



European Chamber
中国欧盟商会



THE ROAD LESS TRAVELLED

European Involvement in China's
Belt and Road Initiative



European Union Chamber of Commerce in China

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About the European Union Chamber of Commerce in China

The European Union Chamber of Commerce in China (European Chamber) was founded in 2000 by 51 member companies that shared a goal of establishing a common voice for the various business sectors of the EU and European businesses operating in China. It is a member-driven, non-profit, fee-based organisation with a core structure of 31 working groups and fora representing European business in China.

The European Chamber now has more than 1,700 member companies in seven chapters operating in nine cities: Beijing, Nanjing, Shanghai, Shenyang, South China (Guangzhou and Shenzhen), Southwest China (Chengdu and Chongqing) and Tianjin. Each chapter is managed at the local level by local boards reporting directly to the Executive Committee.

The European Chamber is recognised by the European Commission and the Chinese authorities as the official voice of European business in China. It is also recognised as a foreign chamber of commerce by the Ministry of Civil Affairs. The European Chamber is part of the growing network of European Business Organisations (EBOs), which connects 40 European business associations and chambers of commerce around the world.

Principles:

- We are an independent, non-profit organisation governed by our members.
- We work for the benefit of European business as a whole.
- We operate as a single, networked organisation across Mainland China.
- We maintain close, constructive relations with the Chinese and European authorities, while retaining our independence.
- We seek the broadest possible representation of European business in China within our membership: small, medium and large enterprises from all business sectors and EU Member States throughout China.
- We operate in accordance with Chinese laws and regulations.
- We treat all of our members, business partners and employees with fairness and integrity.

Executive Summary

Since its launch in 2013, China has systematically promoted the Belt and Road Initiative (BRI), raising its profile in every corner of the world. Some observers have compared it to the Marshall Plan while others interpret it as a strategy for creating vassal states through debt-trap diplomacy. Much of the commentary on the BRI has been on its political, economic and strategic implications, with far less attention being paid to the business perspective. To address this, the European Union Chamber of Commerce in China (European Chamber) surveyed its member companies and carried out extensive follow-up interviews. The aim of the resulting report is twofold: to understand the role of European business in the BRI, with the goal of ascertaining which aspects of the BRI can be improved and how it can become more inclusive; and to identify areas where the European Union (EU) can both complement the BRI and develop its own Connectivity Strategy into a credible alternative.

The BRI is a very powerful proposition – connectivity is an enormous driver of global growth, and the plan is clearly designed to deliver economic benefits through infrastructure development. For every additional one per cent of global gross domestic product (GDP) spent on infrastructure, the World Bank argues that global GDP grows by two per cent, and developing countries grow by seven per cent.¹ With a significant gap between infrastructure needs and infrastructure spending globally, there is a need for programmes like the BRI, particularly to boost connectivity in the developing world.^{2&3}

Since the BRI's inception, European businesses have continuously sought ways to contribute in order to introduce greater competition, and thereby drive better project quality and sustainability, both environmental and financial. However, they have come up against a variety of barriers to participation, including, at the most basic level, being unable to access information on project tenders.

The data from the European Chamber's BRI survey bears this out. One of the most notable aspects about BRI-related projects is that they are rarely transparent. Only two survey respondents report having learned about project opportunities through publicly available procurement information. Nearly all say that they were brought into projects by either Chinese business partners or the government. This lack of transparency and a fair procurement mechanism contributes to the surprisingly low level of participation from multilateral development banks like the World Bank and the Asian Infrastructure Investment Bank (AIIB), both of which have very strict criteria for investment. Instead, European companies see nearly all of the financing coming from China's policy banks, commercial banks, and even Chinese companies themselves.

Just 15 per cent of surveyed companies have bid on a BRI-related project, and of those that have, only a dozen or so won roles in a moderate number of projects. A select few have participated in more than 50 projects; however, nearly all who have participated indicate that they played niche roles by providing specific technology or facilitating projects through their extensive experience in emerging markets. This 'filling-the-gaps' role is very similar to European companies' participation in China's market in general, particularly with respect to public procurement.

Procurement contracts for BRI projects are predominately being won by Chinese state-owned enterprises (SOEs). It is well known that, within China, SOEs enjoy extensive state support and a heavily protected market, but the BRI helps to shine a light on the tight coordination between SOEs under their managing entity, the State-owned Assets Supervision and Administration Commission (SASAC), as well as the diplomatic support they enjoy when going overseas. Around 40 per cent of respondents report seeing a kind of 'vertical integration' of Chinese companies in BRI-related projects, which enables them to provide everything from project management, financing, materials and construction services, all the way to post-completion services. This comprehensive and collective approach makes it much easier for these companies to quickly secure projects in third country markets.

1 McKibbin, Warwick, Lu, Yingying, and Stoeckel, Andrew, *Global Fiscal Adjustment and Trade Rebalancing*, The World Bank, April 2012, viewed 18th December 2019, <<https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-6044>>

2 *Asia Infrastructure Needs Exceed \$1.7 Trillion Per Year, Double Previous Estimates*, Asian Development Bank, 28th February 2017, viewed 18th December 2019, <<https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates>>

3 Manyika, James, Bughin, Jacques, Lund, Susan, Nottebohm, Olivia, Poulter, David, and Jauch, Sebastian, *Global Flows in a Digital Age*, McKinsey Global Institute, April 2014, viewed 18th December 2019, <<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/global-flows-in-a-digital-age>>

So, in many ways, the BRI is business as usual for European companies that have operations in China, which have grown accustomed to competing against formidable opposition for opportunities that are limited and selective.

However, the BRI also brings additional challenges. The Chinese Government has for a long time carefully controlled access to its market, in large part to increase the chances of its companies becoming global leaders in certain critical industries. Historically, this posed a problem mainly for foreign companies eager to access the Chinese market. These problems are now being spread much further afield as many of China's formidable national champions, which emerged in China's restricted sectors, are going abroad after having achieved extraordinary economies of scale. This situation is being compounded by the fact that the BRI is providing them additional support.

Challenges to participation are perhaps even greater for European information and communication technology (ICT) companies. China has largely withheld necessary licences from foreign companies in its own market that are eager to offer digital goods and services like blockchain, cloud and 5G, putting Chinese ICT companies at a massive advantage. Now, the Digital Silk Road (DSR), a vital component of the BRI, is encouraging extensive digital infrastructure projects in many BRI countries. These are mainly being executed using technology standards set by China. Furthermore, the telecoms infrastructure being built is often done end-to-end by a single Chinese provider. This gives them a huge head start in these countries, making it difficult for European firms to compete anywhere along the hardware and software value chain.

Even in areas where European companies are in a position to offer alternatives, they are competing with Chinese providers that can easily operate in Europe. Customers then have the choice between a Chinese digital product that can operate globally, or a European one that can operate everywhere except in China, home to a fifth of the world's consumers.

These issues call into question the manner in which the BRI is currently functioning. While European companies note that since the plan was first launched there have been some improvements in the feasibility, sustainability and quality of BRI-related projects, the initiative's severe lack of openness to foreign participation is at odds both with China's claims that the BRI is a global development strategy and its broader commitments to upholding the multilateral economic order. The resulting lack of competition causes market distortions to ripple across the world.

It is therefore imperative that the EU begins to seriously consider not only how it can protect its common market from the distortions emanating from China and the BRI, but also how to address competition in third country markets.

A good starting point would be for the EU to find ways for its companies to scale up and compete against Chinese firms in third country markets on a fair basis.

Second, the EU needs to consider domestic tools that can drive change in China. The international procurement instrument (IPI) is a good example of how to institute a pragmatic mechanism to match China's degree of market closedness in certain areas – in essence it would compel Chinese firms accessing the EU market to operate under the same restrictions that European companies face in China with the intention of incentivising positive reciprocity. This kind of approach would be effective in areas like shipping, and digital goods and services.

Third, in addition to finding ways to strengthen cooperation with Chinese companies and increase the transparency, feasibility and sustainability of BRI-related projects, the EU needs to put forward a credible alternative by putting flesh on the bones of its Connectivity Plan. Little progress has been made since the September 2018 announcement of this plan. With partners like Japan already onboard, and a wide variety of like-minded countries that could be brought in, the EU Connectivity Plan has the potential to bring the resources, expertise and companies necessary to offer both a complementary approach and a truly competitive alternative to the BRI.

If the EU fails to play an active and competitive role, there is a real danger that it could eventually become little more than a peripheral market tacked on to the end of Eurasia.

The European Chamber BRI Survey and industry feedback

This section of the report presents the perspective of European companies in China on the BRI. Those already familiar the BRI can start here. Readers who want to know more about the BRI should first read the background provided in the Annex on page 41 before proceeding.

The Survey

Between 25th October and 8th November, the European Chamber surveyed its members to understand their perspectives on, and level of involvement with, the BRI.

The 132 respondents represent a wide range of different industries, and both large and small companies. The survey was sent to all European Chamber member companies, but recipients were encouraged to participate in particular if they have been involved in the BRI, or have felt any knock-on effect from it.

The number of respondents that have bid on a BRI-related project is relatively small (20), however, most have participated in multiple bids. Respondents were asked to choose from several ranges representing the number of bids their company had submitted. Even taking the lowest value from each range, the data refers to at least 240 projects.⁴

Input from members

To add a qualitative element to the quantitative data of the survey, the European Chamber conducted interviews with individuals from companies involved in the BRI. These discussions helped corroborate much of the data from the survey and provided additional depth to give a more complete picture of the European companies involved. A draft of this report was also sent to industry experts for their review of more technical aspects and their further input. The European Chamber is extremely grateful to all member companies that have given both their time and expertise to this report.

Challenges

One key challenge with conducting a survey on the BRI is the lack of official clarification of what a BRI project actually is. As the Center for Strategic and International Studies put it, “there is no agreed-upon definition for what qualifies as a BRI project.”⁵ The BRI brand is used liberally, with many projects involving Chinese companies abroad labelling their work part of the BRI, including in countries that have not signed a BRI memorandum of understanding (MOU) with China. Therefore, rather than attempting to settle on a narrow definition, the survey covered participation in ‘BRI-related projects’. Respondents were entrusted to make this judgement for themselves.

BRI participation

Bidding for contracts/subcontracts

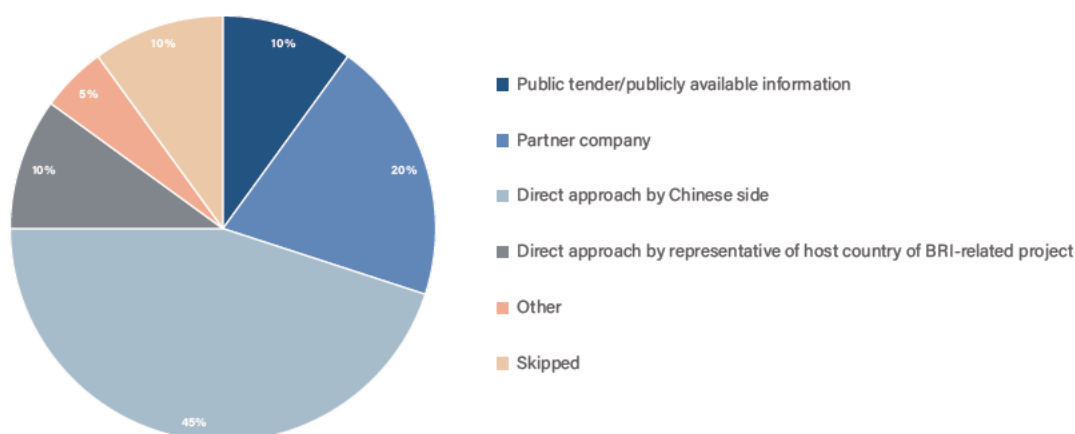
Many European companies struggle to find information on BRI-related projects to bid on in the first place. More than half of the companies that have bid on BRI-related projects list “insufficient information available” as a top challenge, while nearly 40 per cent say they struggled with “non-transparent public procurement systems”. The lack of transparency is made all the more apparent by the fact that a mere 10 per cent of bidding companies say they got notice of a BRI-related project from public tender/publicly available information. This reflects the findings of institutions like the World Bank, which has found that the procurement system in BRI projects falls below international standards.⁶

⁴ Ranges were 1, 2, 3–5, 6–10, 11–25, 26–50, and 51+

⁵ Barshevsky, Charlene, and Hadley, Stephan, *The Higher Road*, The Center for Strategic and International Studies, April 2019, viewed 19th December 2019, <<https://www.csis.org/higherroad>>

⁶ Ghossein, Tania, Hoekman, Bernard, and Shingal, Anirudh, *Public Procurement in the Belt and Road Initiative*, The World Bank, 20th December 2018, viewed 23rd December 2019, <<http://blogs.worldbank.org/trade/public-procurement-belt-and-road-initiative>>

How did you get notice of the BRI-related project?



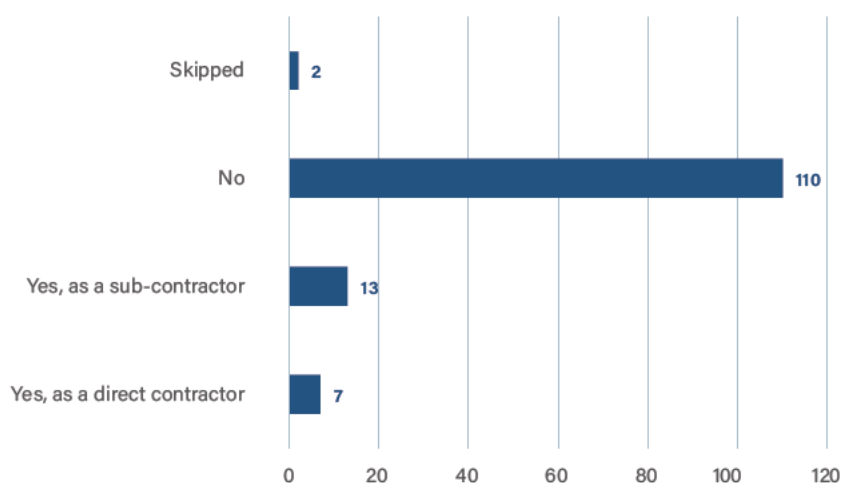
Few bidders, but plenty of bids

A very small number of European companies in China are involved in the BRI itself. Of the 132 respondents to the European Chamber's survey, just 20 indicated that they have bid on at least one BRI-related project, with seven bidding as direct contractors and 13 doing so as subcontractors. Of these, the most represented industries are financial services, machinery and logistics/transportation, with a notable lack of construction, energy and ICT/telecoms companies. Participants are also overwhelmingly multinational corporations (MNCs), with only five identifying themselves as small and medium-sized enterprises (SMEs).

Of the 20 companies that have bid on a BRI-related project, a quarter bid on fewer than five, three bid on more than 50, and the remainder fell in between. With the minimum figure taken from the range of possible selections, 240 bids are represented in this data at the very least.

Winners and losers

Has your company ever bid on part of a BRI project?



Companies that lost every bid generally made a very low number of attempts overall, while most that bid on moderate numbers were successful with at least a handful of contracts. The most successful bidders were those that bid on the greatest number of contracts, with two of the companies that bid on 50+ projects seeing 26 to 50 per cent of those bids converted into wins. One of those companies, interviewed for this report, stated that they had completed over 200 projects, indicating that they had likely bid on hundreds more.

While a handful of EU companies have derived some value from BRI-related projects, and an even smaller number have found broad success, the scope of involvement in BRI-related projects is limited, with most companies that won contracts filling niche roles as part of much larger projects that are overwhelmingly managed by Chinese companies.

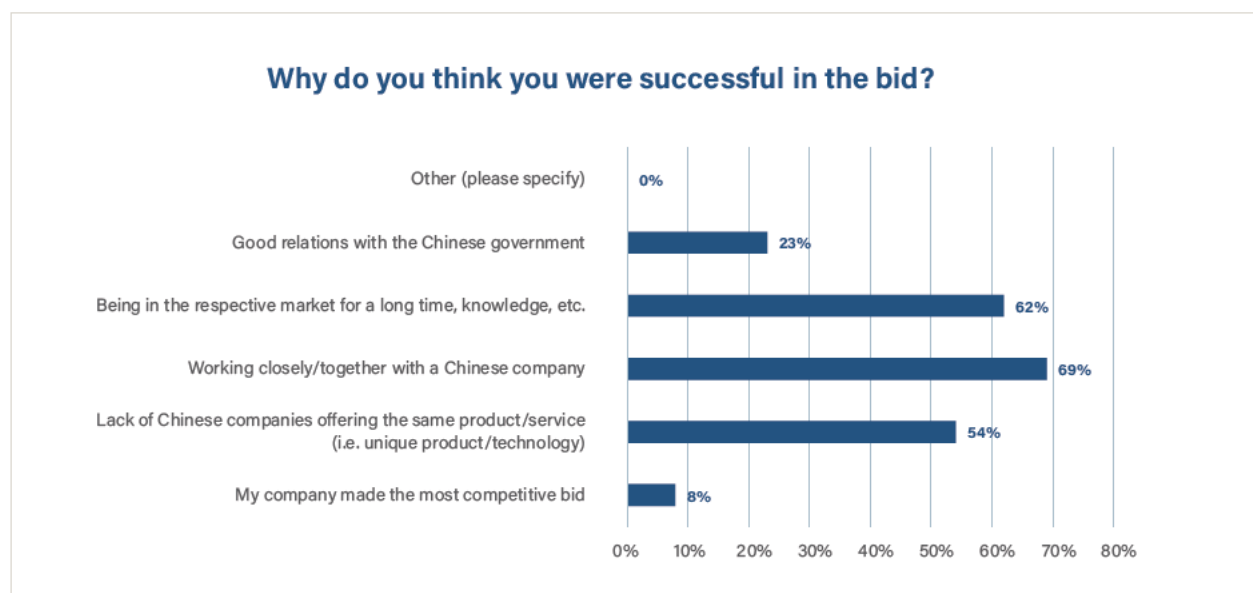
The small number of European bidders, and even smaller number of winners, correlates with trends reported elsewhere. For example, Jonathan Hillman, director of the Center for Strategic and International Studies' *Reconnecting Asia Project* had previously noted that as of January 2018:

"Out of all contractors participating in Chinese-funded projects within the *Reconnecting Asia* database, 89 percent are Chinese companies, 7.6 percent are local companies, and 3.4 percent are foreign companies. In comparison, out of the contractors participating in projects funded by the multilateral development banks, 29 percent are Chinese, 40.8 percent are local, and 30.2 percent are foreign."⁷

The recipe for success – bring something to the table that China can't provide

Companies that won bids indicate that it was mostly due to possessing unique goods/services that no Chinese companies could provide (54 per cent), their long-term presence in the respective market (62 per cent) and/or having a close relationship with an involved Chinese company (69 per cent).

