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# Eurasia: Playing Field or Battle Field?

## Defining an Effective German and European Approach on Connectivity Toward China and Russia?



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Eurasia is emerging as a fluid continent where resurgent great power politics by Russia and China are marginalizing Europe and the Western liberal order. Despite diverging interests, Moscow and Beijing are linking their Eurasian integration projects, the Belt and Roads Initiative (BRI) and the Eurasian Economic Union (EAEU). To avoid the loss of Europe's trade and regulatory power in Eurasia, the EU and Germany should adjust their Central Asia strategy:

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- They should focus on Greater Central Asia and Greater Eastern Europe and define an interest-driven, flexible, and regionally diversified approach toward Russia and China.

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  - They should engage both powers with a strategic mix of cooperation and competition, but also cooperate with third countries.

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  - Eurasia should be prioritized in Europe's industrial policy, and more means committed to developing the infrastructure linking Central Europe, Central Eastern Europe, and Western Eurasia.
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The vast space stretching from Eastern Europe to Central and East Asia and from the Baltic Sea to the Indian Ocean is turning into a crucial geo-economic chessboard of the 21st century. In this macro region, Russia and China are laying the basis for an alternative international system that differs vastly from the current one.

Two major factors have reshaped Eurasia in the past decade: First, since the 2008 financial crisis, Eurasian trade ties among different Eurasian countries and regions have increased and diversified. Second, the Ukraine conflict (2014) has accelerated and cemented the already growing Sino-Russian geopolitical entente. As a result, Europe and the West have been politically and economically marginalized in the region.

For the European Union and Germany, Russia and China today represent two different challenges: Moscow is increasingly perceived as a short-term geopolitical security threat, while Beijing is regarded as the emerging geo-economic and systemic competitor of the coming decades. Reflecting the different nature of these challenges, Russian and Chinese projects for economic integration in the region differ fundamentally in scope and nature.

Driven by Moscow's geopolitical aspirations and protectionist agenda in the former Soviet space, the Eurasian Economic Union promotes a closed economic regionalism. It is constrained by limited resources, the lack of economic complementarity among its members, and non-functioning supranational institutions. By contrast, China's Belt and Road Initiative is a format set to shape a globalization that carries Chinese characteristics and spreads Chinese norms and standards across the countries involved. Chinese experts have identified so-called "collapsing zones", i.e. the less connected and less developed parts and sub-regions of Eurasia, as prime targets for a complex strategic approach that combines acquiring and controlling infrastructure assets, exporting commercial overcapacities and creating asymmetric dependencies ("debt diplomacy").

In light of the growing economic and infrastructure connections between the two regional initiatives and the increasing geopolitical synchronization between Moscow and Beijing, Europe requires a holistic approach to both, as Eurasia's reconnection

process poses both, a risk and a major opportunity for Europe. It offers the latter, especially when considering that Beijing's and Moscow's interests might not be aligned everywhere across Eurasia.

The EU Connectivity Strategy from October 2018 is a first step in the right direction, yet it lacks clear political ownership, a substantial financial commitment and the identification of overarching strategic goals to shape bilateral relations with China and Russia in a broader vision for Eurasia.

Meanwhile, the recently approved new EU Central Asia Strategy from June 2019 shows that Brussels increasingly considers this region crucial for its interests in Eurasia and key for the implementation of the EU Connectivity strategy. However, it still lacks a realistic assessment of its strategic options and concrete instruments to engage with both, China and Russia, in Central Asia.

Given its pivotal role, both, in the EU and in trade with Russia and China, Germany should take the lead in developing a new Eurasian dimension for the EU's foreign and foreign economic policy. In doing so, it should also apply a more geo-strategic approach. This should integrate distinctive bilateral strategies toward Russia, China, and other subregions like the Eastern Neighborhood or Central Asia within a broader strategic framework which also considers how the growing interaction between China and Russia impacts on Europe. Together with other EU partners – especially with Italy, France, and Poland as well as the newly elected Commission President, Ursula von der Leyen, and the new High Representative for Foreign Affairs and Security Policy, Josep Borrell –, Berlin should identify few, key strategic goals, develop action plans for the two key Eurasian regions, Greater Central Asia and Greater Eastern Europe, and design a compact investment and industrial policy offensive for Eurasia.

By doing so, Europe would engage both, Russia and China, in a strategically smart triangle based on flexible and ad-hoc relations. The course of action in this triangle should involve a mix of cooperation, and competition, as well as external balancing with third powers; it should weigh up Europe's own interests and means and, if possible, carefully exploit latent conflicts and tensions in the Sino-Russian relations.

## INTRODUCTION: EURASIAN ORDER AND RESURGENT POWER POLITICS

While the West has been fragmenting, Eurasia has been emerging as a single, yet fluid and unstable playing field in recent years. In this vast space stretching from East Central Europe to East Asia, and from the Baltic Sea to the Indian Ocean, Russia and China are laying the basis for an alternative international system. It is here, that the side-effects of a resurgent great power politics are particularly visible. Here, regional military and trade-economic blocks are superseding the rules-based multilateral order, challenging globalization and open markets. And here, imperial legacies – from the Chinese via the Russian to the Turkic and Iranian – are re-emerging and moving to the forefront of contemporary politics, along with different understandings of the world order. Although not destroyed, the Europe-centred Westphalian state system and the Western liberal order are being “diluted and dispersed”<sup>1</sup> as a result.

While the United States under the administration of President Donald Trump is rapidly adapting to this reality, the transatlantic relations are under increasing pressure. As the Munich Security Conference in February 2019 illustrated, this ‘new normal’ finds Europe and Germany ever more challenged in their quest for a multilateral, rules-based world order, and bar of proper instruments to stand the growing geopolitical and geo-economic competition.<sup>2</sup>

Against this backdrop, re-defining relations with China and Russia, the two major Eurasian powers, will be one of the most challenging tasks for both European and German policy makers in the coming decades. It is even more pertinent as, across Eurasia, the interests of Germany and other EU partners, particularly on the EU’s Eastern border from the Baltic to the Black Sea, are affected by the growing interaction between Russia and China, and their respective projects of regional and continental integration, i.e. the Eurasian Economic Union (EAEU), and the Belt and Road Initiative (BRI).

In fact, this new Eurasian mega-continent is turning out to be the crucial geo-economic and geopolitical chessboard of the 21st century, and the reconnection of its economies and infrastructure poses both, risk and opportunity, for Europe and Germany. Although difficult to navigate given its complexity and high risks, the emergence of Eurasia as a geopolitical factor requires:

first and foremost, the formulation of few, clear goals to confront and engage with Russia and China, doubtlessly the two paramount powers in this mega space, as well as a regionally differentiated strategy to pursue them;

second, active participation in Eurasia’s infrastructural and economic reconnection by means of long-term financial commitment, in order to take advantage of the unprecedented opportunities which the continent’s reconnection offers, while avoiding the loss of political, economic and commercial centrality.

The recent EU connectivity strategy, approved in October 2018<sup>3</sup>, is undoubtedly an important starting point to strengthen the EU’s action across the continent. However, the strategy lacks clear political ownership as well as a substantial financial commitment, and the identification of overarching strategic goals to pursue bilateral relations with China and Russia in a broader vision for Eurasia.

Using the connectivity strategy as a vantage point, and with a view to the EU’s limited resources, this paper sets out possible goals for a smart EU geo-strategy in Eurasia which, on the one hand, minimizes the risks arising from Russia’s and China’s combined action and, on the other, maximizes the chances that arise from the continent’s manifold reconnection.

Due to its pivotal role, both, in the EU and in relations with Russia and China, it will be especially up to Germany to develop a new Eurasian dimension for the EU’s foreign and foreign economic policy, and to bring to it a more geo-strategic approach. This should integrate much-needed distinctive, bilateral strategies toward Russia and China in a

1 Robert Kaplan, *The Return of Marco Polo’s World: War, Strategy, and American Interests in the Twenty-First Century* (New York, 2018), p. 6.

2 Martin Bialecki, Christian Mölling and Daniela Schwarzer, “Nach der Münchner Sicherheitskonferenz: Die Tagung der Angespannten”, DGAPstandpunkt 4, Deutsche Gesellschaft für Auswärtige Politik e.V. / German Council on Foreign Relations (DGAP) (February 18, 2019) <https://dgap.org/de/think-tank/publikationen/dgapstandpunkt/die-tagung-der-angespannten> (accessed July 18, 2019).

3 European Union External Action Service, “Connecting Europe and Asia: Building blocks for an EU Strategy”, Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, (September 19, 2018) [https://eeas.europa.eu/sites/eeas/files/joint\\_communication\\_-\\_connecting\\_europe\\_and\\_asia\\_-\\_building\\_blocks\\_for\\_an\\_eu\\_strategy\\_2018-09-19.pdf](https://eeas.europa.eu/sites/eeas/files/joint_communication_-_connecting_europe_and_asia_-_building_blocks_for_an_eu_strategy_2018-09-19.pdf) (accessed July 18, 2019).

broader strategic framework which also considers how the growing interaction between China and Russia impacts on the EU.

Accordingly, Germany should lead the EU in developing a new and appealing Eurasian narrative which is based on openly declared interests, the formulation of clear political goals, and the definition of regionally diversified priorities. Building on this, Germany's diplomacy could define and pursue a flexible smart approach which navigates between Eurasia's two great powers and engages them in an ad-hoc, issue-specific way, without choosing one over the other as a privileged partner, or confronting both simultaneously. Furthermore, together with France, other EU partners, and in coordination with the European External Action Service (EEAS), Germany should identify Greater Central Asia and Greater Eastern Europe as key Eurasian regions in which to engage Russia and China in a smart triangle based on flexible and ad-hoc relations. Action in this triangle should involve a mix of cooperation and competition as well as external balancing with third countries; it should realistically assess own strategic goals and means and, if possible, carefully exploit latent conflicts in the Sino-Russian relations.

