THE NEW SILK ROAD

The $2tn Journey, Spanning 65 Countries, Connecting 4bn People
INTRODUCTION

China’s new multi-trillion dollar infrastructure and trade initiative aims to link 65 nations and over four billion people to transform its standing as a political and financial force in the world. It consists of maritime, energy, road and rail projects expected to cost over $2 trillion.

Key findings:

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<th>4 billion</th>
<th>62%</th>
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<td>Combined population of all countries involved in BRI</td>
<td>BRI touches 62 percent of the world’s population</td>
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<th>$23 trillion</th>
<th>$26 trillion</th>
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<td>Combined GDP of all countries involved</td>
<td>Estimated cost of the infrastructure needs in the developing parts of Asia-Pacific through 2030</td>
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<th>$2 trillion</th>
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<td>Estimated direct BRI spend</td>
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<th>75%</th>
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<td>Globally known energy reserves covered under BRI</td>
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<th>89%</th>
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<td>Of all contractors participating in Chinese-funded projects are Chinese companies</td>
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The less developed BRI partners have an average yearly income of $6,312.
The original Silk Road was a large network of roads and sea routes linking Asia with Europe and the wider Middle East. It facilitated the exchange of goods and technology along with languages and knowledge. Although the term “Silk Road” (coined in the 19th century) references the trade of the rare fabric during the period of the Han Dynasty (206 BCE - 220 CE), many goods and commodities were exchanged along these routes for centuries in what might be considered the earliest forms of globalisation.

For much of the last two thousand years, China has played a dominant role in the world economy because of its technological and economic strengths. The Silk Road served as the backbone for its commercial relationship with other parts of the world. But it was only in 2013 when the current president, Xi Jinping, launched its re-branding - hailing it as a multi-trillion dollar initiative to link 65 nations across over 4bn people.¹
INTRODUCTION

Six Economic Corridors

- China - Mongolia - Russia
- New Eurasian Land Bridge
- China - Central Asia - West Asia
- China - Pakistan
- Bangladesh - China - India - Myanmar
- China-Indochina Peninsula
The Belt and Road Initiative: Six Economic Corridors spanning Asia, Europe and Africa.

The project, named the Belt and Road Initiative (BRI), is not limited to the establishment of a network of routes for the trading of goods and services. The initiative also aims to strengthen cooperation in several key areas such as policy coordination, infrastructure construction, trade facilitation and financial integration.²

It is worth noting that the initial name proposed by China for the new Silk Road was “One Belt One Road”. However, to avoid the perception of China building a single road and driving belt and road countries into competition, China then re-named the series of projects as the “Belt and Road Initiative”. The word “initiative” attempts to demonstrate, in their eyes, the open nature of the strategy. The development of these infrastructure corridors is estimated to cost over $2trn, much of which is expected to be funded directly by Chinese banks/government agencies. This commitment led to the launch of new financial institutions, such as the Asian Infrastructure Investment Bank and the Silk Road Fund. To date, many developing countries have benefited from an increase in desperately needed infrastructure; however the story is not without flaws. Certain recipients have seen their Debt-to-GDP ratios move to dangerous levels thus raising concerns over lending standards and questions about the deeper motivations behind these grand plans. Some Hawks, such as the United States Government, label the BRI as “neo-colonialism” or a form of “debt-trap diplomacy”³, pointing to China’s desire to export its excess industrial capacity, built up over the past two decades, at the expense of vulnerable developing nations. However, other countries see the positives, pointing to the lowering of trade barriers, the high potential for economic growth and the opportunity to bring millions out of poverty.

In the following sections, we will explore the rise and fall of China’s dominance in history and discuss what we believe to be the key motivations behind the BRI. We move on to present mini-case studies based on projects involving countries such as Germany, Greece, Sri Lanka and Malaysia. Afterwards we put forward a list of policy recommendations gathered from the market which are oriented around improving China-EU relations and finish by offering concise responses to what we believe to be the most important questions associated with the BRI today. The purpose of our paper is to offer context and an objective review of the progress to-date of the Initiative rather than to make investment recommendations (we will do that separately). Please note that we have no affiliations with any of the companies/organisations cited in this report.

Opportunities

- Increase in infrastructure
- Lowering of trade barriers
- High potential for economic growth
- Bring millions out of poverty

Risks

- Increased levels of Debt to GDP
- Debt trap diplomacy
The period in Chinese history of the Tang and Song dynasties (618 CE and 1279 CE) is referred to as the Golden Age. During this period, China witnessed remarkable economic growth driven by developments in many fields, particularly literature and technology. In contrast, Europe’s growth during the period lagged as it entered the “Dark Ages”. Factors that weighed heavily on Europe’s poor economic performance included the lack of technological developments, constant incursions by Barbarians, a fall in agricultural productivity and a decline in the population base.

Land-based trade with Europe via the Silk Road, which started under the Han dynasty (206 BCE - 220 CE), was later revived under Tang rule some 400 years later. Foreign trade under the Tang dynasty was carried out both on land and by sea. The fall of the Tang dynasty, largely due to feuds within the government and economic instability in the region, preceded a 53 year period of infighting before the emergence of the Northern (and later Southern) Song dynasties.

Trade, industrial production and maritime commerce thrived under Song rule. There was a surge in the production of non-agricultural goods like silk and cash crops such as tea. Gunpowder, the compass, papermaking and printing were some of the prominent inventions of the period in China. The world’s first paper currency was also introduced during the Song dynasty. However, the use of the land-based Silk Route for trade declined as northern China fell into the hands of nomadic invaders, making the route inaccessible.

Following the decline of the Song dynasty, Mongolian emperor Kublai Khan established his rule over China and named the new dynasty as the Great Yuan. The invading Mongols not only re-established the Silk Route for trade but also provided protection to traders, upgraded road infrastructure in Central Asia and expanded canal systems from southern China to northern China to ease the transfer of grain. It was during the Yuan dynasty that Marco Polo came from Venice to visit China. But then heavy flooding of the Yellow
river, over taxation in regions hit by high inflation and ethnic discrimination against the Han Chinese resulted in the fall of the Yuan Dynasty leading to the rise of the Ming Dynasty less than a century later.

During the Ming era, “The Ming Voyages” were made. These expeditions were carried out with hundreds of large ships (a mixture of treasure ships and escort vessels) and tens of thousands of sailors. In order to protect the region from foreign invasion and military reprisals, the Ming rulers built fortresses along the border. The consequent decline in traffic and land-based trade led to economic losses to the oasis cities of Northern China and Central Asia.

**China’s pre-modern history and the Century of Humiliation**

The last imperial dynasty of China, the Qing Dynasty, had the fourth largest empire in World history and ruled the country for nearly three centuries (1644 to 1912). The international demand for Chinese goods was high during early Qing rule, leading to huge trade surpluses with European countries. To counter this trade imbalance, the British auctioned Indian-grown opium to foreign traders in return for silver. Much of the opium auctioned found its way into China. The influx of narcotics into Chinese territory reversed the Sino-British trade surplus and drained the country’s economy. Alarmed by the rising use of narcotics, the Viceroy Lin Zexu, under the leadership of the Daoguang Emperor, outlawed the inflow of opium into the country.

To reverse this ban, the British waged the two Opium Wars against China between 1839-1842 and again between 1856-1860. As a result, China was forced to sign treaties to open many of its ports to foreign trade, reverse the restrictions on opium imports and cede control of Hong Kong to Britain. According to the British economist Angus Maddison, China’s economy was the largest in the world in 1820. However, a few years after the second opium war, China’s share of global GDP had fallen by half.
The second Opium War was followed by Chinese civil unrest and the Taiping Rebellion. The Qing dynasty’s reputation faced a series of setbacks as it was forced to give up claims over North Vietnam, post Sino-French War (1884-1885). The revolutionary activity against the administration intensified further as China had to cede control of Taiwan and recognise the independence of Korea - conditions imposed by the treaty between China and Japan after the First Sino-Japanese War (1884-1895). A modern Japanese army won battles both on land and sea, despite being outnumbered more than 2:1. Further defeats followed the invasion of Tibet by the British in 1904 and from the agreement to Japan’s “Twenty-one Demands” in 1915.
Rise of Communism and formation of the Communist Party

The Xinhai revolution in 1911 overthrew the Qing Dynasty and established the Republic of China, bringing to a close 2,000 years of Imperial rule. Following the fall of the Qing Empire, China entered a state of turmoil in which various factions fought for power. Communist philosophies such as Marxism started to gain traction amongst Chinese intellectuals and in 1921, the Communist Party of China was formed by Chen Duxiu and Li Dazhao.

The ensuing struggles for power between the nationalist Kuomintang of China (KMT) and the Communist party of China, led to civil wars between 1927-1936 and 1946-1950. The period from 1839-1949, which is often referred to as the ‘Century of Humiliation’, ended in 1949 when Mao Zedong assumed leadership of the Chinese Communist Party (CPC) and Chiang Kai-shek fled to the island of Taiwan. Mao was initially inspired by the Soviet model of development but then split from the philosophies of Marxism and developed his own interpretation, which came to be known as Maoism.

China’s transition to a manufacturing economy

In order to augment China’s manufacturing capabilities, Mao pushed for industrialisation, announcing a five-year plan called “The Great Leap Forward”. To achieve its objectives, communes were formed and people were asked to work for the collective. All essential facilities such as the education of children and healthcare were provided by the communes and in return ownership of tools, animals etc. were shared. The government aggressively attempted to maintain a high level of enthusiasm for the movement and utilised techniques such as the communication of propaganda with loudspeakers. Within a year, 700 million people were moved into the communes. Initially, the program was a success and 11 million tons of steel were added to the nation’s production through the setup of 600,000 backyard furnaces. A significant increase in the production of all major commodities (coal, cotton and grain) was achieved and the Great Leap Forward commenced.

