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NEW SILK ROAD – TRADE AND INVESTMENT. PERSPECTIVES FOR EU AND NEW PARTNERSHIPS[1]

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Abstract

China has already given a fundamental contribution to the present globalization process and have also highly benefited from it by integrating becoming the final stage of the Global Chains Production networks in Asia. This process in China was the result of a survival economic strategy that saw in the attraction of Foreign Direct Investment in intensive low cost workmanship oriented to exports, a fundamental condition to overpass it´s millenary delay. This strategy accepted that the add value that remain in China, although very small was very important to give jobs to millions of Chinese and take them out of the absolute poverty line where they were in 1978 when Deng Xiao Ping launch the 4 Modernizations and the Open Door Policies. Other policies token during the first 30 years of the China Economic Reform, like the Grasp the Big Let Go the Small, the Socialist Market Economy, the Go West and the Go Global were equally important transforming Chinese economy in the second world biggest one. This first globalization stage had its big push in 2001 when China joined the WTO we can say that a new world economic order had begun in that date, placing China in the center of the world.

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INTRODUCTION

Now China feels that by being the 2nd World Economy has the moral obligation to actively contribute to a new conceptual model of world economic development since China and the World are interdependent and in China vision the world needs a more integrated and globally controlled world economic model, to achieve more dynamic and balanced growth, where she must have global responsibilities. This vision comes embedded in the Confucian ideal of Harmony and no Uniformity abiding by political consensus with moral content on how different ethnic groups and different states can coexist and cooperate peacefully in a global project, fulfilling the Chinese Dream of a Harmonious World and a Harmonious Society.

To enhance this new stage of globalization China launched a very ambitious initiative under the name of "*One Belt One Road*" (OBOR) the 21st-Century Maritime Silk Road that was announced by Chinese President in 2013. According with the Vision and Actions in Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road issued in March 2015, by National Development and Reform Commission and the Ministry of Commerce of PRC "*The initiative will enable China to further expand and deepen its opening-up, and to strengthen its mutually beneficial cooperation with countries in Asia, Europe and Africa and the rest of the world*". Investment and trade cooperation is a major task in implementing this project and the removal of investment and trade barriers and the opening up of free trade areas are targets to unleash the potential for expanded cooperation.

The research questions to be developed are: What are the Economic Cooperation objectives between China and EU of the New Silk Road? What are the Perspectives for the development of Investment and trade with EU? Which future partnerships can be expected?

1. JUSTIFICATION OF THE INICIATIVE

The Vision and Actions in Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road mention that the justification presented by the National Commission for Reform and Development (NCRD) of the Chinese Government to create the project is centered in the complex and profound changes in the world but also in the impact of the 2008 crisis which continues to be registered in the world slow economic recovery and in the very uneven global development as well by the difficulty felt by many countries in their development process. But we must consider that domestic economic problems in China such as its economic downturn, high voltage on economic growth, massive liquidity applied in speculative economy, housing bubble, excess capacity in the industrial sector (mainly linked to construction) and nonperforming bank loans, can also be an important justification though not expressed by NCRD. The Chinese overview of the One Belt One Road initiative is to create a network of free zones trade, a way for countries interconnect their development strategies, complementing its competitive advantages.

Winter (2016) refers OBOR as "*the most significant and far-reaching initiative that China has ever put forward*" and mention five major goals for this initiative policy coordination; facilities connectivity; unimpeded trade; financial integration; and people to people bonds.

The Rest of the World can expect a higher integration of China in the global economy (Angang, 2015, p.8). By being the 2nd World Economy China feels that has Global Responsibilities and the moral obligation to actively contribute to a new conceptual model of world economic development more integrated globally and want to have a role in the decision making of the rules of the relationship conceptual model of the countries of the world, namely in what concerns international organizations and regional integration policy.

As per Angang (2015) the more integrated is the Chinese economy more it will act as a global stabilizer, as it happens in 2008, when the aggressive economic stimulus plan of Chinese government positively contributed to the global recovery.

In last year's China has act in a proactive way in the globalization world process, leading the creation of integrated regional economic spaces as the ASEAN – China Free Trade Area, the CEPA- Closer Economic Partnership Agreement, the Shanghai Corporation Organization, being under negotiation the creation of Free Trade Area of Asia Pacific and with a larger geographic scope the Euro-Asia Free Trade Zone is presently in the agenda of talks with EU.

In the present globalization phase that China undertakes its mode of entry in the international markets is being done through Foreign Direct Investment and Mergers and Acquisitions, according with China Global Investment Tracker the Chinese combined investment and construction overseas is worth over US$1.3 trillion.

This new globalization strategy of China is well noted and felt in Africa, South America, Middle East, Europe and USA as mentioned by Neil Shen from Sequoia's Capital "*today it's not just copycats…China will expand, through its own innovations and through acquisitions*." Economist 12/09/2015. To this entry mode China allies Foreign Aid to less developed countries at same time that practice a soft power diplomacy signing and developing Global Strategic Partnership Agreements with around 47 countries and three international organizations, namely European Union (EU), Association of Southeast Asian Nations (ASEAN) and African Union (AU), Zhongping and Jing (2014).

2. THE INICIATIVE ONE BELT ONE ROAD AND THE 21st – CENTURY MARITIME SILK ROAD

President Xi Jinping structured its global diplomatic action for the coming years on the OBOR project, basically two ways of linking China to Europe, were chosen, one by land, The Belt the other, by sea, the Road the 21st-Century Maritime Silk Road.
The Belt will include in the north of China development areas moving to Duisburg in Europe stretching arms to integrate 6 economic development corridors including a link to Myanmar and to India;

1) China-Mongolian-Russia Economic Corridor,

2) New Euro Asian Land Bridge Economic Corridor,
3) China-Central Asia-West Asia Economic Corridor,
4) Bangladesh-China- India- Myanmar Economic Corridor,
5) China - Pakistan Economic Corridor,
6) China-Indochina Peninsula Economic Corridor.

We are talking on the economic integration of important energy and commodities supplier countries in Asia like Turkmenistan, Kazakhstan and Uzbekistan, Pakistan and Russia with China in hubs of cooperation platforms with inland distribution logistic networks, infrastructures and industrial parks.

The Road the 21st-Century Maritime Silk Road begins in the South of China and goes from South China Sea embraces Indochina, Southeast Asia and across the Indian Ocean going to the Atlantic circumventing the Iberian Peninsula till Duisburg and its way touches some other ports in Africa; Middle East and Europe. China's economy is highly dependent on the Ocean, 90% of its external trade is made by see, and China has 19% of the global market for maritime transport and 22% of containerization. Inland Road the Belt can be an alternative since that by railway the transport from China to Europe can be highly reduced in the number of days, but the price have to be compared since the maritime transport is the cheapest one.

The project involves 4.4 billion people, about 63% of world population, 65 countries, about 40% of world GDP and "*Mr. Xi hopes to increase the trade value with more than 40 countries for $ 2.5 trillion in a decade, spending about $ 1 trillion of government money. SOEs and financial institutions are to be motivated to invest abroad in infrastructure and construction* "(Economist 09/12/2015).