## LOSING TRACTION: EUROPEAN INFLUENCE IN EURASIA AFTER THE FINANCIAL CRISIS

The accelerated globalization of the early 2000s has led to the emergence of a system of multiple inter-connecting centres of economic and political power, which were initially driven by the interaction between Asian energy consumers and Eurasian energy producers.<sup>4</sup> Since the 2008 economic and financial crises, Eurasian trade ties have further increased and diversified, largely by-passing the West.

Parallel to the economic and financial crises, and their negative and long-lasting impact on Western and European economies, significant transformations occurred inside China. The enormous stimulus package of roughly 600 billion USD<sup>5</sup> launched by Beijing in 2009 helped China to overcome the crises' negative impact on its economy. However, it also accelerated the shift in economic-industrial activities from

China's coast to its central provinces. As part of this shift, the transport network was expanded to the westernmost provinces of Central Eurasia. Above all, the necessity to export liquidity and overcapacities of goods, created by the package, to new markets increased. In combination, these factors ultimately paved the way for the launch of the BRI in 2013, which has, in turn, accelerated China's economic, financial and political expansion across Eurasia.<sup>6</sup> This development has significantly re-defined the geo-economic relations between the three main players in Eurasia – Europe, China, and Russia –, and it has had a major impact on the countries located in the intermediate spaces of the vast Eurasian continent, such as Central Asia and Central Eastern Europe.

At first glance, the EU still holds a prominent position in this geo-economic triangle: Trade between China and Europe has sky-rocketed to roughly 560 billion EUR since the early 2000s,<sup>7</sup> and the EU remains the privileged source of foreign direct investment (FDI) and the main trading partner for many Eurasian countries, including Russia. A closer look at the development in the triangle involving Europe, China, and Russia over the past twenty years, however, offers a more differentiated picture.

As the graph in Figure 1 shows, EU exports to Eurasia – here broadly defined to include the Commonwealth of Independent States, the Middle East, non-EU Europe, and developing Asia – still exceed China's exports to this variegated space. However, the gap is closing rapidly, with a dramatic acceleration in Chinese exports following the 2008 financial and economic crisis. While EU exports to this vast space superseded those of China six times in 2000 (EU's export: 145 Billion USD, China's export: 25 Billion), the difference was dramatically reduced to slightly less than 140 Billion USD by 2017 (EU's export: 660 Billion USD, China's export: 522,9 Billion USD). Crucial to this were Chinese companies which rapidly gained shares in Eurasia's key developing markets and in sectors where American and European companies have traditionally been considered dominant.

This trend has particularly affected Germany, the EU's strongest, most diversified, and best performing manufacturing economy, in developing and emerging markets. Since the outbreak of the inter-

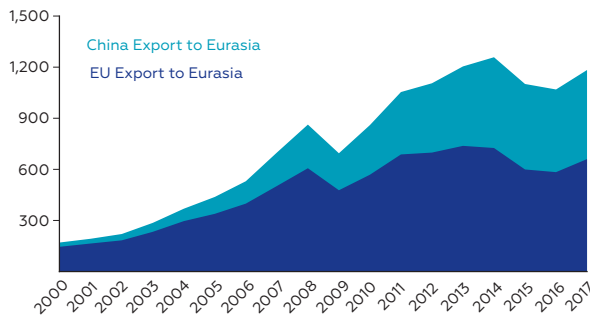
4 Kent E. Calder, *The New Continentalism: Energy and Twenty-First-Century Eurasian Geopolitics*, (New Haven and London, 2012), pp. 199-246.

5 World Bank, "Supporting China's Infrastructure Stimulus under the Infra Platform", INFRA Update (June 2010) [http://siteresources.worldbank.org/INTSDNET/Resources/5944695-1247775731647/INFRA\\_China\\_Newsletter.pdf](http://siteresources.worldbank.org/INTSDNET/Resources/5944695-1247775731647/INFRA_China_Newsletter.pdf) (accessed July 18, 2019).

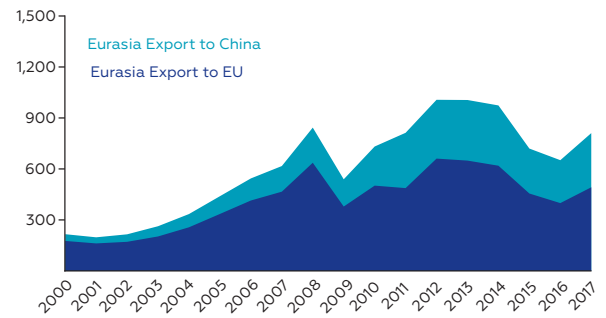
6 Jacopo Maria Pepe, *Beyond Energy: Trade and Transport in a Reconnecting Eurasia*, (Wiesbaden, 2018), pp. 282-305

7 European Commission, "Countries and Regions: China" (2018) <http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/> (accessed July 18, 2019).

**Figure 1:**  
EU and China Exports to Eurasia 2007-2017  
Aggregated, in Billion USD



**Figure 2:**  
Eurasia Exports to EU and China 2007-2017  
Aggregated, in Billion USD



Sources Fig. 1&2: International Monetary Fund, Direction of Trade Statistics, Author's Graph

national financial and economic crisis in 2008, in countries and regions like Russia, Kazakhstan, the Middle East, India and Southeast Asia, German companies have either lost market shares or have been confronted with greater competition from China in advanced sectors like industrial machineries, the chemical industry as well as electronic equipment, and telecommunications.<sup>8</sup>

China, in turn, has been rapidly catching up with Europe for final destinations for exports from Eurasia's energy producers, as the country's demand for raw materials increases. While Europe has remained the main destination for exports from broader Eurasia (490 billion USD in 2017), exports to China increased seven-fold between 2000 and 2017, jumping from less than 40 billion USD to almost 320 billion USD (Figure 2).

## GAINING TRACTION: THE SINO-RUSSIAN ENTENTE AFTER THE UKRAINE CRISIS

The Sino-Russian trade turnover has profited from both, China's deepening ties with Eurasia and Beijing's growing demand for energy: At less than 7 billion USD before 2000 (Figure 3), it reached more than 80 billion USD in 2017 and increased further to 110 billion USD in 2018.<sup>9</sup> Compared to the Russian-European or Sino-European trade, however, it has remained limited to a much smaller number of commodities, and highly dependent on the volatile oil price. Nonetheless, it has developed fast over the past decade, with Russian trade focusing away from Europe and speedily progressing toward China. For instance, China has superseded Germany as Russia's biggest single trade partner, and Russian imports from China are now twice as high as Russian imports from Germany.<sup>10</sup>

While the increase of trade between Moscow and China resulted directly from Beijing's general re-orientation toward Eurasia after the 2008 economic and financial crises, the political and economic relations between the two countries have also been accelerated due to geopolitical factors. These were the Ukraine crisis (2014) and Russia's increasing isolation from the West.

8 Deutscher Industrie- und Handelskammertag e.V. (DIHK) and Germany Trade and Invest (GTAI), "China als Wettbewerber für deutsche Firmen auf Drittmarkten: Eine Bestandsaufnahme" (2015), <https://www.dihk.de/ressourcen/downloads/dihk-gtai-studie-chinawettbewerb-drittmaerkte.pdf> (accessed July 18, 2019), pp. 4-5.

9 TASS, "Russian-Chinese Trade Turnover Grows by 10.8% to 9.2 Billion USD in January - China's Customs", February 14, 2018 <https://tass.com/economy/1044539> (accessed July 18, 2018).

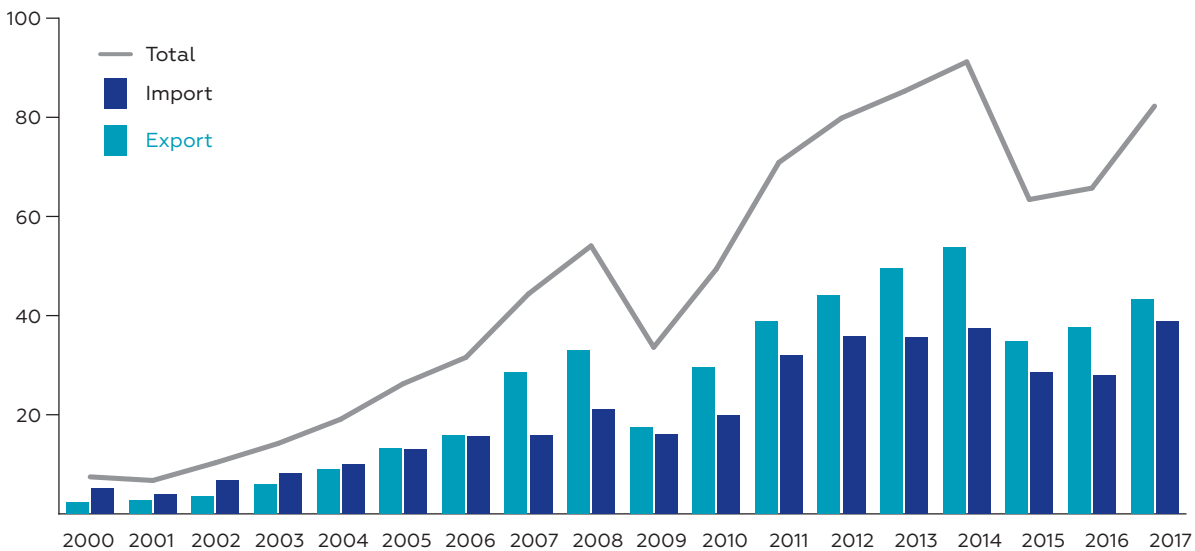
10 Peter Havlik, "Trade Reorientation in Russia: Will China Replace the EU?", Vienna Institute for International Economic Studies (July 10, 2018) <https://wiiw.ac.at/trade-reorientation-in-russia-willchina-replace-the-eu--n-327.html> (accessed July 18, 2019).