Only three companies indicate that they won any bids due to a good relationship with the Chinese Government and only one says that they won because they had the most competitive bid.



This is not to suggest that European companies are not making competitive bids. However, as previously mentioned, only two bidding companies learned about BRI-related projects through public tenders/publicly available information. The vast majority were informed either by a partner company or by the Chinese Government, meaning that they were essentially hand-picked to participate. Therefore, the competitiveness of these bids is essentially irrelevant in the absence of actual competition.

⁷ Hillman, Jonathan, *China's Belt and Road Initiative: Five Years Later*, The Center for Strategic and International Studies, 25th January 2018, viewed 19th December 2019, <<https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later-0>>

Lack of transparency remains BRI's biggest problem

Transparency is at the top of the list of challenges that European companies face with the BRI. More than half say that there is insufficient information available to companies seeking to make bids, and nearly 40 per cent say that procurement systems for BRI-related projects are not transparent enough. Every interviewed company raises this as a central problem that they simply do not face in similar initiatives. Whether projects are part of the EU Connectivity Strategy, initiated by the World Bank or fall under Japanese Official Development Assistance (ODA), they all share the trait of high levels of transparency with copious amounts of publicly available information. Related information is posted well in advance of bidding deadlines, and open deliberations take place when deciding who wins a bid.

Ironically, many of the Chinese SOEs that dominate BRI-related projects also enjoy access to these other transparent initiatives, under which they frequently win contracts.

Conditions for BRI participation

Most companies are engaging in projects simply by selling into them rather than taking ownership or management roles, save for the joint ventures (JVs), most of which are financial service companies that formed in order to hold and manage projects being financed by them.

Six of the 17 surveyed companies that have won bids to participate in BRI-related projects formed JVs with Chinese SOEs to do so. Of those six, four hold only one to 25 per cent of shares, three classify themselves as financial service providers and one of them identifies itself as a logistics company. Only a single respondent indicated that they hold a controlling share of a JV with a Chinese SOE.

Are companies being pushed to source from certain suppliers?

Respondents were asked if they had been pressured to source from Chinese, local or other suppliers, or if they had been pushed to stop sourcing from any specific source. Only a single company reports that they were pushed to source from a Chinese company.

This stands to reason, as European companies are usually brought in to BRI-related projects for their specific technology and/or know-how. It therefore would not make sense for those managing the projects to push them to use specific inputs, lest it risk the quality of the outcome.

Is China using the BRI to export Chinese standards?

Not a single company indicates that employing Chinese standards was a condition for successful participation. However, it is noteworthy that the sample set represented in this survey does not include any companies from sectors where standards between different markets are particularly contentious, such as in ICT/telecommunications. Standards in the machinery and logistics sectors are comparatively uncontested and agreed upon internationally. Standards for digital goods, 5G and data, however, are still being set by various actors that are competing intensely over which should prevail.

Where are the BRI-related projects that European companies are involved in?

East/Southeast Asia: China, Malaysia, Indonesia, Thailand, Vietnam, Myanmar, Singapore

South Asia: India, Pakistan, Bangladesh

Central Asia: Kazakhstan, Russia, Uzbekistan

The Middle East: Dubai, Jordan, Saudi Arabia

Africa: Tanzania, Morocco, Ivory Coast, Algeria, Congo (not specified if DRC or ROC), Somalia, Sudan, Ethiopia

Europe: Belgium, Italy, Romania, Belarus, 'Central and Eastern European countries'

The Americas: Argentina, Brazil

The scope of European involvement in the BRI

Good business for a few, but still mostly crumbs from the table

The few European companies that have been involved in BRI-related projects have certainly enjoyed the fruits of participation, despite being all but blocked from playing a lead role.

However, it is interesting that the financial service providers interviewed indicate that it is far better business for them to try and engage in 'soft' BRI-related projects as opposed to the large, marquee infrastructure projects that are most often identified as being 'typically BRI'. They note that trying to play a role in projects like railways and ports is extremely limiting, as these are the areas most dominated by SOEs, and most politicised by both China and governments of target countries. Smaller 'soft' projects that are more organically developed—often including a higher proportion of Chinese privately-owned enterprises (POEs)—tend to be more open to greater participation from European financial service companies. In other words, there is bigger money for them in the smaller projects.

Companies in machinery and other inputs describe a similar trend. They report being sought out for projects by partner companies and recipient countries to provide their high-quality inputs, but that they are rarely given opportunities to bid on other parts of these projects. One interviewed representative states that while this has still led to meaningful increases in sales, European opportunities were “crumbs from the table, albeit pretty big crumbs”.

Two exceptions

Quality and safety services (QSS)/testing, inspection and certification (TIC) firms have managed to successfully acquire a small amount of market share in the pool of BRI-related projects in a way unique among European industries. While in the vast majority of BRI-related projects QSS/TIC services are rendered by entities connected with the big Chinese SOEs—much as happens in China itself—several participating countries have insisted on genuine, third-party inspection and certification services.

As industry leaders in the provision of these services, European companies often have deep, long-held relationships with the project-recipient countries insisting on these conditions. So rather than just plugging certain capacity/technology gaps, some European service providers in the QSS/TIC industry have been able to secure full participation in the handful of projects they are involved with, from inception to completion.

Chinese consortiums have also brought in European QSS/TIC providers in situations demanding a global presence. One project, for example, was being developed in a region that, due to weather conditions and geography, required offsite module production to the highest standards.⁸ The most suitable providers of these parts were scattered across the globe, putting provision of TIC services in this particular situation beyond the capability of China's SOEs. A European provider was therefore brought onboard to oversee everything from material selection and production to installation and testing, due to their strong track record and their footprint in the many countries where production was being completed. The company assigned hundreds of teams to the project, and they put in well over a million hours of quality and safety inspection to ensure successful delivery of the project.

Shipping and logistics companies also report a relatively higher level of involvement in some BRI-related projects, in some cases reporting comparatively equal participation between themselves and their Chinese partners. They noted that the European side often brings critical technology, know-how and procedures, while the Chinese side generally contributes a higher share of financing, which it often has in abundance whenever the BRI label is slapped on a project.

An unexpected trend: Chinese companies trying to shape the BRI

One interesting pattern that has emerged is that Chinese SOEs and POEs are increasingly attempting to identify

⁸ Modules are parts/sections that make up a whole. Sections of a production facility, for example, can be built in a country/region with a better climate and then shipped to the final destination to be assembled.

potential BRI projects on their own in order to expedite overseas investment, which is normally subject to a wide variety of approvals.

The State Administration of Foreign Exchange (SAFE) and the People's Bank of China (PBOC) developed stringent controls of foreign exchange, particularly in response to fears of capital flight in the earliest days of the BRI and the 'Go Out' policy, after the government had encouraged Chinese capital to acquire overseas assets and technology. Companies erroneously aligned this strategy with China's goal of winning a Fédération Internationale de Football Association (FIFA) World Cup by 2050, and subsequently invested billions in European football clubs,⁹ leading to a tightening of capital controls. If Chinese firms successfully push for projects that they identify to receive the BRI label, it can help to circumvent these restrictions.

The wallets of the Belt and Road

Before covering the European business view on BRI financing, it is important to note that BRI-related projects are not gifts paid for by China, they are built and financed by Chinese firms, policy/commercial banks, and companies. Recipient countries then take out debt held by the Chinese Government/banks. As Moody's recently reported, "[the] BRI remains predominately debt-financed, with Chinese entities, particularly policy banks and SOEs, the largest sources of funding."¹⁰

China's Policy and Commercial Banks do the Financial Heavy-lifting	
China Development Bank	USD 183 billion in outstanding loans for BRI-related projects by the end of 2017
Export-Import Bank of China	USD 118 billion in outstanding loans in BRI-related projects by the end of March 2018
Industrial and Commercial Bank of China, Bank of China, China Construction Bank,	USD 225 billion in outstanding BRI credits for 800 BRI projects

Source: Business Sweden¹¹

The predominance of funding from Chinese sources of financing sets the BRI apart from truly multilateral development programmes.^{12&13} Only a single surveyed company indicates that they participated in a project in which an international organisation was involved. A sole respondent reports that a project they were involved in was financed by the recipient country's government, while three say that non-Chinese companies/banks played a role. Two-thirds of respondents report that Chinese companies/banks were financing projects while just under half say that the Chinese Government was involved.

9 Sha, Liu, *Why Chinese Companies are Investing in Football Clubs Overseas*, CKGSB KNOWLEDGE, 26th September 2016, viewed 18th December 2019, <<http://knowledge.ckgsb.edu.cn/2016/09/26/sports/chinese-companies-investing-football-clubs/>>

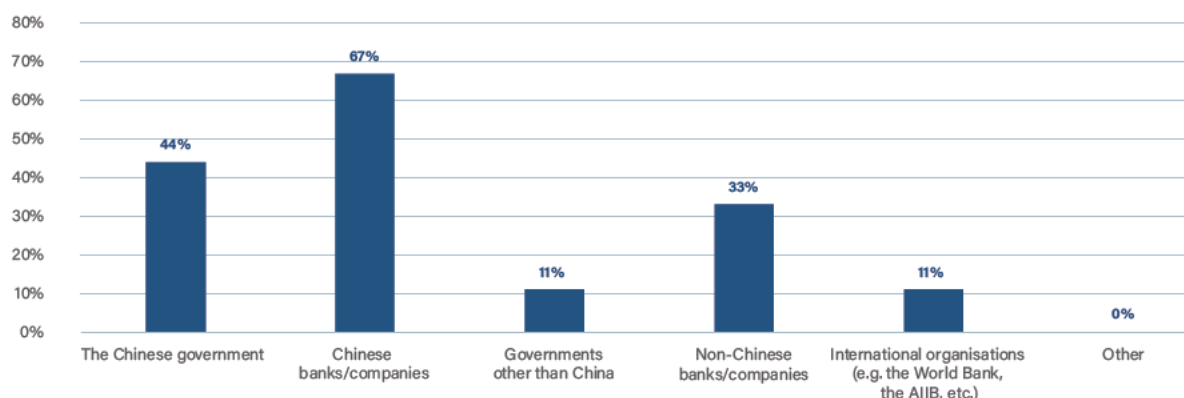
10 Fernandez, Eduard, *What the Belt and Road can Learn from the AIIB, Infrastructure Investor*, 27th February 2019, viewed 19th December 2019, <<https://www.infrastructureinvestor.com/what-the-belt-and-road-can-learn-from-the-aiib/>>

11 *China's Belt and Road Initiative*, Business Sweden, 18th February 2019, p. 13, viewed 23rd December 2019, <<https://www.business-sweden.se/en/Trade/analysis-and-reports/fact-packs-markets-and-industries/china-belt-road-initiative/>>

12 Kynge, James, *Chinese Contractors Grab Lion's Share of Silk Road Projects*, *Financial Times*, 24th January 2018, viewed 18th December 2019, <<https://www.ft.com/content/76b1be0c-0113-11e8-9650-9c0ad2d7c5b5>>

13 Eisenman, Joshua, *Contextualizing China's Belt and Road Initiative*, Speech at the US-China Commission, Washington DC, 19th January 2018, viewed 18th December 2019, <https://www.uscc.gov/sites/default/files/Eisenman_USCC%20Testimony_20180119.pdf>

Which of the following has financed BRI-related projects your company has been involved in? (multiple answers allowed)



One interviewed company that has been heavily involved in the BRI reports that it is quite common to see the financing vehicles set up by the Chinese Government and/or Chinese banks serve as the initial financiers of projects. However, as higher scrutiny over spending has resulted in lower levels of policy bank financing, projects are pressured to 'undervalue' the financing needs of projects initially. When resources run short, it then falls to the Chinese SOEs contracted to complete the project to cover the budget shortfall, which they can easily do due to their nearly limitless access to commercial financing in China.

European financial players mostly facilitators and go-betweens

Not unlike other areas of the BRI, financing of projects provides only limited opportunities for European players, with European banks primarily brought in to fill certain gaps where there are no Chinese alternatives. This happens in one of several ways.

First, and most commonly, European firms are brought in because of their existing relationship with Chinese partners already involved in a BRI-related project.

Second, European financial services providers with a stronger background in certain key services are brought on board, even if they do not have strong ties to the Chinese companies leading a project. Most commonly, this means providing services like cross-border transactions and foreign exchange, areas where European banks hold an advantage.

Third, they are brought in to provide their experience in third country markets. In cases where the Chinese side and the recipient country have limited (if any) experience of each other, there may be concerns. For example, one bank noted that local governments were often concerned about reports of poor standards or 'debt-trap diplomacy', while Chinese firms often doubted that local companies would adhere to contracts when bringing them in to provide inputs for a project. This lack of mutual trust can be alleviated by involving European financial players that have experience in the recipient country, as they can identify reliable actors on the local side while also engaging with Chinese companies to ensure standards are upheld and that projects are feasible.

Finally, European banks have also been asked by the consortiums that develop projects to assist with managing the finances of the group, and then to help finance and manage the project once it is up and running. It is becoming more and more common that European banks are being involved early on so as to make a project more bankable from the outset, a sign of progress for BRI-related projects that have often struggled to become profitable in the past.

The accidental birth of a multinational development bank

When first proposed by the Chinese Government in 2013, the goal of the AIIB was to function as a China-led development bank that could compare to the World Bank and the Asian Development Bank (ADB). Early participation from many developed economies, including several European ones, helped introduce into the AIIB more international norms and practices regarding development financing.¹⁴ This led to the requirement for projects that would qualify for AIIB financing to be transparent, feasible, and environmentally and financially sustainable, as well as to have fair and open procurement and tendering processes, or to paraphrase the AIIB's founding President Jin Liqun, for them to be "lean, clean and green".¹⁵

Ironically, by adopting these norms, the AIIB inadvertently became a bank that cannot finance most BRI-related projects for the same reason that other multinational development banks (MDBs) have not; they do not meet the required standards. Of the United States dollars (USD) 12 billion invested by the AIIB across 63 projects at the end of 2019, only a modest portion fell under the BRI, and most projects have been co-financed by other MDBs.^{16&17}

Nevertheless, the AIIB offers a sound model for how the BRI can go from a series of bilateral infrastructure deals to a truly multilateral plan that brings in not only global financing, but also international standards and norms.¹⁸

How do BRI-related projects stack up?

The few European companies that have so far been involved in the BRI report mixed quality in the various projects they have worked on. In areas like quality of standards and project feasibility, BRI-related projects fare slightly better than they do in terms of environmental and financial sustainability.

On a scale of 1–10, with 1 being the worst ranking and 10 being the best, how would your company generally rate the BRI-related projects it has been involved in? (number of ticks represents number of respondents giving the corresponding ranking)											
	1	2	3	4	5	6	7	8	9	10	Average ranking
Project Feasibility	I	-	I	-	-	I	-	II	I	II	6.875
Environmental Sustainability	-	I	I	I	-	I	-	I	II	I	6.375
Financial Sustainability	-	-	I	-	II	II	I	I	-	I	6.25
Quality of Standards	-	-	-	I	-	I	I	II	III	-	7.5

Respondents' perceptions of projects' feasibility are clearly quite varied, with several companies viewing them as extremely unfeasible, and a majority assessing the practicality of projects to be quite high. The same can be said of the environmental sustainability of BRI projects.

The perception of projects' financial sustainability is far less varied, but the middling ratings it gets result in this category having the lowest average out of all of these metrics. This is backed by feedback provided by a number of European companies that suggest BRI-related projects frequently take place in markets in which Chinese state

14 Shepard, Wade, *The Real Role of the AIIB in China's New Silk Road*, *Forbes*, 15th June 2017, viewed 23rd December 2019, <<https://www.forbes.com/sites/wadeshepard/2017/07/15/the-real-role-of-the-aiib-in-chinas-new-silk-road/#7ddc33fb7472>>

15 Jin, Liqun, *Opening Address Meeting of the AIIB Board of Governors*, AIIB, 16th June 2017, viewed 18th December 2019, <https://www.aiib.org/en/about-aiib/governance/board-governors/content/index/_download/20160816034745788.pdf>

16 *Approved Projects*, AIIB, December 2019, viewed 19th December 2019, <<https://www.aiib.org/en/projects/approved/index.html>>

17 Hameiri, Shahar, and Jones, Lee, *The Misunderstood AIIB, The Interpreter*, 17th May 2018, viewed 19th December 2019, <<https://www.lowyinstitute.org/the-interpreter/misunderstood-aiib>>

18 Brinza, Andreea, *China can Replace Belt and Road Bilateral Deals with Multinational Cooperation*, *Nikkei Asian Review*, 10th May 2019, viewed 23rd December 2019, <<https://asia.nikkei.com/Opinion/China-can-replace-Belt-and-Road-bilateral-deals-with-multilateral-cooperation>>

planners and companies/banks have limited to no experience. In lieu of relevant in-country knowledge, the fallback position is to rely on approaches that may have worked well in China as the country constructed its own infrastructure. This limited ability to adapt to local conditions, especially in the earlier days of the BRI, led to the previously-mentioned need for SOEs to step in and fill the financing gap, further driving up costs, and with it the debt-burden of the recipient country.

The BRI-related projects in which European companies are involved hold up quite well on the quality of standards. This is not surprising to European companies in China, which have witnessed steady improvements in the quality of work done by Chinese firms. It also speaks to the level of involvement of European QSS/TIC providers.

However, all of these metrics leave a significant gap that needs to be filled: well-built infrastructure can drastically change a community for the better, but poorly built projects can extract more value than they end up creating.¹⁹

The push-pull effect of the BRI

The few companies that have participated in over 50 BRI-related projects report that they were impelled to participate in most of them by Chinese SOEs they have a history of cooperation with. Essentially, when they were brought in, it was to provide certain high-quality technologies or systems.

Interviewed businesses note that there is sometimes pressure to participate further than the company would like to, or to do so under conditions they are unsure of. These cases range from projects being executed with low standards to ones in which there are security concerns. However, not a single interviewee reports subsequently deciding to participate, nor that this had a negative impact on opportunities for joining future projects.