3. OBJECTIVES OF ONE BELT ONE ROAD AND THE 21ST – CENTURY MARITIME SILK ROAD

The objectives stated by the Vision Paper are: recovery of the global economy; better use of resources; increased connectivity between China and the countries of Asia, Europe and Africa; increased market integration and construction of a multipolar world; increased application of information technologies; investments in infrastructure, transport, maritime cooperation and energy in the Asian region; increased coordination of development strategies among countries included in the One Belt One Road project; increase trade, investment and consumption; create demand and employment opportunities and improve cultural exchanges and communication between the various people. The importance given by China to this project is correlated with the huge amount of resources which was allocated to it basically a New Silk Road Fund was created with US$ 40 billion to promote private investment over the OBOR countries, as well as the Asia Infrastructure Investment Bank with a capital that is expected to reach US$100 billion. This bank was constituted in 2015 by 57 founder countries and has an initial capital of US$50 billion. Also the China Development Bank, a Chinese state bank has declared its intention to invest US$900 billion in the initiative (Bert Hofman, World Bank, 04/12/2015).

The Vision and Actions in Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road states this project respects the 5 principles of UN Charter;

1) Mutual respect for sovereignty and territorial integrity
2) Mutual non-aggression,
3) No mutual interference,
4) Equality and mutual benefit,
5) Peaceful coexistence.

Accordingly with He Huaihong Professor in the Department of Philosophy at the University of Beijing in the Dialogue Portugal - China and New Silk Road Seminar in Lisbon, May 2015, the principles are the harmony and uniformity because it looks for "*A* *moral and political consensus on how different ethnic and different states groups can coexist peacefully, respect the paths and chosen modes of development*" also in the same seminar Hu Shisheng, director of the Institute of South and Southeast Asian and Oceanic Studies on the China Institute of Contemporary International Relations declared in Visions and Actions on Jointly Building Silk Road Economic Belt and 21st - Century Maritime Silk Road affirmed "*is not a Marshall Plan … We will practice mutual consultation and mutual construction"*.

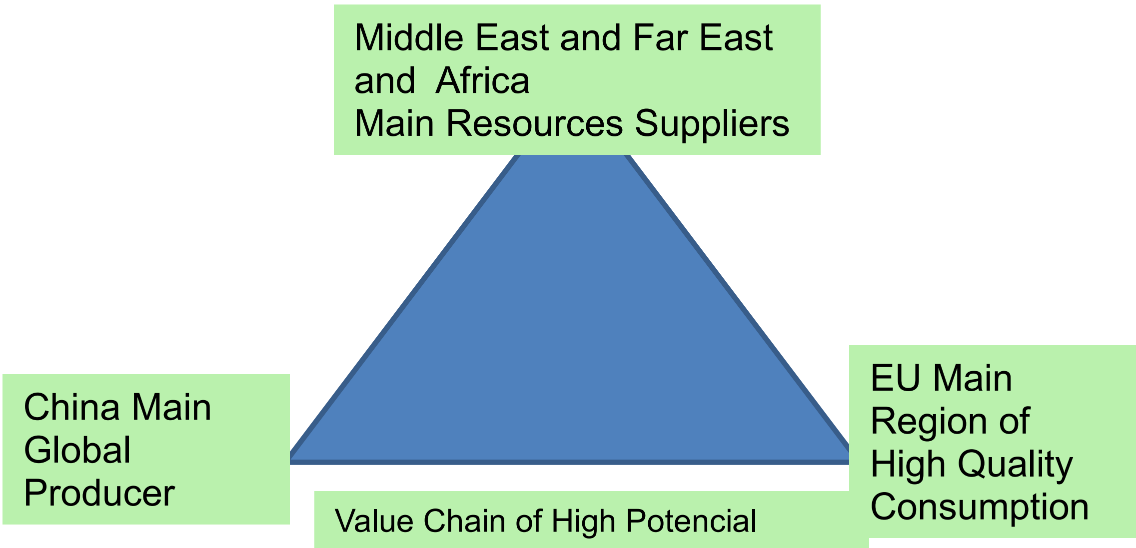
China will work with the countries of the route in plans of bilateral and multilateral interest, being the priorities for Cooperation, the coordination of policies, improved connectivity, increased trade and investment, financial integration and increased links between peoples. As reference we can mention actions like the promotion of cultural and academic exchanges (China offers 10,000 scholarships to students of OBOR countries every year), media cooperation, cooperation between youth organizations and women, tourist promotion, weeks of TV, art festivals, movies, voluntary services, among others.

China links the OBOR initiative with two complimentary initiatives the 'International Production Cooperation' and 'Third-country Market Cooperation', and broadly with landmark projects in developed countries. The 'International Production Cooperation' was launched by Chinese Government on 16th May 2015 with the release of the Guiding Opinions of the State Council on Promoting International Cooperation in Industrial Capacity and Equipment Manufacturing. This initiative aims to match the China industrial production with existing global demand, giving priority to China's cooperation with emerging countries whose economic structures are requiring large amounts of money to spur growth. 'Third-country Market Cooperation' was first mentioned by Premier Li Keqiang in June-July 2015, when he attended the 17th China-EU Leaders' Meeting and visited Belgium and France. This initiative aims to combine China's production capacity with developed countries' advanced technology and equipment to jointly develop markets in developing countries. According with China Outlook (2016, p.26) "*This would benefit: China, by facilitating the export of its production capacity and industrial products to the international market; Developed countries, by creating new sources of economic growth; Developing countries, by promoting their industrialization and economic development*". On Summer World Economic Forum in Davos in September 2015 Premier Li Keqiang refers in his speech in

September 2015 that "*China has come up with the initiatives to build the Silk Road Economic Belt and the 21st Century Maritime Silk Road, and to promote global cooperation on production capacity. We believe these initiatives could help further open up our country and forge a more balanced and inclusive global industrial chain. This in turn could pool the comparative strengths of all countries and foster a global community of common interests and development for win-win, inclusive and common progress…Three-party cooperation could combine our comparative strengths, and provide quality equipment and products with relatively low prices to bring down construction costs and better meet the needs of different countries. It will also help countries overcome the difficulties in industrial development, upgrade their industries and integrate the high-, mid- and low-ends of the global industrial chain. This will help businesses increase their presence in both the international and Chinese markets*".

We can conclude that China is now not passively following the globalization process but leading it by leading the value chains that will have the main resources supplier countries in Middle East in the Far East and in Africa, the main Region of high quality consumption the EU and China the main global producer see fig1.

Figure 1: China Global Value Chain Model of OBOR



4. OBJECTIVES OF ONE BELT ONE ROAD AND THE 21ST – CENTURY MARITIME SILK ROAD

In 2004 during his first visit to Europe the then Chinese Premier Wen Jiabao set the Sino-EU Comprehensive Strategic Partnership as follows "*By 'comprehensive', it means that the cooperation should be all-dimensional, wide-ranging and multi-layered. It covers economic, scientific, technological, political and cultural fields, contains both bilateral and multilateral levels, and is conducted by both governments and non-governmental groups. By 'strategic', it means that the cooperation should be long-term and stable, bearing on the larger picture of China-EU relations. It transcends the differences in ideology and social system and is not subjected to the impacts of individual events that occur from time to time. By 'partnership', it means that the cooperation should be equal-footed, mutually beneficial and win-win. The two sides should base themselves on mutual respect and mutual trust, endeavor to expand converging interests and seek common ground on the major issues while shelving differences on the minor ones*" (Zongping, and Jing 2014, p.7-8).

