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The Belt and Road Initiatives: Opportunities and Challenges for EU SMEs



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1. Overview

Three years after Chinese President Xi Jinping's launch of the Belt and Road Initiative (BRI), we are now beginning to witness tangible developments in this long-term, multi-layered network of projects encompassing over 65 countries roughly positioned along the Old Silk Road land and maritime routes.¹

To advance its BRI objectives, China has signed Memoranda of Understandings (MOUs) with more than 30 countries, and has established a Free Trade Agreement (FTA) network with more than 20 countries or regions. The Chinese government's aim has been to include 40% of BRI countries in its FTA network by the end of 2017². According to China's National Development and Reform Commission (NDRC), Chinese investment into the BRI from 2013 until mid-2017 totalled EUR 48 billion.³

The Asian Infrastructure Investment Bank (AIIB) expanded its membership to 84 countries in 2017⁴, and together with the EUR 36 billion strong Silk Road Fund⁵ established by China in 2014 is already investing in BRI projects; as are the New Development Bank (NDB), formerly referred to as the BRICS Bank; the Shanghai Cooperation Organisation Development Bank; some sovereign wealth funds and newly established local provincial level "Silk Road Funds".

As China's BRI investment and joint developments gradually take shape, some key themes have started to emerge in China and certain key countries along the routes:

- Investment in ports across the maritime routes increasing capacity and interconnectivity
- New and expanding routes for China's oil, gas and natural resource import needs
- International expansion of China's rail freight business
- Regional interconnectivity of high-speed rail, highways and telecoms networks
- Continued investment in China's aviation sector for route expansion
- Chinese investment in power generation and renewable energy sectors in third countries
- Urbanisation and smart city planning
- Growing opportunities for China's construction and engineering sectors in third countries
- Development of bilateral industrial, tech and trade zones in China and third countries
- Country cooperation in manufacturing, production capacity and supply chain efficiency
- Country cooperation on research, science and technology development
- Regional cooperation in banking and information sharing for cross-border transactions

Once the road is "paved" by the construction of large core infrastructure assets, such as ports, railways, roads, airports, power plants, and energy supply and communication networks, it will foster growth opportunities in industrial and market development and international trade, opening up trade, investment, services and operational opportunities.

¹ China Daily, "Belt and Road a big lure for execs" March 2017, www.usa.chinadaily.com.cn/business/2017-03/03/content_28416976.htm

² China Daily, "More FTA deals in 2017", December 2016, www.chinadaily.com.cn/business/2016-12/28/content_27794617.htm

³ Reuters, "China's Belt and Road investments since 2013 total \$60 billion: state planner" <https://www.reuters.com/article/us-china-silkroad-investment/chinas-belt-and-road-investments-since-2013-total-60-billion-state-planner-idUSKBN1880ME>

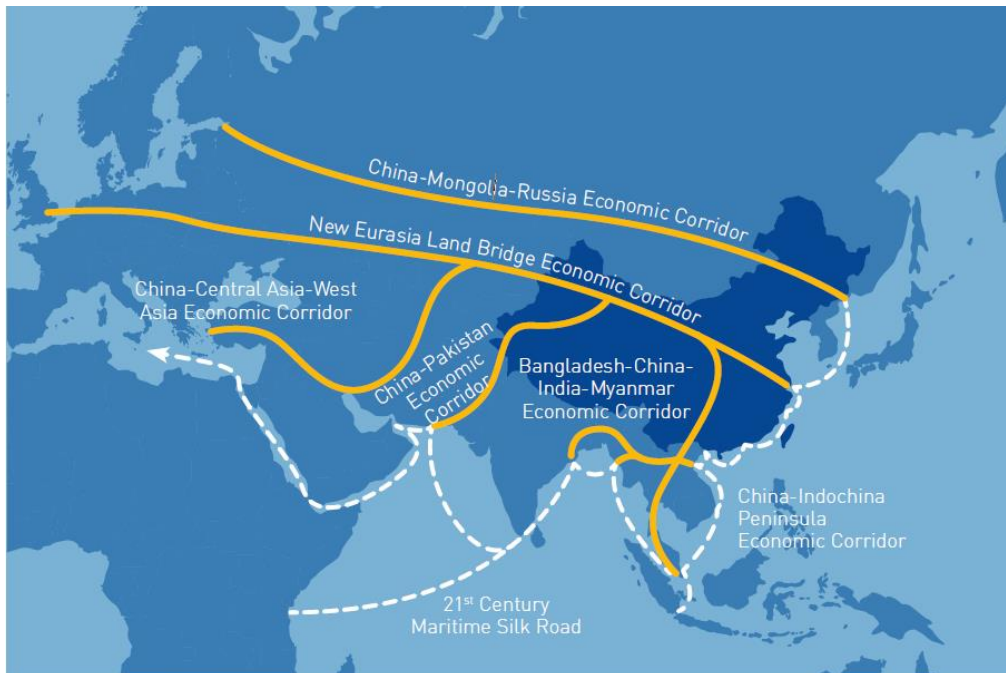
⁴ "AIIB Approves Membership of Cook Islands, Vanuatu, Belarus and Ecuador", https://www.aiib.org/en/news-events/news/2017/20171219_001.html