In geopolitical terms, the Sino-Russian strategic re-alignment actually pre-dates the conflict between Russia and Ukraine: Going back to the early 2000s, it has evolved into a pragmatic “axis of convenience,”<sup>11</sup> which became even more pertinent after the outbreak of the financial and economic crises in 2008. The Russian elite, in particular, seemed to regard the perceived “decline of the West and rise of the rest” as an ideal opportunity to realize the post-Western multipolar world depicted by President Vladimir Putin in his speech at the 2007 Munich Security Conference.<sup>12</sup> A strategic axis with Beijing would offer Moscow the perfect chance to profit from Asia’s and China’s economic strength. And, in their view, it could be reached by positioning Russia at the centre of a Central Eurasian customs and economic block,

i.e. the Eurasian Custom Union and later the Eurasian Economic Union (EAEU), which could have facilitated trade between Asia and Europe.

However, while the Russian-Chinese rapprochement has a long history, the catalysts accelerating Russia’s pivot to Asia were undoubtedly, in the West, the Ukraine crisis and, in the East, the launch of the Belt and Road Initiative. The Ukraine conflict not only estranged Moscow from Europe even further, but it also changed Moscow’s scope of action in Central Eurasia. As a result, the Kremlin moved to sign the long-announced gas deal with Beijing in 2014 and, at the same time, set out to turn the upcoming EAEU into a closed regional block that was to be synchronized with China’s BRI.

**Figure 3: China’s Trade with Russia 2000-2017**  
in Billion US



Sources Fig. 162: International Monetary Fund, Direction of Trade Statistics, Author’s Graph

11 Bobo Lo, *Axis of Convenience: Moscow, Beijing, and the New Geopolitics*, (London, 2008).

12 Vladimir Putin, “Speech and the Following Discussion at the Munich Conference on Security Policy”, February 10, 2007 <http://en.kremlin.ru/events/president/transcripts/24034> (accessed July 18, 2019).

## BRI-EAEU COORDINATION IN A RECONNECTED EURASIA: A SINGULAR STRATEGIC CHALLENGE FOR EUROPE?

For the EU and Germany, Russia and China represent two very different challenges: While Moscow is increasingly perceived as a short-term geopolitical-security threat,<sup>13</sup> Beijing is regarded as the emerging geo-economic and systemic competitor<sup>14</sup> of the coming decades. Despite the structural developments discussed above, it is through this prism that Brussels and Berlin assess Russia's and China's projects for regional and continental integration, the Eurasian Economic Union and the Belt and Road Initiative. EAEU and BRI are, therefore, considered fundamentally different in scope and nature, and they are approached separately.

The Russian-led EAEU, which came into force in 2015, is seen as an instrument of Moscow's geopolitical aspirations in the former Soviet space. Its closed economic regionalism serves Moscow's protectionist agenda better than an open and free continental-wide integration would; equally, it is less tailored to the interests of other EAEU members like Kazakhstan and Belarus. With limited resources, little economic complementarity among its members, and barely functioning supranational institutions<sup>15</sup>, the EAEU hardly presents itself as a possible political partner for the EU. Indeed, Brussels has, to date, steered clear of any form of more structured, political cooperation with it, instead restricting relations to the exchange of technical information.

In contrast to this rather limited view of the EAEU, Brussels sees the BRI as the main instrument by which China seeks to establish itself as the next great power and by which it pursues a complex strategy aimed at shaping a globalization that carries Chinese characteristics and imposes Chinese norms and standards. The tools used by Beijing as part of

this strategy include acquiring and controlling infrastructure assets, exporting industrial production and commercial overcapacities and creating asymmetric political and economic dependencies ("debt diplomacy"). They are applied in what Chinese experts have defined as Eurasia's "collapsing zone,"<sup>16</sup> i.e. the less connected and less developed regions of Central Eurasia, Eastern Europe and the Middle East that stretches between Asia and Western Europe.

While China also plays a crucial role for Germany and the EU as an economic, political and diplomatic partner, its growing assertiveness poses an unprecedented and unexpected challenge for Berlin and Brussels. Beijing is not only rapidly catching up with the West in technological and industrial terms. In recent years, it has also been gaining an ambivalent level of political and economic influence along the Silk Road countries and beyond. Channelled through the BRI, this influence is now expanding to include even some EU members, and Beijing is increasing and exploiting divisions within the Union. The 16+1 forum between China and Central Eastern Europe, established in 2012, is the most debated example of this growing influence.<sup>17</sup> The recent decision by Italy – as the first G7 country to do so – to sign a Memorandum of Understanding with China in the framework of the Belt and Road Initiative is, undoubtedly, a hugely symbolic political and diplomatic success for China in this regard.

Against this backdrop, China and the BRI represent long-term challenges which require a unique and proactive strategic response from the EU; Brussels can certainly not repeat the approach of 'containing and ignoring' it has so far applied to Russia and the EAEU. The EU Commission and key member states like France and Germany have been seeking to strengthen Brussels' negotiating position by developing a coherent EU approach toward China. As the results of the latest EU-China summit in April 2019 indicate, these attempts seem to bear first fruits.<sup>18</sup>

13 For example: Stefan Meister, Pavel Baev, Pavel Felgenhauer, Alexander Golts, Alexander Kolbin, Peter Pomerantsev, "Zwischen Alter und Neuer Weltordnung: Die Logik der Russischen Außen- und Sicherheitspolitik", DGAPstandpunkt 20, Deutsche Gesellschaft für Auswärtige Politik e.V. / German Council on Foreign Relations (DGAP) (September 21, 2018) <https://dgap.org/de/think-tank/publikationen/dgapkompakt/zwischen-alter-und-neuer-weltordnung> (accessed July 18, 2019).

14 European Commission, "EU-China – A Strategic Outlook", Joint Communication to the European Parliament, the European Council and the Council (March 12, 2019) <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf> (accessed July 18, 2019), p.5; Bundesverband der Deutschen Industrie, China – Partner and Systemic Competitor: How Do We Deal with China's State-Controlled Economy? (January 2019) <https://english.bdi.eu/publication/news/china-partner-and-systemic-competitor/> (accessed July 18, 2019).

15 Rilka Dragneva and Katarzyna Wolczuk, "The Eurasian Economic Union: Deals, Rules and the Exercise of Power", Research Paper, Chatham House (May 2017). <https://www.chathamhouse.org/sites/default/files/publications/research/2017-05-02-urasian-economic-union-dragneva-wolczuk.pdf> (accessed July 18, 2019).

16 Wu Whenua, "On the Predicament of the Integration of Eurasian Transportation and its Breaking-through", Presentation at the First Eurasian Transport Conference, Astana, November 12-14, 2014.

17 Jacopo Maria Pepe, "China's Inroads into Central, Eastern, and South Eastern Europe: Regional and Global Implications for Germany and the EU", DGAPanalyse 3, Deutsche Gesellschaft für Auswärtige Politik e.V. / German Council on Foreign Relations (DGAP) (March 23, 2017) <https://dgap.org/en/think-tank/publications/dgapanalyse/chinas-inroads-central-eastern-and-south-eastern-europe> (accessed July 18, 2019), pp. 4-6.

18 Council of the European Union, "EU-China Summit: Main Results" (April 4, 2019) <https://www.consilium.europa.eu/en/meetings/international->



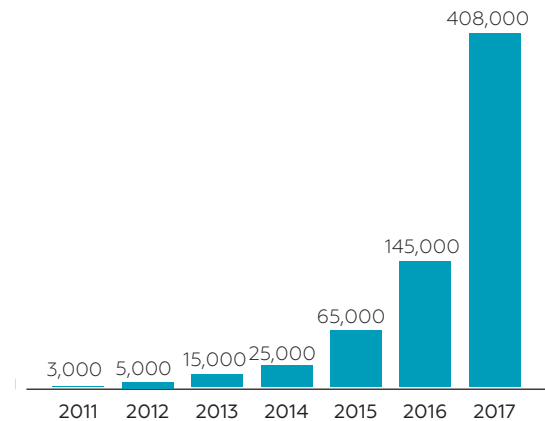
Yet, taken together – and despite the differences between the two –, the BRI and the EAEU make up a singular strategic challenge for the EU, which will require a rather more holistic European approach. And any strategic response will have to take account of a multitude of factors: The geo-economic transformations of the past decade and the Sino-Russian geopolitical realignment following the crisis in Ukraine have not only eroded the EU's geo-economic pre-eminence and political influence across the continent. Especially in the fields of cross-border transport and energy infrastructure reconnection, they have also unfolded a mix of competition and cooperation among different Eurasian players, which the EU has for too long ignored.

Of course, connectivity and technological transformation offer opportunities for win-win cooperation and economic integration across the Eurasian continent. Increasingly, however, the enhancement of physical and digital links as well as trade ties is also becoming an ever more important geo-economic struggle over norms, standards and rules, as well as for the control over and use of new supply and value chains, and for access to and trade with new markets.