Leveraging the BRI label

Some companies have found that they have been able to quickly 'pull' resources into certain projects by convincing China to apply the BRI label to them. Several companies were asked in interviews if they would have otherwise completed these projects without the BRI-related resources and the engagement of Chinese companies. They indicate that these were all projects they were interested in, and that they would indeed have been happy to engage in them with other governments, financiers and companies to get them completed. They further note that the advantage they gained by bringing the Chinese in is that they were able to get the ball rolling on these projects far more quickly and comprehensively.

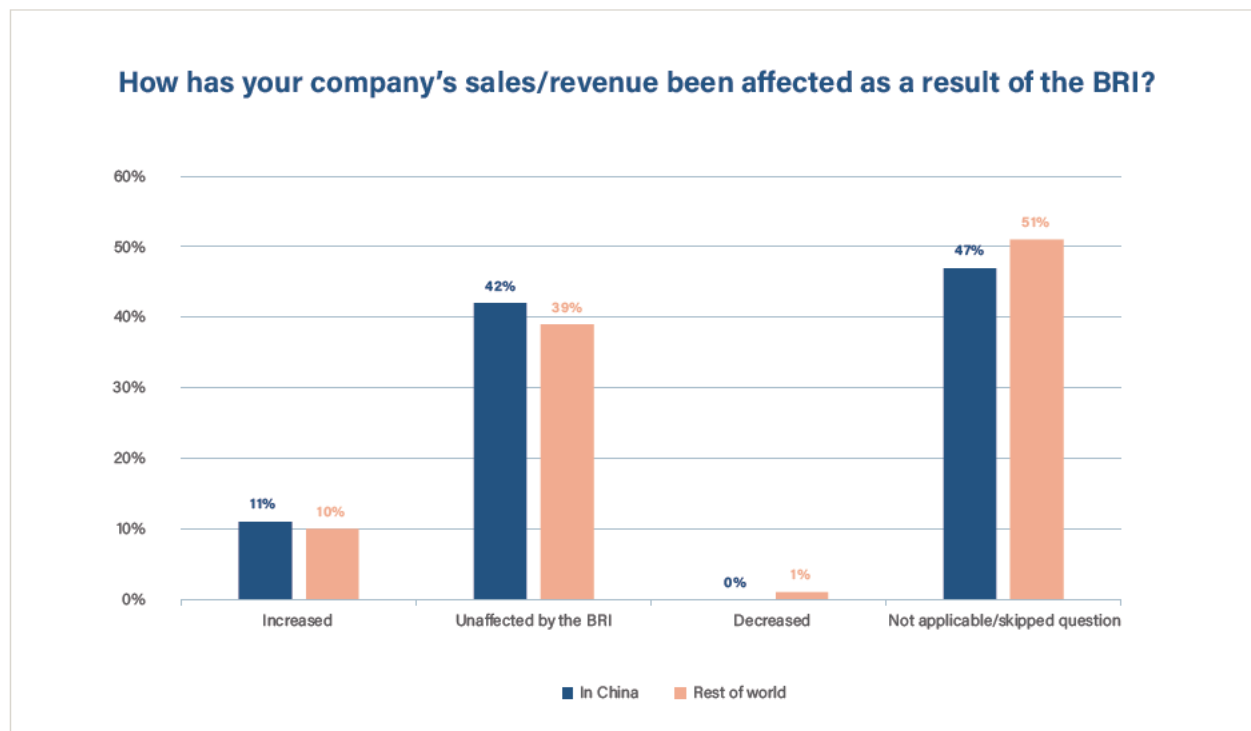
In other words, there is clearly an appetite among companies for such projects outside of the scope of China and the BRI, but the current alternative mechanisms that exist for bringing the required resources together remain slow, uncoordinated and insufficiently ambitious.

¹⁹ Ansar, Atif, Flyvbjerg, Bent, Budzier, Alexander, and Lunn, Daniel, *Does Infrastructure Investment Lead to Economic Growth or Economic Fragility? Evidence from China*, *Oxford Review of Economic Policy*, vol. 32, no. 3, January 2016, pp. 360–390, viewed 18th December 2019, <<https://doi.org/10.1093/oxrep/grw022>>

The Influence of the BRI

In addition to direct participation in BRI-related projects, European companies report a wide variety of effects as a result of the initiative, from direct impact on revenues or supply chains, to shifts in competition in project-recipient countries.²⁰

How has your company's sales/revenue been affected as a result of the BRI?



Negligible impact on revenues

When asked about the impact of the BRI on revenues in and outside of China, the overwhelming majority of European companies report that they have felt no impact, around one tenth report seeing increased revenues and only a single business indicates a decrease. Worth noting is that more than half of those that saw increased revenues are the same companies that have directly participated in projects.

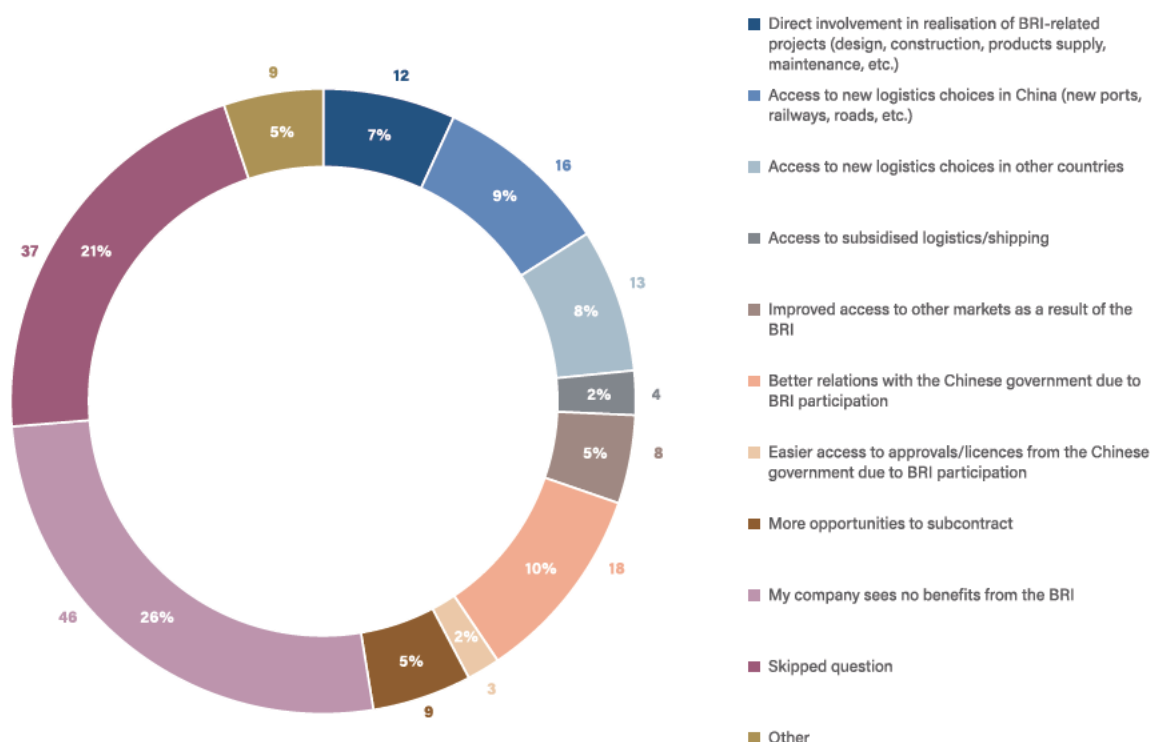
The remaining companies that saw revenue increases due to the BRI cite various reasons related to subcontracting and higher demand for inputs and services. One consultancy states that demand for political risk services has risen, while a company in the hospitality sector indicates that higher numbers of business and leisure travellers have positively impacted business.

Supply chains not yet feeling a tug

Only eight members report that the BRI has impacted their supply chains, most of which has been positive. The most common effect is due to an increase in logistics options, while a company that produces components for Chinese-made construction equipment has seen demand for inputs rise significantly. Many BRI-related projects remain ongoing or have only recently been completed, so it can be assumed that further supply chain shifts may be forthcoming.

²⁰ References to the survey in this section incorporate all respondents to the survey (132), rather than the smaller sample size of companies that have directly participated in BRI projects (17).

From which of the following aspects of the BRI, if any, has your company benefitted? (select all that apply)



How are global markets affected?²¹

A third of respondents say they have noticed increased competition from Chinese SOEs in projects outside of China (either BRI-related or otherwise) as a result of the BRI. In addition to gaining competitiveness through economies of scale from government subsidisation, cheap loans and a lack of competition in their home market, they are now able to dominate BRI contract bids to further scale up overseas, which means that the playing field in many emerging markets is tilted very much in their favour. This results in distortions creeping into other markets, due to such effects as the lower prices that Chinese SOEs can provide as a result of the BRI, as reported by a quarter of survey respondents.

Respondents were also asked if they had noticed a change in the level of participation from non-Chinese companies in projects outside of China as a result of the BRI. Although the BRI is heavily couched in language about cooperation and inclusiveness, the data does not appear to back this up. Higher levels of participation are reported by 21 per cent, 17 per cent report having seen lower participation, with the rest not having seen either. It is concerning that the 17 per cent report seeing less participation from non-Chinese companies, as it could indicate that the BRI may be crowding out not only other foreign competition looking to participate in projects in third countries, but also local companies based in these countries.

Vertical integration, a recipe for Chinese dominance

As reported by 40 per cent of respondents, Chinese companies often take an integrated approach to BRI-related

²¹ For this section, references to the European Chamber's BRI Survey are based on companies that responded "yes" to the question, "Does your company have significant operations/sales outside of China and your home market?". This gave a sample size of 77 respondents for subsequent questions about the effects of the BRI on global markets. The rationale behind this was to improve the quality of responses to those questions by ensuring that only respondents with interests in Africa, South America and the rest of Asia, who would be in a better position to witness global markets, would be providing the feedback.

projects, providing everything from the materials for a project, the construction service providers and the financing, to the post-construction services.

This is a powerful allure for recipient countries that are looking for timely results, as tight coordination between the Chinese Government and Chinese companies (chiefly SOEs) allows them to quickly put together contracts and plans, and break ground shortly after finalising a deal. As a result, projects are swiftly completed, and the need to coordinate and balance the interests of diverse firms is vastly reduced.

However, this approach is profoundly disconcerting to the European business community, as it removes meaningful competition and guarantees that contracts find their way into the hands of specific companies. This lack of competition and due process in procurement is also worrying for anyone concerned with transparency, quality, cost and fairness.

What does this new infrastructure mean?

The new infrastructure being developed along the BRI could bring meaningful opportunities to many, as long as projects are pursued under the right conditions. Despite concerns about the feasibility, and environmental and financial sustainability of some projects, it is difficult to imagine scenarios for most projects that would not lead to improved access to various markets, and cheaper logistics prices that would facilitate increased trade in goods. What it might mean for some of the countries loading up on debt to pay for the projects is a different story altogether.

Better access to customers in areas that are currently limited by poor infrastructure would be a positive outcome for many European companies. It is also potentially positive for producers in those regions that had not previously been able to competitively export their own goods due to prohibitively expensive logistics options. However, the different networks being constructed under the BRI—rail, maritime and digital—have significantly different impacts.

The rail story: a large, expensive 'belt' packed with subsidies

The BRI's railway story has been one of the most hyped, and not without reason: the image of consumer goods being unloaded from containers that just crossed the Eurasian continent by train is a powerful way to positively influence public opinion, and represents an undeniable achievement (one interviewed executive at a China-based logistics company even proudly displays in their office a bottle of Italian wine from the first service to directly connect Italy and China). A wide variety of new freight schedules are now available to companies looking for options to transfer goods between Europe and China and everywhere in between.

Optics aside, the value of a transcontinental rail network with mostly relatively small markets in between the world's two largest is not entirely clear. Maritime shipping still presents by far the cheapest logistics option (the largest container vessels can hold up to 20,000 containers, while trains can only be made up of around 50 carriages), and any company that needs a quicker option can rely on air freight.

However, the rail option presents two main opportunities to European companies.

Untapped markets made accessible

The first is for transporting goods to markets that are otherwise out of reach to maritime shipping. Many inland markets in Central Asia and the Middle East are increasingly accessible due to routes provided by new railways. Prior to the rail lines' existence, goods could only reach some of those markets via air, or first by sea, then by land via either truck, train or a combination of the two. These chiefly developing economies often could not afford the additional cost that needed to be included in a product due to such expensive freight options, leaving a gap between consumers and certain goods. New rail lines are bridging that gap, with several involved companies reporting that goods from Japan, South Korea and Southeast Asia are now being shipped by sea to China, and then overland by subsidised rail to these emerging markets.

Some products are well-suited for rail logistics

Although many are making use of the new BRI-driven rail services between China and the EU because of the extraordinary level of subsidisation available for these lines, there are still not-insignificant numbers of products that are best suited to long-distance rail.

Many original equipment manufacturers (OEMs) have abandoned internal warehousing in favour of just-in-time delivery of inputs. Automotive components are a good example of this, as many automotive OEMs use this method of delivery to keep their costs low. Automotive companies in China that need to import components from suppliers in Europe would normally rely on a 30+ day cargo ship delivering these goods, which would then need to be offloaded and sent along to inland production sites, like Chengdu or Chongqing.²² For suppliers, this means that the working

22 Williams, Marcus, *Express Rail Deliveries Increase Along Silk Road*, *Automotive Logistics*, 23rd April 2019, viewed 18th December 2019, <<https://www.automotivelogistics.media/supply-chain-management/express-rail-deliveries-increase-along-silk-road/37950> article>

capital tied up in their components is lost for the entire shipping period. The comparable approximately-15-day trip by rail reduces this impact considerably, and at a cost that, while still more expensive than maritime shipping, remains relatively low per unit of high-value items.

Many other goods, like consumer electronics and computers, have a high value to weight ratio, which makes the actual increase in cost for shipping a container by rail negligible when spread out per item in the container.²³ This is also true for some retail goods like clothing.²⁴ The increased cost of rail shipping per pair of trousers in a container filled with them is next to negligible, while the additional speed of rail gives more options to respond to such stimuli as changing consumer demands and seasonal shifts.

Sustainability is driving rail interest

The drive for environmental sustainability in Europe is causing more and more companies to reconsider their supply chains to take carbon emissions into account. Air freighting a 12,000-kilogram load from Chengdu to inland Western Europe, for instance, produces about 54 tonnes of carbon dioxide (CO₂), while shipping by maritime and rail routes produces 3.3 tonnes and 2.8 tonnes respectively.^{25&26} As more European, and hopefully Chinese, companies embrace a more sustainable approach, demand for rail services could grow.

Carbon emissions from shipping one 12,000kg container from Inland China to Inland Europe	
Air	54 tonnes
Rail	2.8 tonnes
Sea	3.2 tonnes

Rail subsidies cannot be ignored

Unfortunately, much of the demand for these routes is currently being driven by the heavy subsidisation of rail freight.

One logistics company interviewed for this report indicates that a rough average cost for one container from most places in China to most places in the EU costs around USD 7,000. The estimated average subsidy on those routes is USD 3,000–4,000, with some shipping hubs offering less, but several offering far more.²⁷ Although the central government set a cap on subsidies at USD 0.8 per kilometre (km), provincial and local governments have applied their own on top.²⁸ The most extreme example of these can be found in the city of Xi'an, where subsidies are so high that final freight costs are comparable to maritime shipping.²⁹ This creates an absurd distortion where it is cheaper to ship goods produced in Xinjiang west by first going 1,000+ km east to Xi'an, where they then enjoy local subsidies to go back west.³⁰ The subsidies for the return trip are even more staggering.

Even after taking subsidies into account, Chinese companies shipping to Europe may accept paying more for rail than maritime freight due to the political capital they can build by being seen to contribute to the success of the BRI. Companies in Europe feel no such pressure, and aside from the handful of high-value-to-weight-ratio goods mentioned previously, most commodities from Europe will continue to go by sea or air for the time being. Therefore, in a bid to prevent trains from returning without any cargo, even heavier subsidies are being provided. Interviewed business leaders indicate that after-subsidy prices had reached as low as USD 400 per container, a price comparable to maritime shipping, but with the ability to reach customers in half the time.

23 *New Silk Road – The golden middle way*, NG Economics Department, February 2019, viewed 18th December 2019, <https://www.ingwb.com/media/2742866/new-silk-road_the-golden-middle-way-report.pdf>

24 Ibid.

25 Note: maritime shipping produces less CO₂ per unit of distance, but 1) rail distances across Eurasia are much shorter than maritime ones, and 2) if shipping between two inland locations, shipping by sea must also incorporate further transport between them and the most convenient ports.

26 *New Silk Road – The golden middle way*, NG Economics Department, February 2019, viewed 18th December 2019, <https://www.ingwb.com/media/2742866/new-silk-road_the-golden-middle-way-report.pdf>

27 *Average Container Subsidies of USD 3,000? China-Europe Rail Subsidies Across the Country*, *China Trade and Finance Net*, 9th July 2019, viewed 18th December 2019, <<http://www.sinoff.com/GB/Logistics/1113/2019-07-09/3NMDAwMDMzNTk3NA.html>>

28 Van Leijen, Majorie, *Chinese Subsidies for the New Silk Road on a Decline, Rail Freight*, 1st October 2019, viewed 18th December 2019, <<https://www.railfreight.com/specials/2019/10/01/chinese-subsidies-for-the-new-silk-road-on-a-decline/?gdrp=accept>>

29 Ibid.

30 Ma, T.J., *Empty Trains on the Modern Silk Road: When Belt and Road Interests don't Align*, *Panda-paw Dragon-claw*, 23rd August 2019, viewed 18th December 2019, <<https://pandapawdragonclaw.blog/2019/08/23/empty-trains-on-the-modern-silk-road-when-belt-and-road-interests-dont-align/>>

It is difficult to see how this situation is remotely sustainable.

Fortunately for the sake of markets, it appears that these subsidies are being wound down. While China's Ministry of Finance initially subsidised up to half of the cost of a shipment along these routes, it is reported that this level will drop to 30 per cent by 2020, before being abolished entirely by 2022.³¹ Chinese regulators have intervened in the interim to require that all containers on these rail schedules are actually filled, to deter companies looking to turn a profit on half-filled trains due to the level of subsidisation.³²

However, one European executive doubts that these subsidies will be effectively wound down until they have been replaced by comparable support through other means. This business leader predicts that as long as the success of the BRI carries such a high political value, and that demonstrating successful BRI-related work remains highly advantageous for advancing government careers, other ways would be sought by officials to maintain high usage of the railways, with their cities still functioning as major hubs.