However, flaws in Mao’s plan began to manifest in the following year when it became apparent that the hastily produced steel lacked durability. This was accompanied by a sharp decline in agricultural production. The crop harvest was severely impacted as agricultural workers had been diverted to backyard industrial production. This was further compounded by flooding and droughts, all of which culminated in “the Great Chinese Famine”. Many millions died of starvation between 1959 and 1962. Mao admitted failure and consequently stepped down from his position as Head of State while remaining Chairman of the Communist Party.

A few years after the Opium Wars, China’s GDP had fallen by half.
Following the death of Mao in 1976, Deng Xiaoping became the “Paramount Leader” of China and the commune system was dismantled. After multiple failed attempts by previous leaders, reforms under Deng’s leadership put China on the path of industrialisation. He introduced China to world markets and set objectives to strengthen agriculture, heavy industry, national defense, science and technology through a strategy entitled the “Four Modernisations”, which can be described in three phases:

  During this phase, millions of rural enterprises were opened and China was able to address its food security problem. A huge increase in rural output was observed during this period.

- **First industrial revolution (1988-1998)**
  Rural output almost doubled every three years in this phase and China became a mass producer of consumer goods; becoming the largest textile, furniture and toys exporter and the biggest cotton producer in the world.

- **Second industrial revolution (1998-Present)**
  China’s infrastructure expanded significantly in this phase. China built millions of miles of public roads and connected many provinces with high-speed trains, having surpassed the US in terms of manufacturing in 2010.

**Deng Reforms aimed at industrialization**

The “Four Modernisations” are:

1. Agriculture
2. Heavy Industry
3. National Defense
4. Science and Technology

Deng officially resigned in 1989 due to internal politics and on the heels of international condemnation, following the use of military forces during the Tiananmen Square protests.
Rise in Global Status, accession to WTO, onset of GFC and China today

Between 1970 and 2000, Chinese foreign trade exploded, growing from approximately $20 billion to $475 billion. For most of the 1990s, China was second only to the United States in terms of outward Foreign Direct Investment (FDI). GDP growth averaged nearly 10% a year between 2000 and 2010 and this achievement led to China’s share of global GDP advancing from 3% in 2000 to 14.8% in 2016. Today, it is the second biggest economy in the world as measured by Gross Domestic Product (GDP). This economic ascendance has been facilitated and enhanced by China’s accession in 2001 to the World Trade Organisation (WTO), the supranational body regulating global trade.

To become a member of the World Trade Organisation, China was forced to make significant commitments, agreeing to requirements which exceeded those for other members that joined after 1995. China implemented a significant reduction in tariffs, opened protected sectors to Foreign Direct Investment (FDI) and acknowledged the need to reduce the flow of certain Chinese goods into certain foreign markets.

Given the significant reallocation of capital and labour that was to set to take place in the sectors opening to FDI, it was clear that China would have to go through some short term pain to realise economic benefits in the medium to long term. There was fear that China could witness rising unemployment in certain sectors and a decline in market share for domestic firms because of the commitments it had to make to the WTO protocols. Nevertheless, the Chinese administration implemented the stiff demands, though not in their entirety. Following its accession to the WTO, China assumed more influence globally.

During the 2008 Global Financial Crisis (GFC) and its aftermath, the growth rate in China slowed, though not to the same extent as other large economies. China still registered growth of 9% in 2008, against 13% in the preceding year. Their main policy response to the impact of the GFC was unlike other major economies, which engaged in unconventional monetary policy (extremely low interest rates, bond buying and other financial interventions otherwise known as Quantitative Easing (QE)). Instead, the government’s response was very aggressive fiscal stimulus, where they injected approximately $600bn (13.4% of GDP – the largest stimulus in Chinese history) into the economy over two years, primarily through government spending on infrastructure projects.

Through this period, state owned banks faced increasingly stringent lending targets to local governments and State-Owned Enterprises (SOEs). At present, China is home to the world’s biggest banking sector. The Industrial & Commercial Bank of China (ICBC), China Construction Bank (CCB), Agricultural Bank of China (ABC) and Bank of China (BoC) are ranked the largest four banks (measured by assets), reporting a combined $13.6tn in assets for 2017. Their size allows them to continue BRI sponsorship for key infrastructure projects. To further put the role of the SOE into perspective, China has approximately 150,000 SOEs today, accounting for 30-40% of total GDP and about 20% of China’s total employment, with approximately 34% owned by the central government and the remainder by local governments.

This growth harboured two defining characteristics that play into the hands of the BRI. First, China has built expertise in infrastructure related sectors that it’s now able to utilise on a global scale. Secondly, China has built up excess capacity, which without new projects could become a source of economic slack and contribute to a sense of civil unrest if employees cannot find work.

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The BRI is Xi’s signature project and the motivations to design and build to their image the largest infrastructure project of modern times speak to the core of their ambitions. The Chinese priorities are clear, and we think of them as falling into two broad categories; ambitions that are geopolitical in nature and those that play into China’s reform agenda. Overall we would posit that the Chinese wish to integrate globally their financial system, promote economic growth, access new markets, ensure domestic security/stability, expand their military footprint and finally take back its ‘rightful’ place as the undeniable hegemon of Asia.

On the next page we expand on how these objectives play into the BRI.
Financial and Economic Growth

Internationalisation of the Chinese currency

Over the last half-decade, the internationalisation of the Renminbi (RMB), China’s official currency, has been a key policy focus for the Chinese government. Since 2009, some Middle Eastern countries along the New Silk Road, such as Qatar, have become offshore trading centres for the RMB, with clearing centres that also allow ‘Panda’ bond issuance. While the Swiss National Bank (SNB) and the Bank of England (BoE) already manage RMB denominated assets, the European Central Bank (ECB) began buying them in June 2017, reflecting the RMB’s growing acceptance in the global financial system.

Key landmarks for the use of the RMB in 2015 occurred when China joined the European Bank for Reconstruction and Development (EBRD), founded the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). Later that year, the IMF voted to include the Chinese currency in its basket of reserve currencies called Special Drawing Rights (which is considered the reserve currency of the Central Banks and comprises of the USD, GBP, JPY and EUR). This was a decisive moment in recognition of the stature of the RMB and an historic vote of confidence in China’s on-going financial reform.

Investing China’s reserves overseas

Chinese banks hold more than $15tn in deposits and their foreign exchange reserves amount to more than $3tn.19 With the rate of economic growth decelerating; President Xi Jinping is seeking to deploy significant reserves of savings and foreign currency in large-scale overseas infrastructure projects. As a result, the administration has pushed Chinese banks to be more deeply involved in the financing of BRI’s projects. To support these development plans under the BRI, two state-backed banks – the China Development Bank (CDB) and the Export-Import Bank of China (EXIM) – have received capital injections from the nation’s foreign exchange reserve ($32bn and $30bn respectively).20 Additionally, in December 2014, the Silk Road Fund (SRF) was seeded with $40bn backed by China’s FX reserves, as well as government investment and lending arms.
Exporting excess capacity

Exporting excess capacity is a key motivation for the Belt and Road Initiative and dovetails well with their core reform ambitions. Since the 2008 global recession, the Chinese economy has grown increasingly dependent on domestic infrastructure investment following the administration’s large fiscal stimulus, where investments in the transport, infrastructure and real estate sectors were made to counteract the changing make-up of the manufacturing sector.

However, in 2014, this policy became unsustainable due to the saturation of domestic demand and the respective industries suffered considerably from the ensuing overcapacity. Subsequently, Chinese construction companies, equipment makers and other suppliers that had thrived on the building boom were encouraged to look overseas. China hopes that its own companies will plan, build and supply the projects it funds to soak up excess capacity. Consequently, China continues to advance concessional loans, which in many cases are conditional upon Chinese enterprises being awarded construction work or export contracts. For example, Nigeria received $200m in loans from the China Development Bank (CDB) in 2004 to buy Huawei equipment. The question remains as to whether China can continue to “manufacture” enough demand overseas through the BRI project in order to move the dial.
The Chinese Premier Li Keqiang announced the ‘Made in China 2025’ strategic plan in May 2015. It is a 10-year action plan designed to rejuvenate China’s image with an aim of making it one of the world’s most advanced economies by increasing competitiveness in cutting-edge industries and moving the country’s manufactured goods up the value chain. The country’s new policies are specifically targeted at ten sectors to enhance innovation and production efficiency. The ultimate target is to increase China’s competency in high-tech industries and graduate from a mass producer to a high-quality manufacturer.

Access to the developed, Western European market has been described as the ultimate motive of the BRI. In 2017, China-EU trade increased by 16% year-on-year. Chinese freight trains ran 1,000 times to European cities, an increase of 158% year-on-year. Europe (if you include the UK) is the largest economic block (counting 28 EU nations + Norway, Switzerland and Iceland), accounting for 25.4% of the world’s output in 2014. Being their second largest trading partner, Europe makes the perfect target for Chinese exports as the country seeks to produce higher quality products with greater margins, as well as import European products such as luxury goods to meet the aspirational goals of its burgeoning middle class.