China's strategic partnership with the EU is presently in negotiation to a deeper cooperation level, the Joint Statement of the China-EU Summit 2015 was held under the theme "*The future after 40 years of China-EU Cooperation*" and it clearly mention the objective of trade and market access facilitation and raised the idea of creating China-EU Free Trade Zones as well promoting a mutual investment agreement in infrastructure and industrial parks. The Joint Statement also established in the EU-China 2020 Strategic Agenda for Cooperation; the development of the digital economy, the improvement of communication infrastructure and transport, the cooperation in the financial sector and funding sources, cooperation on innovation, cooperation in partnership in urbanization, environment, energy, water, improvements in the protection of intellectual property rights and the inclusion of the EU in the One Belt One Road project

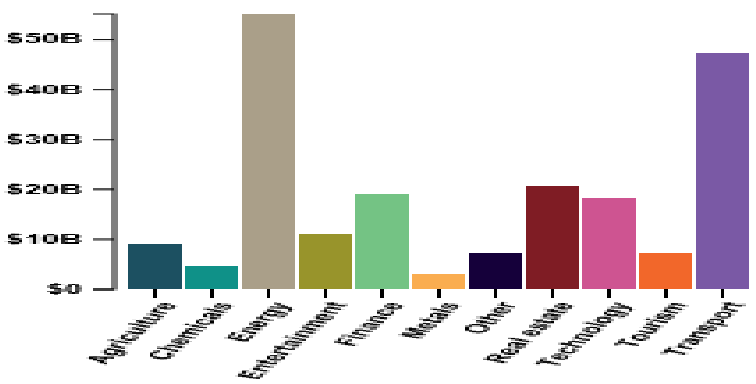
The dimension of globalization that this project seeks to achieve will change the existing geo economy and the world relations among nations and this was already understood by Brussels "*If Brussels is unable to answer the Beijing's call to build the New Silk Road, China will pursue her goal alone or with other pro-active partners and* *the EU will rapidly find herself at the periphery of an economic and diplomatic network designed and realized on the terms of the Middle Country*" (Prodi, R .and Gosset, D., 2015).

4.1. PERSPECTIVES FOR THE DEVELOPMENT OF INVESTMENT AND TRADE WITH EU

According with Cappiello and Vanino (2015,p.510) "*EU and China are among the world's largest originators and recipients of foreign investment, but investment flows between the two regions still remain limited in comparison with a continuously increasing trade relationship*". In fact investment flows show great untapped potential, especially considering the size of the two respective economies. China accounts for just 2-3% of overall European investments abroad, whereas Chinese investments in Europe are rising, but from an even lower base.

Between 2005 and 2016 the Chinese investment and construction contracts in Europe reach US$202.9 billion, mostly in the sectors of energy, transport, real estate and finance as Fig.2.

Figure 2: Main Investment Sectors of China in Europe

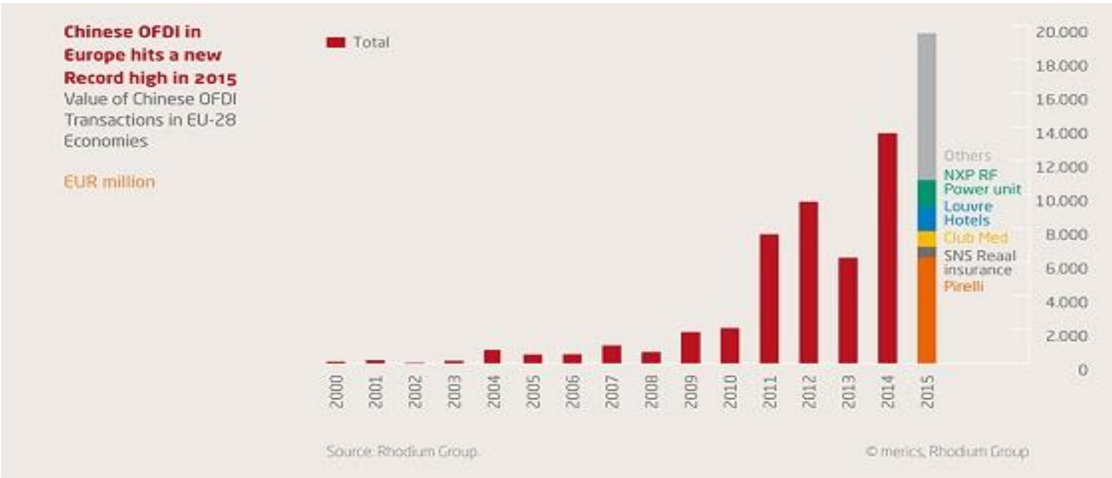


Source: China Global Investment Tracker (2016)

According to China´s Ministry of Commerce published at the end of 2013 the EU was a key destination and a priority recipient of Chinese investment, especially for companies seeking to access a major market with high purchasing power, increase their technological capacity, and develop or have access to a global brand. This report indicates that at the end of 2013, 2.000 Chinese firms currently have establishments in the EU that employ 47.000 people and amass a cumulative investment of USD 40.097 million.

Bruegel, a Brussels-based Think Tank also concluded that Europe is becoming an important recipient of Outward Chinese Foreign Direct Investment (OFDI) accounting for around 19% of its total in 2014. From 2010 to 2014 the total stock of Chinese investments in Europe jumped from US$6 to US$55 billion as per figures of Baker & McKenzie and the New York-based Rhodium Group, (2015) reports. This trend was confirmed in 2015 with Chinese FDI in Europe increasing 44%, reaching EUR 20 billion in EU mostly due to the big investment of ChemChina that acquire in Italy the Pirelli Tyre Company for US$ 7.7 billion and Syngenta an important Suisse agri-business group, also the Chinese investor Wanda acquired the British Sunseeker Luxury Yachtes maker for £320 million.