In the transport sector, for instance, new corridors have emerged as economically profitable solutions primarily for certain categories of high-value goods between China and Europe. Transcontinental transport has undoubtedly profited from the boom in Sino-European bilateral trade (Figure 4): As of today, roughly 4 to 7 percent of trade between the EU and China is transported across Eurasia and Central Eastern Europe to the affluent markets of Western Europe. This amounts to an estimated trade value of 22 to 45 billion USD, a huge rise from 2012 when it stood at less than 1 percent.<sup>19</sup>

While these increases both in services and value are impressive, it must be noted that the total volume of goods transported across Eurasia remains low compared to that delivered by maritime transport. Indeed, its share will probably never challenge that of seaborne trade over long distances. What is striking, however, is the degree to which the boom in overland transport between Europe and Asia has benefited the development of trans- and intra-region-

**Figure 4: Volumes Transported on the Asia-Europe-Asia Direction 2011-2017, in TEU (Twenty-foot Equivalent Unit)**



Source: Roland Berger, JOC.com, Author's Graph

al trade corridors that do not necessarily end in Europe. From the Baltics to the Black Sea and the Caspian Sea, from Central Asian countries to Iran, Turkey, India, and Japan, countries have developed visions for enhancing transcontinental trade and connectivity in line with their geopolitical and geo-economic priorities.<sup>20</sup> In doing so, they have been turning maritime and continental Eurasia into a complex web of potentially interconnected yet also competing transport lines that are increasingly oriented toward the Asia Pacific (Figure 5). In a way, Eurasia has become a “spaghetti bowl”<sup>21</sup> of different regional trade integration initiatives.

In the energy sector, the centre of the global market has also shifted toward the Asia Pacific, in a trend illustrated by the increase in exports from Eurasia to China, which, in turn, has resulted from the rising demand for raw materials. As leading producer of hydrocarbon, Russia plans to create a common energy market within the EAEU by 2025, as a first step toward greater coordination with and toward the Asia-Pacific. As Kirsten Westphal and Marina Pastukhova argue, “the harmonisation of norms and rules, the standardisation of pricing mechanisms and the codification of standards and data all relate initially only to energy trading *within* the EAEU. But the EAEU is also

summit/2019/04/09/)/ (accessed July 18, 2019).

19 Jakub Jakobowski, “On the Silk Railroad: EU-China Railway Connections – Infrastructural Challenges”, Centre for Eastern Studies (May 2018) [http://www.geopolitika.hu/wp-content/uploads/2018/05/Jakub\\_Jakobowski.pdf](http://www.geopolitika.hu/wp-content/uploads/2018/05/Jakub_Jakobowski.pdf) (accessed July 18, 2019), p. 3.

20 Jacopo Maria Pepe, Beyond Energy (see note 6), Part 4.

21 Evgeny Vinokurov and Alexander Libman, Eurasian Integration: Challenges of Transcontinental Regionalism, (Basingstoke and New York, 2012), p. 68.

Figure 5: Energy and Non-Energy Transport Infrastructure Corridors across Eurasia, Planned and in Building



Source: Stephan Barisitz, Austrian National Bank, from "The New Silk Road - A Geo-Economic Assessment and Implications for Europe and Central Asia," Presentation at "Private Sector Initiatives and Economic Diplomacy in Central Asia," Brussels, September 18, 2018, with technical cartographic expertise of Florian Partl.

working on its external relations. In Asia, it has encountered interest both among individual states – including India, Mongolia, Singapore and Vietnam – and from international organisations seeking economic cooperation with the EAEU and participation (also financial) in its integration processes.”<sup>22</sup>

Although it is unclear how quickly this integrated market will emerge, any step in this direction will present Europe with a new policy dilemma in its larger neighborhood. The EU has connected, expanded and synchronized its internal gas market and electric power grid. However, it still has to develop its external approach to Eurasian energy producers and markets in a way that would strengthen its own regulatory power without insulating and disconnecting itself from the continent. In fact, the EU has largely failed to connect regulatory-technical decisions to a clear and coherent geopolitical strategy, particularly vis-à-vis Russia and the EAEU. This is manifest not only by the disconnection of the Baltic states from the Russian power grid, but also by the failure of the Nabucco Pipeline and the dispute over the Nord Stream 2 pipeline.

By contrast, China and Russia – the two main drivers of connectivity and regional integration in continental Eurasia – have done better in this geo-economic contest: To date, they have been able to manage their conflicts of interests and bring to bear even the still limited and asymmetrical economic interdependence across Eurasia. As a result, they have grown geopolitically and ideologically closer than in any other period of their recent history.<sup>23</sup>

Even though the 2015 EAEU-BRI cooperation agreement has not yet met its economic expectations, it signalled China’s and Russia’s combined political will to synchronize the two initiatives.<sup>24</sup> And the recent agreement on trade and economic cooperation, signed by the EAEU and China in May 2018, has opened a new phase in the cooperation between the two powers. The deal not only “reduces some trade barriers and simplifies customs procedures, creating a foundation for deeper integration”; For the first

time also, “member countries of the EEU have the opportunity to build relationships with China from a multi-stakeholder partnership perspective and creating a relative balance of power and interests.”<sup>25</sup> This is particularly true in regard to cooperation in the transport sector: Their diverging interests notwithstanding, the two continental powers have, here, proven able to politically synchronize their initiatives and find a balance in shared subregions, such as Northeast Asia and Central Asia. In fact, they have managed to develop balanced container traffic flows between routes that cross the Russian Far East and those which run across Central Asia. In doing so, they have carefully avoided any open competition between them.

Sino-Russian cooperation today even extends to the security and military realm. Beijing and Moscow carry out joint military drills in the Asia-Pacific (Vostok18), while managing their respective security interests in Central Asia via the Shanghai Cooperation Organization.

All this shows that, while China and Russia have scarcely coordinated their political and economic action toward Western and Central-Eastern Europe, they have been able to coordinate and manage conflicts and interests, especially when denying access to or limiting the influence of external Western powers. Here, they have jointly managed their respective interests, both along the southern Eurasian rimland and across Central Eurasia.

## THE CURRENT EU CONNECTIVITY STRATEGY: A CONCEPT WITHOUT STRATEGIC GOALS

Against this backdrop, the EU’s chances to engage in a triangular relationship with China and Russia seem fairly low. What makes things worse – and shows off the EU’s strategic vulnerability – is the fact that the EU is ideologically, politically and strategically far more distant from China and Russia than the latter are from each other.

22 Maria Pastukhova and Kirsten Westphal, “Eurasian Economic Union Integrates Energy Markets – EU Stands Aside”, SWP Comment 5, Stiftung Wissenschaft und Politik / German Institute for International and Security Affairs (January 2018), p.4 [https://www.swp-berlin.org/fileadmin/contents/products/comments/2018C05\\_puk\\_wep.pdf](https://www.swp-berlin.org/fileadmin/contents/products/comments/2018C05_puk_wep.pdf) (accessed July 18, 2019).

23 Bobo Lo, “A Wary Embrace: What the China-Russia Relationship Means for the World”, A Lowy Institute Paper, Lowy Institute for International Policy (2017), pp. 3-16.

24 Nargis Kassenova, “More Politics than Substance: Three Years of Russian and Chinese Economic Cooperation in Central Asia”, Foreign Policy Research Institute (October 24, 2018) <https://www.fpri.org/article/2018/10/more-politics-than-substance-three-years-of-russian-and-chinese-economic-cooperation-in-central-asia/> (accessed July 18, 2019).

25 Oleg, Remyga, “Linking the Eurasian Economic Union and China’s Belt and Road”, Analysis, Center for Strategic and International Studies, Reconnecting Asia (CSIS) (November 9, 2018) <https://reconnectingasia.csis.org/analysis/entries/linking-eurasian-economic-union-and-chinas-belt-and-road/> (accessed July 18, 2019).

However, it is exactly Europe's and Germany's strategic vulnerability which makes a holistic and inter-linked strategic response to Eurasia's great powers and to their initiatives, EAEU and BRI, even more urgent: "Vulnerable powers need strategy in its purest sense, as a set of stratagems or artifices to compensate for gaps in physical capabilities."<sup>26</sup>

A strategic European approach is important also in light of the fact that Eurasia's increasing interdependence does not only entail the risk of geopolitical marginalization and geo-economic competition for Europe and Germany. On the contrary, it also offers great economic and commercial potential. At a time in which a trade war between the EU, China and the United States has become a reality, the possible access to new markets in Africa and Eurasia is an attractive, albeit high-risk prospect. According to a 2016 study by Alicia Garcia Herrero and Jianwei Xu at Bruegel, for instance, EU exports would increase by 6 percent<sup>27</sup>, if all announced BRI projects were to be realized as planned. Even today, Germany's trade with the BRI-region (excluding China) alone makes up up to 20 percent of the country's total trade exchange.<sup>28</sup>

It makes sense, then, that Germany – Europe's leading economy, and therefore particularly exposed to the effects of the Sino-Russian entente and Eurasia's changing geo-economics – has pressed the EU to enhance continental connectivity in recent years. It is now at the core of a number of European strategies and initiatives, such as the 2016 Global Strategy<sup>29</sup>, the EU-China Connectivity Platform of 2018<sup>30</sup>, and, most recently, the document "Connecting Europe and Asia – Building Blocks for an EU Strategy."<sup>31</sup> It was presented in September 2018 as Joint Communication by the EU Commission and the European External Action Service (EEAS) and adopted by the Council of the European Union in October 2018.<sup>32</sup>

Among these moves, the latter, specifically, represents the most serious attempt by the EU to build up its strategic action and responsiveness via a sustainable, comprehensive and rules-based approach to connectivity. In contrast to China's BRI and Russia's closed regionalism via the EAEU, the European approach to connectivity fosters win-win partnerships that avoid debt traps or unilateral dependencies. Instead, it prioritizes sustainable investments and the adherence to social, environmental, security, and human rights standards. To achieve these goals, the strategy aims to open bilateral and regional cooperation in different Eurasian and Asian subregions and with countries like Japan or members of the Association of Southeast Asian Nations (ASEAN). It does so, however, without defining the scope, priorities, and details of such cooperation. The EU strategy also implements new financing instruments to spur on public and private investments in addition to the existing mechanisms, namely the Neighborhood Investment Facility (NIF), the Investment Facility for Central Asia (IFCA), the Investment Facility for Asia (IFA) and the Investment Plan for Europe. Furthermore, it seeks to mobilize a combination of funding sources by bringing in more private investment.