Motivations behind the BRI

1. Financial and Economic
2. Domestic and International Security
3. Political and Philosophical
Domestic and International Security

Promoting regional equality

Since the early 1980s, the rapid development of China’s cities, predominantly found in the export oriented eastern coastal areas, widened the pay gap with the nation’s rural western provinces. This phenomenon was entrenched by the development model pursued under the “reform and opening up programme” which followed Deng Xiaoping’s election in 1978. The focus concentrated on coastal areas as these provinces showed more growth potential. But it was only in 2000 when the then Party General-Secretary Jiang Zemin announced the Western Development Program (WDP), also known as the “Go West” strategy, aimed at bringing economic prosperity to the inland provinces (12 western provincial regions). Between 2000-2016, the Chinese government invested $914bn in over 300 projects predominantly in the energy and infrastructure sectors.26

China has long struggled with regional differences, experiencing cultural/ethnic clashes, exacerbated by the perceived lack of influence. Regional prosperity acts as an excellent means to address poverty, which has been a source of unrest in the past. Under the BRI framework, China is further promoting the development of its western provinces, given the nation’s proximity to Central Asia, especially via transportation infrastructure in the hope of boosting trade with its western neighbours.

Although this modernisation should reduce rail travel time between Europe and China, the real objective is to lessen the divide in economic prosperity, which gone uncorrected could lead to even more social unrest in areas such as Xinjiang, which has historically been a source of tension for the Chinese state because of the violent separatist movement. While preparing this report, in private conversations, certain analysts with whom we spoke even argued that the number one motivation of the BRI was ensuring domestic security because Xi’s government is so deeply concerned with the domestic risks to political stability. To put this into perspective, Chinese domestic security accounted for 6.1% of total government expenditure in 2017: $196bn vs. $161bn on external security and the military.27 Because of this, the Chinese state is betting that increasing the economic cooperation between Xinjiang and the Central Asian Republics (CARs) will speed up development in Northwest China and ultimately will help foster a greater sense of harmony.

Competition with Brussels

Many critics of China’s foreign policy, such as the US, argue that the way BRI is developing is an attempt by China to ‘divide’ the EU and weaken its institutions. The “16+1 Framework”28 is seen as a way to align the interests of the participating countries with those of China and deter criticism of China’s approach to sensitive issues such as human rights violations and acceptance of its totalitarian philosophy. For instance, in 2016 Hungary and Greece, both 16+1 members, blocked an EU statement that was critical of China’s territorial claims in the South China Sea. China’s investments in the central and eastern European economies under the BRI has fuelled concerns about the economic feasibility of some of the projects, while increasing the host countries’ reliance on Chinese funding. A leaked EU report relating to the BRI, signed by 27 of 28 EU ambassadors in Beijing, suggested the initiative runs counter to the EU agenda for liberalising trade and unfairly favours subsidised Chinese companies. Their concerns29 included the pursuit of, “domestic political goals like the reduction of surplus capacity, the creation of new export markets and safeguarding access to raw materials” resulting in “an advantage to Chinese companies”.

Promoting regional equality
With more than 2 million troops, President Xi wants to modernise the People’s Liberation Army (PLA) by 2035 and to have the most formidable army in the world by 2050. At the 19th Party Congress, the Chinese military – the People’s Liberation Army (PLA) – witnessed its biggest shakeup in decades. President Xi replaced three of the four top generals of the Central Military Committee (CMC). Xi had already started modernising the military and has set up certain targets. With more than two million troops, he wants to complete this process by 2035 and by 2050 be the most formidable military in the world. To support his vision, the Chinese administration increased budget for military spending for 2018 to $175bn from $165bn – the biggest rise in three years. At the same time, China’s government is actively searching for overseas bases at which to station and rotate military forces. The PLA and People’s Armed Police (PAP) may also gain increased access in BRI countries. Host countries may request security assistance to defend against domestic instability which could jeopardise their political position or put vital assets such as energy infrastructure at risk. Under the BRI, in some instances, China is likely to acquire or control major transportation facilities including ports and airports in exchange for Chinese investment and debt forgiveness. This has already transpired in Sri Lanka (discussed in greater detail later in this report).
At the same time, to protect the interests of the Chinese companies, China built its own blue-water navy and made investments in maritime assets throughout the Indian Ocean (Gwadar in Pakistan), around the Horn of Africa (Djibouti) and in the Mediterranean (Algeria). A Chinese military base (logistical supply facility opened in Djibouti in 2016), is only a few miles from outposts which host American, German, Spanish and French military assets.

**Securing its energy sources, raw materials supply and food security**

Investment in energy infrastructure is at the heart of the BRI. Energy demand in China increased more than 500% since 1980 as the nation became the world’s largest energy consumer and the second-largest oil consumer behind the US. The concentration of import routes pose a risk to the flow of Chinese oil supply, and so through the BRI they seek to protect existing routes and open new ones.
New pipelines in Central Asia (including Russia) and via Southeast Asia’s deep-water ports are designed to decrease China’s dependence on maritime bottlenecks controlled by the US and her allies. Additionally, importing oil and other commodities from the Middle East through the Gwadar Port in Pakistan (bypassing the South China Sea) will significantly reduce the distance end-to-end. The BRI also seeks to tackle energy security at source and as such is engaging in material M&A transactions.

In addition to oil consumption, China is unsurprisingly the world’s largest importer of raw materials (steel, copper, coal and cement) and naturally, the BRI will serve as a way of securing steady supplies of raw materials, principally from Africa and the Middle East. Finally, with China’s steadily increasing population of 1.4bn people, there is tremendous pressure on the nation’s domestic food production capability. In the promotion of trade links through the BRI, China hopes to secure more food supplies.

Establish global economic footprint across Central Asia and fill the void left by Russia and the US

Central Asia’s geopolitical significance has increased since the fall of the USSR in 1991, and the gradual liberalisation of former USSR nation states. China is understandably keen to ensure that its position is not weakened in the face of pressure from western capitalism, Russian influence and growing Nationalism abroad. China’s interest in Central Asia stems from four factors; its position as a gateway to the European markets, its strategic significance for maintaining order in the western provinces of China, Central Asia’s rich hydrocarbon reserves and as a receptive market for China’s goods and services. Through the BRI, China is expected to maintain its status of being the largest investor in the region, banking on its ability to allocate large investments in the region.

Offering further support to these trends are the weakness of the Russian Ruble, the US’ diminishing military presence and the Trump administration’s inward-looking agenda.

PART OF CHINA’S INTEREST IN CENTRAL ASIA STEMS FROM ITS POSITION AS A GATEWAY TO THE EUROPEAN MARKETS.
Political and Philosophical

Recovery from Century of Humiliation and Xi’s legacy

The modern school of Chinese nationalism traces its roots to the latter half of 19th century when, in the midst of a circa 100-year period, the country was victim to the exploitative policies of Western countries and Japan. For two decades, the then President Chiang Kai-Shek wrote above each entry in his personal diary, “Avenge Humiliation”.

And there are more contemporary references such as the nine-dash line; a vague demarcation line, representing China’s claims on a major portion of the South China Sea, once used in children’s textbooks which is now printed on the passports of Chinese citizens, representing the collective sense of national identity. President Xi Jinping and the CCP are as much ardent followers of this philosophy and there is a palpable link to the BRI project.

In October 2017, the 19th Congress of the Chinese Communist Party (CCP) concluded by confirming Xi Jinping as the most powerful leader of China since Deng Xiaoping. Delegates unanimously backed a second five-year term for the 64-year-old and his vision for the future of China, “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era”, was written into the party and state constitution. No other Chinese leader except the founder of modern China, Mao Zedong, had his guiding theory accepted into the charter while still in office. The inclusion of the “Belt and Road Initiative” (BRI) in the party constitution elevates it beyond mere economic policy, and cements its place as the cornerstone of his strategy. During the early part of 2018, in a further sign of support for Xi, the Congress abolished term limits for the presidency, thereby paving the way for Xi to stay on as head of the CCP after his second term expires in 2022.
Xi describes the “Chinese Dream” as internally prosperous as well as internationally engaged. This marks a break from Deng Xiaoping’s belief that the country should bide its time and maintain a low profile. His style as party leader is very different from that of his immediate predecessors like Hu Jintao and Jiang Zemin who advocated collective decision leadership akin to that which Deng Xiaoping had institutionalised. The difference in leadership became visible beginning with Xi’s anti-corruption campaign that charged approximately 300,000 Chinese officials at all levels in 2015 alone. Since taking office in 2012, Xi has exerted more control over China’s military than any of his predecessors as Chairman of CMC. In economic terms, the country has achieved middle-income status and its per capita GDP continues to catch up with the US’, albeit at a more moderate pace of late.37

Overall, China's economic and geopolitical ambitions mirror one another and the BRI is becoming the outwardly facing means to such ambitions.
BRI FUNDING AND CONTRACTS

Most countries along the BRI route are developing economies and have little access to the international finance needed to advance their infrastructure and energy agendas. Chinese financial institutions are playing a key role in providing the finance to support these ventures. Since the announcement of the BRI, the Chinese government has established two new multilateral development banks (MDBs) and a dedicated sovereign wealth fund (SWF).

The first MDB linked to the BRI was the New Development Bank (NDB), otherwise known as the BRICS bank, headquartered in Shanghai and established by Brazil, Russia, India, China and South Africa (BRICS) in July 2014 with authorised capital of $100bn. Even though both MDBs do not have a specific mandate to support the BRI, they are directly financing the projects under its framework.