⁵ The Silk Road Fund, www.silkroadfund.com.cn/enweb/23773/index.html

While the BRI's headline projects and the large sums involved may seem out of reach to many SMEs, it is being observed that smaller projects and market opportunities which are more suited to EU SMEs are increasingly an element of the BRI as it evolves from its beginnings a few years ago. Already, the larger companies involved in the BRI look to smaller, specialised businesses which may be better suited to certain projects.

2. Economic Corridors

The BRI is made up of six terrestrial “Economic Corridors” that lead from China through South and South-East Asia, the Middle East and across Eurasia to Europe. These Economic Corridors are mainly identifiable by the developing large-scale transport infrastructure that seeks to form physical connections between the regions and sub-regions covered by the BRI. Additionally, the BRI’s maritime component, the 21st Century Maritime Silk Road (MSR), connects and overlaps with the three southern Economic Corridors before moving on to East Africa and the Mediterranean Sea, while also seeking to expand and connect projects and trade routes across the Middle East.



The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe, Africa and the Middle East⁶

2.1. The New Eurasian Land Bridge

New Eurasian Land Bridge – The New Eurasian Land Bridge, also known as the Second or New Eurasian Continental Bridge connects Western Europe via Rotterdam, Netherlands, from Lianyungang, Jiangsu Province, China. Freight trains will travel via North China to Kazakhstan via Xinjiang, then onward through Russia, Poland, Germany, and the Netherlands, at a much faster speed than the alternative sea routes. Overall, this route crosses through three separate railways to eventually reach the Netherlands.⁷

2.2. China-Mongolia-Russia Economic Corridor

⁶ CBBC, “Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities” p5

⁷ CBBC, New Opportunities in China and Beyond, p4, 6, & 10

China-Mongolia-Russia Economic Corridor – This economic corridor overlaps with the New Eurasian Land Bridge route as well and could be divided into two routes: Beijing/Tianjin/Hebei through Inner Mongolia, Outer Mongolia and Kazakhstan to Russia or Dalian to China, Russia via Heilongjiang, Inner Mongolia, Jilin, and Liaoning Provinces. This route both complements China's BRI and the Russian Transcontinental Rail Plan as well as Mongolia's Prairie Road Programme. The Transcontinental Rail Plan is a series of rail and road links between Beijing and Moscow, while the Prairie Road Programme is a set of projects that include oil and natural gas pipelines with railways and roads.

There are already international freight trains operating along this route with connections to the Russian Far East to many large cities in China. This route is being developed in cooperation with the Eurasian Economic Union as led by Russia and as a part of a series of May 2015 infrastructure agreements signed between Belarus, Kazakhstan and Russia to develop high-speed rail, energy infrastructure and aerospace, and industrial parks with RMB settlement.⁸

2.3. China-Central Asia-West Asia Economic Corridor

China-Central Asia-West Asia Economic Corridor – The majority of projects in this corridor consist of pipelines connect the Near East, Turkey, and Iran with Xinjiang by running through Uzbekistan, Kazakhstan, and Turkmenistan. These pipelines will be connected with the West-East gas pipeline in China, which is currently being built. In addition, China has signed several cooperative agreements with Kazakhstan, Kyrgyzstan and Tajikistan to work on trade facilitation and logistics for the corridor.⁹

