OSCE Engagement with China: Why and How?

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Abstract

What are the implications of China's growing presence for the OSCE? This is a pressing issue for the Organization and its participating States given the importance of relations with China and their increasingly acrimonious nature. In answering this question, we analyse the impact of China's Belt and Road Initiative (BRI) on three OSCE subregions: Central Asia, the South Caucasus and Eastern Europe, and the Western Balkans. Our analysis draws on insights from a wide range of sources, including papers commissioned from local and regional experts, government and think tank reports, and a survey of the vast secondary literature on the topic. We conclude that, while the impact of the BRI varies across the three subregions, it has significant geopolitical and geo-economic implications that the OSCE cannot afford to ignore. Based on our analysis, we offer recommendations for OSCE engagement with China and the BRI.

Keywords

China, Belt and Road Initiative, OSCE, connectivity, geopolitics.

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Introduction

Since its inception in late 2013, China's strategy for connecting Asia, Europe, and Africa along the historical Silk Road routes – the Belt and Road Initiative (hereinafter the BRI, or "the Initiative") – has grown into a vast global development project with increasing geopolitical and geo-economic implications. Launching the BRI during a speech at Kazakhstan's Nazarbayev University, Chinese President Xi Jinping proposed that a "Silk Road Economic Belt" should be jointly built by China and its partners "in order to make the economic ties closer, mutual cooperation deeper and the space of development broader between the Eurasian countries".[1] Eighteen months later, in

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March 2015, the Chinese National Development and Reform Commission further elaborated on Xi's speech, specifying that the aims of the BRI were to "promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries".[2]

While some of these ideas and goals were not entirely new, the real novelty was systematically combining all of them into a single project and strategy. The importance of the BRI was further underscored in 2017, when it was incorporated into the Constitution of the Communist Party of China, making it an integral part of the Chinese state and its policies.[3]

Today, not only is the BRI considered the centrepiece of China's foreign and economic policy, but it has matured into a comprehensive strategic tool for China's leadership, reflecting the geopolitical and geo-economic aspirations of a more self-confident and assertive global power. By 2021, Belt and Road cooperation involved 140 countries and 30 international organizations, with projects in over 70 countries. Of the fifty-seven participating States of the OSCE, more than half have signed memoranda of understanding with China concerning their participation in the BRI.[4]

What started as the Silk Road Economic Belt and 21st-Century Maritime Silk Road now also includes a Polar Silk Road, a Digital Silk Road, and a Health Silk Road, among others.[5] This expansive design is reflected in the expected financial magnitude of the BRI, which was calculated by PricewaterhouseCoopers in 2016 as "up to USD 1 trillion of outbound state financing from the Chinese government in the next 10 years".[6] By the end of 2020, almost $93 bn had been realized through investment and construction contracts in three subregions in the OSCE area: Central Asia ($55 bn), the South Caucasus and Eastern Europe ($21 bn), and the Western Balkans ($18 bn).[7]

The OSCE and its participating States can no longer afford to ignore China's significance and increasing presence within the OSCE region and its neighbourhood. The broad implications of the BRI extend to an evolving set of geopolitical and geo-economic dynamics that affect the OSCE as an institution, relations among its participating States, and their relationship with China. This is particularly evident in the three subregions mentioned above, where Russia and the West have traditionally competed for influence, including through the political and economic integration projects of the European Union (EU) and the Eurasian Economic Union (EAEU). While the BRI does not (yet) operate with a similarly institutionalized vision of integration, it represents a potential long-term – complementary, encompassing, or rival – alternative to the EU and the EAEU. This adds to the challenges that the OSCE is already facing, particularly with regard to its ability to deliver on its comprehensive security mandate at a time when relations between Russia and the West have deteri-

orated to levels not seen since the end of the Cold War.