Late in 2014 a new Silk Road Fund (SRF) was established with initial capital of $40bn from the China Investment Corporation (CIC), the State Administration of Foreign Exchange (SAFE) and various state-owned banks, with a specific mandate to finance BRI projects. In addition to this, in May 2017, Beijing decided to contribute an additional $14.5bn to the fund to better support the investments of the SRF.

The Asian Infrastructure Investment Bank (AIIB) was officially established in December 2015, with initial capital of $100bn by the 57 founding members. Its sole purpose is to support infrastructure construction and development globally, though focusing on the Asia Pacific region. Membership in the AIIB is open to all members of the World Bank (WB) and Asian Development Bank (ADB). According to the AIIB’s Articles of Agreement, there are two classes of membership: regional members (holding 75% of the total voting power in the Bank) and non-regional members. Meanwhile, China is the largest shareholder with 27% voting shares in the bank\textsuperscript{38}, India is the second largest shareholder with 8%, followed by Russia 6% and Germany 4%. Fourteen of the G-20 nations are AIIB members.\textsuperscript{38} However, the US is not.

\textsuperscript{38} Most countries along the BRI route are developing economies and have little access to the international finance needed to advance their infrastructure and energy agendas.
Outside of these, the Chinese policy banks are also involved in the financing of BRI’s projects. Two state-owned banks, China Development Bank (CDB) and Export-Import Bank of China (EXIM), have received capital injections from the nation’s foreign exchange reserve (32bn and 30bn, respectively) to support the administration’s overseas development plans better. Additionally, the four big state-owned banks: Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB) and the Agricultural Bank of China (ABC), have also allocated capital to the CDB and EXIM to promote the implementation of BRI investment projects.

As mentioned, much of the funding provided for BRI in developing countries is conditional upon Chinese enterprises being awarded construction work or export contracts, which goes hand in hand with the export of excess Chinese capacity and growth in its banking system. Questions over the attractiveness of the loan terms and the ability to have an open tender process for BRI projects is becoming a bone of contention, particularly in Europe which prides itself on high building and ecological standards. Essentially, many Chinese projects are funded in such a fashion where an asset can be ‘repossessed’; the debt is supplied at a commercial rate of interest (in some cases more punitive than ‘commercial’), where much of the proceeds are being paid to Chinese companies to work on the exact project. To assume a very hawkish stance, it can be argued that China is attempting to increase the indebtedness of other nations to pay domestic companies for work. This is not to say Chinese SOEs and private companies don’t deserve such contracts. SOEs have taken advantage of their expertise in key projects that fall under the BRI. For example, China Ocean Shipping Company (COSCO) and China Merchants Port Holdings (CMPH) have made major acquisitions in the port activities of Piraeus (Greece). Additionally, China National Petroleum Corporation (CNPC) and other state-owned companies are involved in the development of oil and gas fields and construction of pipelines that connect central Asia to China.
Even before the BRI plan was initiated, the EU and China had already held several consultations on issues related to economic and transport connectivity. However, it was only when the Chinese President Xi Jinping visited the EU in March 2014 that the Chinese administration officially began to include the EU in its BRI narrative. The Chinese government has stated that BRI is a truly non-exclusive international effort, signaling to all EU member states that they are welcome to join.

By March the following year, many European countries started paying interest to the BRI objectives, and since then their engagement with the initiative has continued to expand. The most notable development came after 14 European countries joined the Asian Infrastructure Investment Bank (AIIB) as founding members, having initially dragged their feet under pressure from the US, who were concerned about the AIIB becoming a rival to the existing US-backed international institutions like the International Monetary Fund (IMF) and World Bank (WB).

What is clear is that Europe is a prime destination for Chinese goods, where many of the envisaged land and maritime corridors converge. With China striving to move up the value chain to become the world leader in the manufacture and the distribution of high-quality goods, it considers Europe a key potential market.

The EU was China’s largest trading partner in 2017, and China the EU’s second biggest trading partner in goods after the US, worth a total of €375bn of EU goods imports and €198bn in terms of EU goods exports. Meanwhile, the EU continues to record a significant trade deficit with China, amounting to €176bn in 2017.39

Geographical presence of the BRI within Europe

Within Europe, BRI-labelled projects are mostly located in two regions: Central & Eastern European Countries (CEEC) and the Mediterranean countries in Southern Europe (especially Greece and Italy). In general, the presence of the most westerly European countries within the BRI remains mainly limited to their membership in the AIIB. Among these European nations, the UK was the first to sign up as a member, closely followed by Germany, France and Italy.
Chinese Foreign Direct Investment into Europe between 2000 and 2017, Eur bn

Source: Merics Paper on China No.3, Update, May 2018
European skepticism

Some EU members have embraced the BRI with enthusiasm, while others consider the BRI as less vital to their own development. Several larger countries like Germany, the UK and France have questioned the structure of the BRI pointing out that China is only seeking merely to repackage old existing projects rather than creating new ones under the framework. But the real deal-breaker is more likely the resistance to the acquisition of key European technology firms by Chinese controlled entities. Mindful of the Chinese administration’s “Made in China 2025” initiative, the purchase of European companies with specialised technology has stoked fears that the underlying plan is to transfer Western technology seamlessly to China. In 2016 alone, Chinese firms acquired 24 German, 15 French, 15 British, 11 Swiss, 8 Spanish, 8 Italian, 5 Czech, 4 Belgian and 3 Finnish companies as part of its strategy to acquire high-tech companies in Western Europe.40 For instance, in late 2016 Chinese appliance maker Midea bought German robotics company Kuka for over €5bn, helping stoke a public backlash over high-profile acquisitions by Chinese firms. This comes on the backdrop of the clear lack of reciprocity and fair competition for European firms seeking to operate in China. In order to scrutinise foreign investments into Europe, notably from China, the European Parliament’s International Trade Committee has struck a deal with the EU’s 28 member states to investigate foreign investments in sectors deemed crucial. Under this plan, the European Commission (EC) would closely monitor foreign investments or deals when announced. While other countries such as Australia, Canada, India, Japan and the US, as well as 12 of the EU Member States already have FDI review mechanisms, it is the first time that such a mechanism has been introduced at the EU level.41 Concerns have started to grow about BRI’s potential to dilute EU investment rules and to erode its political unity.

Source: Bloomberg

Note: Data show pending and completed deals
Germany’s perception of the BRI was initially positive, as the German government saw it as a way to secure Chinese investment in Europe and its wider surroundings. In a speech delivered in Beijing in October 2015, German Chancellor Angela Merkel even lent specific support to the BRI and indicated that the EU wanted to be a part of the endeavor.

State-owned companies play an important role in Chinese investments in Europe, but private companies and financial investors have driven most of the growth in recent years. Germany continues to be a top recipient of Chinese FDI in Europe; according to the estimates of US think tank Rhodium Group, Chinese capital inflows into Germany advanced from €186m in 2010 to €1.4bn in 2011. While investments remained relatively stable at €1.5bn a year between 2011 and 2015, Chinese investment into Germany reached a new peak of €1.1bn in 2016 before dropping significantly to €1.8bn in 2017 as competition and national security concerns began to take hold, causing delays or cancellations of several big takeovers.

Germany has since played an important role in the move to introduce EU-wide screening of foreign investments and as part of the tougher approach, Angela Merkel’s government in 2018 tightened rules on foreign investments after lowering the threshold for government scrutiny from 25% to 15% foreign ownership.

Despite Germany’s apprehension, large-scale railway projects have been initiated, aimed at further connecting China and Germany. The five main BRI labeled projects being Leipzig-Shenyang, Duisburg-Chongqing, Hamburg-Zhengzhou, Hamburg-Harbin and Nurnberg-Chengdu, with many more proposed. Among the five projects, the railway line between Duisburg and Chongqing has received the greatest amount of attention from regional governments because of the frequent political and business delegation visits from both sides.

Furthermore, to support BRI, in March 2016 Germany’s state-owned railway company Deutsche Bahn and China Railways signed a Memorandum of Understanding on further developing the ‘Eurasian land bridge’. At the same time, Germany’s logistics giant DHL signed an agreement with the city of Chengdu to improve rail services between the city and Europe.

Compared to Germany, France has received less attention from the Chinese government and has had fewer investments under the BRI framework. The French government does not seem to have a clear-cut position on the topic, albeit regional French authorities are developing their own initiatives to promote their local advantage to China. For instance, in late April 2016 Lyon, the French ‘City of Silk’, welcomed its first delivery of freight from the Chinese city of Wuhan, marking the opening of an 11,300km rail link which builds on a trunk line opened in 2012 between Duisburg in Germany and the Chinese metropolis of Chongqing. Meanwhile, the region of Normandy has gained interest because of its deep-water port of Le Havre, and further connections to the inland ports of Rouen and Paris.

There are certain investments that have made headlines in France such as the initiation of a 49.9% stake in late 2014 by the Chinese conglomerate Symbiose in the operator of Toulouse Blagnac airport (home to European aircraft manufacturer Airbus), Fosun International’s takeover of Club Med in 2015 for €939m, and Jin Jiang International’s purchase of the Louvre Hotels Group in the same year. Additionally, a Silk Road partnership agreement was signed between French shipping company CMA CGM (the world’s third largest transporter of seaborne freight) and China Merchants Holdings International in June 2015. The agreement also accompanied a deal whereby CMA CGM obtained a $1bn credit line from the Export-Import Bank of China (EXIM) to buy Chinese container ships. Further Chinese investment is likely to be made in French transport, telecommunications, pharmaceuticals and tourism infrastructure sectors.
The Netherlands is one of China’s largest gateway partners within the EU. Imports from China account for a third of all goods arriving in Rotterdam: the port plays a crucial role for the Dutch economy with Germany as a major source of, and destination for, the flow of trade. Over the past few years Schiphol Airport in Amsterdam, the fourth largest airport in Europe, has also contributed to the fast growth in airfreight from the Netherlands to China.