2.4. China-Indochina Economic Corridor (CIPEC)

China-Indochina Peninsula Economic Corridor (CIPEC) – Often referred to as the “ASEAN link” of the BRI, the CIPEC is essentially being integrated into many existing ASEAN plans, most notably the “Master Plan on ASEAN Connectivity”. The focus of this corridor is to connect Southern China, mainly the Pearl River Delta, with Peninsular Southeast Asian countries like Cambodia, Laos, Myanmar, Thailand, and Vietnam as well as Malaysia and Singapore. New high-speed railways and motorways will run from the Pearl River Delta in South China to Singapore via Nanning in Guangxi Province and Hanoi in Vietnam. This initiative aligns with development goals set by the Asian Development Bank, serving as a platform for joint construction projects and industrial cooperation in the Mekong River Delta.¹⁰

2.5. Bangladesh-India-China-Myanmar

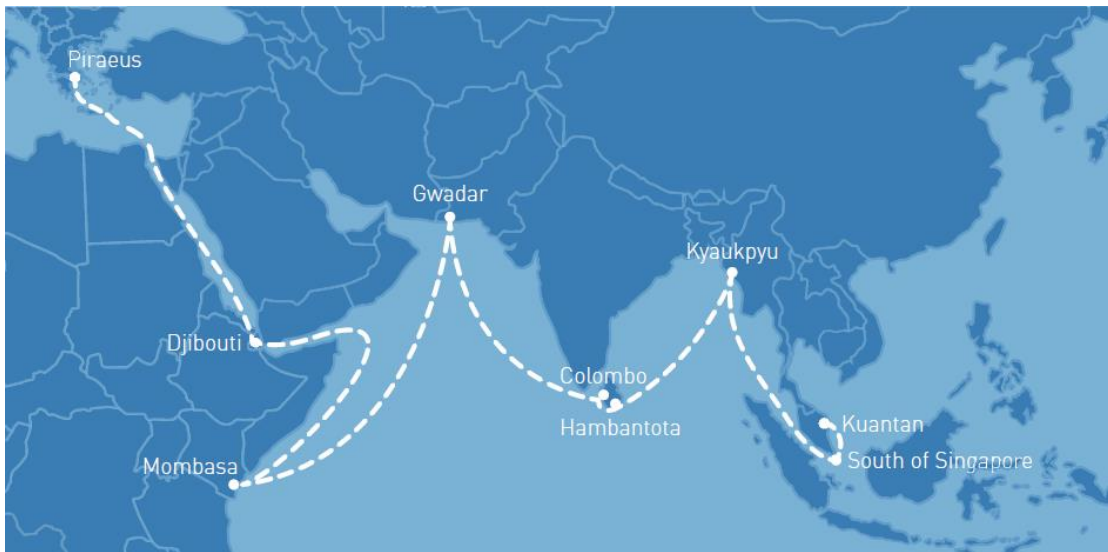
⁸ CBBC, *New Opportunities in China and Beyond*, p7

⁹ CBBC, *New Opportunities in China and Beyond*, p12

Bangladesh-India-China-Myanmar Economic Corridor (BCIM) – The BCIM is the contemporary continuation of the “Kunming Initiative” (now known as the BCIM Forum for Regional Economic Cooperation), which was founded by the four countries in 1999 to promote joint trade, connectivity and economic development. Like the other Economic Corridors in the BRI, its main aims are to increase the cross-border flow of goods and people, lower trade barriers and increase connectivity. The BCIM’s backbone infrastructure project is a proposed 2,800 km route that starts in Kolkata (India) and ends in Kunming (China), passing through Mandalay (Myanmar) and Dhaka (Bangladesh), which will be made up of railways, motorways, waterways, airways and telecoms networks. The market compared to other developed countries and regions. The medical device market in China therefore presents opportunities for EU SMEs.

2.6. China-Pakistan Economic Corridor (CPEC)

As its name suggests, this corridor is essentially a bilateral affair. Its flagship project is Gwadar Port, a deep-sea port in Pakistan, which is to be linked with the Chinese city Kashgar, Xinjiang, via an interconnected network of rail, road, telecommunications (fibre optics cable) and energy supply (oil pipeline). More than half of investments in the CPEC are in energy projects that seek to address Pakistan’s severe energy shortage of up to 7,000MW, around a third of the current national demand for electricity. During Xi Jinping’s visit to Pakistan in 2015, a number of agreements were signed between the two countries, which covered energy, ICT, transport infrastructure and others.¹¹



2.7. 21st Century Maritime Silk Road (MSR)