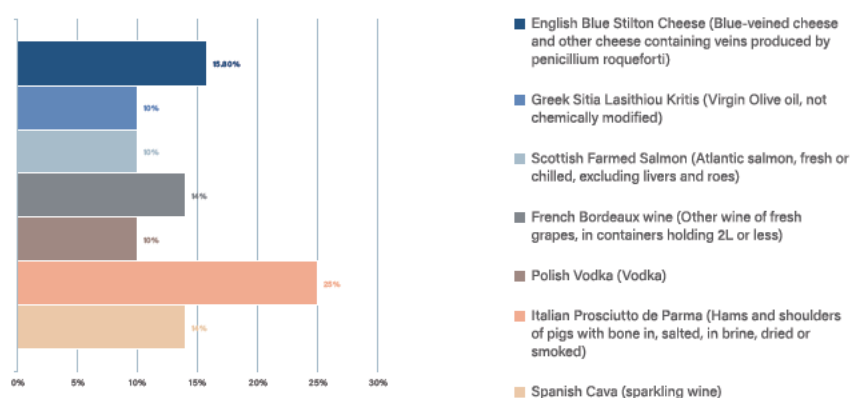
Unbalanced trade flows raise rail costs

With euro (EUR) 605 billion in trade in goods between the EU and China, there is ample flow for railways to tap into. However, for every euro worth of goods going east, two euros worth of goods move to the west.³³

This trade imbalance between the EU and China is laid bare by the intercontinental rail system: the higher subsidisation of west-east rail services is only necessary because of the low number of filled containers going back to China. There are several things China could do to address this, such as removing market access barriers and aligning domestic product safety standards with international norms, but there is one step that could be taken now that would have a significant and immediate impact.

China could further lower tariffs on a wide range of consumer goods that are suitable for rail shipment. One area that would benefit in particular is agriculture, food and beverage imports. On the back of the November 2019 signing of the EU-China Bilateral Agreement on the Cooperation on, and Protection of, Geographical Indications, China could drop the tariff rates on related European goods.^{34&35} Doing so could ultimately drive greater demand both for these goods and for rail freight, while also connecting China's middle class to more high-quality European products.

China's tariff rates on some EU Geographical Indications included in the 2019 agreement (tariff category in parenthesis)



31 Leng, Sidney, *Why China Sent Empty Cargo Containers by Railway to Europe*, *Inkstone News*, 21st August 2019, viewed 18th December 2019, <<https://www.inkstonenews.com/business/why-china-sent-empty-cargo-containers-railway-europe/article/3023705>>

32 *Only Fully Loaded Trains to Depart from China*, *Rail Freight*, 23rd October 2018, viewed 18th December 2019, <<https://www.railfreight.com/beltandroad/2018/10/23/only-fully-loaded-trains-to-depart-from-china/>>

33 *EU-China Trade in Goods: EUR185 billion deficit in 2018*, Eurostat, 4th September 2019, viewed 18th December 2019, <<https://ec.europa.eu/eurostat/web/products-eurostat-news/-/EDN-20190409-1>>

34 *Landmark Agreement will Protect 100 European Geographical Indications in China*, European Commission, 6th November 2019, viewed 18th December 2019, <https://ec.europa.eu/commission/presscorner/detail/en/IP_19_6200>

35 List of EU Geographical Indications protected under the agreement: <https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/food_safety_and_quality/documents/eu-100-list-of-gis-eu-china-agreement_en.pdf>

Dangerous goods transportation: sound hardware requires good software

European petrochemical producers have been eager to ship certain products across the continent by rail. However, they note that while the railways themselves meet their needs, the 'software' along the various routes presents significant barriers, specifically for the shipping of dangerous goods (DGs). The main challenges are regulatory irregularities and the limited regulatory capacity encountered from jurisdiction to jurisdiction.

The transcontinental rail routes that have been developed under the BRI go through a variety of different jurisdictions before arriving in the EU Common Market. Even the simplest journey necessitates crossing into Russia, then Belarus, before arriving in the EU as the train undergoes the final crossing at the Polish border. However, other lines also pass through Mongolia or Kazakhstan, and the planned lines still under construction add several other central Asian states, Iran, Turkey and Serbia to the equation. As it stands, customs and safety regulations regarding rail transportation are not aligned between these different countries, making the shipping of various DGs by rail a difficult, if not impossible proposition.

In addition, within China there are a variety of challenges to obtaining DG transportation licences, as well as issues stemming from the insufficient number of DG-handling stations, especially in key areas such as borders and major rail intersections. Outside of China, similar issues exist across different jurisdictions, adding significantly to uncertainty for shippers that do not know if they can rely on the quality of regulators, or their tools, along the route.

China could help to alleviate these problems by taking a lead role in engaging with regulators along these lines to align customs and safety standards. China could also participate in mutual capacity building to ensure that regulators can do their jobs well while maintaining safe and smooth operation of the railways.

Other processes could be similarly aligned. Creating standard forms for necessary administrative tasks, for example, would be a simple but meaningful way to reduce costs and streamline rail transit. Furthermore, exploring opportunities to digitise much of the customs processes at borders could save considerable time – up to two full days according to one interviewed executive.

Far from a 'bridge to nowhere', but hardly a profit-maker

Taking these corrective steps would help bring an end to the various distortions in the rail freight market that have resulted from excessive state planning.³⁶ Exactly what this means for the railways remains unclear.

For example, the reduction of subsidies for the Harbin schedules to Moscow and Hamburg led to them being cancelled. The resulting decrease in traffic will further raise the pressure to deliver an economic return on these massive projects. However, these railways will continue to carry certain kinds of goods while also affording markets along the way feasible logistics options for the first time.

Nevertheless, the European business community remains sceptical about how much freight will really move along these railways in the absence of subsidisation. As one executive puts it, "for the bulk of goods, the feasibility of transcontinental rail shipment will rise and fall less because of market forces like supply and demand, but more due to the political will to raise or lower subsidies and incentives."

The maritime story: not all plain sailing

Opinions on the impact that new ports being constructed throughout Eurasia and Africa under the BRI are likely to have differ, depending on which lens they are being viewed through. Most of these ports should contribute to the development of emerging markets and facilitate increased global trade flows, just as modern port development and containerisation has always done.³⁷ However, current practices in port and terminal management in China cast doubts

³⁶ Mardell, Jacob, *EU-China Rail Freight: Trade Infrastructure Investment, or Propaganda Tool?*, Merics, 15th April 2019, viewed 19th December 2019, <<https://www.merics.org/en/blog/eu-china-rail-freight-trade-infrastructure-investment-or-propaganda-tool>>

³⁷ Reid, Hector, *How the Shipping Container Created Today's Global Economy*, Moneyweek, 8th March 2019, viewed 22nd December 2019, <<https://moneyweek.com/511580/how-the-shipping-container-created-todays-global-economy/>>

over how China's SOEs will run these new facilities elsewhere, and concerns are further raised due to the presence of the SASAC (which manages China's central SOEs) throughout the entire value chain.

More ports that are more modern

Some of the ports and terminals that have been developed under the BRI represent projects that a number of European companies were eager to see completed. Many had been planned in advance and earmarked to commence once companies were able to marshal sufficient resources, financing being the most significant. A major benefit of the BRI is that it provides a framework for directing financing at infrastructure projects. By pulling Chinese partners towards these kinds of projects, European firms found that the projects could be swiftly connected with Chinese financing, along with Chinese service providers to construct them. As an additional bonus, these valuable projects, which create profitable opportunities for European businesses, were up and running years ahead of the original plans.

More trade between more markets

As with the railways, additional ports could help local markets that previously struggled to connect with the rest of the globe begin to do so; good news for trade going both ways. Developing ports compatible with the modern containerised system has already “enabled developing economies simply to join existing supply chains rather than build an entire industry from the ground up.”³⁸ Provided these ports are constructed in regions where sufficient demand exists and/or can be developed, and local governments can endure the debt incurred for them, they are likely to have a positive impact.

Magnifying China's shipping practices

European shipping companies operating in China face an uphill battle, with protectionist policies in place that inhibit competition. A variety of centrally-owned SOEs control the ports, the port services and the shipping providers. In a regular market economy, such *de facto* vertical monopolies would either be broken up, heavily regulated and/or viably competed with on a level playing field. There are justifiable concerns that the Chinese model could be exported overseas to ports in third country markets that have been built under the umbrella of the BRI.

Europe can ship to most, China can ship to all

A further problem exists due to different cabotage laws in China and Europe. These laws aim to protect domestic shipping from foreign competition, a common practice.³⁹ In China, cabotage laws prohibit a foreign-flagged vessel shipping goods out of Tianjin and another shipping goods out of Shanghai from consolidating and reorganising their cargo between the two ships in a Chinese port to more efficiently move goods to their final destinations (a practice known as ‘relay’).⁴⁰ Only Chinese-flagged vessels operated by a wholly Chinese-owned company can currently do this in Chinese ports.

Because a few EU Member States have similar restrictions in place, this may look like reciprocity. The issue, however, is that China has a vast coastline (the world's 11th longest)⁴¹ with many busy ports (nine of the world's top 20 busiest by container throughput);⁴² the EU, meanwhile, only holds three of the world's busiest ports—Rotterdam, Antwerp and Hamburg—all of which are in different member states that have very short coastlines.

Since there is no common EU cabotage law, individual member states apply their own within their jurisdiction. This means that a Chinese-flagged vessel can load up in Hamburg, consolidate with another Chinese-flagged ship in Rotterdam, then do it yet again in Antwerp, before shipping goods from these three destinations more efficiently to other markets, all within less distance than it takes to sail from Tianjin to Qingdao. This puts European shipping

38 *The Humble Hero*, *The Economist*, 18th May 2013, viewed 22nd December 2019, <<https://www.economist.com/finance-and-economics/2013/05/18/the-humble-hero>>

39 *Cabotage Laws of the World*, Seafarer's Rights International, 2018, viewed 18th December 2019, <<http://ftp.elabor8.co.uk/sri/cabotage/flipbook/mobile/index.html>>

40 *A Glossary of International Shipping Terms*, Shipping Solutions, 16th April 2018, viewed 24th December 2019, <<https://www.shippingsolutions.com/blog/a-glossary-of-international-shipping-terms>>

41 *World's Longest Coastlines*, World Atlas, viewed 19th December 2019, <<https://www.worldatlas.com/articles/countries-with-the-most-coastline.html>>

42 *One Hundred Ports 2018*, *Lloyd's List*, viewed 18th December 2019, <<https://lloydslist.maritimeintelligence.informa.com/one-hundred-container-ports-2018>>

companies at a distinct disadvantage against the Chinese shipping industry.

Not competing with COSCO, but with SASAC

The European shipping sector also finds itself having to compete with the entire value chain, all the major parts of which fall under SASAC-owned SOEs. Chinese shippers use ports built and run by SOEs using steel and cement provided by SOEs; they use vessels built by the newly-created shipbuilding behemoth (the result of a merger of the China State Shipbuilding Corporation (CSSC) and the China Shipbuilding Industry Corporation (CSIC)) using steel made by SOEs, which is produced using iron and coal from SOEs; all of which is financed by SOE banks. This allows for unrivalled industrial coordination, while at the same time further state support is provided to Chinese SOEs to scale up under the BRI. European firms are simply not able to keep up.

Opportunities abound, but threats outnumber them

More ports mean new markets and greater trade, which is good for everyone – the public good aspect of such new infrastructure should not be underestimated. However, there is genuine concern that these ports are being developed under the same kind of unfair conditions that can be observed in China's shipping sector. The further expansion of scale of Chinese companies under the BRI does not help to build a positive perception among European players, particularly when certain undesirable practices continue in China. However, the greatest concern is the emergence of the still-growing SASAC monopoly of the shipping sector's value chain, as it raises serious questions about how global competition can be maintained and casts the maritime aspect of the BRI in a grim light.

The digital story: protected national champions go on the advance

While the rail and maritime aspects of the BRI have received the most attention since the initiative was first announced in 2013, the emerging 'Digital Silk Road' (DSR) has recently begun to receive the attention that it deserves.⁴³ One European executive describes the DSR as "the largest deployment of digital infrastructure that the world has ever seen."

In most contexts, the plan to digitally connect billions of people would be looked upon as a positive development. However, it must first be remembered that, for international digital and internet companies, China has essentially blocked access to a fifth of the world's population. It has allowed a handful of domestic firms to dominate (behind the Great Firewall) the internet, as well as digital goods and services, and is now sending them abroad with extra state-aid through the BRI and DSR.

European companies operating in China have witnessed patterns in critical areas—like the application of ICT standards for services such as blockchain, cloud and 5G—that raise serious concerns about how China may use the DSR to 'export' its digital practices to other markets. There are two main issues that are problematic in this respect: 1) the closed nature of digital standards in China; and 2) a lack of system/product interoperability, coupled with China's excessively tight regulation of digital goods and services.

Standards are set by the select few

In non-contentious areas (i.e. those not on the cutting edge), there has historically been more openness to foreign participation in standard setting when China was eager to bring its own internal standards up to international levels. However, in the digital sector, European companies report something quite different. Standard-setting committees in China responsible for technology that will define future decades of economic development, such as blockchain, artificial intelligence and cloud, are much less welcoming to European participation.

Standard setting in China seems to chiefly be the domain of larger companies. This is certainly the case in other markets as well, but industry insiders have reported that larger Chinese firms are establishing entire ecosystems of

⁴³ *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, National Development and Reform Commission of China, 28th March 2015, viewed 18th December 2019, <http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html>

their software that operate within more closed-source systems, meaning that they control access to the source code necessary to develop compatible/interoperable services. This allows them to either play kingmaker to companies that want to license out their services under the larger set of standards within that specific ecosystem, or to simply occupy the entire space themselves.

This contrasts with the quickly growing open-source approach, in which even small firms can access the source code of a specific technology so as to offer compatible products/services.⁴⁴ Many larger companies end up falling somewhere in between, often setting their own standards for their ecosystem, but bringing in many voices to contribute to them so that the development of compatible products from smaller firms is facilitated.

Exporting digital standards to corner the market

The closed-source approach taken by many of China's digital giants raises concerns as these firms go out along the DSR.⁴⁵ The larger firms tend to aim for 'end-to-end' solutions, meaning that hardware and software come as a package deal, which can be attractive to countries interested in a quick roll-out.⁴⁶ However, it positions the provider with monopolistic power moving forward, as hardware and software updates/upgrades must all come from the same company.

They will be entering under-developed markets in a dominant position while also benefitting from heavy government support, thus putting any other international competition at a large disadvantage. Just as worrying is the potential for abuse of recipient countries by these digital champions. Smaller, less developed countries that do not have the capacity for setting their own standards will certainly be put under considerable pressure to simply adopt Chinese standards.

The Chinese Government is also prepared to leverage access to the Chinese market as a tool to provide an advantage to their own champions on the DSR. An example of this can be seen in the market access restrictions imposed on foreign companies providing value-added telecoms services (VATS), which cover emerging technology like blockchain, cloud and virtual private network (VPN) services. These restrictions include outright equity caps as well as onerous and opaque demands for licensing approvals.

European firms have noted that their Chinese competitors have no problem obtaining such approvals, while they have been repeatedly rejected. Meanwhile, those same Chinese competitors can easily obtain comparable approvals in Europe (if they are even required in the first place). This creates a situation in which Chinese digital solutions can operate globally, while European ones can operate globally, less China.

Shipping and logistics companies provide an excellent example of why this is such a critical issue. These sectors are quickly switching over to fully digitised systems to cut back on trade facilitation costs. Many companies are designing their own digital systems to do so, but not all can provide such services in China due to the aforementioned licensing issue. This creates a huge problem, because if you are not in China, with its fifth of the world's consumers, you are not truly global.

The extent of this problem becomes even clearer when you contemplate how the reach of these systems, and their corresponding standards, can be extended through facilities along the BRI and DSR.⁴⁷ Putting aside concerns about interoperability between Chinese and international digital systems, there will be one even more compelling reason to adopt Chinese digital systems as they are rolled out along the BRI: why bother with a system that reaches four-fifths of the global population when you can have one that reaches everyone?

44 *Open Season: The rise of open-source computing*, *The Economist*, 3rd October 2019, viewed 22nd December 2019, <<https://www.economist.com/leaders/2019/10/03/the-rise-of-open-source-computing>>

45 Eder, Thomas, Arcesati, Rebecca, and Mardell, Jacob, *Networking the 'Belt and Road' – The Future is Digital*, Merics, 28th August 2019, viewed 19th December 2019, <<https://www.merics.org/en/bri-tracker/networking-the-belt-and-road>>

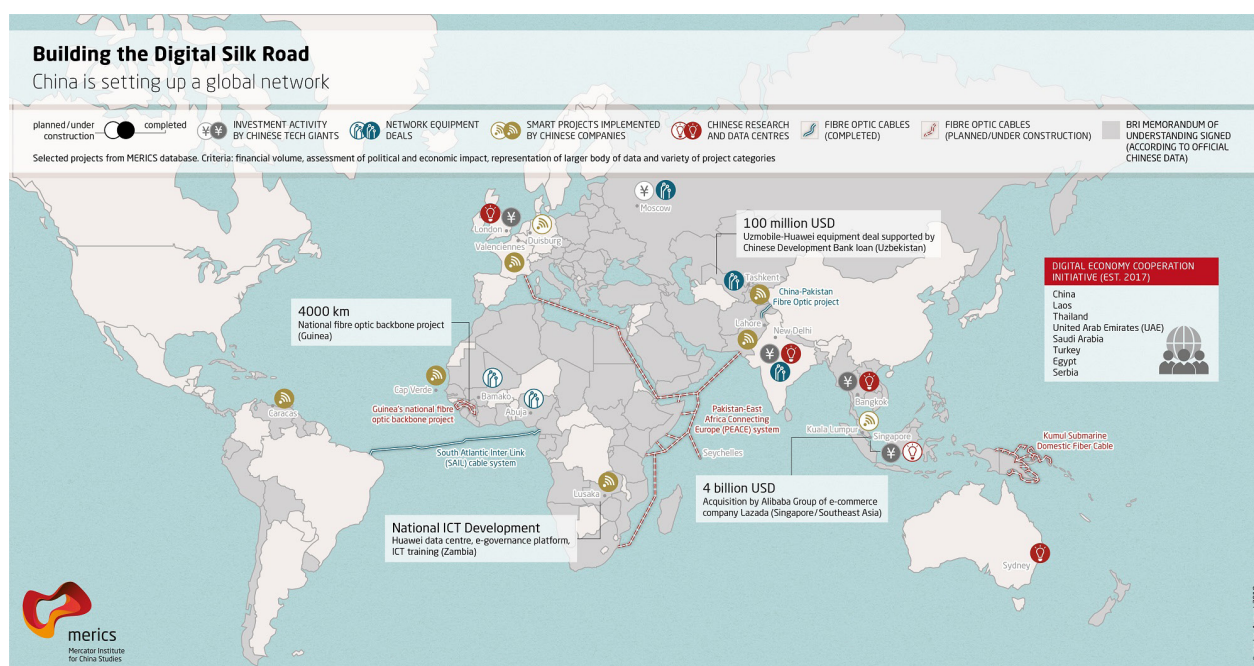
46 Shoebridge, Michael, *5G Futures: Why Huawei when open source may be the new black?*, Australian Strategic Policy Institute, 11th August 2018, viewed 2nd December 2019

47 Kitson, Andrew, Liew, Kenny, *China Doubles Down on its Digital Silk Road*, Reconnecting Asia, 14th November 2019, viewed 19th December 2019, <<https://reconnectingasia.org/analysis/entries/china-doubles-down-its-digital-silk-road/>>

The EU should therefore develop a mechanism similar to the International Procurement Instrument focused on ensuring reciprocity in the digital economy. Such a mechanism could collect formal complaints from companies trying and failing to, for example, obtain the necessary blockchain or cloud licences in China necessary for interoperability with the Chinese system. In the event that these claims are adjudicated to be genuine, the mechanism could then impose varying kinds of sanctions or restrictions on Chinese companies trying to do the same in the EU.