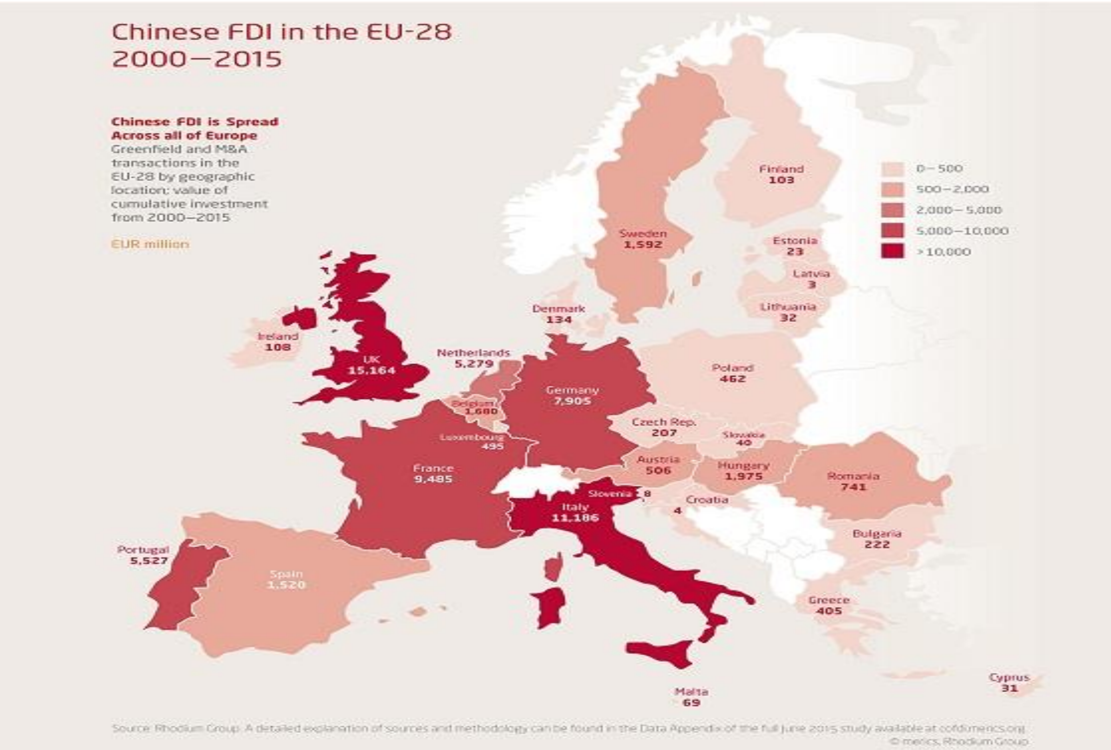
Figure 3: Value of Chinese OFDI Transactions in EU



Source: Hanemann and Huotari (2016) MERICS (February).

As per ESADE China Europe database (2016), in the period 2010-2014 the total investment of China in EU was US$58.300 million, and concentrated in the core economies of the region, the UK received 46.7% of total investment in the EU, followed by Italy (21%), Portugal (10.6%) and France (9.5%). Investments in Greece and Eastern Europe are also of strategic importance to China.

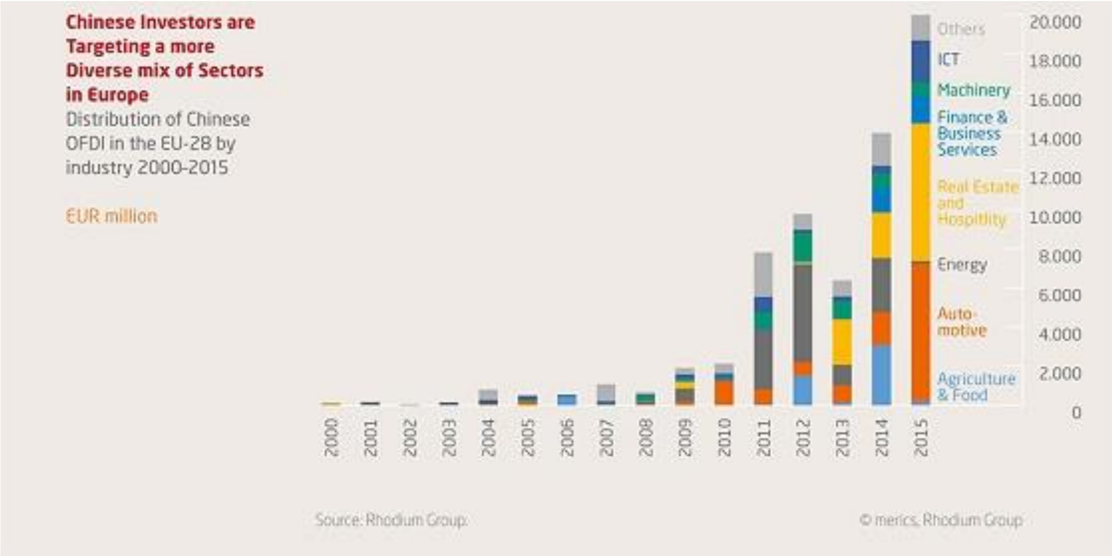
Figure 4: Chinese OFDI by Countries in EU (2000-2015)



Source: Hanemann and Huotari (2016) MERICS (February)

According with this database seven sectors accounted for 95% of Chinese investment in the EU from 2010 to 2014: energy (US$18.170 million, 31.2% of the total), real estate (US$13.350 million, 22.9%), manufacturing (US$7.850 million, 13.5%), agri-business (US$4.880 million, 8.4%), the financial sector (US$4.250 million, 7.3%), logistics, transportation and infrastructure (US$4.060 million, 7%) and telecommunications and software (US$2.650 million, 4.5%).

Figure 5: Chinese OFDI by Sectors in EU



Source: Hanemann and Huotari (2016) MERICS (February)

The acquisitions or purchases of minority interests of European firms by Chinese companies doesn´t show a clear pattern and different possibilities for this choice of investments can be analyzed. Philippe Le Corre and Alain Sepulchre (2016, p.1) refer that for "*several years now Europe has attracted both state-run and private Chinese enterprises looking for investment opportunities, despite the historical, geographic, legal, linguistic, societal, and cultural complexities of investing in Europe*". But although in 2015 private companies have reached a record of investment in Europe around EUR 6 billion the "*State-owned investors continue to account for majority of China's EU OFDI, and new financing entities could further boost the role of state capital*" in fact "*Sovereign and state-related investment from China offers plenty of opportunities for Europe to advance new projects where interests are aligned, for instance, with regard to infrastructure development in Eastern Europe*" (Hanemann and Huotar, p.5, 2016).

Important transactions include among others and as per report of ESADE China Europe (2016) the purchase of 35% of the Italian bank Cassa Depositi e Prestiti (CDP) Reti by State Grid in the electricity sector; the acquisition of 80% of the Portuguese financial institution Fidelidade by the Fosun Group; the purchase of the Dutch-based agricultural conglomerate Nidera by the food group COFCO; and the automotive firm Dongfeng buying the French enterprise Peugeot, China Development Bank buying

Barclays for U$3.040 million and Bright Food's acquisition of Weetabix for US$1.940 million. CIC's purchase of 30% of Gaz de France (GDF) Suez for US$3.240 million, Wuhan Iron & Steel's participation in the lift manufacturer ThyssenKrupp, China International Marine Containers in Burg Industries, Jinsheng Industries' stake in the machine manufacturer EMAG, Geely purchased stakes in the Ford subsidiary and Volvo for US$1.800 million and US$900 million, respectively, Three Gorges Corporation acquired 21% of the state-owned company Energias de Portugal and China State Grid purchased 25% of Redes Energéticas Nacionais (REN).

Chinese global banking services, serve as intermediaries between SOEs (State-owned enterprises) and investors throughout Europe or for financing projects ranging from participation in key infrastructure projects (water, gas, port, and airport installations) or for buying up corporations

We must refer that for instance ICBC, China's largest commercial bank, maintains twelve European branches, also the Chinese banks give credit facilities to Chinese private companies to invest and buy properties from chateaux in Bordeaux region, where 20 have been bought by intermediary of ICBC, to corporations as Pizza Express British restaurant chain, or Putzmeister, German machine tools to important real estate as the emblematic Edificio Espanhã in Madrid, (Le Corre and Sepulchre 2016).