In October 2013, President Xi announced the launch of the MSR in Indonesia. With the MSR, China seeks to establish its role as a global maritime trading power. This is being done by building up infrastructure at key trading hubs and developing new supply routes. China’s trade with countries along the MSR has risen by an average of 18% a year over the past decade. During that time, Chinese

¹¹ CBBC, *New Opportunities in China and Beyond*, p14y

companies' direct investment into these countries has also grown from around EUR 227 million to over EUR 8 billion. 21st Century Maritime Silk Road (MSR).¹²

¹² Xinhua, "China's trade with Maritime Silk Road countries rises 18 pct. annually"

3. Key BRI Provinces

3.1. North West

Gansu

Gansu – The Gansu provincial government have announced an implementation plan aiming to make Gansu the “golden section” of the New Silk Road. At the moment, the Gansu provincial government is focused on three key platforms for the BRI – the China Silk Road Expo, turning Dunhuang into a world-renowned tourist destination, and the Lanzhou New District. It also plans to establish six “windows” to the major economic corridors of the BRI, as well as focus on developing eight “node cities”. There is some evidence that Gansu is already reaping benefits from its BRI plans, as in 2016 the value of its trade with BRI countries rose over 10%.¹³ Furthermore, Dunhuang has already seen a surge in tourism in 2017, with revenues rising over 20% from 2016.¹⁴ Gansu is also hoping to capitalise on the Lanzhou New District and the Wuwei Logistics Centre to accelerate construction of western-facing air and land ports. Additionally, it is intensifying exchanges with sister cities in nearby countries like Kyrgyzstan, Iran, and Kazakhstan.¹⁵

Ningxia

The Ningxia Hui Autonomous Region will play a key role in the implementation of the BRI due to its growing economic relations with Middle Eastern countries. This has brought in a large amount of capital investors from Arab States wishing to diversify their own investments through encouraging innovation in financial products and the development of financial institutions. There are now direct flights between the capital city of Yinchuan to Kuala Lumpur, Dubai, Doha, and Cairo.¹⁶ As well as this air-based Silk Road, the province also hopes to establish itself as a key point along both the land based Silk Road and the “Online Silk Road”. Ningxia is investing to improve its transport links with neighbouring regions, looking to become a key transit point between China’s East and West. It is also cooperating with e-commerce companies like Alibaba in order to advance its own online commercial ventures, as well as accelerating the development of smart cities and big data centres.¹⁷

Qinghai

Qinghai Province is located along the ancient Silk Road between Tibet and Xinjiang. The province is working hard to improve its transportation links in order to maximise its pre-existing advantages, including its strategic location, an already booming rare earth metals sector, and a growing clean energy industry.¹⁸ These industries, mixed with a low cost for initial investment, make it a prime market for growth. Private investment is being sought in real estate, tourism, energy and infrastructure.

¹³ “【一带一路·合作共赢】“一带一路”擘画甘肃发展新蓝图”Yi dai yi lu he zuo gong ying yi dai yi lu bo hua gan su fa

¹⁴ China Daily, “Gansu's Dunhuang sees surge in tourism thanks to Belt and Road Initiative”,

¹⁵ China Daily, “Gansu set to star in 'belt and road' plan”, www.chinadaily.com.cn/m/gansu/2015-04/17/content_20440357.htm

¹⁶ Xinhua Net, “Ningxia grasps opportunities brought by "Belt and Road" initiative”, www.news.xinhuanet.com/english/china/2015-07/17/c_134420679.htm

¹⁷ China Daily, “Gansu set to star in 'belt and road' plan”, www.chinadaily.com.cn/m/gansu/2015-04/17/content_20440357.htm

¹⁸ China Daily, “Qinghai looks to investment for economic advancement”, www.chinadaily.com.cn/business/2017-06/20/content_29819103.htm

A key BRI project in Qinghai is the China-Europe freight train which passes through the Qaidam Basin. This rail line runs through Qinghai to Xinjiang and reaches Russia through Kazakhstan.¹⁹

Shaanxi

Shaanxi is located at the exact centre of China. To capitalise on its location, Shaanxi provincial leaders are seeking to establish five BRI centres there. These centres will focus on regional finance; international tourism; technology and education; international industrial cooperation; transportation, trade and logistics.²⁰ Premier Li Keqiang has called on the province to push forward with the development of burgeoning industries such as e-commerce, logistics, high-end manufacturing, and other new businesses.²¹ Shaanxi can also leverage its status as an aerospace and science hub within China to reap further benefits from the BRI.²² Efforts to develop Shaanxi's e-commerce sector have already led to the emergence of a fast growing industry cluster within the Xi'an International Trade and Logistics Park section of the Shaanxi Pilot Free Trade Zone.²³