Analysing Chinese engagement in these three subregions therefore provides a useful basis for assessing the BRI's impact on the OSCE to date. It also allows us to examine likely future trajectories and to offer policy recommendations for OSCE engagement with China and the BRI. Such engagement must be principled, pragmatic, and strategic to preserve the integrity of the Organization and to enable its participating States to live up to their "commitment to the concept […] of comprehensive, co-operative, equal and indivisible security".[8]

Our examination of the BRI's impact on the OSCE incorporates data and analysis from a comprehensive report published by the OSCE Network of Think Tanks and Academic Institutions,[9] which draws on eighteen specifically commissioned background papers from country and regional experts, academic and policy literature on the BRI, and a host of original primary data, including from Chinese, Russian, OSCE, EU, UN, and World Bank sources. As this Report was completed at the end of 2020, our analysis has been further updated to account for more recent developments and has been complemented by further desk research and engagement with experts.

The remainder of this paper is structured as follows. We first present findings from the analysis of China's presence and activities in the subregions Central Asia, the South Caucasus and Eastern Europe, and the Western Balkans. We then draw these findings together in the form of brief conclusions, which in turn form the basis of our policy recommendations.

Central Asia

Central Asia exemplifies many of the key drivers of the BRI. From an economic perspective, the subregion is critical to road and rail transit connecting China to European markets. These connections represent strategically important alternatives to existing maritime routes. China also views economic development and stability in Central Asia as a means of achieving the politically important goal of improving security in the neighbouring province of Xinjiang, which in turn will promote resilience to negative spillover effects from Afghanistan.[10] The importance of the subregion is reflected in the level of investment by China, which extends beyond transport infrastructure to energy, raw materials, and agricultural products for domestic consumption.

Within the Central Asian subregion, Kazakhstan is the key target state for China. It accounts for nearly two-thirds of the Chinese funds committed to the subregion since 2005. The country has a well-developed infrastructure, is relatively politically stable, and has a national development plan that is closely coordinated with the BRI, making it an attractive target for Chinese investment. China has also invested heavily in Kazakhstan's oil production, with Chinese companies now in control of approximately 25 per cent of the sector, while approximately 75

per cent of all Chinese uranium imports are from Kazakhstan.[11]

From a geopolitical and strategic point of view, the development of Central Asia is important to China because the EU and the US have relatively limited influence there, which enables China to lock Central Asia into its own sphere of influence. While Russia is currently the main security provider, China is emerging as the predominant economic player. In this context, Moscow and Beijing have thus far abided by a tacit division of labour, and both have hailed the value of cooperation.[12] One manifestation of this cooperation is the economic and trade cooperation agreement between China and the EAEU, of which Kazakhstan and Kyrgyzstan are members, alongside Armenia, Belarus, and Russia. Although it has only been in force since 2019, it is an indication of potentially deepening ties in the future, especially as the West hardens its stance on both Russia and China.

The South Caucasus and Eastern Europe

Geographically distinct, and with no common land border with China, the OSCE participating States in the South Caucasus (Armenia, Azerbaijan, and Georgia) and Eastern Europe (Belarus, Moldova, and Ukraine) have a number of features in common that set them apart from Central Asia and the Western Balkans.

While there are individual differences between these countries, as a whole they are more developed than the countries of Central Asia. However, they have displayed far greater political instability in the past decade than either Central Asia or the Western Balkans. This is evident from the ongoing conflict in Ukraine, the 2020 war between Armenia and Azerbaijan, and the disputed presidential elections in Belarus, which were accompanied by a violent crackdown on protesters. Three of the countries – Georgia, Moldova, and Ukraine – have also been stuck in a political and economic tug of war between Russia and the West for over a decade.[13]

Against the background of geopolitical tensions between the West and Russia, Chinese engagement in the region has been modest compared to its engagement in Central Asia. Other challenges in the subregion relate to corruption and poor levels of government effectiveness. The main drivers of Chinese engagement are largely similar to those in the other two regions: transit and access to resources.

Along the New Eurasian Land Bridge, BRI implementation has resulted in major projects in *Belarus*, which is an indispensable transit country along the China–Kazakhstan–Russia–Belarus route to the EU market but has also seen additional Chinese investment in industrial projects (for example the Great Stone China–Belarus Industrial Park). To date, Chinese banks have provided $4.5 bn in loans to Belarusian companies.[14]

In terms of actual investment, however, China's engagement with *Ukraine* has by far exceeded its engagement with Belarus, both prior to and since the inception of the BRI. With that said, the potential of Chinese engagement in Ukraine has not been fully exploited, giv-

en the ongoing conflict in the country and related social, political, and economic instability.[15]

Almost 70 per cent of all Chinese investments in Ukraine predate the official launch of the BRI in 2013.[16] Thus far, these investments have been focused on the energy sector (solar power) and agriculture (e.g. a newly built grain terminal in Mykolaiv facilitating Ukrainian exports to China). Attempts by China to gain a foothold in Ukraine's military-industrial complex have encountered significant pushback from Kyiv, as in the case of Motor Sich, a producer of military aircraft engines.