Chinese economy has entered a state of new normal growth as explained by President Xi Jinping at the Boao Forum for Asia Annual Conference "*It is shifting gear from high speed to medium-to-high speed growth, from an extensive model that emphasized scale and speed to a more intensive one emphasizing quality and efficiency, and from being driven by investment in production factors to being driven by innovation*".

In the new normal model of Chinese economy growth Chinese investors' focus on advanced industrial assets, modern services, and real estate, "*Chinese interest further shifted towards a more diverse mix of assets including technology, advanced services, brands, and consumer-related assets. The automotive sector took the top spot (Pirelli), followed by real estate and hospitality (Louvre Hotels, Club Med), information and telecommunication technology (NXP Semiconductors' RF business) and financial services (SNS Reaal's insurance unit, Banco Espirito Santo's investment banking unit)* " (Hanemann and Huotar, p.4, 2016).

Following Le Corre and Sepulchre (2016) research we can point out several drivers for the increasing interest of Chinese investments in Europe;

1st – Finance – After the 2008 crisis Chinese government start shifting the application of its huge foreign currency reserves from American bonds to Eurobonds as well as buying at a very competitive prices infrastructure companies in countries facing adverse economic conditions and sovereign debt problems.

2nd Technology and know-how transfer to China - EU countries have a good selection of Small Medium Enterprises (SMEs) with the best technology worldwide, some of this companies need capital to expand or to survive in case of countries bitten by the crisis. With Chinese investment and the possibility of entering Chinese and Asian markets where Chinese business people have a very important presence these companies can become global companies, we are talking mainly in sectors like autos, food, energy, transport, luxury brands, entertainment and travel.

3rd – External politics – To balance the word power of USA, China needs powerful allies and the relations with EU and a lot of European countries are easier than the relations between China and USA.

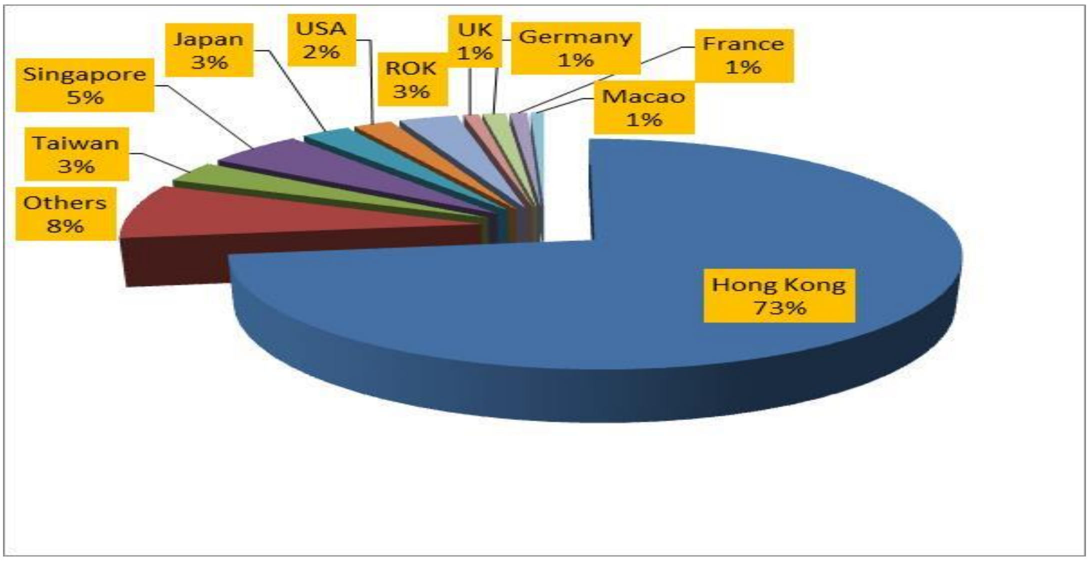
4th – Internal politics – The "*going out*" policy initiated in the 90´ that the government promotes with investment of SOEs and support to private companies, was mostly looks for natural resources in Africa, Asia and South America, in case of Europe looks for its high quality consumption markets and the strategy is to acquire, brands, distribution networks, technology and market know-how, utilizing massive financial assistance offered by state-run and commercial banks and sovereign funds.

5th – Good bilateral diplomatic relations – China has historic ties and good diplomatic relations with some European countries like the top recipients of Chinese FDI in EU (UK, France, Germany, Italy and Portugal). As Winter (2016) refers the "*Belt and Road gives impetus to a network of heritage diplomacy that fosters diplomatically valuable institutional and interpersonal connections*".

This Chinese interest for investments in Europe is reinforced by the EU-China Comprehensive Strategic Partnership and by OBOR initiative focused on infrastructure investments, and showed a strong interest in building or rebuilding some of the current European infrastructure— energy plants, utilities, airports, ports, highways, and the like, being the EU-China agenda negotiation top priorities de Investment in EU and OBOR initiative.

In what concerns EU FDI in China as per EU-China FDI Monitor European companies FDI invested in China we can observe a decreasing trend, in the years 2011 (€20.1 billion) and 2012 (€15.5 billion), in the years 2014 (€ 9.9 billion) and 2015 (€9.3 billion). Anyway we are talking of 7.9% of the total FDI in China in 2015, and the main EU country investors in China where Germany, UK and France, see Fig.6.

Figure 6: FDI in China by Country of Origin

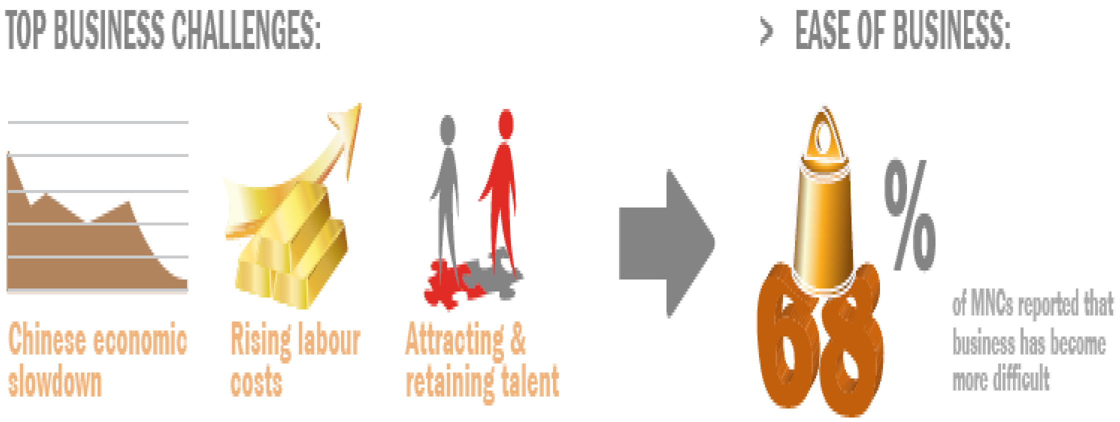


Source: EU-China FDI Monitor (2016)

It is very difficult to trace the EU company´s investments in China, because for strategic reasons related with finance, fiscal and legal systems, many companies create companies in Hong Kong and are these Hong Kong companies that invest in China. As we can see in Fig.6 Hong Kong is responsible for 73% of FDI in China and this share has been increasing in the last years for instance in 2013 this value was 64%, in this investment we can find the participation of Hong Kong companies, Chinese companies that invest in Hong Kong and then back to China, and the rest of the world companies which utilize Hong Kong as an investment platform.