Europe needs to reflect on its role

It is important to acknowledge that the concerns raised here are not exclusively driven by unfair Chinese practices. More competitive European companies need to be developed and given opportunities to scale up more quickly so that they can provide credible alternatives to countries along the BRI that rightly want to improve their ICT/telecoms systems. European finance companies need to find effective ways to develop venture-capital-like systems; the EU and its member states need to look at how to adjust regulation to facilitate digital innovation and growth; and more money is sorely needed for basic research in emerging digital sectors. It is not enough to only push back on the excesses of the BRI and the DSR. Europe must also consider how to strengthen its own market in these 21st century-defining industries.



Source: Merics BRI Tracker⁴⁸

⁴⁸ Eder, Thomas, Arcesati, Rebecca, and Mardell, Jacob, *Networking the "Belt and Road" – The Future is Digital*, Merics, 28th August 2019, viewed 19th December 2019, <<https://www.merics.org/en/bri-tracker/networking-the-belt-and-road>>

A global perspective: connectivity through the eyes of European Business Organisations in third countries

Both the BRI and the EU's Connectivity Strategy⁴⁹—as transregional and intercontinental initiatives—have the potential to affect, or are already affecting, the economies of their corridor countries, as well as the European business communities that in some cases have been part of these countries' trade and commercial landscapes for decades.

On the occasion of the European Business Organisation Worldwide Network's⁵⁰ recent meeting in Tokyo in December 2019, the European Chamber collected input from the 30+ participating European Business Organisation (EBO) representatives from third countries on their knowledge of the BRI and the EU's Connectivity Strategy.

Discussions revolved around a number of key issues, from awareness and perception of both initiatives, to the concrete experiences of European businesses engaged in BRI-related projects and EU infrastructure and development projects. The findings of this research are summarised below.

Fragmented opinions: views on the BRI from different stakeholders

Conversations with representatives from different EBOs revealed that perceptions on the BRI varied not only across countries, but also between the general public, the government and European businesses. More often than not, public opinion on the BRI was, unsurprisingly, found to be shaped by external information (such as media reports) and the general level of awareness among the public of each particular country, whereas government perceptions tended to focus more on the economic, political and geostrategic aspects of the initiative.

This has resulted in a general divergence of views, whereby governments that might be, to a certain degree, supportive of the BRI encounter resistance from the general public. For instance, in spite of the Filipino Government's recent policy of rapprochement with China, public perception about the BRI tends to remain generally negative; not only because of frustration about China's failure to deliver on infrastructure investment promises, but also due to issues like illegal immigration and tensions in the South China Sea/West Philippines Sea.^{51&52} This is also the case in Cambodia, where government support for, and generally positive media coverage of, the BRI is being met with growing public discontent, particularly in areas where there is significant Chinese investment, such as Sihanoukville.⁵³ In this coastal city—home to the country's only deep-water port, and thus a key BRI point—the perception that Chinese investment has benefited only a small portion of Cambodian society catering to Chinese needs, as well as the massive inflow of Chinese nationals (and the behaviour of some of them), has resulted in very negative publicity, especially across social media.

The opposite holds true in other regions. For example, in EU neighbourhood countries like North Macedonia, Moldova and Armenia, the lack of a strong public debate about the BRI has meant that their governments have generally had more leeway when it comes to taking part in China's connectivity agenda. In Moldova, for instance, the BRI is part of negotiations for a virtually uncontested free-trade agreement with China. This, along with issues like the recent hitches in EU accession talks for Albania and North Macedonia, has the potential to create a shift in the geopolitical landscape

49 On 19th September 2018, the European Commission and the High Representative for Foreign Affairs adopted a Joint Communication on connectivity between Europe and Asia. The Communication sets a sustainable, comprehensive and rules-based strategy with concrete actions based on three strands – developing transport, energy, digital and human networks; offering connectivity partnerships to countries and organisations in Asia; and promoting sustainable finance through utilising diverse financial tools. For more information on the Connectivity Strategy, please visit: <https://eeas.europa.eu/sites/eeas/files/joint_communication_-_connecting_europe_and_asia_-_building_blocks_for_an_eu_strategy_2018-09-19.pdf>

50 The European Business Organisation Worldwide Network is the sole network of EU chambers and business associations in markets outside the EU, and constitutes a platform for advocacy, exchanges on best practices and support for SME internationalisation. For more information on the organisation, please visit <<https://www.ebowwn.com/>>

51 As of October 2019, China had only delivered on less than USD 1 billion out of the USD 9 billion promised in 2016 on BRI projects. Robles, Raissa, *China Promised Duterte US\$9 Billion. He's had only US\$924 Million in Loans and Grants. Why?* *South China Morning Post*, 23rd October 2019, <<https://www.scmp.com/week-asia/politics/article/3034666/china-promised-duterte-us9-billion-infrastructure-hes-had-only>>

52 Jason Gutierrez and Hannah Beech, *Sinking of Philippine Boat Puts South China Sea Back at Issue*, *The New York Times*, 13th June 2019 <<https://www.nytimes.com/2019/06/13/world/asia/south-china-sea-philippines.html>>

53 Ellis-Petersen, Hannah, *'No Cambodia Left': how Chinese Money is Changing Sihanoukville*, *The Guardian*, 31st July 2018 <<https://www.theguardian.com/cities/2018/jul/31/no-cambodia-left-chinese-money-changing-sihanoukville>>

of the region.⁵⁴

Some EBOs in third country markets where the BRI has yet to gain traction report that interest from their members has been very limited (the Philippines and Ethiopia, countries with a moderate amount of exposure to BRI projects, are among those that mentioned experiencing this situation). In markets where there is more discussion on the BRI among the business community, European companies tend to acknowledge the potential economic opportunities available through the initiative. For instance, EBO Malaysia representatives report that some of their members have taken strategic decisions to build factories along 'BRI routes'. In Indonesia, the willingness of the government to involve European businesses in infrastructure projects under the initiative is also being positively acknowledged by members of the local EBO.

However, in most cases, and in spite of this potential, perceived issues with the BRI model and Chinese investment in general—from the lack of proper delivery on promises to noncompliant practices and lack of space for fair competition—have resulted in both a general lack of participation from European businesses and unfavourable views on the initiative. In some African countries, where Chinese investment has not only sharply increased in recent years but has also been widely publicised, there is particular concern among EBOs; not only about unfair competition stemming from China's highly-subsidised SOEs, but also about the lack of competitive European financing tools compared to the less costly, and (seemingly) less demanding, funding solutions available under the BRI.

Awareness versus perceptions: the triumph of pure BRI marketing and the discreet but growing support for quality projects

Discussions with EBOs show that there is an overwhelming awareness of the existence and general purpose of the BRI among their respective European business communities. From Argentina to Ghana, most had heard about China's initiative. However, as seen above, widespread awareness does not necessarily result in positive perceptions, and after more than seven years of existence, many of the shortcomings of the current BRI model have been laid bare.

As a result, a number of governments are now reassessing their engagement with China on the BRI through the renegotiation of loans and projects.⁵⁵ This is the case in Malaysia, where, in order to cut costs and reduce excessive privileges awarded to Chinese companies, the current leadership renegotiated a range of Sino-Malaysian contracts signed by the previous government.⁵⁶

Sri Lanka is another example of this kind of shift, as newly elected President Gotabhaya Rajapaksa pledged to revisit the terms of the controversial Hambantota port project.⁵⁷ Issues like the need to use international standards and to develop feasibility and sustainability studies are recurrent points raised by EBOs in countries involved in the BRI, like Malaysia and Myanmar.

Standing in the opposite corner is the EU's Connectivity Strategy. Notwithstanding the fact that this initiative was only launched in September 2018, and that its geographical scope is more limited than the BRI's, awareness is disappointingly limited among the European business community, sometimes even in the countries covered by the initiative. This is yet another indicator emphasising a seemingly perennial issue for the EU – it needs to work harder to effectively communicate its strengths and success stories to the rest of the world.

However, Europe is by no means that the only player whose infrastructure and connectivity initiatives are flying under the media radar. Schemes like the Association of Southeast Asian Nations' (ASEAN) Master Plan for Connectivity—launched in 2010, well before the BRI—or initiatives under the Asia-Europe Meeting (ASEM), such as the Sustainable

54 *Failure to Open Accession Talks with Albania and North Macedonia is a Mistake*, European Parliament, 24th October 2019, viewed 23rd December 2019, <<https://www.europarl.europa.eu/news/en/press-room/20191021IPR64717/failure-to-open-accession-talks-with-albania-and-north-macedonia-is-a-mistake>>

55 Kratz, Agatha, Feng, Allen, and Wright, Logan, *New Data on the Debt Trap Question*, Rhodium Group, 29th April 2019, viewed 23rd December 2019, <<https://rhg.com/research/new-data-on-the-debt-trap-question/>>

56 Parameswaran, Prashanth, *Malaysia's Evolving Approach to China's Belt and Road Initiative*, *The Diplomat*, 23rd April 2019, <<https://thediplomat.com/2019/04/malaysias-evolving-approach-to-chinas-belt-and-road-initiative/>>; Sipalan, Joseph, *China, Malaysia Restart Massive Belt and Road Project after Hiccups*, *Reuters*, 25th July 2019, <<https://www.reuters.com/article/us-china-silkroad-malaysia/china-malaysia-restart-massive-belt-and-road-project-after-hiccups-idUSKCN1UK0DG>>

57 Panda, Ankit, *Will Gotabaya Revisit Sri Lanka's Hambantota 'Debt Trap' with China?*, *The Diplomat*, 19th November 2019, viewed 23rd December 2019, <<https://thediplomat.com/2019/11/will-gotabaya-revisit-sri-lankas-hambantota-debt-trap-with-china/>>

Connectivity Portal or the Pathfinder Group on Connectivity, have also gone largely unnoticed.^{58&59}

Between China's well-oiled public relations campaign to promote its BRI-labelled investments and projects in other countries, and the media's heavy coverage of all things China, the limelight on global infrastructure work has been all but monopolised. This has left the efforts of the EU and its member states, as well as those of the likes of Japan and Korea—both of which are extremely active in development aid and infrastructure projects—in the shade. Nonetheless, even though the wider public are largely unaware of these alternative initiatives, when it comes down to getting things done, key stakeholders are very much aware of the advantages these schemes can offer over the BRI model.

This is why, for instance, Chinese initiatives in countries like the Philippines are encountering steady competition from Japanese and Korean projects, which are generally seen as more reliable in terms of delivery, and as upholding higher quality standards. These are also some of the key reasons why European businesses decide to settle in countries like Singapore or Japan.^{60&61} They also enjoy a more advantageous trade regime under recently signed agreements with the EU, which increases these countries' attractiveness as Asian hubs, and they can also partner more easily with local companies to carry out projects in third country markets.

The increasing tendency for countries to lean towards projects that bring both quality and sustainability—coupled with a number of negative experiences over the past few years—has not gone unnoticed by Chinese policymakers: their acceptance of this trend culminated in China formalising its messaging about 'BRI greening' during the second Belt and Road Forum (BRF) in 2019.⁶²

58 *Master Plan on ASEAN Connectivity 2025*, ASEAN, August 2016, <<https://asean.org/storage/2016/09/Master-Plan-on-ASEAN-Connectivity-20251.pdf>>

59 *Exploring ASEM Sustainable Connectivity: What brings Asia and Europe Together?* European Commission Joint Research Centre, September 2018, <https://publications.jrc.ec.europa.eu/repository/bitstream/JRC112998/asem-report_online.pdf>

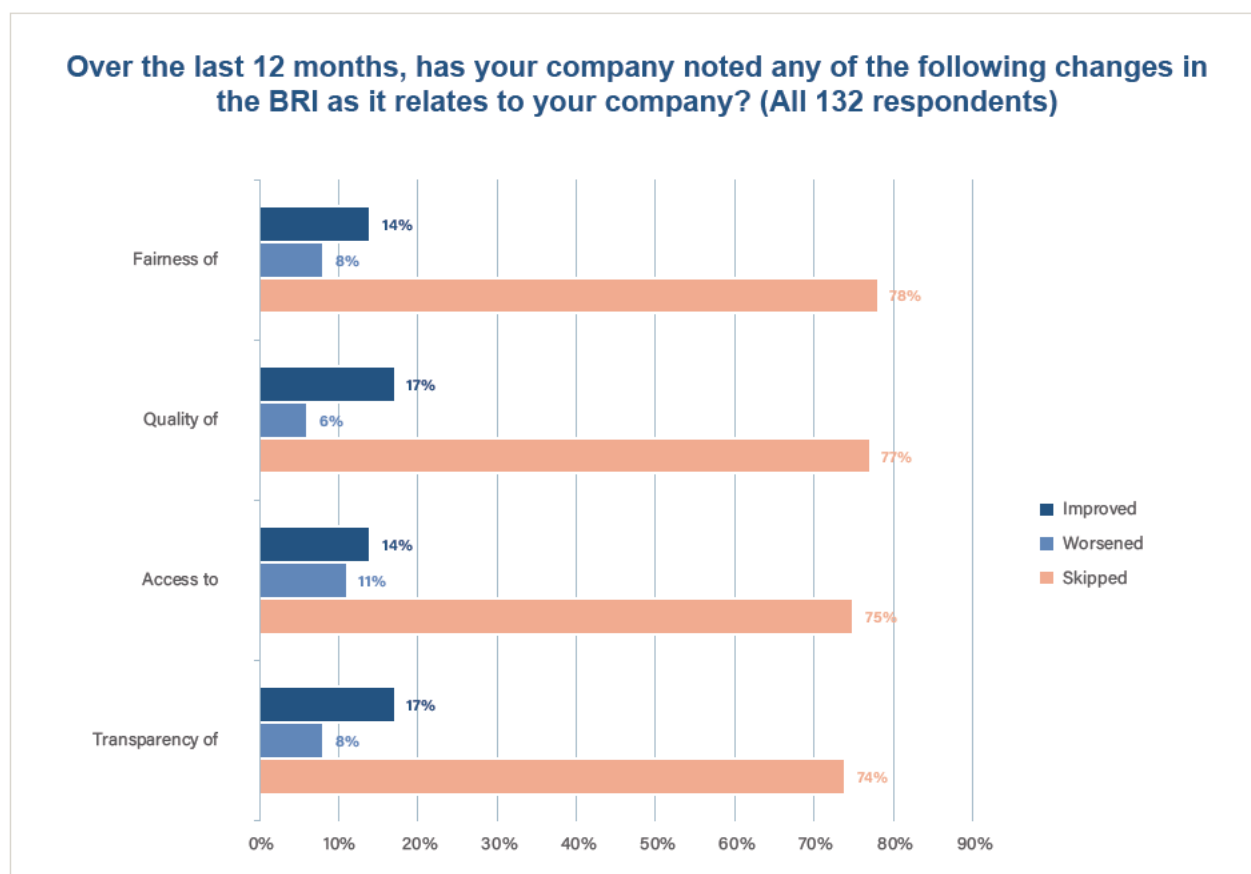
60 *EU-Singapore Free Trade Agreement and Investment Protection Agreement*, European Commission, 21st November 2019, viewed 23rd December 2019, <<https://ec.europa.eu/trade/policy/in-focus/eu-singapore-agreement/>>

61 *EU-Japan Economic Partnership Agreement*, European Commission, 18th April 2018, viewed 23rd December 2019, <<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>>

62 Nakano, Jane, *Greening or Greenwashing the Belt and Road Initiative?*, Centre for Strategic and International Studies, 1st May 2019, <<https://www.csis.org/analysis/greening-or-greenwashing-belt-and-road-initiative>>

Is the BRI changing?

The BRI has so far offered limited opportunities for European companies. For those that have participated, it has been profitable. But just as the profitability of China's market for European companies does not justify the continuation of an unlevel playing field, the ability to derive profit from the BRI does not excuse its lack of openness, transparency and fairness. However, similar to the Chinese market, which itself is subject to constant adjustments over time, the BRI is also in flux.



BRI improving, but not where it matters most

Roughly a quarter of all respondents indicate that the BRI is changing, with a small trend towards improvement rather than worsening across various aspects of the initiative. About twice as many respondents say that transparency and fairness has “improved” compared to “worsened”, while about three times as many say the same for the quality of projects.

This trend is not as strong for access to BRI projects, which is by far the most important of these four areas. After all, if projects cannot be accessed, their quality, fairness and transparency become irrelevant.

The two main constituents driving changes to the BRI are the Chinese Government and Chinese corporates.

The Chinese Government clearly took note of some of the negative perceptions of the BRI during the initiative's first half-decade, and took corrective action. In striking contrast to the first BRF in 2017, which focused heavily on the vast scope of projects and their scale across different markets, the 2019 BRF emphasised sustainability, feasibility, green development and greater involvement from non-Chinese governments and companies.

This shift has been driven by three factors.

First, the Chinese Government has a serious financial stake in the success of BRI projects, and they do not want to be handing over bailout money every time a project proves unfeasible. In addition, they also have considerable diplomatic interests in overseeing successful projects that prove China is a reliable partner.