This new strategy paper and the proposed instruments represent an important first step and a good framework for action. They certainly exemplify the goal of the EU's Common Foreign and Security Policy attempt to employ more geo-economic tools, including the strategic use of economic integration agreements (EIAs) and economic sanction regimes.<sup>33</sup>

Despite this positive direction, however, Europe's connectivity strategy remains flawed. In particular, it lacks three fundamental elements: What is missing, first, are political ownership, clearly defined strategic goals and political priorities toward China and its BRI, Russia and the EAEU as well as other players.

26 26A. Wess Mitchell, *The Grand Strategy of the Habsburg Empire*, (Princeton, 2018), p. 11

27 Alicia Garcia Herrero and Jianwei Xu, "China's Belt and Road Initiative: Can Europe Expect Trade Gains?", Working Paper 5, Bruegel (2016) <http://bruegel.org/wp-content/uploads/2016/09/WP-05-2016.pdf> (accessed July 18, 2019), p.6.

28 8Ost-Ausschuss-Osteuropaverein der Deutschen Wirtschaft (OAOEV), "Osthandel wächst im Ersten Halbjahr Schneller als Gesamthandel", August 23, 2018 <https://owc.de/2018/08/23/osthandel-waechst-im-ersten-halb-jahr-schneller-als-gesamthandel/> (accessed July 18, 2019).

29 European Union External Action Service, "Shared Vision, Common Action: A Stronger Europe – A Global Strategy for the European Union's Foreign And Security Policy" (July 2016) [https://eeas.europa.eu/archives/docs/top\\_stories/pdf/eugs\\_review\\_web.pdf](https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf) (accessed July 18, 2019).

30 European Commission, "China Connectivity Platform Short-Term Action Plan" (July 13, 2018) <https://ec.europa.eu/transport/sites/transport/files/2018-07-13-eu-china-connectivity-platform-action-plan.pdf> (accessed July 18, 2019).

31 European Union External Action Service, "Connecting Europe and Asia: Building Blocks for an EU strategy", Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank (September 19, 2018) [https://eeas.europa.eu/headquarters/headquarters-homepage/50708/connecting-europe-and-asia-building-blocks-eu-strategy\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/50708/connecting-europe-and-asia-building-blocks-eu-strategy_en) (accessed July 18, 2019).

32 Council of the European Union, "Council Conclusions on Connecting Europe and Asia – Building Blocks for an EU Strategy" (October 15, 2018) <https://www.consilium.europa.eu/media/36706/st13097-en18.pdf> (accessed July 18, 2019).

33 Kim B. Olsen, "The Domestic Challenges of European Geoeconomic Diplomacy", in: Volker Stanzel, ed., "New Realities in Foreign Affairs. Diplomacy in 21st Century", SWP Research Paper 11 (November 2018), pp. 42-49 [https://www.swp-berlin.org/fileadmin/contents/products/research\\_papers/2018RP11\\_sze.pdf](https://www.swp-berlin.org/fileadmin/contents/products/research_papers/2018RP11_sze.pdf) (accessed July 18, 2019).

Second, it has not set out any strategic regional and sectorial priorities that would be part of any articulated action vis-à-vis Russia and China. And third, it is not backed up by the financial firepower required to realize its plans and seriously compete with China, in particular.

## TOWARD A REALISTIC EURASIAN STRATEGY: POLICY RECOMMENDATIONS FOR THE EU AND GERMANY

To benefit from the prospects of Eurasian connectivity, Europe thus needs to adjust its strategic approach. This should be pursued parallel to any tactically motivated, short-term, and reactive diplomacy. It will again be up to Berlin to urge the EU to develop and pursue a more strategically oriented, long-term, proactive, and, where possible, triangular diplomacy in Eurasia. Ideally, it should be embedded in a more holistic strategy which considers the tools of the “geo-economic diplomacy”<sup>34</sup> as part of a more explicitly interest-driven, geostrategic approach.

### The Groundwork: Formulating Strategic Interests, Assessing Options for Action

Developing a successful new Eurasia strategy will have to begin with a clear definition of the EU’s and Germany’s strategic goals, and a solid understanding of the fundamental interests that drive them. Based on these goals, the political instruments available need to be analyzed for inherent risks, and assessed in the context of the political, economic and geopolitical dynamics at play in Eurasia and among the powers involved in the region. Possible limitations for the EU and Germany itself will equally have to be considered, before determining the best strategic approach and making policy recommendations for specific courses of action.

### Defining Few and Clear Strategic Goals: The Fundamental Interests of Germany and the EU

As a first step, Berlin, in particular, should clearly articulate and communicate its own legitimate interests vis-à-vis Russia and China, and synchronize these with those of other key EU countries like France, Poland, and Italy. Key interests in this respect are: First, Germany and many European states have a vital interest in deepening trade and com-

mercial ties across Eurasia. This is the case despite the fact that, geopolitically, the further development of relations with Russia and China could also cause divisions and tensions inside the EU. Ties should be extended, specifically, with China, and to a lesser extent, with Russia. At the same time, (new) market shares should be consolidated, regained or won in third regions and countries like Central Asia, East and West Asia, India, Iran, and Turkey in order to rebalance any possible over-reliance on trade with both China and the US.

Second, both Berlin and its European partners have an interest in upgrading and extending trade lines of communication and in keeping them open and accessible. This concerns trade connections, both by land and by sea, across continental and maritime Eurasia. To be stabilized, protected and expanded at the same time are Germany’s and the EU’s own supply and value chains, particularly in the space between Eastern Europe and Western Eurasia, i.e. from the Baltic to the Black Sea, and from the Eastern Mediterranean to the Arabian Sea.

Third, in pursuing greater connectivity, commercial partnerships and trade agreements, the EU is also interested in promoting its own rules, standards and norms. Its intention in doing so is not only to support its own legitimate economic and trade interests, but also to increase good governance practices and, by consequence, the attractiveness of its own model of governance.

### Calibrating the Right Mix of Instruments: Cooperation, Competition and Balancing

Apart from clearly defining their fundamental goals for a future connectivity strategy toward Eurasia, Germany and Europe also need to frankly assess the mix of political and economic tools available to them. This is pertinent especially in light of their limited financial and political leverage vis-à-vis Moscow and Beijing and with regard to the strong ideological and strategic bond between the latter. It is also important given the United States’ declining commitment to the liberal political and economic order. Weighing up possible instruments, Brussels and Berlin have three distinct – yet also equally problematic – options to pursue their goals:

**Cooperation:** This course would involve entering into a triangular partnership across Eurasia by normalizing and stabilizing the relations with both

34 Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge, Mass., 2016).

Moscow and Beijing. Cooperation with the BRI and the EAEU would be elevated from a technical-economic to a political level, yet without developing or articulating a separate, own vision or narrative for the continent. Europe would strive to actively participate in Eurasia's geo-economic transformation solely by the force of its own regulatory and normative as well as commercial power.

This option, of course, is laden with difficulties: It would send a dramatic signal of strategic autonomy to the US which Washington could barely accept. Furthermore, given the EU's limited political, diplomatic, financial and military means and the lack of an own alternative narrative for Eurasia, Brussels would hardly be considered a fully-fledged partner in such a triangular relationship. More realistically, the EU would end up being side-lined, marginalized and, by consequence, also further fragmented internally. It could eventually even be forced to yield its own regulatory, normative, and commercial power. In effect, Brussels could become a rule taker.

**Competition:** This option implies entering a de facto systemic competition with China and Russia, as the EU would develop its own autonomous concept for Eurasia's future. It would be independent from both China's aggressive mercantilist approach and Russia's closed regionalism. Instead, it would be based on technical goals – e.g. the spread and acceptance of international norms and standards – and on the principles of multilateralism, open markets, and mutually beneficial partnerships.

Although it carefully avoids any reference to China or Russia as possible targets of such a systemic competition, this is the scenario envisaged by the EU connectivity strategy. The inherent risk in this approach lies in the fact that the increasingly nationalist and isolationist US no longer provides an external anchor of protection that strengthens the European position. Itself bar of sufficient financial, military and political means to sustain a two-front competition with Moscow and Beijing independently, the EU could eventually face a similar destiny as in the first scenario.

