way around.²² Not to be left behind, Switzerland's central bank joined its Chinese counterpart in January 2015, making Zurich Europe's newest hub for trading the Chinese currency (RMB). As the China-Europe economic relationship becomes stronger, it has become more varied and specific to individual countries.

The uneven penetration of China's economic influence has begun to generate a sort of cultural backlash, which is illustrated by a recent cartoon that made the cover of *Fluide Glacial*, a French monthly comic book (see Figure 2 on the next page). Despite an underlying negative headline of "Yellow Peril: What if it is too late?" the restaurant window shows a harmless sign: "Chinese spoken here."

while travelling in Europe connotes the high income and status of the consumer. A study published by the University of Pennsylvania's Wharton Business School found that "travelling has become part of the luxury lifestyle in China and is considered a status symbol: there is greater cachet in being able to say you purchased your bag at the place of origin in Paris rather than a branch in Tianjin."²⁰ Chinese consumers also perceive a higher quality and a greater variety of luxury goods if bought in the places of origin. In addition, while the appreciation of the Chinese yuan against the euro has helped, Chinese tourists have benefited from a greater ease in getting European visas.

European countries have made getting visas easier for Chinese tourists. Recent initiatives include changes in the visa process for tourists wishing to visit the Schengen area. Visa applications can be submitted up to six months in advance instead of three, allowing people to plan their trips earlier, and travel medical in-

surance is no longer required. The time it takes to process applications from China has been reduced. When Chinese Premier Li Keqiang visited Germany in October 2014, the two sides agreed to reduce the visa application process from between three and five working days to 48 hours for Chinese tourists. The French embassy in China also shortened its visa processing time for Chinese visitors to 48 hours and simplified the application documents. Italy has already cut its visa approval for Chinese tourists to 36 hours. The United Kingdom has recently introduced the 24-hour Super Priority Visa service in Beijing, Shanghai, and Guangzhou. With 12 visa application centres across China now, the United Kingdom issued more than 320,000 visas to Chinese tourists during January-August 2014, the highest number ever.²¹ This competitive rush of European countries to simplify and speed up visa applications for high spending Chinese tourists will help boost their sluggish economies.



Figure 2: A French Cartoon on Chinese in Paris

Source: <http://www.france24.com/en/20150120-china-french-comic-book-yellow-peril-fluide-glacial-global-times-charlie-hebdo/>

But the joke is a man bearing the words "I am hungry" sitting at the door of a restaurant that advertises steamed Chinese dumplings with a French twist: the addition of béarnaise sauce. Adding to the insult is a Frenchman pulling a rickshaw that carries a Chinese man in traditional high-class clothing with a blonde European woman. The humour aside, this cartoon reveals an unfavourable view of China, or at least its economic wealth in Paris and in Europe. It immediately drew a harsh response from *The Global Times*, a Chinese daily with close links to the government, saying that the French magazine possibly attempted to gain attention by following *Charlie Hebdo* whose Paris offices were savagely attacked by Islamist gunmen on January 7, 2015.

This media episode matters little to the massive scope of China–Europe interactions. When we look beyond conventional economic indicators like trade and political issues like human rights as in this article, we see a new page unfolding in the history of China–Europe relations. While it features continued

bilateral official policies that have led to new infrastructure deals, bottom-up activities in real estate investment and tourism have become more prominent. With the Trans-Eurasia railroad already in operation and millions of Chinese tourists moving around Europe, China's ancient dream of connecting to Europe via Central Asia along the old Silk Road has come true. Yet the new Silk Road envisioned by China for the 21st century is just beginning to take shape. Its full opportunities for both China and Europe are yet to come. **EB**

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