Xinjiang

Xinjiang is China's gateway to Central Asia, serving as a connecting point to Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Mongolia (Xinjiang shares more borders with foreign countries than any other province). With the completion of the Baku-Tbilisi-Kars railway, Xinjiang has an opportunity to build upon its transport links to Central Asia and take on a key role in the distribution of goods to Europe.²⁴ The provincial government is exploring ways to create more free trade zones for the border regions. Additionally, Xinjiang is undergoing an infrastructure boom with a focus on rail and roads; the Chinese government announced investment of EUR 20 billion in roads alone for 2017.²⁵ The construction of thirty logistics parks,²⁶ and a push for greater cross-border e-commerce will compliment this infrastructure investment and help transform Xinjiang into a major BRI province, serving as a transportation, storage and distribution hub.²⁷

3.2. South West

Chongqing

The Chongqing municipality has long been an important manufacturing base in China, as well as a key node in the country's supply chain. Today, it is fast becoming of increasing importance to China's

¹⁹ China Daily, "Cargo train links China's Qinghai with Russia", www.news.xinhuanet.com/english/2017-08/20/c_136540866_2.htm

²⁰ China Daily, "Shaanxi prospers from Belt and Road development", www.chinadaily.com.cn/business/2017-05/12/content_29323217.htm

²¹ China Daily, "Li: Shaanxi must exploit Belt, Road", www.chinadaily.com.cn/china/2017twosession/2017-03/10/content_28501186.htm;

²² China Daily, "Belt and Road offers tangible benefits", www.chinadaily.com.cn/opinion/2017-05/09/content_29258859.htm;

²³ Belt and Road Portal, "Belt and Road countries eye Shaanxi FTZ" www.eng.yidaiyilu.gov.cn/qwyw/rdxw/32495.htm

²⁴ China Daily, "Baku-Tbilisi-Kars railway will enhance connectivity in Eurasia", www.chinadaily.com.cn/opinion/2017-05/09/content_29258859.htm

²⁵ "China to pump over \$24bn into Xinjiang road projects for better connectivity with Pakistan" www.dawn.com/news/1313294

²⁶ "Why Xinjiang is well positioned to gain from Belt & Road plan", www.ejinsight.com/20170911-why-xinjiang-is-well-positioned-to-gain-from-belt-and-road-plan/

²⁷ "Why Xinjiang is well positioned to gain from Belt & Road plan", www.ejinsight.com/20170911-why-xinjiang-is-well-positioned-to-gain-from-belt-and-road-plan/

international transport links, including the Chongqing-Xinjiang-Europe Railway (You-Xin-Ou). In addition, Chongqing is opening up regular bus services from the city to mainland Southeast Asia.²⁸ The BRI will likely further spur Chongqing's already rapidly growing economy, and open up further opportunities to collaborate with both Chinese businesses and universities in the municipality. Chongqing has also launched projects to encourage greater internationalisation in the financial sector through the Chongqing Connectivity Initiative, meaning that Chongqing companies can now issue RMB bonds in Singapore in order to fund their activities.²⁹

Sichuan

Sichuan province falls along both the Yangtze River Economic Belt and Bangladesh-China-India-Myanmar Economic Corridor. The Sichuan provincial government hopes to use the BRI as a means for the province to improve its international trade links, as well as further integrate it within the Diamond Economic Zone linking Chengdu, Xi'an, Chongqing, and Kunming. The Western China (Sichuan) Import Exhibition and International Investment Conference will be held annually in Sichuan to help push for more trade and cultural exchanges with countries involved in the BRI. Provincial capital Chengdu also represents an important link in China's western manufacturing supply chain, and is home to a diverse and advanced manufacturing industry³⁰. The province is also establishing a number of free trade zones, including The High Tech Zone and The Tianfu New Area. Construction of a second airport in Chengdu is due for completion in 2020, possibly creating further opportunities for the logistics and tourism industries³¹.