Direct engagement by the Dutch central government with the BRI has so far been limited to joining the AIIB as a founding member, with an aim of contributing to infrastructure development in Asia. Apart from the country’s central government, regional and local governments are also playing an important role with respect to the Silk Road. Dutch Infrastructure Ministry and the terminal operator extended funding alongside the regional government and the city of Tilburg, to electrify and improve a stretch of rail between the Tilburg rail terminal and the main rail line.

The importance of Rotterdam port under the BRI framework came to prominence when COSCO shipping (China’s largest shipping company) acquired a 35% stake in the highly advanced Euromax Terminal at Rotterdam in May 2016 to expand its European footprint. COSCO’s investment of €125m in the terminal increases the likelihood that the shipping company will continue to use Rotterdam as the ‘base’ port for its operations in North-West Europe.

One other visible element of the BRI in the Netherlands is a weekly freight train between Chengdu and Tilburg, which started in April 2016 and was further extended to Rotterdam in September 2016; now named as the Chengdu–Tilburg–Rotterdam Express. Incoming trains from Chengdu contain consumer electronics, while trains from Tilburg carry products for the oil industry, cars, wine and timber. In July 2016, three Dutch transport companies launched a joint venture called New Silk Way Logistics (NSWL), a logistical service provider, for providing end-to-end transport of goods via the Duisburg-Chongqing railway.
Being at the intersection of the 21st Century Maritime Silk Road and the Silk Road Economic Belt, Southern European countries are of significant strategic importance to China. China has made substantial investments to build out logistics, port infrastructure and to acquire some of the major European companies in the region. Post 2008, this was facilitated due to the cash-strapped nature of countries such as Italy, Greece and Portugal as they were ‘forced’ to privatise some of their state assets. Deep-pocketed Chinese SOEs, enjoying financial and diplomatic support from the Chinese state, found the opportunity attractive and bought stakes in strategic targets.

As well as reducing shipping costs and transport time, the infrastructure investments by China in Southern Europe have the potential to spur growth in sectors such as construction, shipbuilding and transport manufacturing.

**Source:** Bloomberg
Traditionally, Italy has looked to Berlin, Brussels and Washington when seeking foreign partnerships, but nevertheless, Italy was the first G7 member to sign a Memorandum of Understanding (MOU) on the BRI with China. The current coalition government is taking an even more favorable foreign policy stance towards China, setting up a “China Task Force” to seek greater involvement with Beijing. Notably, Italy’s recently appointed undersecretary for economic development, Michele Geraci, is a former Shanghai based professor of finance who has been a supporter of Chinese investment.

Even before the coalition government was formed in June 2018, China State Grid had bought a 35% stake in Italian National Electricity agency Cassa Depositi e Prestiti Reti. With the help of the Silk Road Fund, China’s National chemical corporation, ChemChina, also bought Italian tyre maker Pirelli in 2015 for $7.7bn.45

While there has been criticism from the EU towards Chinese policies, Portugal has taken a more open stance in this regard as it seeks to deepen its economic relationship with China. This engagement seemed to gather steam after the handing over of the former Portuguese colony Macau to China in 1999. And the relationship is developing; for example, the Portuguese government, in a sign of the diplomatic failure of Brussels to manage Chinese investment in the EU, recently signed a MOU (during Xi’s visit in December 2018) relating to the upgrade of its largest Atlantic port, Sines Port, setting another example of a member state circumventing Brussels via bilateral cooperation with China.

The burgeoning relationship between Greece and China took a fresh step when Greece became a ‘strategic partner’ of Beijing in 2006, aided by the successful Olympic Games in Athens (2004) and in Beijing (2008). However, echoing the theme across most of Southern Europe, Chinese investments within Greece are to a large extent driven by the country’s requirements to escape austerity measures forced upon it by its Eurozone partners. While investment needs for Greece to sustain economic growth for the period 2017-2022 are projected at around €270bn, the actual and forecasted funding is less than half that amount.46 According to estimates, for Greece to achieve growth rates of 2.5% post-2017, investments in Greece have to climb from 11% of GDP in 2015, to 18% of GDP.47

Greece’s growth and competitiveness have been hugely affected because of its traditional reliance on domestic capital for funding. While the left-wing government in Greece has traditionally objected to the privatisation of state assets, the country was forced to privatise some state-owned companies to comply with the third bailout package extended by its Eurozone partners. While investment needs for Greece to sustain economic growth for the period 2017-2022 are projected at around €270bn, the actual and forecasted funding is less than half that amount.46 According to estimates, for Greece to achieve growth rates of 2.5% post-2017, investments in Greece have to climb from 11% of GDP in 2015, to 18% of GDP.47

By participating in investment tenders, China has also been able to garner support for its policies from Greece in international forums in spite of opposition from the EU. Two specific examples stand out. First was Greece’s stance to block an EU statement to the UN against China’s human rights record - the first time an EU statement to the top human rights council in the UN had failed. Second, Greece opposed a joint statement issued by the EU on the South China Sea dispute in July 2016. Greece was also among the countries opposing the tougher screening mechanism of foreign investments in the EU proposed by the European Commission in September 2017.
China’s strong interest in Greece is also driven by its maritime ambitions. Greek ports are of strategic importance due to their high level of connectivity to Southern Europe/North Africa and their ability to accommodate large vessels.

In 2008, China Ocean Shipping Company (COSCO) signed a concession agreement with the government of Greece for €831.2m for a 35-year management lease of two of the three piers of the Piraeus seaport. Although COSCO was initially greeted with a month and a half long strike by dockworkers holding banners displaying “COSCO Go Home”, gradually labour unrests came to a halt as newly built COSCO terminals opened, employing 1,200 workers. In 2016, COSCO increased its stake in the Piraeus Port Authority (PPA) to 67% by paying €280.5m for an additional 51% shareholding. They also were granted an option to increase its stake by 16% in 2021 for €88m on the condition that it invests €350m during the five-year period.
Impact of the growth of Piraeus on Rotterdam

The importance of the port of Rotterdam started to grow after World War II as it was used to supply goods to American troops based in Germany. In recent years, the volume of transatlantic trade has stabilised and exports from Asia to Europe are surging. As such, there is a high possibility that there could be a relocation of port activities from Rotterdam to Piraeus in the coming decades.

Since 2008, the container traffic at Piraeus port has increased more than seven-fold. Piraeus could become the fifth largest port in Europe by 2022 (it is currently seventh) if COSCO is successful in meeting its target of increasing the container traffic to 7.2 million TEU (twenty-foot container equivalent). Reports suggest that the cargo volume handled by the two terminals under Chinese management have exceeded the traffic that was previously handled by Greek authorities.

Expanding reach

China’s overseas investments are cultivating a network of potential naval ports.

- 21st Century Maritime Silk Road
- Confirmed Civilian-Military Use
- Possible Civilian-Military Use

Source: BloombergOpinion, Centre for a New American Security
Piraeus’ position relative to Rotterdam was further boosted when Hewlett Packard (HP), one of the major players in the personal computer sector, decided to move its China-Europe distribution route via Piraeus instead of Rotterdam. According to a 2013 agreement between HP, COSCO and TrainOSE (Greece’s national railway company), Piraeus will serve as the gateway for the distribution of HP’s shipments to Southern, Central and Eastern Europe as well as to North Africa, Central Asia and to certain regions in Middle East. With a shorter route, there would be a reduced amount of goods in transit at any one time, bringing cost savings which, given the high value goods shipped by HP, are likely to be significant. Other than port infrastructure, Greece has witnessed significant investment flows into energy, telecommunications and the real estate sectors by China.

Chinese expertise in the telecommunications domain has attracted state-backed ZTE and the tech giant Huawei to Greece. Huawei has commenced joint initiatives with Greek universities in the creation of R&D centers to develop high-end applications, while ZTE and Greek company Forthnet have signed an agreement for the development of a next-generation 5G network. Pacific Century Cyberworks (PCC), a subsidiary of Hong Kong Telecom (HKT) has bought Greek security start-up Crypteia Network, while it has also expressed an interest in the construction of broadband internet backbone infrastructure in Greece together with the Hellenic Telecommunications Organization S.A. (OTE).

Within the real estate segment, Chinese company Fosun has expressed an intent to invest $200m in the reconstruction of the former Athens airport. Through the Golden Visa program, Chinese citizens have purchased significant property in Greece. It is estimated that the value of these purchases could be approximately €500m.
Central and Eastern European Countries (CEECs)

The BRI has been met with a warm welcome by EU’s Eastern partners. Given the region’s strategic geographical position at the crossroads of Eurasia, and abundant yet relatively high-skilled labour, it presents multiple investment opportunities for China as it seeks to bridge the distance and enhance connectivity with Western Europe.

China’s arrival as a rival player in CEEC’s geopolitics marks a historic shift for the region which has historically been dominated by Western Europe and Russian hegemons. According to the China-CEE Institute, the only time before the turn of the century when China played a meaningful role in the region was in the 1950s - when it helped to prevent a possible Soviet invasion of Poland. Moscow continues to hold significant political sway in the former Soviet states and ever since Russia’s 2014 annexation of Crimea and military intervention in eastern Ukraine, NATO’s eastern European members have increasingly expressed concerns about security. EU accession remains an important foreign policy objective for several CEEC countries, particularly as EU Structural and Cohesion funds contribute to a significant proportion of GDP of CEE member states, including considerable assistance towards infrastructure, transportation systems and general modernisation.