An additional, often-overlooked factor, is the limited experience that Chinese officials and diplomats had in these kinds of overseas projects when the BRI was initiated. Chinese officials failed to make use of a strategy that had driven successful development in China for the last four decades: pilot projects.

China had been 'crossing the river by feeling the stones' for more than forty years of opening up and reform. During this time, officials were encouraged to experiment with different policy ideas to see what worked well and what did not. When the BRI was initiated, some companies had experience working in foreign markets that they could bring to the table, and a handful of government-to-government partnerships were bearing fruit. However, the overall level of experience in these sorts of programmes outside of China was extremely limited relative to the scale of the BRI's ambitions, so why a more cautious approach was not taken with early projects is not entirely clear.

As a result, many early projects were rushed and not fully considered. This was not helped by the limited role foreign governments and companies played in early BRI-related projects. Having now gained more experience through enough 'pilots', China has modified its approach, leading to it steering the generally positive course of corrections that have been seen recently, in particular during the second BRF.

Much like the first BRF two years earlier, the importance of the BRI and its role in global development was trumpeted in 2019, but that is largely where the similarities in messaging ended.

Comparison of the keynote speeches delivered at the 2017 and 2019 BRFs ^{63&64}		
	2017	2019
Overall purpose	To portray the BRI as an initiative that serves the interests of all people in recipient countries by highlighting achievements in the past four years.	To emphasise high-quality development along the BRI with clear priorities — "it's time to turn the grand blueprint into an exquisite picture (从大写意到工笔画).".
Infrastructure focus	The BRI is taking shape as an infrastructure network underpinned by six major economic pillars, featuring land-sea-air transportation routes and information expressways.	The network is centred on the same economic pillars, but projects need to be high-quality, sustainable, resilient, affordable, inclusive and accessible.
China's promises (for the next stage)	<ul style="list-style-type: none"> - Launch signed connectivity projects soon and deliver early benefits - Scale up financing support and institutional and technological cooperation - Provide assistance to developing countries and international organisations 	<ul style="list-style-type: none"> - Expanding market access in China - Enhancing international cooperation in intellectual property (IP) protection - Increasing the scale of goods and services imports - More effectively engaging in international macro-economic policy coordination - Better implementation of related policies

Changes to the top-level messaging at the BRF

The first BRF was much more focused on how beneficial the initiative would be for the world. There was a strong focus on the size, the scale, the sums of capital at play and the number of countries that had signed up. It provided a review of what had already happened, with a large helping of swagger.

63 Full text of President Xi's speech at opening of Belt and Road forum, *Xinhua*, 14th May 2017, viewed 23rd December 2019, <http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm>

64 Full text of President Xi's keynote speech at opening of the Second Belt and Road Forum, *Xinhua*, 26th April 2019, viewed 23rd December 2019, <http://www.xinhuanet.com/silkroad/2019-04/26/c_1124420187.htm>

The second BRF was much more forward-looking. Without articulating it directly, there was a clear recognition of the shortcomings of many early BRI projects. The shifts towards a focus on quality and sustainability, and emphasising the need for the international community to play a role were positive, and China's realisation that BRI success also requires the country to further open up its market was extremely welcome news to European business. China has a solid reason to continue along this path – it needs to improve overall project efficiency to realise a decent return on those it finances.

Chinese voices have also joined the call for improvements

As often happens in other areas of Chinese policy-making, a broad framework (the BRI) was announced with a very general set of objectives and plans. After the announcement, the government, business, NGOs and think tanks got to work contributing to the specifics. After the BRI's 2013 launch, at least two prominent Chinese think tanks raised many of the same concerns as the international community and made recommendations that are now being addressed by China's leadership.

In 2015, the China Centre for Globalisation (CCG) pointed to the political, economic and cultural challenges Chinese companies might encounter when going abroad.^{65,66} As more BRI projects went into implementation in 2016, several issues emerged, of which one of the most prominent was the lack of participation by POEs, largely due to their struggle to access financing under the BRI.⁶⁷

In 2017, the CCG put forward 20 recommendations on how the BRI could garner greater support from the rest of the world, and called on the central government to enlist more partners from multilateral organisations, developed countries and the Chinese diaspora.⁶⁸ It highlighted the lack of a role for the business community and suggested that a Belt and Road international enterprises federation be established. Additionally, the CCG suggested that the BRI deepen people-to-people exchanges and emphasise education cooperation to help bridge cultural gaps.

Meanwhile, the Peking University National School of Development (NSD), led by economist Lin Yifu (Justin Lin), was examining the BRI mainly from an economic perspective. In early 2015, Lin himself emphasised the importance of including Africa in the plan, as he believed it could be a viable destination to transfer labour-intensive industries from China.⁶⁹ Another NSD scholar, Yu Miaojie, focused on the importance of developing intra-industry imports and exports within the China-ASEAN free-trade zone, which would help China climb the value chain and better integrate actors in the regional economy.⁷⁰ Such an approach differed considerably from the prevailing view that the BRI was chiefly an infrastructure project meant primarily to link resources and consumers to the Chinese market.

In an attempt to alleviate concerns from the outside world about the manner in which early BRI-related projects were being pursued, the NSD proposed several recommendations. They called for things like jointly defining basic rules and implementing procedures for cooperation, greater cooperation with international partners in third markets, and for Chinese companies to take on greater corporate social responsibility (CSR) to ease their integration with local communities.^{71,72}

Market forces and experience driving shifting corporate strategy

Many European business leaders interviewed for this report note that the relative success or failure of Chinese

65 Domestic Think Tank Initiated One Belt One Road Analysis by Countries, *People.cn*, 18th May 2015, viewed 18th Nov 2019, <<http://world.people.com.cn/n/2015/0518/c1002-27018266.html>>

66 Chu, Yin, *Getting Prepared for Five Big Risks of the One Belt One Road*, CCG, 17th June 2015, viewed 18th Nov 2019, <<http://www.ccg.org.cn/Research/view.aspx?id=2264>>

67 Chu, Yin, *Problems encountered in the practice of the One Belt One Road*, CCG, 9th May 2016, viewed 18th November 2019, <<http://www.ccg.org.cn/Research/view.aspx?id=3904>>

68 *Paths to Win-win Cooperation along the B&R: A Proposal to Enlist Global Partners*, CCG, May 2017, viewed 19th November 2019, <<http://www.ccg.org.cn/dianzizazhi/yidaiyilu.pdf>>

69 Lin, Yifu, *Lin Yifu: A Continent Should be Included Into the BRI*, *Guancha.cn*, 19th January 2015, viewed 25th November 2019, <https://www.guancha.cn/LinYiFu/2015_01_19_306718.shtml>

70 Yu Miaojie, *The Belt and the Road should have Different Priorities*, NSD, 17th April 2015, viewed 25th November 2019, <<https://www.nsd.pku.edu.cn/sylm/gd/258284.htm>>

71 Huang Yiping, *Fintech Cooperation in the Belt and Road*, NSD, 23rd January 2019, viewed 26th November 2019, <<https://www.nsd.pku.edu.cn/sylm/gd/272148.htm>>

72 *New Silk Road, New Opportunities*, NSD, 29th April, viewed 26th November 2019, <<https://www.nsd.pku.edu.cn/sylm/xw/489095.htm>>

companies involved in the BRI (both private and state-owned) has been largely based on their level of experience in other markets.

Private companies with extensive experience were wary of pursuing any BRI-related projects in which they could not see profitable opportunities; while private companies that went out of China with limited to no experience, due to a sense of being 'politically called' to do so, tended to suffer significant losses.

The same is largely true for China's SOEs, although even the most experienced were sometimes forced into making bad deals due to domestic political pressure (the amount SOEs had to write off in Venezuela being a case in point). The big rush of outbound investment and construction projects in the early days of the BRI and the associated 'Go Out' policy led many companies into difficult positions, with one SOE executive saying to his European business partner that the then-called 'One Belt, One Road' had ensnared inexperienced companies in the 'One Belt, One Trap.'

However, just as the Chinese Government has gained experience and made adjustments, so too have Chinese companies. Having been burned by loss-making projects, they have improved their internal mechanisms for analysing the potential of projects. Several European companies have also noted that Chinese companies are decreasingly reliant upon importing Chinese workers to complete projects, choosing to invest more in local human resources instead.

Some Chinese companies are now finding success by locating new projects that are of interest to them, then pushing for the BRI label to be attached to them, thereby greatly expediting the projects' development and financing. For a small number of European companies that have been able to participate in the BRI, this approach has resulted in profitable cooperation.

The EU Connectivity Strategy

In September 2018, the EU announced an ambitious and strategic initiative to enhance Europe's efforts to boost connectivity across Europe and Asia. The 'Joint Communication' was crafted by the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy as part of the broader push for connectivity under the EU Global Strategy.⁷³ The plan pursues three main goals:⁷⁴

1. creating transport links, energy and digital networks and human connections;
2. offering connectivity partnerships to countries in Asia and organisations; and
3. promoting sustainable finance through utilising diverse financial tools.

Tangibly, this last one means funds to be utilised to leverage private and global capital into projects that sustainably drive connectivity between the EU and its partners. Traditional infrastructure like highways, rail and pipelines will be matched with increasingly in-demand new 'hardware', like telecommunications systems, to build a foundation for digital connectivity.

Just as important is the 'software' that complements this plan, which can also add value to the BRI. Regulatory systems and legal regimes that govern the movement of goods, people and data across different jurisdictions along the BRI are currently out of alignment, which diminishes the value of hard infrastructure. Here, the EU can play a decisive role in capacity building and regulatory alignment, in much the same way it successfully did in the creation of the European Common Market.

While the European approach to connectivity has areas where it can complement and bolster the BRI, as well as significant competitive advantages, it also has shortcomings that must be overcome, particularly the slow pace of development of the plan. It is perhaps most crucial that the EU starts to better brand and market this initiative, as a worrying number of European companies and other stakeholders in China and around the rest of the world have never even heard of it.

Competitive advantages

The EU and its member states have a long history of advancing connectivity, both within Europe and beyond. European leadership has been demonstrated in not only the 'hardware' of connectivity—the railways, ports and roads—but also, as already mentioned, in the 'software' necessary to make it meaningful within a cross-border regulatory framework. After all, the advantage of a transcontinental railway is quickly lost if trains encounter major delays at every border due to regulatory inconsistencies. The EU needs to confidently reassert its expertise and experience in these areas, and be smarter with the way it markets the competitive advantages that make cooperation with Europe more alluring.

Europe lives up to its commitments

For years, the European approach to connectivity has been demonstrably open to competition, and focused on sustainability and interoperability. As former Vice President for Jobs, Growth, Investment and Competitiveness Jyrki Katainen concisely stated, this well-established approach will continue as part of the EU Connectivity Strategy:

"We want to work with our Asian partners to improve connections between Europe and Asia, while bringing our values and approach in doing so. Infrastructure networks that will be built should be coherent, interoperable, as well as financially and environmentally sustainable. Calls for tender should be open and transparent to promote good governance and a level playing field."

⁷³ *Shared Vision, Common Action: A Stronger Europe*, The European External Actions Service, June 2016, viewed 19th December 2019, <https://eeas.europa.eu/sites/eeas/files/eugs_review_web_0.pdf>

⁷⁴ *Connecting Europe and Asia: Building Blocks for an EU Strategy*, The European External Action Service, 19th September 2018, viewed 19th December 2019, <https://eeas.europa.eu/headquarters/headquarters-homepage/50708/connecting-europe-and-asia-building-blocks-eu-strategy_en>

These commitments—particularly to openness and transparency—go beyond rhetoric and are routinely reflected in projects involving the EU. One need look no further than the EU itself: Chinese companies have been able to enter the European market for decades, to both freely invest and operate. The influx of Chinese investment into Europe as a result of the BRI and the 'Go Out' policy clearly demonstrates this. Chinese companies also regularly win major bids in public procurement across Europe.⁷⁵ Meanwhile, European companies have faced an uphill struggle to invest in China due to its highly restrictive market access regime, consisting of both direct barriers (like negative lists) and indirect ones (like access to licences and approvals). The notion of successfully bidding on public procurement tenders in China remains such a remote concept that the European Chamber's Public Procurement Taskforce was disbanded several years ago due to companies simply giving up on this vast market.

Nevertheless, it is important that Europe continues to live up to these commitments in its own home market, and extend them along the projects that it oversees beyond its borders.

Leveraging private capital and global financial institutions

Financing for BRI-related projects flows mainly from state-directed resources: policy banks, state-owned commercial banks and SOEs themselves, with a seriously underdeveloped role for private capital.^{76&77} The lack of private capital is perhaps not surprising, given that there is very little within China's market, but the extremely limited involvement of multinational development banks is conspicuous. Even the AIIB, an MDB ostensibly built to finance the kinds of projects developed under the BRI, has played a very limited role, due to projects not meeting its rigorous standards on transparency, feasibility and sustainability, among others.

Conversely, the European approach aims to selectively harness public funds in a way that creates the conditions for private financing to rush in and do the heavy lifting. The plan is quite straightforward: a project that is considered too risky for private financiers could be identified as a connectivity project. Sufficient funds would then be applied to the project to essentially lower the risk to the point where private capital would view it as bankable. In this way, tens of billions of public funds can be magnified into hundreds of billions. Importantly, this can draw in financing not only from European sources, but also from private capital the world over.

The EU should be able to attract MDBs to these projects, as they will meet or exceed the required standards. Being able to pull in MDB funds can help supplement the public money from the EU, lowering the demands on connectivity funds and allowing that capital to be applied elsewhere.

Matching the 'hardware' with the 'software'

Countries that fall under both the BRI and the EU Connectivity Strategy have varied approaches and capacity to build and enforce regulatory frameworks that influence the flow of goods, information and people. Increasing capacity and harmonising these different pieces of 'software' will be critical to the success and value of both the BRI and the EU Connectivity Strategy.

This is something that the EU can do better than anyone else, in no small part because it has already achieved seamless connectivity within its member states.⁷⁸ Where once there were multiple different systems governing the flow of goods, people, data and financing, there is now only one. Applying that expertise through capacity building and regulatory harmonisation across areas under the EU Connectivity Strategy can add a unique advantage that many countries would derive great benefit from.

For example, the EU and ASEAN are nearing completion of the EU-ASEAN Comprehensive Air Transport Agreement

⁷⁵ Hall, Ben, *Europe's new Front in Competition Clash with China*, *The Financial Times*, 10th April 2019, viewed 22nd December 2019, <<https://www.ft.com/content/be81c866-5aaf-11e9-9dde-7aedca0a081a>>

⁷⁶ Guo, Feng, *BRI and the Participation of Private Capital*, *Central Banking*, 18th April 2018, viewed 23rd December 2019, <<https://www.centralbanking.com/central-banks/economics/3456816/bri-and-the-participation-of-private-capital>>

⁷⁷ Gu, Qingyang, *BRI: Need to woo Global Private Investors*, *Business Times*, 23rd October 2019, viewed 23rd December 2019, <<https://www.businesstimes.com.sg/opinion/thinkchina/bri-need-to-woo-global-private-investors>>

⁷⁸ 28 at time of publication, but potentially 27 if Brexit proceeds.

(CATA). Once concluded, this agreement will relax current limits on air-transport growth in both blocs. Specifically, it will liberalise the scope of the 'freedoms of the air' of cargo and passenger routes between the two regions.⁷⁹ The EU has estimated that this will bring approximately EUR 7.9 billion worth of economic benefits over the first seven years after the agreement comes into force.⁸⁰ Such 'software' is essential for developing true connectivity – for world-class airports to reach their full potential they need reciprocal access to increase air traffic capacity.

The more the merrier

The EU Connectivity Strategy follows the general model of European diplomacy by eagerly reaching out to a wide variety of partners. Engagement with those that have aligned interests is being actively sought, as clearly demonstrated in a memo released alongside the Joint Communication:

"The message from the Joint Communication is that the European Union wants to engage more and wants to improve connectivity between Europe and Asia on these mutually-beneficial terms. We will proactively seek to identify synergies between our and our partners' connectivity strategies, such as China's Belt and Road Initiative, Free and Open Indo-Pacific strategies of Japan and the United States, as well as Connectivity 2025 of the Association of Southeast Asian Nations (ASEAN), among others, in order to jointly foster sustainable connectivity across Europe and Asia."⁸¹

The bottom-up approach: how EU-Japan cooperation predates the formal agreement

One of the clearest examples of the potential for bilateral cooperation on connectivity with like-minded countries is that of the EU and Japan. Even before the conclusion and signing of the ambitious EU-Japan Economic Partnership Agreement (EPA) and the Strategic Partnership Agreement (SPA) in July 2018, the EU and Japan were already strong trade partners. According to 2016 figures, the EU was Japan's third highest export destination, while Japan was the EU's sixth.⁸² As mentioned earlier, Japan has traditionally been an attractive landing spot for European businesses, both for the domestic opportunities and its potential as a gateway to other Asian markets. According to the German Chamber of Commerce and Industry in Japan's *2019 Business Climate Survey*, 46 per cent of German businesses generated revenues with Japanese customers outside Japan at least to the same extent as they did in Japan itself. Furthermore, 69 per cent of respondents stated that they were currently involved in projects with Japanese companies outside Japan.⁸³

79 Meszaros, Jennifer, *Asean-EU Air Transport Deal Near Completion*, AIN Online, 6th December 2018, viewed 23rd December 2019, <<https://www.ainonline.com/aviation-news/air-transport/2018-12-06/asean-eu-air-transport-deal-near-completion>>

80 *Connecting Europe and Asia: Factsheet*, European Commission, September 2019, viewed 23rd December 2019, <https://eeas.europa.eu/sites/eeas/files/eu-asian_connectivity_factsheet_september_2019.pdf_final.pdf>

81 *Explaining the European Union's Approach to Connecting Europe and Asia*, European Commission, 19th September 2018, viewed 23rd December 2019, <https://ec.europa.eu/commission/presscorner/detail/en/MEMO_18_5804>

82 *The Economic Impact of the EU-Japan Economic Partnership Agreement (EPA)*, European Commission Directorate-General for Trade, June 2018, <https://trade.ec.europa.eu/doclib/docs/2018/july/tradoc_157116.pdf>

83 *Business Climate Survey, German Business in Japan 2019*, German Chamber of Commerce and Industry in Japan, January 2019, <https://japan.ahk.de/fileadmin/AHK_Japan/Dokumente/German_Business_in_Japan_2019_EN.pdf>

Examples of Euro-Japanese business cooperation in third countries:⁸⁴

- Thailand (1996–2008): turn-key contract between the Bangkok Metro Public Company Limited, Siemens and Lincas for the Bangkok Subway Line 2, financed through an ODA loan provided by the Japan International Cooperation Agency (JICA).^{85&86}
- Egypt (2017): wind farm project in Ras Ghareb in a consortium that included ENGIE and Toyota, co-financed by the Japanese Bank for International Cooperation (JBIC), Société Générale and Nippon Export and Investment Insurance (NEXI).⁸⁷
- Singapore (2018): joint venture for the reclamation, wharf construction and dredging of the Tuas Terminal Finger 3 between Penta-Ocean Construction (Japan), Hyundai Engineering and Construction (South Korea) and Boskalis International (Netherlands).⁸⁸
- Japan and Southeast Asia (2019): cooperation between Septentrio (Belgian company focusing on Global Navigation Satellite System (GNSS) technology) and CORE (Japanese system integrator) to develop a receiver which can utilise the Centimetre Level Augmentation Service (CLAS) of Japan's Quasi-Zenith Satellite System (QZSS).⁸⁹

European and Japanese companies have a positive track record of cooperation in third country markets and, in some cases, of technological harmonisation that could further open doors across entire regions. On this basis, and in the context of deepening EU-Japan economic and strategic ties, the signing of the EU-Japan Partnership on Sustainable Connectivity in September 2019 represented a natural next step in terms of providing institutional support—including financial provisions in the shape of three MOUs signed between the European Investment Bank and the JICA, the JBIC and NEXI—to an already successful partnership based on common values and shared goals.⁹⁰

International organisations – indispensable partners for truly effective connectivity

In large-scale connectivity projects and initiatives involving different regions, participation of international organisations—both financial and non-financial—is an absolute must. These entities can bolster capacity, resources and expertise to effectively deliver on such projects, but they also ensure that projects will adhere to certain standards when it comes to preparation, development and execution. Research carried out by the Center for Strategic and International Studies' *Reconnecting Asia Project* shows that, out of all the contractors participating in tracked Chinese-funded transportation projects, 89 per cent are Chinese companies. In comparison, out of the contractors participating in projects funded by the World Bank and the ADB, 29 per cent were Chinese, 40.8 per cent were local, and 30.2 per cent were foreign.⁹¹ Increased involvement of institutions like the ADB or the United Nations Development Programme (UNDP) will therefore help to address EBO calls for more inclusiveness, transparency and higher standards in BRI-related projects.