The decreasing EU FDI investment in China can be better understood by the analyze of perceptions of European companies on their investments in China expressed in the Annual Business Confidence Survey conducted by the EU Chamber of Commerce in China (EUCCC), for instance the report in 2014 concluded that this decreasing trend is linked to the slowdown of the Chinese economy, the rising labor costs and attracting and retaining talent, see Fig.7.

Figure 7: EU Companies Topic Business Investment Challenges in China



Source: EUCCC- Business Confidence Survey (2014)

The EUCCC Business Confidence Survey (2014) concluded that 68% of large companies stated that business in China has become more difficult, and 46% of European companies believe that the 'golden age' for multinational companies in China has ended, this perception increased to 55% on the Business Confidence Survey of 2016.

As a result, European companies that have invested in China are setting more modest expectations. According to the EUCCC survey, only 47% plan to expand their current China operations, down from 86% in 2013. The respondents to this survey add to this justification of the scaling back of their investment plans, also with concerns over the nation's growing debt, slowing exports and dwindling returns on investment—particularly in sectors burdened by overcapacity.

This trend is confirmed in the Business Confidence Survey (2016) where more than half of the respondents reported that doing business in China is becoming more difficult year-on-year. Entrenched anti-competitive policies and a failure to enact tangible reforms in crucial areas such as rule of law, eliminating local protectionism, removing market access barriers, reigning in overcapacity and tackling high levels of domestic debt are just some of the key reasons appointed and justifying that with 41% of European companies now re-evaluating their China operations and planning to cut costs, only three years ago 86% of the companies where planning to expand operations in China.

This pessimism is balanced by recent EU huge multi-year Greenfield investment projects that are recently underway including; Lego's US$471 million plant in Jiaxing, Airbus' Tianjin completion center, Shell's JV with CNOOC in Guangdong, R&D facilities by AstraZeneca, a piano plant by Bluthne, new investments by chemical giant BASF into a catalyst plant and expansion of an R&D center, a new chemical plant by giant BASF and a US$20 million acquisition of a leasing company by BMW, EU-China FDI Monitor (2016). Some investments are even the result of government agreements between some EU countries and China, like for instance the Sino-German (Shenyang) Intelligent Equipment Manufacturing Park, where are planned 48 square kilometers surrounding BMW factory or the Foshan Sino-German Industry Services Zone with 88 square kilometers planned and 5 already built.

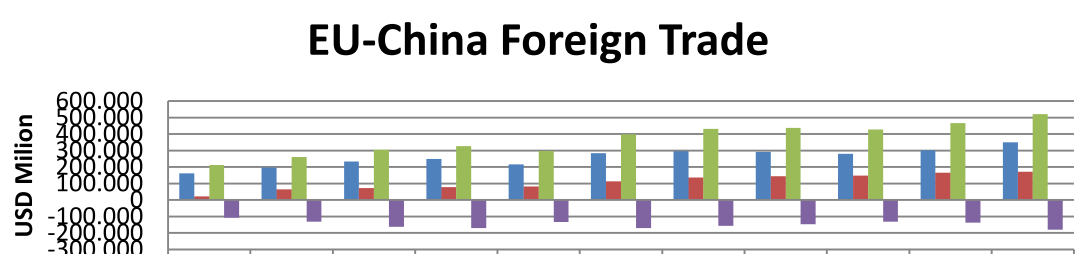
Ambassador Yang Yanyi, Head of the Chinese Mission to the EU at the Luncheon of the EU-China Business Association on Brussels on 4th February 2016 tried to reassuring these expectations by saying "*The China-EU 2020 Strategic Agenda for Cooperation is being fully implemented. Negotiations for a China-EU Investment Agreement are yielding substantive progress. Cooperation in finance, energy, technological innovation, sustainable development and urbanization has been intensified"… "Consensus has been reached between China and the EU in five new areas: drawing synergies between China's Belt and Road Initiative and the EU Investment Plan, establishing a new Connectivity Platform; collaborating in digital economy and cyber security; launching a legal affairs dialogue; and facilitating people-to-people exchanges".*

In fact "*European companies are also now counting on a successful conclusion to the EU-China Comprehensive Agreement on Investment negotiations, to improve the business environment and reduce market access barriers. Firms hope to be provided with a clear schedule outlining when they will be able to take greater control of their China-based operations, making it easier to undertake strategic acquisitions as well as allowing them to enter new business areas or product segments*" (Business Confidence Survey, 2016, p.8).

China and Europe now trade well over €1 billion a day. As mention by Ambassador Yang Yanyi (2016), *"China and the EU together account for 29% of total global trade in goods", and* China is the EU's biggest source of imports and has also become one of the EU's fastest growing export markets. Considering Eurostat and China Statistical Bureau 2015 figures in what concerns trade in goods EU is presently China´s main buyer with US$350 billion representing 20.3% of all EU imports and is the second partner for exports after the USA with US$170 billion around 9.5% of EU total exports. EU imports from China are dominated by industrial and consumer goods: machinery and equipment, footwear and clothing, furniture and lamps, and toys. EU exports to China are concentrated on machinery and equipment, motor vehicles, aircraft, and chemicals.

The total bilateral trade in goods between China and EU in 2015 was €520 billion in bilateral showing a huge trade deficit of €180 billion in favor of China. Bilateral trade in services, however, only amounts to 1/10 of total trade in goods, and the EU's exports of services only amount to 20% of EU's exports of goods.

Figure 8: EU-China Foreign Trade



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Imports	161.00	195.81	233.86	249.10	215.27	283.93	295.05	292.11	280.14	302.14	350.43
Exports	21.749	63.696	71.823	78.301	82.421	113.45	136.41	144.20	148.15	164.60	170.37
Total	212.75	259.51	305.68	327.40	297.69	397.38	431.47	436.31	428.30	466.77	520.81
Balance	-109.2	-132.1	-162.0	-170.8	-132.8	-170.4	-156.6	-147.9	-131.9	-137.5	-180.0

This trade imbalanced situation between China and EU is of signal interest to officials at the European Commission in Brussels. Analysts explain it in part as a reflection of global and Asian value chains, but also as the result of remaining market access barriers in China.

Pangratis EU Ambassador in China referred in its statement of 1 July 2014 in WTO that EU is concerned with lack of transparency, industrial policies and non-tariff measures in China which can discriminate against foreign companies, strong degree of government intervention in the economy, resulting in a dominant position of state-own-enterprises and unequal access to subsidies and cheap financing and inadequate protection and enforcement of intellectual property rights in China. Cecilia Malmström, Commissioner for Trade Visit in a visit to the University of International Business and Economics in Beijing on July 11th 2016, mentioned the recent survey by the European Chamber of Commerce in China to refer that more than half of EU firms based in China have the perception that it was getting harder for EU firms to do business in China and that was a disconnection between reform commitments and action taken this to say "*Keeping the EU market open, to the great benefit of China and the EU*", requires reciprocal openness.

The Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, states that "*Investment and trade cooperation is a major task in building the Belt and Road. We should strive to improve investment and trade facilitation, and remove investment and trade barriers for the creation of a sound business environment within the region and in all related countries. We will discuss with countries and regions along the Belt and Road on opening free trade areas so as to unleash the potential for expanded cooperation*".

Ambassador Pangratis (2014) in its declaration also points out that there are many challenges because "*China's market and rapid development also continues to offer huge opportunities, with significant potential for further expanding trade and investment and strengthening of the relations*" and "*The launch of the negotiations on a bilateral investment agreement is an important forward-looking initiative that aims to promote bilateral investment by providing transparency, legal certainty, and market access to investors from both sides*".

However Cecilia Malmström, EU Trade Commissioner for in its visit to UIBE Beijing on 11 July 2016 cool down this perspective saying *"The free trade zones have made relatively limited progress or been completely abandoned… There are still real concerns about enforcement of intellectual property rights… Discrimination against EU businesses remains a fact; one that we are worried could be reinforced in the*

Manufacturing 2025 plan… Keeping the EU market open, to the great benefit of China and the EU, requires us to be able to address these questions of reciprocal openness", she suggests the creation of one single agreement now there are 26 covering all investment between EU and China, putting in the same playing field domestic and foreign investors in the access to Chinese market, adding legal certainty; and improving the balance between investment protection, sustainable development and the capacity of states to regulate in the public interest.

On July 18th 2016, the EU Foreign Minister Council updated their policy strategy towards China. In the conclusions issued it is clearly stated that "*A Comprehensive Agreement on Investment is the EU's main priority towards deepening and rebalancing its economic relationship with China*" and that "*After the conclusion of an ambitious comprehensive agreement on investment, this could allow both sides to envisage, once the conditions are right, broader ambitions such as a Free Trade Agreement as a longer term perspective".* Also is affirmed that *"The Council supports co*-operation with China *on its "One Belt, One Road" initiative on the basis of China fulfilling its declared aim of making it an open platform which adheres to market rules, EU and international requirements and standards, and complements EU policies and projects, in order to deliver benefits for all parties concerned and in all the countries along the planned routes".* Yet Chinese government links the discussion on the agreement on investment with the discussion on the OBOR initiative and the Free Trade Agreement (FTA). Chi Fulin president of China Institute for Reform and Development declared to China Daily on July 29 (2016), p.14, "*Right now is for China to request (such talks), but if EU doesn´t respond urgently, China may ignore the bloc when it realizes the importance in the years to come*" he recommends China and EU to finish talks on FTA. On the China Daily (2016) of 22nd July, p.11 Fu Jing Deputy Director of China Daily European Bureau writes "*that what Brussels needs most is a pragmatically ambitious and visionary framework of foreign policy toward Beijing, sending a clear message that could encourage Europeans to trust the union and its leaders' wisdom…The ministers must carefully review the constructive and friendly messages Beijing has repeated at China-EU summits and at gatherings such as the Asia-Europe Meeting".* Also he affirms that Brussels leaders must change direction because now is it a critical time to think outside the box when dealing with Beijing.

5. FUTURE PARTNERSHIPS TO BE EXPECTED

China positioning is quiet attractive, In its speech at Boao Forum Xi Jinping announced that "*In the coming five years, China will import more than US$10 trillion of goods, Chinese investment abroad will exceed US$500 billion, and more than 500 million outbound visits will be made by Chinese tourists.*".

Through the analyzes of the OBOR Vision and Actions document, we can conclude that The Belt and Road Initiative aims at a win-win cooperation promoting common development and prosperity since China proposes to work with the countries of the OBOR in plans of bilateral and multilateral interest.

Economic development is an important target, once countries along the Belt and Road may fully coordinate their economic development strategies and policies. Investment and trade cooperation is referred as a major task in building the OBOR expanding cooperation, being the creation of a sound business environment within the region and in all related countries and regions along the OBOR with the removing of investment and trade barriers and the opening up of free trade areas important steps to achieve it.

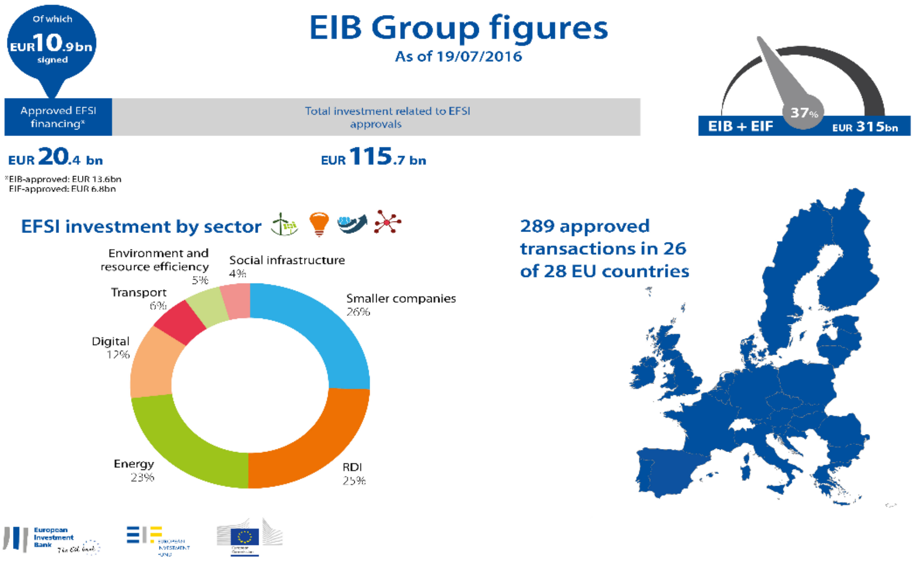
Clearly this initiative aims to global and regional cooperation, since the document mention that plans and measures should be worked out for regional cooperation, and large-scale projects, performing the 'Third-country Market Cooperation' and creating the conditions for the development of the China Global Value Chain Model of OBOR in the spirit of the 'International Production Cooperation' the division of labor and distribution of industrial chains should be improved by encouraging the entire industrial chain and related industries to develop in concert; as well as establish R&D, production and marketing systems.

In EU-China Summit joint statement in Brussels (2015, June 29th p.1), both sides "*confirmed their strong interest in each other's flagship initiatives, namely the Investment Plan for Europe, and the "Silk Road Economic Belt" and "21st Century Maritime Silk Road*". Leaders decided and agreed to "support synergies" between the Investment Plan for Europe (also known as the Juncker Plan) and OBOR.

The two sides subsequently agreed that the European Commission, the European Investment Bank and the Silk Road Fund would identify how exactly China could co-operate with the Juncker Plan. In this spirit is important to find fields of cooperation and new partnerships between China and EU, Luigi Gambardella president of China EU Association wrote in the China Daily (2016) 29th July p.11 that "*The EU´s economic strengths are complementary to the priorities of China´s 13th Five Years Plan (2016-2020, such as innovation, services, green growth and balancing urban and rural development*" and "*Mutually beneficial cooperation on all aspects of investment should be increased*".