China’s interests in the region became more strategic in 2012, with the inception of the so-called 16+1 framework, in which the previous Premier Wen Jiabao put forward a 12-point plan for the deepening of China-CEE relations.

BRI’s promised investments in infrastructure and logistics has drawn CEECs closer to China. According to PWC, the region requires over €600bn of investment in order to bridge the infrastructure gap with Western Europe.

Financing remains a key constraint in this regard, with the CEEC having one of the lowest savings rates in the world. This is reflected in their current-account deficits and relatively constrained bank lending. As such, the region relies heavily on foreign direct investment, which collapsed during the 2008 crisis and has only marginally recovered.

During the fifth annual summit of the 16+1 held in 2016, the current Chinese premier Le Keqiang formally launched a €10bn investment fund run by the financial holdings of the Chinese bank ICBC to finance infrastructure projects in CEEC. The relative attractiveness of Chinese funding stems from it being a more competitive source of funding than the EU, owing to more streamlined approval processes and faster implementation.

For many in CEEC, China already represents an important trading partner. Trade between the two areas has increased by 6.5% per year on average since 2011 to €68bn currently, accounting for 11% of the Europe-China trade in 2017. Furthermore, China’s engagement with the CEEC has now gone beyond investment and trade arrangements. Mutual tourism between CEEC and China has grown considerably – from 2011 to 2016, the number of two-way tourism exchanges between China and CEEC increased from 507,000 to 1.25m.
China has also been working closely with Hungary to promote the internationalisation of the Renminbi, signing a bilateral currency-swap agreement with them worth up to 10bn RMB. This agreement was renewed in 2016 and in the same year, Hungary became the first CEEC to issue RMB-denominated bonds. In 2014, the Bank of China opened its first branch in Hungary, with the purpose of lending to local companies.

Enthusiasm for participating in the 16+1 framework and the BRI initiative has, however, varied from country to country; depending on the size of the economy, geostrategic position and political identities. The EU has expressed concerns that the 16+1 framework is being used by Beijing to ‘divide and rule’ the member states. Examples such as dissenting views on the South China Sea issue, lack of criticism on the Chinese human rights situation and supporting the Chinese philosophy, highlight cases where certain CEEC seek to increase their status within EU and gain China’s favour.

Although China claims to have invested approximately €10bn in the region and continually highlights the perceived enthusiasm of participating nations in the 16+1 framework, there are some significant doubts as to the accuracy of this figure. According to the MERICS BRI database, the amount of Chinese investment in completed infrastructure projects in the 16+1 amounts to only $715m, with just over $3bn of financing connected to projects currently underway. Member nations have also highlighted the growing unevenness of the overall trade balance, which is heavily tilted in the favour of China, and a certain lack of reciprocity in terms of market access. While the schemes have been framed as multilateral, in practice it has remained largely bilateral.

Moreover, criticism is often leveled against China’s infrastructure investments in CEEC regarding weak compliance with governance standards and failure to comply with EU rules of public procurement. As projects are rarely bid for in a transparent manner via open tenders, governments are often unable to select the best financial offer and are mandated to use Chinese equipment or services. Additionally, Chinese contractors are often exempt from paying VAT or customs duties on imported materials.
Mini Case-study: Duisburg

Duisburg is a mid-ranking city in Germany at the confluence of River Rhine and its tributary Ruhr, with under 500,000 inhabitants. Since the 18th century, Duisburg has been a major industrial and logistical center in the Ruhr region of Germany. The city hosts the world’s largest inland container port, which gains from being strategically located in one of the most economically important states of Germany: The North Rhine-Westphalia (NRW). The NRW region attracts 30% of Germany’s FDI and is home to more than 300,000 companies.55

Though industrial growth in the city bloomed with the rise of tobacco and textile industries, it later became renowned for its steel and mining industry. Through World War II, the city was amongst the most heavily bombed in Germany, due to its logistical importance. Following the war, through the 1950s, the competitive advantage of Ruhr as a coal producer disappeared as economic prosperity drove labor costs higher, and as coal was substituted by petroleum. The Ruhr region faced radical transition because of this and by 1968, around 78 coal mines had been closed in the region.56 Fundamental problems for the steel industry also became apparent as new technologies emerged and other emerging countries, such as India and China, played a greater role in catering to the steel industry. Only highly innovative steel manufacturing remains in the Ruhr.
Revival through the New Silk Road

Hopes for Duisburg’s growth have increased under China’s Belt and Road Initiative. Due to its strategic location on the rail route from China to Europe, the city has become China’s gateway to Europe, with 80% of trains from China now making Duisburg as their first port of call. To illustrate this, in 2013 when the BRI commenced, only three container trains per week travelled from Chongqing to Duisburg, taking 19 days to complete the journey. Today, we have seen a dramatic increase in activity, with approximately 25 Chinese trains passing through the rail terminal of the port each week, with a commute time significantly reduced to around 12 days.57

Another logistical advantage is due to location at the intersection of five international motorways (A2, A3, A40, A57 and A59) facilitating the road-based movement of goods means the city benefits from superior connectivity with the other major industrial cites of Ruhr and with the key manufacturing / assembly plants across Central Europe. To put this into perspective, the port of Duisburg handled over 130 million tons of goods in 2017 and is a gateway to 25,000 trains and 20,000 ships annually.58

It is worth noting that eight large multinational logistics service providers have their operations in Duisburg, including; Kuehne and Nagel, DHL, Geodis Logistics, Imperial Logistics, Yusen Logistics, Rhenus Logistics, Schenker and Schnellecke, further illustrating the logistical advantage it has in Europe.

Duisburg in numbers

- Strategic location for China-Europe rail route
- 80% of trains from China use Duisburg as first port of call
- Intersection of five international motorways
- Major connectivity
Because of Duisburg’s growing link with China and importance in the BRI, the city is soon expected to surpass Hamburg in terms of handled freight capacity. Transport from China to Europe via the rail route is much cheaper than air mode and is faster than sea transport. While a container ship from Chongqing takes roughly 40 days to reach Duisburg, the rail route takes just 30% of that time. Hamburg’s growth on the other hand has been hampered by sanctions on Russia, upon which the city’s port is immensely dependent.59
Undermining factors

An important consideration when evaluating the long-term sustainability of rail routes from China to Europe is the price. Currently, the cost of rail transport is being subsidised by the Chinese Government under BRI. Reports suggest that the cost of transporting a 40-foot equivalent unit from China to Europe via rail is approximately $9,430 with roughly 60% being subsidised by China. It is essential that the train routes become more efficient in order to be economically sustainable, as it is widely accepted that China will have to cut down subsidies in the future. Obviously, the reduction of subsidies will likely have negative implications for Duisburg, should the transport route not maximise economies of scale to reduce the transport costs.

Rail transport times from China to Europe have shortened in the last couple of years, through further infrastructure spend. Additionally, the cutting of red tape/regulations with countries along the route is required to further maximise speed and reduce cost in the long run. Insufficient infrastructure and paperwork have become sources of significant delay and cost in the transfer of shipments. Reports suggest that there have been delays of up to 10 days because queues as long as 100 trains were waiting for entry into Poland from Belarus in late 2017. It is estimated that around 10,000 trains will have to run annually between Europe and China in order for them to remain sustainable without subsidies; a huge hurdle at over double the 2017 rate.
The development of alternate routes to Central Europe through Piraeus and the Balkans provides logistical optionality to China and mitigates Duisburg’s position to the benefit of others. In this spirit, Beijing is also backing the development of the Budapest-Belgrade high-speed railway, which would help establish a distribution channel from Piraeus - the major maritime port on the Silk Road in Greece - to central European countries.

The project is the flagship project of the 16+1 framework, run by a consortium of the China Railway Group, China Railway Corporation and the Hungarian State Railways. The project involves refurbishment of the 160km long Hungarian section, with an additional 180km to be built by Serbia to reach Belgrade - reducing the travel time between the two cities by 70% (to just under 2 ½ hours). Further out, plans to extend this network include Skopje (Republic of Macedonia) and Athens in Greece. China’s interests in developing this railway stem from its desire to connect the Port of Piraeus in Greece, which is run by the China COSCO shipping company, to markets in Central and Western Europe. Consequently, containers from China would be able to reach the Europe heartland more quickly, as opposed to sailing through the Straits of Gibraltar to the traditional ports of Rotterdam/Hamburg.

Unfortunately, delays and additional costs have plagued this project. Originally, completion of the 370 km Belgrade-Budapest railway line was expected in late 2017, with the Hungarian section expected to cost approximately $3bn (increasing to roughly $3.7bn including interest), while the Serbian section was expected to cost a further €943m. As with most infrastructure developments in poorer countries, 85% of financing is being provided by long-term debt, in this case the Export-Import Bank of China via a 20-year loan at an estimated interest rate of 2.5%. Construction for the project has been delayed and currently it is expected to take another three years for actual work to commence, pushing back completion to late 2023.