The EU has affirmed its commitment to work with international organisations—especially on regulatory and standardisation issues—under Chapter 4 of the Joint Communication on Connectivity in Europe and Asia, and the EU and Japan's Partnership on Sustainable Connectivity also envisions cooperation in international fora. Expanding and

84 Most of this data was compiled based on the input and presentations from participants and speakers at the seminar 'EU-Japan Business Collaboration in Third Markets', organised by the EU-Japan Centre for Industrial Cooperation, that took place in Tokyo on 3rd December 2019.

85 ODA loans support developing countries by providing low-interest, long-term and concessional funds to finance their development efforts. Please find more information on this type of loans here: <https://www.jica.go.jp/english/our_work/types_of_assistance/oda_loans/overseas/index.html>

86 Hiroyasu Otsu, *MRTA Initial System Project (Blue Line) I-V*, JICA, March 2008, viewed 30th December 2019, <https://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2008/pdf/e_project09_full.pdf>

87 Egypt: *Engie and Partners Inaugurate Wind Farm in Ras Ghareb*, Africa Energy Portal, 11th December 2019, viewed 30th December 2019, <<https://africa-energy-portal.org/news/egypt-engie-and-partners-inaugurate-wind-farm-ras-ghareb>>

88 *Award of Construction Contract for Large-Scale Port Construction Project in Singapore*, Penta-Ocean Construction Co, Ltd, 1st March 2018, viewed 30th December 2019, <<http://www.penta-ocean.co.jp/english/updates/2018/180301.html>>

89 *Septentrio and CORE Announce a GNSS Receiver Which Uses Japan's CLAS Centimeter-level Service*, Septentrio, 7th October 2018, viewed 30th December 2019, <<https://www.septentrio.com/en/company/news/septentrio-and-core-announce-gnss-receiver-which-uses-japans-clas-centimeter-level>>

90 *The Partnership on Sustainable Connectivity and Quality Infrastructure between the European Union and Japan*, European External Action Service, 27th September 2019, viewed 30th December 2019, <https://eeas.europa.eu/headquarters/headquarters-homepage/68018/partnership-sustainable-connectivity-and-quality-infrastructure-between-european-union-and_en>

91 *The Belt and Road's Barriers to Participation*, Center for Strategic and International Studies, 7th February 2018, viewed 12th December 2019, <<https://reconnectingasia.csis.org/analysis/entries/belt-and-road-barriers-participation/>>

deepening this cooperation would certainly contribute positively to the development and promotion of the European vision for sustainable connectivity.

European experience in recipient countries

European companies that have managed to take a role in BRI-related projects often cite their long-term presence in recipient countries as a common reason for being brought in. This advantage applies equally to the EU Connectivity Plan. However, Europe has more than just business experience in these regions.

European governments and civil society have also been global for decades, and their extensive experience in the countries that fall under the EU Connectivity Strategy gives the EU an edge that those without an established civil society will take years to match. Leveraging deeply-rooted, government-to-government ties alongside a wide range of world-class NGOs can enhance EU Connectivity projects and help direct resources into the most suitable areas. Europe's diversity can also be brought to bear, as Europeans with familial and cultural ties to recipient countries can help bridge the people-to-people divide and play ambassadorial roles in EU Connectivity projects. In some cases, philanthropic associations could even fill the capital gap between public funding and private investment in certain projects.

EBOs are a good example of such organisations, as they have a presence in countries that are either part of the geographical scope of the EU Connectivity Strategy or that could potentially cooperate with the EU on similar initiatives.⁹² These actors can offer a wealth of knowledge and expertise, as well as experience with implementation of EU, member state or international projects.

In terms of on-the-ground support for connectivity initiatives around the world, the seeds that were planted long ago by companies, business organisations and civil society associations are ripe for harvesting. What is now left is to effectively link them to the implementation of the institutional strategy. In order to do that, cooperation from both sides will be key.

Shortcomings of the EU Connectivity Strategy

Although the EU Connectivity approach emphasises openness, transparency, sustainability and high standards, it pales in comparison to the BRI as it currently remains all but unknown, underdeveloped and reactive, and is slow and arduous in project execution. For all its shortcomings, the BRI is fully developed and proactively seeks out partners and projects, delivers results quickly, and is on the lips of leaders across the globe.

The EU Connectivity what?

The BRI captures headlines the world over and is known to world leaders and CEOs alike. The same cannot be said of the EU's plan, as evidenced by the 60 per cent of survey respondents that were not aware of the EU Connectivity Strategy.

When China launched the BRI, it did so with a clear strategy for promoting it. In September and October of 2013, President Xi visited Kazakhstan and Indonesia to announce the overland 'belt' and maritime 'road' respectively. Projects related to the BRI that were already in progress were quickly labelled as part of the initiative, and a steady diplomatic push was initiated that has yielded results.

The EU needs to quickly deploy its own outreach and development work, and push its Connectivity Strategy as both a complement and credible alternative to the BRI. There is an urgent need for a narrative to be developed that promotes and sells the high standards that Europe has to offer.

⁹² Please find a list of the current EBOs that are members of the EBOWWN. Please note that this is not an exhaustive list of EBOs in non-EU countries: <<https://www.ebowwn.com/members/ebo-around-the-world>>

Time is of the essence

The EU suffers from a reputation of being slow and prone to bureaucratic excess. In many ways, such a deliberate pace is a strength; effectively executing feasibility and environmental impact studies should be played as a strong competitive advantage. Nevertheless, putting resources into streamlining processes would help to build an even more positive image of the EU Connectivity Strategy.

Take for example a set of projects in Eastern Europe and across the Black Sea, which aim to build 4,800 km of rail and road at a cost of EUR 13 billion by 2030.^{93&94} It is difficult to imagine BRI projects moving at such a glacial pace. Although EU projects are valuable, it is still easy to understand the rationale when countries opt for the results-delivering BRI instead. The EU has unique value to bring that can compensate for its more deliberate pace, but while it may not be possible for it to become China-fast, it needs to progress from being Europe-slow.

93 *Indicative TEN-T Investment Action Plan*, European Commission, The World Bank, 13th December 2018, viewed 19th December 2019, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/ten-t_iap_web-dec13.pdf>

94 *20 Deliverables for 2020: Bringing Tangible Results for Citizens*, Eastern Partnership, viewed 19th December 2019, <<https://www.consilium.europa.eu/media/31690/eap-generic-factsheet-digital.pdf>>

Recommendations

To the Chinese Government

BRI-related projects

Although some European companies have noted positive changes, BRI-related projects have considerable room for improvement. It is critically important to improve the quality of projects by solidifying the commitments made during the second BRF to prevent 'promise fatigue' from once again becoming endemic in the international community. This will require open and transparent procurement and tendering practices, better feasibility and environmental impact studies, and deeper engagement with a broader range of stakeholders. Adopting and adhering to practices from groups like the World Bank or the AIIB when developing BRI-related projects would be a strong move in the right direction.⁹⁵

BRI-related infrastructure

Concerns about the sustainability of the railways along the BRI need to be addressed. They are currently so heavily subsidised that end prices resemble those associated with maritime shipping. Instead of relying on subsidies, a leading role should be taken in improving the 'software' of the railways so that they become naturally competitive options. Aligning practices on things like customs and safety regulations, so that freight can more smoothly cross borders, would help considerably. Creating uniform administrative processes across these borders, especially digitally, can further expedite movement.

In the interests of developing truly global digital connectivity and ensuring full interoperability between different systems, the DSR needs to be much more open to input from all stakeholders. Digital and ICT/telecoms standards should not merely be copied from China and pasted into recipient countries.

Internal reforms

Having one end of the old Silk Roads only partly open will greatly diminish the overall benefits of the BRI. Addressing this will require China to provide foreign companies with greater access to its market through the removal of direct barriers like the negative list for foreign investment, and ensuring that licences for everything from banking services to value-added telecoms services are accessible to them.

Further improving access to China's market will also help fill trains and ships with goods that are China-bound, which will remove the need to choose between either heavy subsidies for rail or empty containers.

Recommendations

- Implement an open and transparent procurement and tendering system for all BRI-related projects.
- Perform feasibility and environmental impact studies for all BRI-related projects, in line with international standards.
- Accept a leading role in aligning standards—such as customs and safety regulations—and contribute to creating uniform administrative processes along trade routes, to ensure greater efficiency and reduce shipping times.
- Phase out subsidisation of rail freight as soon as possible.
- Contribute to the creation of a fully interoperable DSR by opening it up to full participation from all stakeholders, instead of transposing Chinese digital/ICT standards to recipient countries.
- Open China's market further to foreign participation through the removal of direct and indirect barriers.

⁹⁵ Ghossein, Tania, Hoekman, Bernard, and Shingal, Anirudh, *Public Procurement in the Belt and Road Initiative*, The World Bank, December 2018, viewed 23rd December 2019, <<http://documents.worldbank.org/curated/en/143241544213097139/pdf/132786-MTI-Discussion-Paper-10-Final.pdf>> p. 32

To the EU and member states

Connectivity

Countries need a viable alternative to the BRI to ensure that they are not accepting less than ideal conditions due to a lack of choice. The new European Commission would send a powerful message to China and the rest of Europe and Asia by making development of the EU Connectivity Strategy a priority.

However, there needs to be a rethink of the standard European approach to its projects. This does not mean high standards and due diligence should be abandoned, but streamlining is vital if the plan is to become competitive.

Importantly, the EU Connectivity Strategy should only be open to participation from countries whose own similar initiatives are fully open to European participation. For example, if Chinese firms want to bid on EU Connectivity projects, then BRI-related projects need to offer reciprocal access to European players.

Shields, not spears

It would be in the EU's interests to continue exploring what new tools it needs to address novel challenges emanating from China. Further strengthening of investment screening is needed to ensure that legitimate investment continues to be welcomed, but state-directed capital is blocked. Implementation of the International Procurement Instrument will also help to address the imbalance of access to public procurement between the EU and China.

The BRI is facilitating the entry into relatively untapped markets of many Chinese companies that have achieved massive scale and receive state support, where they are able to quickly build market share without meaningful competition. The EU should therefore look into reviewing its own competition law, to find practical and realistic ways that will allow its companies to scale up and provide competition in third country markets against such entities.

Tighten reciprocity in the digital sphere

Reciprocity must be pursued in relation to all things digital in particular. From VATS licensing to the Great Firewall, China has developed tools to protect its own companies and not only block access to China's market, but also restrict interoperability between foreign and local digital goods and services. In addition to the scale issue, this adds another layer of concern: Chinese digital goods and services will increasingly be operational everywhere, whereas foreign solutions will be restricted to everywhere outside of China.

The EU must therefore carefully consider what kind of mechanisms could be employed for reciprocity review that could function similarly to the IPI.

The advantage of all of these tools is that if China pursues its reforms as committed to, and if the BRI moves in the right direction, then they become irrelevant to China and business can proceed as usual.

Recommendations

- Make the EU Connectivity Strategy a priority, to create an initiative that both complements the BRI and offers a credible alternative.
- Streamline processes for initiating and developing Connectivity projects, while maintaining the highest international standards for project transparency, feasibility and sustainability.
- Institute full reciprocity for Connectivity projects, opening bids only to enterprises from countries that offer corresponding terms for their own, similar projects.
- Strengthen further the investment screening mechanism, to ensure that legitimate, market-based investments are welcomed and that state-backed investments are blocked.

- Implement the IPI to balance access to public procurement between the EU and China.
- Find realistic ways to allow companies to better compete with those that have already achieved massive scale and that receive state support. This will include notably developing tools to address competition within the EU from foreign state-owned and subsidised companies that are not subject to the same disciplines as EU state-owned and subsidised companies.
- Examine carefully the possibility of introducing a 'reciprocity review' mechanism in relation to all things digital.

Further reading

The Center for Strategic and International Studies' *Reconnecting Asia*

<https://reconnectingasia.csis.org/>

The Mercator Institute of China Studies' (Merics) *Belt and Road Tracker*

<https://www.merics.org/en/bri-tracker>

The Asia Society Policy Institute's *Navigating the Belt and Road Initiative*

https://asiasociety.org/sites/default/files/2019-06/Navigating%20the%20Belt%20and%20Road%20Initiative_2.pdf

The American Enterprise Institute's *China Global Investment Tracker*

<https://www.aei.org/china-global-investment-tracker/>

Infrastructure Outlook

<https://outlook.gihub.org/>

The World Bank working papers on the BRI

<https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative>

Annex

The Belt and Road Initiative: an overview

The BRI is the most ambitious geo-economic vision in recent history. Spanning huge amounts of land and billions of people, its overarching aim is to establish hundreds of infrastructure projects to boost regional and global connectivity. It appeared at a time when much of the West had begun to look inward, which presented China with a golden opportunity to begin taking a larger role in affairs beyond its own borders.

Supporters of the BRI point to the lack of such projects before China stepped up to the plate. They argue that the BRI is reshaping the world and bringing unprecedented opportunities to communities otherwise forgotten by developed countries. On the other side of the debate are claims of debt-trap diplomacy, and a plan to create vassal states for China. Economically, some view it as little more than a means to secure trade routes, connect China to needed resources in other markets and to export China's overcapacity.

The official story: the BRI from China's perspective

It has been more than six years since President Xi Jinping first announced the project formerly known as One Belt, One Road during visits to Central and Southeast Asia. Originally consisting of plans to develop the regions along the Silk Road Economic Belt and the 21st Century Maritime Silk Road, the BRI has come a long way both in terms of public awareness and the amount of countries that are 'officially' part of the project. According to the office of the leading group for promoting the BRI, by July of 2019, 136 countries and 30 international organisations had put pen to paper and signed cooperation agreements with China committing themselves to the Belt and Road.^{96&97}

The BRI aims 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, multitiered and composite connectivity networks, and realise diversified, independent, balanced and sustainable development in these countries".⁹⁸

The initiative took flight when President Xi introduced an action plan on the principles, framework and cooperation priorities, and mechanisms for the BRI, put forward by the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs (MFA) and the Ministry of Commerce (MOFCOM), in March 2015.^{99&100} The action plan outlined the priorities for cooperation, specifically in policy coordination, facilitating connectivity, unimpeded trade, financial integration and people-to-people links.¹⁰¹ It was envisaged that this would be pursued under the principles of "cooperation, harmony and inclusivity, market operations and mutual benefit".¹⁰²

The Chinese Government puts forward the vision of the BRI as a way of facilitating more trade and investment, and opening up to the world. The action plan specifically notes the potential for expanded cooperation and the implementation of the World Trade Organization (WTO) Trade Facilitation Agreement, as well as the necessity for transparency. "We [countries along BRI] should lower non-tariff barriers, jointly improve the transparency of technical trade measures, and enhance trade liberalisation and facilitation."¹⁰³

96 Since July, the number climbed to 138, however, the official website has not updated the number yet. For reference: *The Belt and Road Initiative: Country Profiles*, HKTRC Research, viewed 13th December 2019, <<http://china-trade-research.hktrc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative-Country-Profiles/obor/en/1/1X000000/1X0A3610.htm>>

97 *Six Years of Belt and Road*, Belt and Road Portal, Chinese office of the leading group for promoting the BRI, 11th October 2019, viewed 10th December 2019, <<https://eng.yidaiyilu.gov.cn/qwyw/rdxw/105854.htm>>

98 *Action plan on the Belt and Road Initiative*, NDRC, MFA and MOFCOM, 28th March 2015, viewed 10th December 2019, <<http://www.fmccprc.gov.hk/eng/Topics/ydy/t1383426.htm>>

99 Also known as 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road'.

100 *Chronology of China's Belt and Road Initiative*, Website of the State Council, 28th March 2015, viewed 10th December 2019, <http://english.www.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm>

101 *Full text: Action plan on the Belt and Road Initiative*, NDRC, MFA and MOFCOM, 28th March 2015, viewed 10th December 2019, <<http://www.fmccprc.gov.hk/eng/Topics/ydy/t1383426.htm>>