The Juncker´s Plan goals are; to boost the investment, to increase competitiveness and to support long-term economic growth in the EU. This investment Plan to Europe has three pillars, the creation of a European Fund for Strategic Investment (EFSI), ensure that investment finance reach the real economy and improve the investment environment. The EFSI focuses on investment in a broad range of sectors, including infrastructure, energy, research and innovation, broadband and education, the fund is also ready to support small and medium-sized businesses. The fund has been established as a managed account within the European Investment Bank (EIB), and it consists of €16 billion guarantee from the EU budget and €5 billion from EIB and is expected to have a multiplier effect and generate investments of €315 billion over three years to the projects to be developed within the mentioned sectors. In July 2016, 289 transactions, with total investment of Eur115.7 billion were approved in 26 countries.

Figure 9: EISI Approved Transactions by July 2016



Source: EIB (2016)

The 5th Plenum of the 18th Chinese Communist Party Committee in 25-29 October 2015 approved the guidelines for the 13th Five-Year Plan covering the period 2016-2020. Xi promises that openness to foreign investors will continue, but there is a renewed devotion to national industry. Innovation and entrepreneurship are considered to be the keywords for future growth however the information control and ideological rhetoric are increasing. The 13th Five-Year Plan target the Improvement of the Chinese industry in order to develop the industry 4.0 through the implementation of the Plans Made in China 2025 and Internet Plus.

These strategies are not new, they are the continuation of the industrial policies designed to be implemented in the 11th and 12th Plans, in particular the so called strategic Industries that are still goals to be achieved. In the 11th Five-Year Plan (2006-2011) a new development paradigm was announced focusing on "*scientific development*" with the concern of creating an " *harmonious society* " , in that period a new development model began to be devised, indicating new priority areas and policies to a greater redistribution of income. The priorities of this Plan were energy saving, institution of public health, environment and education systems.

The "15 year Medium-to Long Term Plan for the Development of Science and Technology" was launched in 2006 with the aim of creating a society oriented to innovation and an investment of 2.5 % of GDP in Research and Development is expected by 2020, the objective of China is to be a world leader in science and technology in 2050 The growth for growth is not enough, the central theme of the 12th Five-Year Plan (2011-2015) was the " *inclusive growth* " meaning that China's growth model should be driven by sustainability and quality with two important vectors, change of growth dependence based on exports and investment for growth based on domestic consumption and protect the environment by reducing carbon emission rates 40 to 45% by 2020, for achieving that it would be needed the upgrading of the existing industries and the emergence of new strategic industries, having been 7 priority ones: energy saving and environmental protection; information technology of the next generation; biotechnology; productive top of the art equipment; new energy; new materials ; vehicles to alternative energy.

The new Chinese leadership headed by President Xi Jinping and Premier Li Keqiang was empowered in November 2012 and in the Summer Davos Forum in Dalian in its speech of 13th September 2013 Premier Li affirmed, *"Without structural transformation* and *upgrading, we will* not *be able to sustain economic growth in the long term, "*and in "*long term the government will have to face excess production capacity and the raise of nonperforming credits*. In the Summer Davos Forum of 2015 Li Keqiang expressed that "*China will promote liberalization and facilitation of trade and investment*" , and, "*vigorously advance the construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, to encourage Chinese enterprises to "go global", and achieve common development in the openness process among all countries*".

China's State Council announced 'Made in China 2025' in May 2015 as a national initiative to improve the manufacturing industry – initially up to 2025 and then on to 2035 and 2049. The 10 years Plan will be followed by another two plans in order to transform China into a leading manufacturing power by the year 2049, the year of the 100th anniversary of the founding of PRC. 'Made in China 2025'was inspired in the Germany's "Industry 4.0" Plan. "Lothar de Maiziere former prime -minister of the GDR declared to China Daily that "*China wants to learn from the industry 4.0 German to combine industrialization and customization with intelligent production technologies"*.

The concept of this Plan is to link the virtual reality to real production, in the German project, this primarily means using the Internet of Things to connect small and medium-sized companies more efficiently in global production (Kennedy, 2015). The plan stresses the need to underscore the innovation-driven approach in making the switch of emphasis from made in China to create in China, from speed to quality and from products to brands. In order to avoid "Middle Income Trap" China needs to move up the value chain to avoid being pinched at one end by lower cost countries and at the other end by higher quality manufacturers around the world. This will require a major overhaul of its enormous but plateauing manufacturing base. This presents opportunities for partnerships with EU companies with renowned expertise in the export of high tech equipment, technical and management consultancy services, joint R&D, design, education and skills training, and financial and professional services.

'Made in China 2025' document available at the State Council website identified 10 priority sectors for China, highlighting areas of opportunity for partnerships with EU companies. The sectors include advanced rail and equipment, aviation and aerospace equipment, agricultural machinery and technology, power equipment and technology, low and new-energy vehicles, new materials, high-end manufacturing control equipment and robotics, biopharmaceuticals and high-end medical equipment, advanced marine equipment and high-tech vessels, and integrated circuits and new generation information technology.

Recently at Summer Davos Forum of 2016, Premier Li referred that "*The leading role of consumption and services is becoming more visible. New areas of consumption such as information and communication, smart phones and new energy vehicles are rapidly expanding. The five "happiness industries" of tourism, culture, sports, health and old-age care are rapidly growing"* and advocate "*mass entrepreneurship and innovation, further promote the "Internet+" strategy, extensively apply the new generation of information technologies such as the Internet of Things, big data and cloud computing.* Premier Li promise to implement `Made in China 2015´ initiative to make manufacturing more "*IT-based and smarter*".

CONCLUSIONS

The OBOR initiative together with the ‘Third-country Market Cooperation’ initiative can be very important to the increase of world trade and the world growth by contributing to the development of the bilateral economic cooperation and partnerships between China and Europe, and the cooperation and partnerships between these two economic spaces and third parties in Africa, Asia or South America. Particularly there are a lot of complementarities between the Chinese 13th Five-Year Plan, the ‘Made in China 2025’ and the Juncker´s Plan and if EU and China reach a constructive agreement focusing investment and trade with the removal of investment and trade barriers and the implementation of China-EU Free Trade Zones, an important cooperation can be expected in sectors like infrastructure projects, energy, advanced rail and equipment, aviation and aerospace equipment, agricultural machinery and technology, power equipment and technology, low and new-energy vehicles, new materials, high-end manufacturing control equipment and robotics, biopharmaceuticals and high-end medical equipment, advanced marine equipment and high-tech vessels, and integrated circuits and new generation information technology, as well as in research and innovation, broadband and education. SMEs can also benefit a lot from this agreement and they can expect an increase of cooperation and business in tourism, culture, sports, health and old-age care and other social economic activities, startup companies can have cooperation in mass entrepreneurship and innovation, the "Internet+" strategy, the Internet of Things, big data and cloud computing. Cooperation and partnerships between EU and China, in Europe, China and Third Countries can also be effective in building new or rebuilding existing infrastructures, energy plants, utilities, airports, ports, highways, and the like.

This projects can result from proposals done by individual European countries to China or resulting from projects proposed by EU, or be proposed by China, is important than the European countries get conscience of the importance of this Chinese initiatives, and thing which bilateral or multilateral cooperation and partnerships can be established that can be win-win, for the countries involved. In China and in some European countries Think Tanks are already researching this type of projects which have to make sense at light of economic development of these countries.

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