The delays originated from the European Commission (EC) initiating preliminary infringement proceedings against Hungary, an EU member and an ardent supporter of Chinese investments in CEEC, for irregularities in the tender procedures. According to the European Commission, the award of a no-bid contract to a Hungary-China joint venture violates economic competition rules. In addition, the EC wants further clarity on Hungary’s role in the project, since Hungarian State Railways would only own a 15% stake, with the rest held by China. Notwithstanding the benefit from transfer fees to Hungary, many logistical experts believe that based on the current fee structure and given maximum transport volume, the project would require at least 6 million passengers per year to breakeven (the project links two cities with a combined population of only 3.1 million and fewer than 100,000 yearly bilateral rail commuters). Furthermore, the loans undertaken and guaranteed by Hungary runs contrary to the county’s plans to reduce national debt from 74% currently to under 60% by 2022. There are also doubts about the project’s constitutionality as it violates a 2012 law which requires debt reduction until it falls below the 50% debt to GDP level. So, while the ambitions are great, the sustainability and legality of the works further delay the completion of this ambitious development in the BRI.

Probably one of the most controversial examples in the BRI is the Hambantota Maritime Port in Sri Lanka, also known as the Magampura Mahinda Rajapaksa Port, named after the former President. The port is located along the southern coast of Sri Lanka and is nineteen nautical miles (16 km) away from one of the busiest shipping lanes in the world - connecting Asia and Europe through the Malacca Straits and Suez Canal. It is estimated that around 36,000 ships including 4,500 oil tankers use this particular shipping route annually. Hambantota’s port project is one of the four ports being developed in Sri Lanka to boost the nation’s economy
and enhance trade. The ultimate purpose of the port is to reduce the traffic at the Colombo Port on the West of the island, which handles roughly 6,000 ships a year. Once complete, it will be the second largest port operated by the Sri Lanka Port Authority (SLPA), besides the Port of Colombo.67

Construction of the project, part of the Hambantota District development, commenced in January 2008. It includes an international airport, railway and highway networks, an oil refinery and associated facilities in addition to the port.

How China acquired the Port

Source of the controversy regarding the Hambantota Port originated in 2005, where China provided military and economic support to Sri Lanka in its civil war against the Tamil separatists. The last years of the war were fought under the leadership of Mahinda Rajapaksa and when the war ended in 2009, Rajapaksa gained control of the Sri Lankan government. Following these events, relations with China grew stronger as Sri Lanka leant on economic support, accepting $1bn for the development (albeit at a higher rate of interest than other international lenders). Interestingly, when Rajapaksa announced his plans to build a port in his hometown district of Hambantota, India refused to invest because of what they believed to be its poor economic viability.

Ultimately, the deal struck by Rajapaksa proved uneconomical for Sri Lanka and the debt associated with its construction began to weigh heavily on Sri Lanka’s finances. Excluding debt repayments, the port was marginally profitable with $11.8m in revenue countered by expenses of circa $10m in 2016. But by 2015 as much as 95% of all government revenue was going towards servicing its debt repayments.70 The Sri Lankan government then initiated debt renegotiations with China.

The first phase of the port was opened on 18 November 2010, completed at a cost of $361m, funded in standard proportions; 85% by China’s Export Import Bank and the remaining 15% by SLPA, with the Sinohydro Corporation and China Harbour Engineering Company (CHEC) contracted for the port construction.68 Upon completion, the port will have the capacity to accommodate 33 vessels at a time, with an area of 4,000 acres (16 square kilometers) and once fully operational, it will have a capacity of circa 20m TEUs (Twenty-Foot Equivalent Units) a year.69

Early elections in January 2015 brought an abrupt end to Rajapaksa’s presidency. The newly elected Maithripala Sirisena administration inherited dangerously high levels of public debt that led to an immediate balance of payments crisis. Under heavy pressure and after extensive negotiations, the government handed over the port and 15,000 acres of land around it to two Chinese firms - Hambantota International Port Group (HIPG) and Hambantota International Port Services (HIPS), managed by the China Merchants’ Port Holdings (CMPH), granting them a 99-year lease. Under the agreement, CMPH agreed to pay $1.12bn upfront in a debt-equity swap in the ratio of 70:30 with the CMPH acquiring 70% of the shares and the remainder allocated to SLPA.71 Only after 10 years will SLPA be authorised to acquire an additional 20% of the shares, resulting in an equal ownership between the two companies. Additionally, the two companies will split functions at the port, with HIPS in charge of security operations. This means that HIPS – or Sri Lanka – will be in control of the military potential of Hambantota for the time being.

The case of Hambantota has clearly raised concerns over the reliance on any foreign nation for investments and technology, coming at the potential risks to national sovereignty, further fueling suspicions over other similar infrastructure projects under the BRI framework.
In our final example of challenges facing the BRI, the Malaysian PM Mahathir Mohammed recently suspended work on two major Chinese-funded projects this past August. The first, a $20bn rail project – the East Coast Rail Link (ECRL) - and the second, a pair of gas pipelines – Trans-Sabah Gas pipeline and the Multi-Product pipeline. The ECRL was launched in August 2017 with great fanfare under former PM Najib Razak. This project was designed to improve the connectivity between the west coast and more rural east coast states and was targeted to service 5.4m passengers and 53m tons of cargo annually by 2030. The project was labelled a “game-changer” for Malaysia initially. With a combination of 23 new stations serving a mix of passenger and freight, the railway was expected to increase the GDP of the east coast states by 1.5% annually\(^2\) and put Malaysia at the centre of new alternative routes which would boost trade for the ASEAN region. The domestic economy was expected to get a ‘shot in the arm’, via the creation of 80,000 jobs.

The project was of strategic importance to China as well, as it would connect the South China Sea off the east coast of peninsular Malaysia, with strategic shipping routes via the Straits of Malacca to the west, all bypassing Singapore.
In a no bid tender, the project was awarded to China Communications Construction Co Ltd (CCCC), with an estimated completion date in 2024. The 688km ECRL was initially assumed to cost RM55bn ($17.7bn), with China’s Export-Import Bank providing 85% of the financing via 20-year soft loans (at an estimated interest rate of 3.25%-3.5%)\(^7\), and the remaining amount financed by Sukus or Islamic bonds from Malaysian investment banks. Opposition leaders criticized the project for the extra debt burden it would create on the economy (estimated project cost was ~6% Malaysia’s GDP in 2016) as well as the growing reliance of the Malaysian economy on China, but the project went ahead regardless. That was until the surprise win in May 2018 of the new Malaysian President, Mahathir Mohamad. The administration pledged to reduce national debt, stamp out corruption and review major projects agreed under the previous administration. At the time, the Malaysian Rail Link (project owner of ECRL) had paid more than RM20bn ($6.6bn) to the main contractor, CCCC. The current administration contends the final cost of project to almost 50% higher than initial estimates, after taking into account land acquisition, interest, fees and other operational costs. As such, the project is being deemed economically unfeasible. The government is seeking to renegotiate the terms of the deal via a drastic reduction in costs and has suspended work on the project until then, on grounds of national interest.

The Multi-Product Pipeline (MPP) and the Trans-Sabah pipelines which involved a combined 1,200 km of gas and petroleum pipelines crossing Malaysia and connecting refineries across the mountainous and jungle covered interior were expected to cost a combine RM9.5bn.

Both contracts were awarded to the China Petroleum Pipeline Bureau (CPPB) and both have been suspended under the current administration, citing the same prohibitively high cost of the projects, as well as payments being made to the contractor on a timing milestone basis rather than a project milestone basis. The norm in the oil and gas industry is the latter and in this case 88% of the project value has been paid out despite an average completion rate of 13%\(^4\).

Clearly, from these examples we can begin to conceptualise not just the size and scale of the BRI but also the reach and penetration across Europe and Asia. The possible leverage that China may be in a position to exert as a result of these projects, if successful, could change the geopolitical stage dramatically in the next 20 years.
We have tried to take a balanced approach in our analysis of the BRI, recognising both the positive and negative developments along the journey. In this penultimate section of the report, we compile a schedule of recommendations, gathered after reviewing policy papers published by leading think tanks, reading BRI focused academic papers, attending conferences and conversing directly with experts in the field.

Engaging local workforce, including training

China could ease contract provisions (which often mandate the usage of Chinese labour and equipment) in order to facilitate the transfer of knowledge and skills to locals. A key facet of this could be to encourage the setting up of vocational institutions in host countries, which transfer the requisite skills to the local population. China does not have in place an extensive network of experts with a strong command of local rules, regulations and customs. As such, it makes sense to encourage the use of both local labour and professional services firms. Finally, the promotion of tourism along the Belt and Road will also breed familiarity and mutual understanding.
Focus on economic feasibility and transparency within the EU institution

It seems likely that some BRI projects will be uneconomical and potentially result in the misallocation of capital while fueling further negative headlines. Moreover, some projects have been criticised for ignoring EU rules regarding fairness, standards, environmental impact and transparency. China would find it easier to assuage at least some of the EU’s BRI-related concerns if it considered demonstrating the economic logic first, then abiding by European-standard tender processes and transparency standards while publishing more data on the amount and terms of BRI related lending.

Better communication of intentions and benefits

Sensitivity to the different interpretations of the BRI would be a plus. The initiative clearly offers huge benefits, however the core development message tends to get lost alongside many of the negative headlines. China can also help to rebut Trump’s protectionist tendencies by demonstrating that free trade zones within the BRI framework benefit many stakeholders in ways such as improving connectivity and lowering the cost of trade, alongside the associated boost to infrastructure development especially in under-developed regions. Presented and executed properly, China can replace the US as the global free-trade advocate.

Modifying the current engagement with the EU

China could acknowledge the issues related to the 16+1 framework as a source of possible challenges for the European integration process and, as such, seek to increase engagement with Brussels. The 16+1 structure has received scrutiny from the EU and was criticised for deepening the divisions between Western Europe and CEEC. As the BRI’s success very much depends on favorable perceptions and support of the major countries involved, recognition of the principles that govern and bind the EU together is a key step.