Moldova, by contrast, is hardly integrated with the BRI, given the country's peripheral location in relation to the main economic corridors, its low levels of economic development, its small domestic market, and its predominantly rural economy.[17]

The South Caucasus in general offers limited connectivity options to China because of the absence of a viable deep-sea port in *Georgia*, despite several attempts by China to develop facilities in Anaklia for that purpose.[18] Nevertheless, China and *Azerbaijan* have signed a memorandum of understanding and other bilateral agreements, which have resulted in an increase in bilateral trade and an estimated $821 m economic package for Azerbaijan focused on Chinese investment in the non-oil sector.[19]

In *Armenia*, investment has been marginal, but this could change following the conclusion of an agreement between China and Armenia for the development of a "smart city" worth $10–15 bn over the next fifteen years.[20]

The Western Balkans

The Western Balkans subregion comprises Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia, Serbia, and Slovenia. The subregion has achieved significantly higher levels of development than the countries in Central Asia and the South Caucasus and Eastern Europe. It has been largely dominated by Western influence over the past quarter-century, which is now being challenged by China.

The main driver of the expansion of the BRI into the Western Balkans is access to European markets. Developing the infrastructure of the Western Balkans is thus considered strategically important for improving access to the EU.

The main risks are related to unresolved legacies of the violent disintegration of the former Yugoslavia, including persistent inter-ethnic tensions and simmering contestations over borders. The region also suffers from governance problems, such as corruption and weak rule of law.

Serbia has thus far received the largest share (60 per cent) of Chinese investment in the region. While a wide range of projects have been pursued in the energy sector and local transport, the flagship project of the BRI in Serbia remains the construction of the Belgrade–Budapest railway, linking the Serbian and Hungarian capitals. The railway is a critical node in the Balkan Silk Road from the Greek

port of Piraeus to the EU. The partial construction of the Belgrade–South Adriatic highway is of similar strategic importance.

Belgrade and Beijing have also intensified their police cooperation in recent years, with joint patrols by Serbian and Chinese police officers in the Serbian capital and other cities. Serbia is the only country in the subregion to which China has sold military equipment and where there have been joint military and counterterrorism exercises.[21]

Most other key Chinese projects in the Western Balkans relate to transport infrastructure, underscoring the subregion's importance as a critical node in the connections between China and the EU. They include the Arbër motorway in Albania (connecting the capital Tirana to the North Macedonian border) as part of a transport corridor intended to connect the Ionian Sea to the Bulgarian coast of the Black Sea; the Pelješac bridge in Croatia (implemented by the China Road and Bridge Corporation and co-funded by the EU); the Bar–Boljare highway in Montenegro (linking the port of Bar on the Adriatic Sea to Serbia and funded by an €800 m loan from Exim Bank, exacerbating Montenegro's already serious debt problem); the Kičevo–Ohrid and the Miladinovci–Štip highways in North Macedonia (along the transport corridor linking the Greek port of Piraeus to the Hungarian capital of Budapest); and the integration of the Port of Koper in Slovenia into the BRI through a deal to increase ship connections and trade with China's Ningbo Zhousan Port Group.

While Chinese investments and construction contracts in Croatia and Slovenia demonstrate China's willingness and ability to abide by EU rules, China's main investment in Bosnia and Herzegovina – a combined $1.3 bn for the Tuzla 7 Lignite Power Plant and the Stanari Power Plant – runs counter to the country's obligation to comply with EU rules regarding state aid and environmental protection.

Conclusion

China's increasing presence in the three subregions examined above exemplifies the magnitude of the geopolitical and geo-economic implications of the BRI for the OSCE and its participating States. In order to appreciate the full extent of their significance and to make relevant recommendations to the OSCE, it is important to place them in the broader context of current developments within the OSCE region.