**Balancing:** Given the limitations inherent in the first two options, a more realistic approach may be pursuing a partnership with only one of the two Eur-

asian powers in order to balance off, contain or isolate the other player. Indeed, this option might be more promising and therefore deserves more attention. For, while the Sino-Russian bond is solid, it is by no means a fully-fledged strategic alliance without frictions. As Bobo Lo has pointed out, Moscow's and Beijing's interests diverge in a number of areas. Apart from their ideological alignment, these include the very perception of the international system, relations with the US, and the understanding of their countries' respective role in the multipolar order.<sup>35</sup>

## For Russia, security issues need not be solved but managed

As a matter of fact, these latent but managed frictions between Russia and China have become evident especially in Eurasia. Here, Moscow and Beijing are, indeed, not on the same page in terms of their economic, security as well as geopolitical interests:

In the economic field, Russia's and China's goals in Eurasia differ as a result of their uneven economic strength: Russia aims to diversify its economy and to develop new markets outside Europe and China in the sectors of arms and energy supply, technology, and infrastructure. However, although the EAEU and the BRI now cooperate more closely and the Sino-Russian axis is limited but solid, Russia's economic weaknesses have left the country hostage to its pivot to China. Moscow is increasingly becoming the junior partner. As a result, Russia is keen to diversify trade and transport ties with other countries, both in East Asia (e.g. Japan and South Korea) and elsewhere across the continent (e.g. Turkey and India). In fact, Russia wants to position itself at the heart of the BRI, but it largely wants to do so in order to increase its internal connectivity to its Far East. By contrast, it hopes to retain its monopolistic position in the trans-Eurasian transport corridor. China, in turn, shares this interest only partially. It seeks to achieve maximum connectivity to Europe across a whole range of different and alternative corridors which do not necessarily rely on Russia. Beijing wants to maximize its access to resources and boost its economic

35 Bobo Lo, "A Wary Embrace" (see note 23), pp. 75-76.

prosperity by increasing China's share of foreign markets along the Silk Road. This puts it in conflict with Moscow's closed regionalism that is manifest, for instance, in the EAEU.

In security terms, Russia and China differ in their strategic approach to instability and stability in the region: Russia wants to preserve its position as the primary security provider in Eurasia and hopes to maintain this division of labor in Sino-Russian relations in the region. For Moscow, security issues need not be solved but managed. Alleviating its own lack of economic and soft power, Russia's security strategy relies on controlled instability, as this secures a lasting demand for Russian-provided security in the region. China, by contrast, wants stabilization: Its security goals are to support authoritarian regimes and to solve rather than manage crises.

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## *China's security goals are to support authoritarian regimes and to solve crises*

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In geopolitical terms, finally, Russian and Chinese prerogatives also differ clearly: Russia's number one priority is to consolidate itself as a center of global power. It, therefore, promotes itself as the security provider in Eurasia, and beyond the post-Soviet space. It therefore also seeks to keep the West out of the region as much as possible, and cultivates closer ties with other powers, all the while without jeopardizing the Sino-Russian relations. Conversely, China looks to maximize its strategic flexibility and to avoid open trouble on the geopolitical stage. While managing Russia and its sensitivities, it seeks to be as independent as possible from the US and to secure its own perception as a universal actor.

It is obvious, thus, that the Chinese and Russian alignment is by no means without cracks, and their differences go well beyond minutiae, instead involving fundamental economic, security and geopolitical goals. However, despite these frictions, both Moscow and Beijing have learned from history, and they are wary of allowing third powers to exploit their diverging interests with a Kissinger-like approach. This is especially true in regard to the EU, which has

much less negotiating power at its disposal than the US, and whose relations with Russia are still strongly overshadowed by the conflict in Ukraine. Therefore, chances are slim for the EU to re-establish ties with Moscow by proposing a new version of the modernization partnership and, thereby, to leverage Russia's disappointment about China's lack of investments in its economy. Russian-European relations lack trust and have remained in a deadlock also geopolitically since the Ukraine crisis and the ongoing, subsequent mutual sanction regimes. Equally, there is little promise in attempting to engage China by instrumentalizing Moscow's economic weaknesses, its aggressive and destabilizing foreign policy, or its protectionist attitude. Given China's combined focus on stability and strategic flexibility, this approach hardly offers enough of an incentive for Beijing to openly isolate or by-pass Moscow, and to embrace Brussels instead.

Whether cooperation, competition or a balancing approach, it seems, therefore, that deciding on any of these options – at least per se – represents a choice between a rock and a hard place. However, a smart, regionally articulated strategy, which navigates between the three and flexibly mixes some elements of all them, could turn out to be the best possible approach for the EU and Germany under the given circumstances and at this given point. This involves three important steps in particular.

First, Germany, along with key EU partners like France, Italy and Poland as well as the EU institutions – particularly the new High Representative for Foreign Policy – should first work on developing a distinct, alternative narrative for Eurasia. This narrative should signal that the Eurasian vector of the EU's foreign policy is gaining relevance and political ownership far beyond any technical aspects. In fact, it should state clearly that Eurasia has become the financial, diplomatic and strategic priority of the EU's and Germany's foreign policy for the coming decades.

Based on clearly formulated interests as discussed above, the EU's and Germany's new Eurasia narrative should include the possibility of political cooperation, both bilateral and trilateral, with China's BRI and/or Russia's EAEU. At the same time, it should openly consider the option of competition where interests clearly diverge. Where the latter is the case, strong cooperation should be sought with key third countries that pursue a similar Eurasian agenda and hold converging

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interests in dealing with Russia and China. Among these countries are, specifically, Turkey, Japan, and India.

Second, in articulating their new Eurasia strategy, the EU and Germany should prioritize action toward two core regions, Greater Central Asia (GCA) and Greater Eastern Europe (GEE). They should adapt their engagement to the level of available resources, and according to the political and economic stakes and the power leverages vis-à-vis Russia and China that are involved in any course of action. To be maintained throughout is the fundamental coherence of the strategy, which includes harmonizing and coordinating the strategic planning for any action in the two regions.

Third, in the medium to long term, the EU and Germany should significantly increase their financial commitment to the Eurasian connectivity agenda. This should begin but by no means be limited to the new Multiannual Financial Framework, i.e. the new EU budget for 2021-2027.

To reach these goals, cooperation with France remains crucial for Berlin: A functioning axis with Paris is essential to advance any effective common European foreign, foreign economic as well as defense and security policy, whether at a global or a Eurasian level. This is well illustrated by Germany's and France's joint efforts toward a more proactive European industrial policy based on European "champions", and toward the coordinated defense and security policy. However, a solely French and German initiative on Eurasia would lack strategic depth and also have a limited chance of implementation if it did not expand to include at least two other EU member states, Italy and Poland. Both have been increasingly difficult partners, particularly for Berlin, as their nationalist governments have grown more and more critical of certain EU and German policies, particularly on fiscal, energy and migration matters. Italy recently embraced China's BRI in a move openly intended to reaffirm its national interests, as opposed to a more coordinated European approach. Warsaw, in turn, has been more wary of China's initiative. It has also advocated a tougher stance on Russia and is vehemently opposed to Nord Stream 2. Despite their divergences, however, Poland and Italy continue to be pivotal powers in the crucial geo-economic and geopolitical belt that connects the Baltic with

the Eastern Mediterranean, via Central Eastern Europe, where China and Russia have been expanding their activities and influence. Including Warsaw and Rome in any coordinated activities toward Eurasia would not only make geopolitical and geo-economic sense. It would also reopen their strategic dialogue with Berlin and help identify possible shared interests in the field of connectivity.

## THE GEOGRAPHIC FOCUS: DEVISING ACTION IN GREATER CENTRAL ASIA AND GREATER EASTERN EUROPE

The two macro-regions at the center of the new Eurasia strategy should be Greater Central Asia (GCA), including the five Central Asia countries, the three Caucasus republics and Afghanistan, and Greater Eastern Europe (GEE), stretching from the Baltics to the Black Sea and roughly including the countries of the Western Balkans, the Eastern Partnership countries and Turkey.

### Greater Central Asia: The EU-BRI-EAEU Connectivity Agenda and Bilateral Cooperation with Third Parties

In Greater Central Asia, the EU and Germany hold less leverage vis-à-vis China and Russia than in Greater Eastern Europe, yet the EU's strategic interest in the region is growing. The recently approved new Central Asia Strategy,<sup>36</sup> which comes more than 10 years after the first, manifests not only the EU's growing strategic efforts to streamline its financial instruments, ensure more effective action and expand its political cooperation with Central Asian countries via Enhanced Partnership and Cooperation Agreements. It also shows that, for the EU, Central Asia is becoming strategically more and more important as an extended space linking Afghanistan and the Caucasus. As a result, Brussels considers this large region crucial to the implementation of the EU-Connectivity strategy. With its focus on sustainable connectivity and regional cooperation, and by including the Caspian Basin and Afghanistan, the EU Central Asia strategy doubtlessly represents a great step in the right direction. It also rightly addresses the changes which have occurred in the region in the aftermath of Uzbekistan's new reform path.

<sup>36</sup> Council of the European Union, "Council Conclusions on the New EU Strategy on Central Asia" (June 17, 2019 <https://www.consilium.europa.eu/media/39778/st10221-en19.pdf> (accessed July 18, 2019)).



However, Greater Central Asia could and should also be considered by the EU as a possible space for a limited yet substantial trilateral connectivity agenda with both China and Russia. In this region, China, Russia, and the EU hold a number of converging interests which would allow different connectivity initiatives to come together on a series of issues. Examples could be, e.g. supporting the WTO agenda of Uzbekistan, and urging Tadjikistan to enter the convention on investment protection. Another possibility would be cooperating on the integration of markets, logistics and border management in the broader Caspian region, including the western shore of the Caspian Sea and, possibly, Iran.

In general, though, the EU-China connectivity platform, the EU-Connectivity strategy and the connectivity component of the EU Central Asia strategy only make limited sense, if the EAEU is not included. For, many existing barriers to international freight result precisely from the lack of cooperation between the EU and the EAEU. While sanctions against Russia and Russian counter-sanctions impede any major political cooperation with Moscow in the short term, the EU could consider enhancing its cooperation with the EAEU up to a point that goes beyond the merely technical yet does not yet reach political levels.