Yunnan

Yunnan province shares borders with Laos, Myanmar, and Vietnam, and is also linked to Thailand and Cambodia along the Mekong-Lancang River. It is becoming an important BRI province for China to develop land links with South and South East Asia, potentially enabling more trade routes directly to the Indian Ocean overland through Myanmar.³² Several major road projects to connect the province with South-East Asia are underway. Once completed, Kunming (which is the provincial capital) will be connected with Haiphong, Bangkok, Ruili, Kolkata, and Yangon. Additionally, the province is becoming a key hub in China's high-speed rail push in South East Asia. Once the rail connections are completed, one will be able to travel from Shanghai or Beijing to as far as Singapore via Kunming via high speed rail. The development of these transport links, as well as the creation of economic and high-tech development zones, will likely open up many opportunities in the logistics, tourism, and financial & professional services sectors.³³

3.3. South and South East

Hainan

²⁸ "China to pump over \$24bn into Xinjiang road projects for better connectivity with Pakistan" www.dawn.com/news/1313294

²⁹ "Why Xinjiang is well positioned to gain from Belt & Road plan", www.ejinsight.com/20170911-why-xinjiang-is-well-positioned-to-gain-from-belt-and-road-plan/

³⁰ "One Belt, One Road plan key to China-Singapore ties", www.straitstimes.com/business/economy/one-belt-one-road-plan-key-to-china-spore-ties

³¹ Financial Times, "Chengdu benefits from China's One Belt, One Road strategy", www.ft.com/content/b743706e-2d70-11e6-bf8d-26294ad519fc

³² CBBC, "Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities" p39-41

³³ CBBC, "Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities" p39-41

Hainan, China's southernmost province, is an island in the South China Sea, and is ideally positioned to be a gateway for the BRI. Hainan already has strong connections with ASEAN. The provincial government is accelerating development of its maritime infrastructure in the port cities of Haikou, Sanya, and Yangpu. Additionally, it is working closely with nearby provinces including Guangdong, Fujian, and Guangxi to facilitate a larger maritime trade zone. The province is also seeking to build on its already healthy tourist industry; planning to invest in over 300 major tourism projects with the aim of achieving a total tourism income of over EUR 11.3 billion over the next five years. This will undoubtedly provide opportunities for foreign enterprises, for example, international partners are being sought to help develop the Haikou Guilinyang National Tropical Agriculture Park, a project integrating agriculture and retail sector development.³⁴

Fujian

Fujian is a strategically located province on China's eastern seaboard. The BRI plans for Fujian's maritime trade look in all directions to include most of Southeast Asia, the South Pacific, and Australia, as well as Northeast Asia and North America. Fujian province has already published plans for over 1,000 BRI-related projects requiring funding of over EUR 450 billion.³⁵ There are several free trade zones (FTZs) in Fujian's port cities of Xiamen, Pingtan, and Fuzhou. The province is expanding its ports including Xiamen Haicang Port and Fuzhou Jiangyin Port. Haicang is being developed into a logistics hub with railway connections to Europe, as well as maritime links with ASEAN countries. The construction of the Xiamen New Airport will open up new air routes in the future as Fujian looks to cement its position as a regional transport hub for travel to South East Asia.³⁶

Guangdong

The Guangdong provincial government has established the Guangdong Silk Road fund in collaboration with the Bank of China, Industrial and Commercial Bank of China, and Bank of Communications. The province's transportation links with ASEAN countries, as well as the South Pacific and North America are bolstered by its close relationship with the Hong Kong SAR. Additionally, Guangdong is home to the world's most concentrated port cluster, the Guangdong-Hong Kong-Macau Big Bay Economic Area. The province's involvement in overseas projects is by no means limited to this one industry; companies across a range of sectors including energy, advanced manufacturing, finance and logistics have also invested overseas in BRI countries.³⁷

Guangxi

Guangxi, which shares a land border with Vietnam and sea ports in the Beibu Gulf, is being encouraged by China's central government to become "a new strategic pivot" in China's BRI connectivity with ASEAN.³⁸ Around 60% of Guangxi's international trade is with its ASEAN

³⁴ "Why Xinjiang is well positioned to gain from Belt & Road plan", www.ejinsight.com/20170911-why-xinjiang-is-well-positioned-to-gain-from-belt-and-road-plan/

³⁵ Fujian Provincial Government, "福建省人民政府关于公布 2016 年度省重点项目名单的通知" Fu jian sheng ren min zheng fu guan yu gong bu 2016 nian du sheng zhong dian xiang mu ming dan de tong zhi 2016 Notice of Fujian People's Government important annual project list www.fujian.gov.cn/xm/zdxxmjs/xmmd/201601/t20160120_1133203.htm