The deterioration of the relationship between the West and Russia, on the one hand, and the West and China, on the other, shows no sign of abating. At the same time, all OSCE participating States and China share an overarching interest in security and stability across the Euro-Atlantic and Eurasian area. This represents the most promising opportunity for the OSCE to engage with China. The clout that an organization of fifty-seven participating States stretching across the Euro-Atlantic and Eurasian area could bring to such engagement, however, depends significantly on the OSCE's ability

to reaffirm and reinvigorate its spirit as a comprehensive and cooperative security organization.

China represents a seemingly attractive model of stable governance and successful economic development domestically and has demonstrated a willingness and ability to contribute to, and shape, global governance.[22] This increasing engagement in the provision of public goods has given China a greater stake in the processes through which the rules of global governance are made and enforced. Because of its predominantly bilateral character, the BRI is not (yet) a typical integration project with its own rules-based system of governance (like the EU or the EAEU). With that said, there is potential for this to develop in the future, including in ways that rival and potentially replace existing international governance structures.

China has promoted a comprehensive understanding of security for some time. In a speech at the Fourth Summit of the Conference on Interaction and Confidence Building Measures in Asia (CICA) in Shanghai in 2014, Chinese President Xi argued for a "common, comprehensive, cooperative, and sustainable" approach to security. For Xi, comprehensive security means "upholding security in both traditional and non-traditional fields", including "ethnic and religious problems […] terrorism, transnational crimes, environmental security, cyber security, energy and resource security and major natural disasters".[23] This vision of security has been firmly integrated in the BRI: in its report on the implementation of the Initiative in 2019, the Office of the Leading Group for Promoting the Belt and Road Initiative reproduced Xi's 2014 remarks almost verbatim, stating that "all countries should foster a vision of common, comprehensive, cooperative and sustainable security".[24]

The current divisions within the OSCE risk leading to further dysfunctionality and an inability to deliver on core aspects of its comprehensive security mandate. If this occurs, OSCE participating States that are already closely tied to China (such as those in Central Asia) or that have pivoted to China for geopolitical and geo-economic reasons (such as Russia) may find China-led institutions like the Shanghai Cooperation Organization (SCO) to be a more credible platform for multilateral engagement on the Belt and Road Initiative. The SCO already closely mirrors parts of the OSCE's mandate (although it critically lacks its human dimension) and complements the BRI not least in representing a multilateral mechanism for addressing security risks. As SCO Secretary General Rashid Alimov observed in May 2017, with the conclusion of an agreement on favourable conditions for road transportation, the SCO has "established [the] legal basis for parity conditions for road transporters and set forth a single platform for international road transportation from Eastern Europe to [the] Russian Far East and China",[25] further cementing its complementarity with the BRI. This complementarity has been emphasized by Chinese, Russian, and Central Asian analysts for some time and may further indicate a gradual shift away from Russian opposition to a gen-

uinely broader mandate for the SCO in practice.[26]

As the major powers continue to pursue their interest in securing and expanding their respective spheres of influence, and as this interest increasingly drives foreign policy in and toward the OSCE region, the Organization's potential role as a forum for negotiating these rival aspirations is increasing. China must be brought into such negotiations, albeit not necessarily into the OSCE itself. Whether this can be done depends on participating States' ability and willingness to develop and implement a coherent strategy to underpin such an approach, which, in turn, depends in part on a realistic and evidence-based assessment of China's current presence in the OSCE region and an understanding of future scenarios.

Recommendations

Regardless of China's emphasis on the economic focus of the BRI and its win–win approach, a project as grand and ambitious as this is bound to have geopolitical and geo-economic consequences. While there is uncertainty about what these are, when and how they will materialize, and whether they are inevitable but unintended consequences or part of an unarticulated Chinese grand strategy, China and its BRI are a challenge that the OSCE must face head-on.