In doing so, the EU would politically recognize the role of the EAEU's supranational bodies, such as the Eurasian Economic Commission. On matters of transport, the commission ranges above single governments, including Moscow, as it is responsible for the implementation of a common transport space across the EAEU. Thus, an EU-China Connectivity platform enlarged to include the Eurasian Economic Commission, and thereby the EAEU, could focus on the issues of regulatory convergence, harmonization, and the standardization of custom clearance procedures for trans-continental traffic. It could tackle the coordination of investment policies in infrastructural bottlenecks, in particular, at border crossings between China and Russia, China and Kazakhstan as well as Belarus and Poland. Furthermore, it could pursue the creation of logistics hubs in the EAEU countries as well as in the Polish railway infrastructure. The former would subsequently also facilitate greater traffic volumes in the regions en route between Europe to China, and the latter

would help align TEN-T corridors with the northern and the southern trans-Eurasian route.<sup>37</sup> Including the Eurasian Economic Commission's representative in the dialogue between the EU and China would also enable Europe to understand the ongoing internal competition among EAEU members as well as between China and Russia in the field of transport, which has been slowing the implementation of a common transport space across the EAEU.<sup>38</sup> And, finally, it would help Europe to identify opportunities for alternative corridors crossing Central Asian countries, yet by-passing Russia.

In the areas of security and border management, the EU and the Organization for Security and Co-operation in Europe (OCSE) are less relevant players in Greater Central Asia than the Shanghai Cooperation Organization (SCO) or the Collective Security Treaty Organization (CSTO). Nonetheless, they bring along specific experience and the know-how needed to join forces with the SCO and the CSTO as security providers to stabilize borders and control drug and arms trafficking, especially from Afghanistan. In this context, the OCSE connectivity platform could thus be used as a further valid instrument of regional stabilization, integrated with the SCO connectivity agenda.

By contrast, joint action with both Russia and China is likely to be fraught with difficulties in some areas: Among these are, for instance, cooperation with local governments to improve sustainable intra-regional connectivity, and the creation of regional supply and value chains in sectors such as agro-industry, logistics and automotive. Equally difficult to realize with both Moscow and Beijing are reforms to support local small and medium-sized enterprises, as well as the improvement of the business climate for European investors, as envisaged in the new Central Asia strategy.

In these cases, the EU and Germany should join forces with leading local nations, especially Uzbekistan, and start a more structured form of bilateral and multilateral cooperation. It should be centered on developing a common connectivity agenda for Central Asia which also includes Afghanistan, and joint connectivity initiatives with Japan, India, and Turkey. In light of the EU's limited financial means for this region, the cooperation should involve finance – in the form of bilateral and multilateral

37 Evgeny Vinokurov, "BRI Traffic Through the EAEU: Current State, Potential, and Barriers", Presentation at the Workshop "Connecting Eurasia: EU-Russia-China-Central Asia-Dialogue on Connectivity", Moscow, December 4, 2018.

38 Olga Biryukova, "Trade Integration in Services in the Eurasian Economic Union: Between Myth and Reality", Analytical Media 'Eurasian Studies', May 5, 2018 <http://greater-europe.org/archives/4960> (accessed July 18, 2019).

co-financing projects between the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Asian Development Bank (ADB), the Japanese Bank for International Cooperation (JBIC), and the Asian Infrastructure Investment Bank (AIIB). It should also include joint civil engineering projects which focus on trans-regional power grids, the upgrade and expansion of rails and roads, and the creation of logistics centers as well as industrial parks.

### Greater Eastern Europe: Further Engagement in Regional and Trans-Regional Connectivity Initiatives

Greater Eastern Europe constitutes a core interest region for both, Germany and the EU. Especially Germany should, therefore, concentrate its efforts on increasing the national as well as European financial and political resources that are directed toward its geographically closest partners – the Visegrad 4 (V4), the Western Balkan and the Eastern Partnership countries. As a first step, Germany should reinvigorate its political ties with the V-4, leveraging the EU's normative and regulatory power, and bringing to bear its regional geo-economic power. Employing both, it can tackle the difficult task of finding a consensus for a common approach toward Russia and China.

To achieve this, Berlin should consider three different kinds of action:

First, it needs to restore trust with its partners in Central and Eastern Europe (CEE), which have been diplomatically neglected in the wake of the controversy about the Nord Stream 2 Pipeline. The pipeline is certainly in Germany's legitimate interest, and a securitization of the project serves less Ukraine's security rather than vested geo-economic interests of third parties. However, it will be crucial for Berlin to prove that it is prepared to use the pipeline as a negotiating tool vis-à-vis Moscow in order to stabilize Ukraine.<sup>39</sup> Berlin should also reassure its Eastern European partners that it will warrant their energy supply and their security. In this context, Germa-

ny could also increase its political and military commitment as part of the NATO Enhanced Forward Presence.

Second, Berlin should strengthen the coordination among the variegated countries of Greater Eastern Europe by establishing a regional platform which should include the EU members in Central Eastern Europe as well as the Western Balkans, and the Eastern Neighborhood Countries.

A good starting point could be the Three Seas Initiative, which was launched in 2015 by Poland and Croatia with the open support of the US Administration, and is aimed at improving the North-South energy, transport and digital connectivity among the 12 Central, Eastern and South-Eastern European members of the EU.<sup>40</sup> The recent participation of Germany and the EU in the Initiative is, therefore, a first step in the right direction.<sup>41</sup> Since the US and Poland have been eager to promote their own energy and security interests inside the initiative,<sup>42</sup> however, Berlin should clarify the nature of its diplomatic involvement and the level of its financial support as soon as possible. While the logic of the initiative is sound and very much in Germany's and the EU's geo-economic interest, Berlin should seek to 'Europeanize' it further to avoid the emergence of parallel institutions with regulations diverging from the EU's norms and standards. The initiative should concentrate its actions toward logistic, digital and transport connectivity and include the Western Balkans as partner countries.

Leveraging its active engagement in the Three Seas Initiative, Germany should also urge the EU to synchronize the implementation of the North-west-Southeast transport and digital connection, that is part of the projects under the Three Seas Initiative, with the extension of the TEN-T corridors to the Eastern Partnership countries, that was adopted by the EU in November 2018.<sup>43</sup> This would accelerate the alignment of the traffic volumes along the entire South-Eastern European transport network. In fact, China's economic and political influence in the Western Balkans and in Central Eastern Europe is of serious concern, and a long-term challenge, particular-

39 Stefan Meister, "Die Sackgasse der Deutschen Ostpolitik: Wie die Bundesregierung ihre Eigene Russland und Ukraine politik Torpediert", DGAPstandpunkt 3, Deutsche Gesellschaft für Auswärtige Politik e.V. / German Council on Foreign Relations (DGAP) (February 11, 2019) <https://dgap.org/de/think-tank/publikationen/dgapstandpunkt/die-sackgasse-der-deutschenostpolitik> (accessed July 18, 2019).

40 The Three Seas Initiative, "Priority Interconnection Projects", Three Seas Initiative Summit, Bucharest September 17-18, 2018 <http://three-seas.eu/wp-content/uploads/2018/09/LIST-OF-PRIORITY-INTERCONNECTIONPROJECTS-2018.pdf> (accessed July 18, 2019).

41 Auswärtiges Amt, "Mit südöstlichen EU-Mitgliedsstaaten eng zusammenarbeiten – Außenminister Maas in Bukarest", September 18, 2018 <https://www.auswaertiges-amt.de/de/aussenpolitik/laender/rumaenien-node/maas-rumaenien/2137498> (accessed July 18, 2019).

42 Fanni Virág, "The Three-Seas Initiative-The Way Forward", Atlantic Council, November 7, 2018 <https://www.atlanticcouncil.org/blogs/energysource/the-three-seas-initiative-the-way-forward> (accessed July 18, 2019).

43 European Commission, "New Trans-European Network Maps to Improve Connectivity with Eastern Partnership Countries, November 9, 2018 [https://ec.europa.eu/transport/themes/infrastructure/news/2018-11-09-ten-t-maps-eastern-partnership\\_en](https://ec.europa.eu/transport/themes/infrastructure/news/2018-11-09-ten-t-maps-eastern-partnership_en) (accessed July 18, 2019).

ly for Germany. To date, however, China's promised investments in this large space vary in quantity and quality. So far, they have remained relatively low and are increasingly seen with skepticism, especially by V4 countries such as the Czech Republic and Poland.<sup>44</sup> As a result of this, the EU and Germany still hold a significant competitive advantage which they should leverage to close the infrastructure gap in the region.

Third, Germany and the EU should try to exploit the latent strategic competition between China and Russia. As part of this, they should engage Moscow and Beijing bilaterally in separate projects which are crucial for the two powers but not necessarily aligned with their common agenda.

It is significant in this context that, unlike in Central Asia, Russia's and China's individual action in Greater Eastern Europe has remained uncoordinated. By comparison, the EU's regulatory and financial power – especially in the form of foreign direct investment (FDI), trade and value chains – and its attractiveness as a political and social model are sustained by and reflected in a broad range of geo-economics tools. These include extensive economic integration agreements (EIAs), deep and comprehensive free trade agreements (FTA, e.g. with Ukraine), Stabilization and Association Agreements (SAA, e.g. with the Western Balkans), and Association Agreements such as the European Neighborhood Policy (ENP).

In light of this, Berlin should seek to engage Moscow in fostering East-West transregional connectivity by improving the logistical services between Germany and Poland, as well as between Poland and Belarus, especially at the border crossings of Frankfurt/Oder and Brest/Malaschewice.