³⁶ CBBC, "Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities" P37-38

³⁷ State Council Information Office, "China's Guangxi aims to be pathway to ASEAN", www.scio.gov.cn/32618/Document/1478866/1478866.htm

³⁸ State Council Information Office, "China's Guangxi aims to be pathway to ASEAN", www.scio.gov.cn/32618/Document/1478866/1478866.htm

neighbours (growing around 20% year-on-year).³⁹ Nanning, the industrial city of Liuzhou, port areas in Beihai and the province's border areas are the focus of Guangxi's BRI plans. Guangxi is speeding up industrial cooperation with ASEAN countries, prioritising sectors including food processing, advanced agriculture and equipment manufacturing, biomedicine, ICT, mining, chemicals and logistics.

Jiangsu

Jiangsu province has the opportunity to become an important economic player due to the opportunities that the BRI presents. Key industries in the province include electronics, telecommunications, chemicals, machinery and equipment, textiles & garment and metallurgy; however, its service sector is also growing rapidly.⁴⁰ It hopes to play a supporting role in the New Eurasian Land Bridge by establishing an international production and logistics base, as well as expanding the marine economy and financial sectors.⁴¹ With cities like Nanjing, Lianyungang, and Suzhou, Jiangsu is a key part of the Yangtze River Delta.

Zhejiang

Zhejiang Province, like Jiangsu, is also located in the Yangtze River Delta area, and is home to several important sea-ports; the Ningbo-Zhoushan Port is one of the busiest in the world. This province includes key cities like Wenzhou and Hangzhou, currently among the fastest growing in China, both of whom stand to benefit further from BRI projects. For example, Hangzhou will host the Silk Road International Association which provides financial services for BRI projects. This association will help Zhejiang companies in particular with financing.⁴² Zhejiang has earmarked Singapore, Poland and the Czech Republic as three key countries with opportunities for overseas expansion; meanwhile its percentage of overall foreign trade accounted for by trade with BRI countries has risen from 15.8% in 2015 to 44.4% in 2016.⁴³

4. Key Sectors in the Belt and Road Initiatives

As Chinese companies move outside their borders to form the BRI routes, their operations can be supplemented and supported in a number of areas where EU businesses have a lot to offer. The immediate key sectors are infrastructure, maritime and logistics, banking and financial services, professional services and energy. Further opportunities also exist in the agriculture, fishing, food processing, light equipment manufacturing, education, tourism and consumer sectors. Until recently, Chinese outbound investments had been limited to large infrastructure projects mostly being

³⁹ Nanning Customs 2015, "2015年广西外贸逆势稳定增长超额完成全年外贸增长目标" 2015 nian guang xi wai mao ni shi wen ding zeng zhang chao e wan cheng quan nian wai mao zeng zhang mu biao Steady growth of Guangxi's foreign trade in 2015 has already surpassed the target for yearly growth <http://nanning.customs.gov.cn/publish/portal150/tab61878/info785270.htm>

⁴⁰ HKTDC, "Jiangsu: Market Profile" www.china-trade-research.hktdc.com/business-news/article/Facts-and-Figures/Jiangsu-Market-Profile/ff/en/1/1X000000/1X06BV87.htm

⁴¹ Ministry of Commerce of the PRC, 江苏八大领域对接“一带一路”Jiang su ba da ling yu dui jie yi dai yi lu Jiangsu's eight big fields linked to Belt and Road www.mofcom.gov.cn/article/resume/n/201505/20150500971344.shtml

⁴² E-Zhejiang, "Hangzhou to be home of key Belt and Road organizations" www.ezhejiang.gov.cn/2017-06/22/c_82587.htm

⁴³ Zhejiang Daily, 打造“一带一路”浙江样板 da zao yi dai yi luz zhe jiang yang ban Building a Zhejiang model for Belt and Road www.360doc.com/content/17/0908/21/8507568_685610283.shtml

undertaken by big State-Owned Enterprises (SOEs). However, recently some Chinese smaller-sized SOEs and privately held companies have also begun to venture into the international arena. As plans for future projects unfold, some Chinese companies have begun to plan or even develop strategic manufacturing facilities in BRI countries.