102 *ibid.*

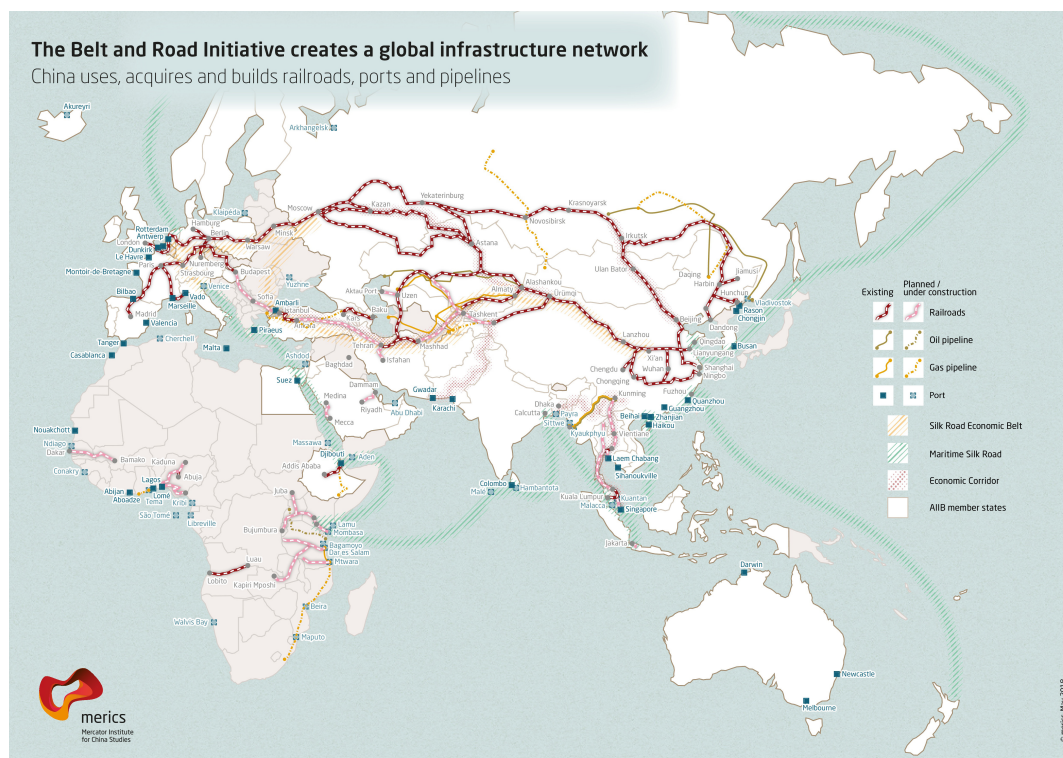
103 *ibid.*

To facilitate the roll-out of the BRI, the action plan encouraged the signing of bilateral cooperation memoranda of understanding (MOUs)¹⁰⁴ and the establishment of bilateral joint working mechanisms, implementation plans and roadmaps.¹⁰⁵ Additionally, a point frequently emphasised by the Chinese Government was the role of multilateral cooperation mechanisms and international forums and exhibitions.

The latter has proved to be an important instrument for the Chinese Government to share updates on the BRI. In addition to incorporating mentions of the BRI at speeches given during countless events, the Chinese Government organised the first BRF in May 2017, followed by a second in April 2019, both in Beijing.

Ahead of the second BRF, the office of the leading group for promoting the BRI published a progress report on the initiative.¹⁰⁶ Based on this report, Chinese state media reported that the BRI was making steady progress as a global connectivity initiative.¹⁰⁷ The BRI, initially a plan limited to two trade routes across Eurasia, was no longer geographically restricting itself, and there were now countries as far as Western Africa and South America that had signed up to the initiative.¹⁰⁸

While the exact impact the BRI has had over the last six years is not clear, in September 2019, Chinese state media reported that, from 2013 to 2018, trade in goods between China and regions along the Belt and Road reached a volume of more than USD 6 trillion.¹⁰⁹ In 2019 (January to November), China reported that trade with 'BRI countries' had risen by 9.9 per cent to USD 1.21 trillion (Chinese yuan (CNY) 8.35 trillion).¹¹⁰ Reportedly, this accounted for 29.3 per cent of China's total trade with other countries.¹¹¹



104 Not all of the documents agreed to between China and other countries regarding the BRI have been MOUs, but the MOU model is seemingly the most common.

105 Ibid.

106 *The Belt and Road Initiative Progress, Contributions and Prospects*, Belt and Road Portal, Chinese office of the leading group for promoting the BRI, 22nd April 2019, viewed 10th December 2019, <<https://eng.yidaiyilu.gov.cn/zchj/qwfb/86739.htm>>

107 *China Focus: Belt and Road Initiative Makes Solid Progress, Embraces Brighter Future: Report*, Xinhua, 22nd April 2019, viewed 10th December 2019, <http://www.xinhuanet.com/english/2019-04/23/c_137999264.htm>

108 *The Belt and Road Initiative Progress, Contributions and Prospects*, Belt and Road Portal, Chinese office of the leading group for promoting the BRI, 22nd April 2019, viewed 10th December 2019, <<https://eng.yidaiyilu.gov.cn/zchj/qwfb/86739.htm>>

109 *Spotlight: BRI Participating Countries Reap Benefits After 6 Years Joint Construction*, Xinhua, 14th September 2019, viewed 10th December 2019, <http://www.xinhuanet.com/english/2019-09/14/c_138391095.htm>

110 *China's Foreign Trade with B&R Countries Totalled 8.35 Trillion Yuan from January to November*, Belt and Road Portal, Chinese office of the leading group for promoting the BRI, 9th December 2019, viewed 10th December 2019, <<https://eng.yidaiyilu.gov.cn/qwyw/rdxw/112057.htm>>

111 Ibid.

Looking East: the European view of the BRI

The EU and most of its member states have yet to sign up to the BRI.¹¹² So far, 12 member states have joined by signing relevant MOUs, namely Bulgaria, Croatia, the Czech Republic, Greece, Hungary, Italy, Latvia, Malta, Poland, Portugal, Romania and Slovakia.¹¹³

Geographically, the EU sits at the opposite end of both the 'belt' and the 'road' from China. As such, it has been on the receiving end of extensive BRI-related infrastructure projects, including railways, ports and highways. BRI-related activity in European ports is widespread, spanning much of the bloc. On the rail side, emphasis was first placed on railways crossing the Belarussian-Polish border, and thus into the EU Common Market, but have now stretched as far as the UK and Spain. Roads and additional rail capacity are being built throughout the Balkans and Eastern and Central Europe, both in EU Member States and otherwise.

Ports have been invested in and expanded all across the EU, and in many ways are the critical component for boosting trade (70 per cent of goods coming into the EU do so by sea). Small, but not insignificant, port investment through the BRI has taken place from Bulgaria in the Black Sea to Latvia in the Baltic Sea and everywhere in between.^{114&115} However, it is a port in Greece across the Mediterranean from the Suez Canal that has become the posterchild for BRI port development, so much so that in a recent visit, President Xi referred to it as the "head of the dragon."¹¹⁶

On the edge of Athens, the Port of Piraeus played an early, yet critical role in European history when 2,500 years ago, it launched the Athenian navy that devastated the much larger Persian fleet at the Battle of Salamis, likely saving Greece in the process. However, after the end of the Greek golden age, Piraeus became a seldom-used shadow of its former self.

Arriving in 2008, China Ocean Shipping Company Ltd (COSCO) invested heavily in the facilities, first taking over two of Piraeus' three terminals, before eventually taking a 51 per cent share in the port (although the start of China's involvement predates the BRI, Piraeus was retroactively claimed as a BRI project). In the intervening decade, Piraeus' yearly throughput climbed from 0.44 million twenty-foot equivalent units (TEUs)¹¹⁷ to 4.12 million TEUs in 2017. With plans to connect Piraeus to a rail network going up through the Balkans, it seems likely that there will be even further demand put on the port.

This evolution, from a port of unquestionable historical greatness to insignificance, then back to greatness with the help of China, creates a powerful narrative. It is therefore not surprising that Piraeus plays such a central role in much of the BRI messaging to the EU and beyond.

While Piraeus makes for a compelling story, a deeper look reveals a less appealing truth. Although Piraeus may now boast a significant increase in TEU throughput, COSCO has been pushing to increase capacity past 10 million TEUs.¹¹⁸ Although this is not an impossible goal, the simultaneous capacity expansion of other European ports, under the BRI and otherwise, has European shippers very concerned that this will result in overcapacity.

It is also important to note that the rapid growth of both capacity and actual throughput has largely been achieved by COSCO using Piraeus as a hub for international relay. As explained on page 20, this practice of reorganising

112 Valero, Jorge, *European Bloc not Considering Joining China's Belt and Road Plans*, *Euractiv*, 26th April 2019, viewed 18th December 2019, <<https://www.euractiv.com/section/eu-china/news/european-bloc-not-considering-joining-chinas-belt-and-road-plans/>>

113 *Cooperation Agreements and MOUs under the Belt and Road Initiative*, Belt and Road Initiative, viewed 18th December 2019, <<https://www.beltroad-initiative.com/memorandum-of-understanding-belt-and-road-initiative/>>

114 *China to Invest EUR 20M in Bulgaria's Burgas Port to Facilitate Trade with Europe*, *Novinite*, 6th May 2016, viewed 18th December 2019, <<https://www.novinite.com/articles/174354/China-to-Invest-EUR+20M+in+Bulgaria%E2%80%99s+Burgas+Port+to+Facilitate+Trade+with+Europe>>

115 *Port of Riga and Chinese Companies Join Forces*, *Container News*, 20th September 2018, viewed 18th December 2019, <<https://container-news.com/port-riga-chinese-companies/>>

116 *Piraeus Port the Head of the Dragon: President Xi, Belt and Road News*, 12th November 2019, viewed 18th December 2019, <<https://www.beltandroad.news/2019/11/12/china-greece-agree-with-coscos-piraeus-port-investment/>>

117 Twenty-foot equivalent unit, *Logistics Glossary*, viewed 16th December 2019, <<https://www.logisticsglossary.com/term/teu/>>

118 *COSCO plans further Piraeus port container capacity expansion*, *Ports Europe*, 14th August 2019, viewed 18th December 2019, <<https://www.portseurope.com/cosco-plans-further-piraeus-port-container-capacity-expansion/>>

containers between multiple vessels that then go elsewhere is legal for Chinese vessels to perform in European ports. European shippers doing business in China, however, still have to go to Hong Kong, or even a different country, to be able to do the same. So, while workers in Piraeus reap the benefit of the EU's openness, European shippers are left at a serious disadvantage.

Other unfinished stories remain

Hungary and Serbia signed a trilateral deal with China to upgrade a rail line that connects Budapest and Belgrade. Much of the work has already been completed on the Serbian side, but little has been done on the other.¹¹⁹ Work was quickly halted after the EU intervened over the closed nature of the bidding process, which led to a Hungarian-Chinese consortium (though predominately Chinese) running the project.¹²⁰ Meanwhile, Agnes Szunomar, head of the Research Group on Developmental Economics at the Hungarian Academy of Sciences, sees a weak economic rationale in the project, stating: "It is not an investment, but a loan, which Hungary will have to pay back, while the train won't stop and...we will just be a transit country for Chinese goods going to other markets."¹²¹

Further to the southeast, in Montenegro, although a massive new highway has been pushed by the government since the turn of the century, it had not been able to secure the external financing necessary to fund construction. The project has faced heavy scrutiny over its feasibility and the effect it would have on Montenegro's debt.¹²² Eventually, the BRI came knocking and the financing, along with Chinese construction firms, came with it. Chinese companies are funding 85 per cent of the first section, which eventually climbed past USD 1 billion. Once the first section approaches completion, the rest of the project is projected to double the overall cost. So far, this has spiked national debt, climbing from 63 per cent of GDP in 2012, to nearly 80 per cent in 2019.¹²³

Such examples raise concerns over how the BRI is being pursued. The speed of oversized projects in Montenegro and Serbia, and the attempt to push them in Hungary, does little to allay concerns over just how transparent, open and sustainable BRI projects really are.

An unwelcome 'divide and conquer' strategy

The existence of 17+1, a group of 17 Central and Eastern European (CEE) countries and China, which dates back to 2012, is raising eyebrows and suspicions in the EU.¹²⁴ The group is intended to build cooperation, especially on economic matters, between the 17 CEE countries and China. However, China is seeking ways to work with 17+1 to further the BRI's influence, and to send its companies and banks to finance infrastructure projects, especially those that can connect to western European markets.¹²⁵ As of mid-2019, about USD 15 billion in investment and construction financing had been completed in the 17+1 countries. However, 70 per cent of that was located in non-EU Member States like Serbia, Bosnia and Herzegovina, and Montenegro.¹²⁶

For the 12 of the 17 that are EU Member States, BRI financing is less alluring since they can make the most of EU structural funds for their own projects; they are looking for true greenfield investment, not construction project financing. However, the non-EU Member States in the 17+1 are much keener to obtain financing for their projects.

119 Rencz, Flora, *The BRI in Europe and the Budapest-Belgrade Railway Link*, European Institute for Asian Studies, 23rd October 2019, viewed 18th December 2019, <<http://www.eias.org/briefing-papers/the-bri-in-europe-and-the-budapest-belgrade-railway-link/>>

120 Voros, Zoltan, *Who Benefits From the Chinese-built Hungary-Serbia Railway?*, *The Diplomat*, 4th January 2018, viewed 18th December 2019, <<https://thediplomat.com/2018/01/who-benefits-from-the-chinese-built-hungary-serbia-railway/>>

121 Gorvett, Jonathan, *Hungary Ponders Pitfalls of Chinese Rail Line*, *Asia Times*, 15th April 2019, viewed 18th December 2019, <<https://www.asiatimes.com/2019/04/article/hungary-ponders-pitfalls-of-chinese-rail-line/>>

122 Barkin, Noah, and Vasovic, Aleksandar, *Chinese 'Highway to Nowhere' Haunts Montenegro*, *Reuters*, 16th July 2018, viewed 18th December 2019, <<https://www.reuters.com/article/us-china-silkroad-europe-montenegro-insi/chinese-highway-to-nowhere-haunts-montenegro-idUSKBN1K60QX>>

123 Hopkins, Valerie, and Kyne, James, *Montenegro Fears China-backed highway will put it on Road to Ruin*, *Financial Times*, 10th April 2019, viewed 18th December 2019, <<https://www.ft.com/content/d3d56d20-5a8d-11e9-9dde-7aedca0a081a>>

124 Originally the 16+1, the addition of Greece in 2019 brought the number up to 17. Members include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and China.

125 Kavalski, Emilian, *China's "16+1" Is Dead? Long Live the "17+1"*, *The Diplomat*, 29th March 2019, viewed 18th December 2019, <<https://thediplomat.com/2019/03/chinas-161-is-dead-long-live-the-171/>>

126 Barshevsky, Charlene, and Hadley, Stephan, *The Higher Road*, The Center for Strategic and International Studies, April 2019, viewed 19th December 2019, <<https://www.csis.org/higherroad>>

Meanwhile, Chinese companies are seemingly less keen to bid on BRI-relevant projects within the EU, perhaps due to the increased transparency demands of related tenders.

The EU is understandably frustrated by these actions. Given that it abides by the One-China policy, in the many areas where the EU holds competency over member states, China should reciprocate and adopt a One-EU policy, rather than trying to divide the EU through bilateral deals.

Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
BRF	Belt and Road Forum
CATA	Comprehensive Air Transport Agreement
CCG	China Center for Globalisation
CEE	Central and Eastern European
CLAS	Centimetre Level Augmentation Service
CNY	Chinese yuan
CO₂	carbon dioxide
CSIC	China Shipbuilding Industry Corporation
CSSC	China State Shipbuilding Corporation
CSR	corporate social responsibility
DGs	dangerous goods
DSR	Digital Silk Road
EBO	European Business Organisation
EPA	Economic Partnership Agreement
EU	European Union
EUR	euro
FIFA	Fédération Internationale de Football Association
GDP	gross domestic product
GNSS	Global Navigation Satellite System
ICT	information and communication technology
IMF	International Monetary Fund
IP	intellectual property
IPI	International Procurement Instrument
JBIC	Japanese Bank for International Cooperation
JICA	Japan International Cooperation Agency
JV	joint venture
km	kilometre
MDB	multinational development bank
MFA	Ministry of Foreign Affairs
MOFCOM	Ministry of Commerce
MOU	memorandum of understanding
MNC	multinational corporation

NDRC	National Development and Reform Commission
NEXI	Nippon Export and Investment Insurance
NSD	National School of Development
ODA	Official Development Assistance
OEM	original equipment manufacturer
PBOC	People's Bank of China
POE	privately-owned enterprise
QSS	Quality and safety services
QZSS	Quasi-Zenith Satellite System
SAFE	State Administration of Foreign Exchange
SASAC	State-owned Assets Supervision and Administration Commission
SME	small and medium-sized enterprise
SOE	state-owned enterprise
SPA	Strategic Partnership Agreement
TEU	twenty-foot equivalent units
TIC	testing, inspection and certification
UNDP	United Nations Development Programme
USD	United States dollar
VATS	value-added telecoms services
VPN	virtual private network
WTO	World Trade Organization



European Chamber
中国欧盟商会

Beijing

Tel: +86 (10) 6462 2066
Fax: +86 (10) 6462 2067
Email: euccc@europeanchamber.com.cn

Nanjing

Tel: +86 (25) 8362 7330 / 8362 7331
Fax: +86 (25) 8362 7332
Email: nanjing@europeanchamber.com.cn

Shanghai

Tel: +86 (21) 6385 2023
Fax: +86 (21) 6385 2381
Email: shanghai@europeanchamber.com.cn

Shenyang

Tel: +86 (24) 6683 4376
Fax: +86 (24) 6683 4376
Email: shenyang@europeanchamber.com.cn

South China - Guangzhou

Tel: +86 (20) 3801 0269
Fax: +86 (20) 3801 0275
Email: southchina@europeanchamber.com.cn

South China - Shenzhen

Tel: +86 (755) 8632 9042
Fax: +86 (755) 8632 9785
Email: southchina@europeanchamber.com.cn

Southwest - Chengdu

Tel: +86 (28) 8527 6517
Fax: +86 (28) 8529 3447
Email: chengdu@europeanchamber.com.cn

Southwest - Chongqing

Tel: +86 (23) 63085669
Email: chongqing@europeanchamber.com.cn

Tianjin

Tel: +86 (22) 5830 7608
Email: tianjin@europeanchamber.com.cn