Financing Diversification

The funding for projects could be more evenly distributed along the capital stack - from grants (free money) to loans (interest bearing) to equity (permanent capital). China could also promote higher lending standards to demonstrate that the BRI complements the existing infrastructure and financial arrangements. When pure debt is necessary, China might consider financing via local currency instead of US Dollars or other major funding currencies, in order to help ensure the financial stability of the host nations as well as reduce the risk from exchange rate fluctuations.
Re-orientate the Paris Club Membership discussion

Maintain the core principles that guide the Paris Club\textsuperscript{75} and open discussions to the possibility of a new forum, in which China plays a meaningful role as a founder as opposed to an ad-hoc member. On the one hand, Chinese officials would do well to concede that the operating principles of the Paris Club were forged through experience. On the other hand, the existing Paris Club members could acknowledge that their system is Western in design and recognise that the list of the world’s largest sovereign creditors looks different today than in 1956, when the club was formed.

Defining a USA Strategy: Involve the Corporates

China should improve its outreach towards the US private sector and take advantage of its considerable interest in the BRI. As such, US firms specialising in sectors such as technology, logistics and energy can play important roles. Large US corporates have strong lobbies at work in Washington and can help reinvigorate business relationships at a time when the sources of friction between the two nations are growing.

Finding common ground with India on CPEC

India continues to be concerned about how the China Pakistan Economic Corridor (CPEC) is developing - expressing discontent over core issues on Indian sovereignty and territorial integrity. Encouraging India to come on board can only serve as a plus but would require finding common ground on issues such as trade, human rights and land claims.

Promoting Public Private Partnerships (PPP)

Benefits can be yielded by involving more private capital as it can serve as an effective gatekeeper during the investment selection process, facilitating shareholder diversification and enhancing transparency. That said, just because funding is provided in a PPP structure does not guarantee success.
What is China seeking to achieve in its quest to engineer the largest infrastructure project of modern times? Why are they trying to link over 4bn people across 65 countries with trillions of dollars of investment?

The grand project is designed around accessing the wealth of the Western European consumer, the consolidation of political control, the promotion of domestic harmony, exporting excess capacity and finally regaining its place as the undeniable Asian hegemon. It is interesting to observe that many of the goals are domestic in nature but are now being re-directed outwards, as if there were a blurring of domestic and foreign policies. In light of the fact that the Chinese administration has rarely presented a clear foreign policy, this is indeed a logical development.

How will the Chinese go about ensuring the BRI is successful?

China has a preference for bilateral negotiation as opposed to multinational engagement and as such has developed a different strategy for each region. In Western Europe – the Chinese are engaged in the outright acquisition of individual companies of strategic importance, in many cases facilitating the transfer of much needed technology eastwards, enabling it to move up the value chain. In Eastern and Southern Europe they are providing equity and debt funding for projects located in key arteries often designed to support logistical efficiencies, much of which match their goal of accessing a new customer base. In Asia, debt for countries to help secure assets and/or promote growth in areas connected to the Western Provinces (as a means to support domestic stability). Generally speaking, the riskier the project, the higher the propensity to fund via debt (especially in the EM regions), the less risky the project the higher the propensity to fund by equity injection or outright acquisition. Finding the right balance between debt, equity and grants will go a long way towards ensuring the BRI is successful.
Question: Will the PLA (People’s Liberation Army) be involved?

The response is mixed. Can a port in Italy be transformed into a military outpost to host Chinese submarines? Probably not under EU law, but can a deep-water port in Pakistan? Absolutely, and the flight path is in that direction.

Is the BRI a well-kept secret?

No, it is extremely well telegraphed. At the time of the writing of this paper, a Google word-search of ‘One Belt One Road’ delivers 480,000,000 results in under half a second. There is a tremendous amount of both criticism and cheerleading as it relates to the project, and who makes a stronger argument? The hawks or the doves? The reality is that both sides articulate their stances credibly. ‘Desperately needed infrastructure for less developed nations’ is a positive (assuming appropriate financing) as is the reduction of tariffs, facilitation of trade, the flow of energy and the increase of income-per-capita but equally some of the criticism published by the press is also valid. Our objective in this report is to stay neutral, offering a more objective view on the development of the BRI.

Will the BRI be successful?

To date, the track-record is mixed, but what is clear to us is that the chances of successful relations with the EU will materially increase if recommendations such as the ones listed previously (largely obvious) and well telegraphed, were to be seriously considered within their strategy. But regrettably, we are not overly optimistic. Through private conversations with analysts, academic and political advisors – many of whom possess strong working knowledge of the inner workings of the Chinese Government - it was felt that policy suggestions like, ‘respecting the pillars of the European institutions, adapting stricter environmental standards, avoiding zombie projects….’ don’t really dovetail in well with their overall strategy at this stage.

When China regains its position as the undeniable Asian hegemon, will it expand farther east and west with ambitions to become the Global hegemon and potentially risk a hard conflict with the US?

There is a rumor that President Xi is familiar with the work of Graham Allison, the famed author of Destined for War. In his book, the writer expertly presents what he calls Thucydides’s trap, which is loosely defined as the risk of material military engagement as a rising power overtakes the existing hegemon. In the Harvard Study he led, they argued that over the course of the past 500 years there have been 16 ascents to power of which 12 involved a hard conflict. Apparently, the Chinese leader is aware of this study, is acutely sensitive to these risks and even discussed them with President Obama. It is for this reason we believe China will be satisfied with keeping their rule to the ‘Middle Kingdom’ thereby not risking their hard-earned economic stability.
CONCLUSION

The ambitiousness of the BRI is monumental in scale. In our view, China can only accomplish its goals if it is responsive to local needs and objectives while incorporating learnings from their earlier ventures. If flexibility and true partnerships are on offer, we will all benefit and China’s economic outreach will serve as a net positive for the global economy. However, if it is not sensitive to local interests, pressure will mount over time, and in turn increase the risks of negative outcomes such as debt overhang.

In closing, President Xi has the opportunity of a lifetime to modernise Central Asia, connect over 4bn people, promote the use of clean energy, bring millions out of poverty, grow the financial services sector, champion globalisation over protectionism while fostering a Chinese Renaissance. If executed properly he will achieve these goals with mutual benefit and his rise will be peaceful.
ABOUT ARBUTHNOT LATHAM

Arbuthnot Latham Investment Management (ALIM) has a long-standing reputation for undertaking in-depth analysis of macro factors impacting key financial markets. In May 2018, when MSCI confirmed that Chinese A Shares would be added to its Emerging Markets index – which is tracked by over $2tn in assets – our investment research team started to explore China’s significant investment in the BRI with a view to understand what this means for both China and Europe. The inclusion is only the beginning of the gradual integration of Chinese domestic equity into international indices.

Responsible for approximately £1bn assets under management, ALIM recognises that its clients are naturally curious and inclined to understand more about how their investments are managed. Research is at the cornerstone of our investment processes and we fully subscribe to the philosophy of granting clients direct access not only to their Investment Manager, but also to the wider team, including those responsible for asset allocation and investment decisions. This ongoing dialogue helps us put our clients at the heart of what we do.

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24 Peter Pham, What Will China’s Future Look Like?, 2018,


28 The 16+1 format includes 11 EU member states – Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania and Bulgaria, as well as 5 non-EU member states – Bosnia-Herzegovina, Serbia, Montenegro, Albania and Macedonia. By its own admission, the framework has defined three potential areas for economic cooperation: infrastructure, high technologies and green technologies.


34 The majority of China’s oil passes through the South China Sea after going through the Malacca Strait, currently.

35 Two recent examples of this being implemented are the China National Petroleum Corporation’s acquisition of a 8.4% stake in Kashagan oilfield from Kazakhstan State-owned AO Nasionalnaya Kompaniya KazMunaiGaz” for an estimated $5 billion and The China National Petroleum Corp’s (through its wholly-owned subsidiary PetroChina Co. Ltd.) acquiring a 28.57% percent stake of ENI East Africa SpA, an oil and gas exploration and production company from ENI SpA, for $4.21 billion.


Subsequently, a Chinese takeover of semiconductor-equipment maker Aixtron SE failed due to widespread opposition and in July 2018, the German government decided for the first time to block a potential sale - in this case, a machine tool manufacturer, Leifeld Metal Spinning AG, to a Chinese investor on the basis of concerns about national security. The Merkel administration has also prevented the State Grid Corporation of China (SGCC) from acquiring a share of a German energy company 50 Hertz by directing state-owned bank KfW to take a 20% stake in the firm instead.


In 2016, China State Grid International bought a 24% stake in Greece’s Independent Power Transmission Operator (IPTO), conceivably paving the way for China to execute similar deals in neighboring Balkans countries. Chinese firms have also shown interest in the renewable energy sector of Greece: Shenhua Renewables bought a 75% stake in four wind parks developed by Greek corporation Copelouzos Group.

The 16+1 format includes 11 EU member states – Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania and Bulgaria, as well as 5 non-EU member states – Bosnia-Herzegovina, Serbia, Montenegro, Albania and Macedonia. By its own admission, the framework has defined three potential areas for economic cooperation: infrastructure, high technologies and green technologies.


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MSCI is a market leader in global equity indexes and has over $1.8 trillion in assets benchmarked to the MSCI Emerging Markets Index suite. As of June 30, 2018, as reported on September 30, 2018 by eVestment, Morningstar and Bloomberg.