Rising to this challenge requires a realistic assessment of the prospects of constructive engagement between the OSCE and China. Three potential obstacles must be acknowledged up front. First, it is not clear that participating States would benefit from OSCE engagement with China, as this may limit the gains they can obtain from direct bilateral engagement or through different formats, such as the EU, the EAEU, and the SCO. Second, engaging with China may simply be a "bridge too far" for the OSCE. Given the already fractious relations among its participating States, it could further undermine its capacity to deliver on its existing mandate and preserve its established norm consensus. Third, it is far from clear that the OSCE is the kind of forum with which China would want to engage, nor is it clear under what conditions it would agree to do so.

These hurdles neither diminish the need for engagement nor make engagement impossible. Rather, they set the parameters within which a strategy for engagement could be developed and implemented. Based on the analysis above and the more comprehensive Network Report on which it draws, we submit the following ideas for further consideration by policymakers in the OSCE and its participating States.

Form a minimal consensus on engagement with China.

OSCE executive structures and institutions, as well as the Chair and the Troika, should begin by identifying future scenarios for relations with China. Using scenario planning as a tool for both consensus building and policymaking could be helpful in sensitizing participating States to the implications of China's pres-

ence and activities. This could provide them with a better understanding of the related challenges and opportunities and imbue them with a sense of agency without insisting on reconciling diametrically opposed views on China. It could thus provide a foundation for an initially minimal consensus within the OSCE on pragmatic engagement with China.

Pursue an approach to China that is principled, pragmatic, and strategic.

A pragmatic approach to China should implement a policy of multi-channel engagement that creates and embraces opportunities for dialogue in areas that have been prioritized by the OSCE while also being open to the issues China wishes to raise. This should include an openness to ad hoc and informal modes of engagement.

At the same time, pragmatism should be firmly based on OSCE principles and guided by a strategic vision that includes a future formal relationship with China. This could initially involve granting China observer status in the OSCE and gradually evolve into a partnership more specifically tailored to China's size and significance. A potential OSCE Summit in 2025 would be an appropriate forum for formalizing such a relationship.

Seek formats for multilateral engagement.

The OSCE should consider engaging with China in the context of the SCO on issues of mutual interest, including combatting organized crime (especially drug trafficking), protecting critical national and transnational infrastructure, and stabilizing the evolving situation in Afghanistan. This could also involve engagement with other international organizations, such as CICA.

Jointly manage the environmental impact.

Using existing international frameworks (such as the 1998 Aarhus Convention), the OSCE should consider initiating a formal dialogue with China on managing the environmental impact of the BRI on its participating States. Here, the OSCE could provide a forum in which common rules and principles of environmental governance can be negotiated.

Develop a Connectivity 2.0 agenda.

The OSCE should consider developing a Connectivity 2.0 agenda that ensures that the overlapping (but not identical) visions of connectivity held by the OSCE, China, the EU, and the EAEU can become and remain compatible and complementary despite their different normative underpinnings. This could contribute to a sustainable and inclusive post-pandemic re-

covery focused on strengthening the resilience of economies, societies, and institutions.[27]

This will only be possible through the collective effort of all of these international stakeholders. The OSCE, through its convening and agenda-setting power, could provide a forum for discussing smart, new approaches to ensuring the continued free movement of goods, capital, people, and ideas, to counteracting protectionist tendencies, and to sustaining effective and fair national and international public administrations.

Involve China within a human rights framework.

At present, there is little room for engagement with China on human rights issues. China's recent actions speak for themselves: the initial cover-up of the coronavirus outbreak, the crackdown on protests in Hong Kong and changes to the electoral system, the silencing of human rights defenders, and the detention of the Uyghurs and other Turkic Muslims in Xinjiang.

Yet China clearly accepts that fragile institutions and weak rule of law pose a challenge to BRI implementation. China also recognizes that social and economic inequalities fuel grievances that drive conflict and instability. Thus far, China's answer to this has been economic development without any concomitant political liberalization. This is unlikely to change in its own domestic policies, nor should it be part of the OSCE agenda.

A shared interest in stability and security creates opportunities for engaging with China within a comprehensive framework in which human and minority rights are firmly established. In the context of a principled, pragmatic, and strategic approach to engagement with China, this has two implications. First, the human dimension of the OSCE must not be excluded from OSCE–China relations. Second, engagement with China must not lead to a weakening of the human dimension within the OSCE's comprehensive approach to security.

Notes

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