Most importantly, however, Berlin should encourage the EU to start a political and commercial dialogue with the EAEU that looks beyond the sanctions on Russia. This could also include a road map toward free trade negotiations, as recently suggested by the German Eastern Business Association.<sup>45</sup> While the sanctions will continue to limit cooperation with both, Russia and the EAEU, it would be wise to explore possible options for dialogue and to exploit any room to maneuver for cooperation in other fields. Using the institutional framework of the Eurasian Economic Union, this relates particularly to

the issues of physical and digital connectivity. Reinvigorating a dialogue on connectivity with Warsaw and Moscow would be a difficult but needed first step in this context.

With China, the EU should discuss expanding, extending and aligning the TEN-I and the TEN-T corridors in the ENP region, and eventually pursue trans-Caspian intermodal solutions which by-pass Russia. This would be very much in line with China's interest in developing different BRI corridors, and in silently by-passing Russia. It would also correspond to other sub-regional initiatives like the Black Sea-Eastern Mediterranean Initiative, or the Black Sea Motorway of the Sea project, which is strongly supported by Turkey.

## THE ROAD AHEAD: TOWARD A COORDINATED INVESTMENT AND INDUSTRIAL POLICY OFFENSIVE FOR EURASIA

Apart from setting strategic goals, assessing feasible options and instruments for action, and geographically prioritizing the German and European agenda for Eurasia, Brussels and Berlin should commit greater financial means to Eurasia's physical connectivity. To safeguard the success of Germany's and the EU's future strategy for this vast emerging region, the budgets involved should go well beyond the means and instruments envisaged by the current EU connectivity strategy.

The current strategy is undoubtedly a significant step forward: It refers to financial commitments in the form of loans, grants, or guarantees to mobilize further investments, proposes "an investment framework for external action", and prioritizes action in the EU's direct neighborhood. Nonetheless, the document does fall short of true financial commitments: It cites the European Fund for Sustainable Development (EFSD) as the main instrument for finance, when, in fact, the EFSD does not specifically target Eurasia. It primarily serves Africa and the Neighborhood countries and caters for Central Asia and the Asia-Pacific region only marginally. Of course, the prioritization of the Neighborhood is understandable in light of the EU's limited resources and its interest in its Southern and Eastern pe-

44 Jacopo Maria Pepe, "China's Inroads into Central, Eastern, and South Eastern Europe" (see note 17).

45 German Eastern Business Association / Ost-Ausschuss – Osteuropaveroin der Deutschen Wirtschaft e.V., "Defining Shared Interests – Implementing Projects Together: A 'New Agenda' for European-Russian Economic Relations", Position Paper (2019). [https://www.oaoev.de/sites/default/files/pm\\_pdf/OAOEV19\\_Positionspapier\\_EN-A4\\_online\\_0.pdf](https://www.oaoev.de/sites/default/files/pm_pdf/OAOEV19_Positionspapier_EN-A4_online_0.pdf) (accessed July 18, 2019).

riphery. However, even the means envisaged for the Neighborhood countries remain well below the sums required to improve transport networks in Greater Eastern Europe.

As of today, it is too early to estimate the actual amount of funds that the EFSD will need to mobilize for Eurasian connectivity. Nonetheless, some data is available to shed light on the gap between the means that are envisaged and the investments that are actually required, particularly in the broader Eastern European region.

The EU claims “to look to combine financial resources from international financial institutions, multilateral development banks and the private sector, building on the success of the Juncker Plan and the EU’s External Investment Plan [of which the EFSD is part of], which are on track to mobilize investment worth 500 billion EUR [by 2020] and 44 billion EUR respectively.” As of April 2019, the Juncker plan, which is directed to EU members, has reportedly mobilized 392 billion EUR. However, this sum helped to finance particularly small business as well as research and development (R&D) projects (55 percent). It has only partially supported intra-European energy (19 percent), digital (11 percent) and transport (7 percent) connectivity projects.

By contrast, the investments required for the completion of the EU’s TEN-T core network corridors alone are estimated to amount to between 750 and 900 billion EUR for the period from 2020 to 2030, and this does not include any additional means needed to extend the corridors to the Eastern Partnership countries. Moreover, the EU is aware of its financial gap in the TEN-T infrastructure funding scheme, as a large part of the necessary funds is to be provided by nation states.

The gap between commitments and required investments is even more glaring for Greater Central Asia. Asia will need more than 1.7 trillion EUR per year of infrastructure investment over the coming decade, with South-Central Asia requiring the second-most amount of investments, after East Asia. Against this backdrop, the EU’s commitments for the External Investment Plan – an envisaged increase of 40 billion EUR in the budget of the European External Action Service in the next Multiannual Financial Framework for 2021-2027, and further funds via instruments like the Investment Facility for Central Asia (IFCA) and the Investment Facility for Asia (IFA) – represent an obviously important yet insufficient commitment.

It is clear then, that, in the short to medium term, the EU will not be able to significantly increase its financial commitments in Greater Central Asia. Instead, it will need to focus on Greater Central Eastern Europe. To significantly improve physical connectivity among its members, its direct Eastern neighbors, and the Western regions of Eurasia, from Russia to the Caucasus and Turkey, however, the EU will need to mobilize much more public and private capital much faster.

To achieve requires not only a strengthening and further consolidation of EU instruments, and an increased participation of the private sector. It will especially be up to national governments to make a greater financial effort in cross-regional and cross-national infrastructure building. In particular, Germany should overcome its traditional skepticism toward public infrastructure investment, both at home and abroad. Of course, this move should not pave the way for an uncontrolled and unprioritized wave of infrastructure projects across Europe. To be recommended is a mix of debt-financed additional investment, and a better strategic allocation, reallocation, and pooling of existing national and European means. The EU should, therefore, prioritize areas, regions and corridors crucial for connecting Europe’s industrially and demographically rich areas as well as its supply and value chains with Greater Eastern Europe and, beyond that, with Greater Central Asia.

Starting within Europe, a big push should be given to the completion of the strategically crucial East-West and North-South connections between Central Europe, Central Eastern Europe, and Western Eurasia. According to estimates, this would, in the long run, require investments of roughly one trillion EUR. It would be more realistic to focus on an accelerated mobilization of the means needed to complete the TEN-T and TEN-I corridors. Here, priority should be given to the belt stretching from Southern Germany, Northern Italy, and South East France to the Danube Plain, and the Black Sea, to the South, and to Warsaw, and Moscow to the North.

Furthermore, a more pronounced geo-economic and Eurasian component should be added to the new European industrial strategy as envisaged in the newly approved, joint German-French manifesto. Ideally, a European industrial strategy should not only protect and support European manufacturing and the development of new technologies in Europe, but also proactively support their action abroad. The EU could, for instance, introduce more restrictive

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procurement regulations for non-European companies and give privileged access to EU or EIB/EBRD loans and grants for European companies. It would, thereby, allow the creation of European champions and foster the cooperation among highly specialized small and medium-sized enterprises. This would increase Europe's strategic assets in the competition with Chinese and Russian companies in a vast number of sectors, ranging from new telecommunication technologies, via artificial intelligence, e-automotive, industrial digitalization, and high-speed trains, to include also more classic civil engineering areas, such as rail, road and port construction.

## CONCLUSION

The rapidly fragmenting world order has brought the return of great power politics, imperial legacies, economic and political nationalism, as well as regional spheres of influence in recent years. This trend has also been eroding the attractiveness of the liberal model of governance as well as its norms, standards, practices, and institutions. Nowhere is this phenomenon more visible and nowhere are its consequences more dramatic for Europe than across the Eurasian mega-continent.

In Eurasia, China, and Russia are emerging as the champions of a more fluid, interconnected but unstable world system. However, also participating in, and impacted by this process are the dynamically growing markets in Southeast Asia and India, as well as the crisis regions stretching from North Africa and the Middle East, to include Turkey, Iran, Afghanistan, and Pakistan. They all make up a geographically contiguous space, in which maritime and continental trade routes increasingly intersect, and instability easily spills over from one region to another.

Following a major political and economic reorientation which pre-dates China's Belt and Roads Initiative and Russia's Eurasian Economic Union, this vast space has started to cohere, while comparatively, Europe has been suffering political and economic marginalization. It is against this backdrop, that the EU and particularly its leading geo-economic power, Germany, face the challenge of pursuing their own strategy for Eurasia – well aware and in consideration of the strategic interests and concrete involvements of China and Russia in this region. Brussels and Berlin should do so confidently: They should more openly support, defend and expand their legitimate own economic and trade interests, and promote their own

rules, standards, and norms, while enhancing good governance and the internal and external security of the countries in Eurasia. In doing so, they should not preclude the chance of cooperating with both, China and Russia, where this is possible.

Europe will need to cope with its own limits, and compete hard, effectively, and pragmatically to defend, promote, and realize its interests in the broader Eurasian space. This paper has suggested that the EU should engage China and Russia especially in two vast sub-regions, Greater Central Asia and Greater Eastern Europe. Rather than prioritizing any particular instrument, it should do so by means of a complex game of competition, cooperation and hedging. This will involve weighing up the EU's interests and resources, as well as its possible political and economic leverage in order to determine the grade of involvement and the options for action in each of these regions.

The EU and Germany will, therefore, have to act audaciously and in an interest-driven way, facing only ad-hoc and temporary relationships rather than stable, value-based partnerships. This course, undoubtedly, represents a huge jump for the EU and Germany, as it transcends their traditional strategic approach of thinking in win-win terms. It also presents an enormous task, as defining common political goals, coordination mechanisms, and foreign policy priorities among the EU members is a difficult and long-term exercise – especially in such a diverse and complex environment as Eurasia. The price of non-action, passive reaction, or wrong action will, however, be increasing external marginalization, internal fragmentation and geopolitical insignificance.

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