Opportunities for EU businesses lie in areas such as early stage development of projects, advisory services and subcontracting of specialized supplies or services. There is also a trickle-down effect which will increasingly result in a need for small-to-medium sized projects, which Chinese companies tend to be less suited for. It is in these projects and sectors that private capital and EU SMEs will be able to add the most value and play an increasing role.

Infrastructure

As far as China is concerned, large overseas infrastructure projects along the BRI can go a long way toward facilitating the Chinese economy's transition to slower but sustainable growth. On the other hand, China's investment in the development of the infrastructure and energy sectors in the BRI countries over the last three to seven years has helped them in accelerating their economic growth. Apart from railways, the focus of infrastructure investment in BRI is oil and gas pipelines, as well as transmission/distribution networks; electricity transmission/distribution networks; supply chains manufacturing facilities in third countries; water and waste management projects; regional trade and logistics centres; and urbanisation projects.⁴⁴ The further economic development of BRI countries together with the internationalisation of investment flows and practices is expected to open a wide array of areas for EU SMEs to explore. This is a direct result of the gradual internationalisation and standardisation of procedures, regulations, laws and quality standards, areas in which many EU companies have considerable experience.

Financial and Professional Services

In this sector, EU SMEs are well positioned to utilise their skills, experience and expertise necessary in the operations of Chinese companies as they seek to take on a more prominent role in international trade. The membership of many EU countries in the AIIB, Asian Development Bank (ADB) and other international financial institutions will provide greater access to long-term capital and a more liquid and diverse financial market which shall require expertise in complex financial tools.

Other areas where opportunities will arise are in green finance, RMB internationalisation, bond markets, commodities trading platforms, insurance services, asset management, legal, accounting, consulting & advisory services, as well as maritime services.⁴⁵

Agriculture and Environment

As part of the Chinese government's broader strategy to improve its food security, investments in agricultural infrastructure are planned along the Belt and Road, particularly in developing countries. This may present an opportunity for EU companies in the industry.

Advanced Manufacturing and Transport

⁴⁴ CBBC, "Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities" p14-19

⁴⁵ CBBC, "Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities" p8-10

As China looks to construct modern, sustainable infrastructure along the BRI opportunities will arise in the manufacturing sector for foreign enterprises. Currently, Chinese equipment manufacturers are exporting to BRI markets, while SOEs go abroad and take their supply chains with them. Large-scale infrastructure projects, such as the construction of high-speed railways, ports, airports, hydro-power plants and high-tech industrial parks will require high-end equipment, much of which China will seek from suppliers abroad, particularly where environmental or safety standards are high.⁴⁶

Energy and Resources

More than half of infrastructure spending along the BRI will end up in the electricity production industries. This includes power generation, capacity and transmission and distribution networks, as well as preparation costs like design and arranging financial support. While China has slowly built up capacity in hydro-electricity and is hugely ambitious about its civil nuclear capabilities, there are still areas in which the country will depend on international support and cooperation to enhance its existing skill set and deliver projects.

These areas are oil/gas exploration and supply; coal/nuclear power generation; renewable energy projects; clean energy frameworks and carbon trading platforms.

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E-Commerce and Logistics

E-Commerce opens up new platforms for both B2B and B2C transactions. These platforms may be especially useful to SMEs who lack the resources available to multinationals. With Chinese e-commerce sales set to be worth over EUR 80 billion by 2020⁴⁸, this market is still growing rapidly and represents a great opportunity for companies looking to sell their products within China. In a BRI context, there currently lies an enormous opportunity for BRI countries to take advantage of the increasing presence of technological capabilities, financial resources, logistical infrastructure and e-commerce expertise by China to develop their own e-commerce markets.

With regards to logistics in particular, China has seen tremendous improvements in its own logistics systems over the past decade, and is now looking to spread these advances further afield; increasing connectivity in western and more rural areas of China, as well as along the external BRI routes. These newly created transnational corridors and networks are set to increase the movement of goods, commodities, and people. These “macro-flows” will need to be facilitated by efficient logistics centres. These will, in turn, need to be supported by the appropriate management and infrastructure, for instance warehouses, electricity interconnectors, rail network coordination centres and sea port management.

Healthcare and Life Sciences

Since 2014, overseas transactions by mainland Chinese companies in the medical field have increased

⁴⁶ Baker & McKenzie www.bakermckenzie.com/-/media/files/insight/publications/2017/10/belt-road/baker_mckenzie_belt_road_report_2017.pdf?la=en

⁴⁷ CBBC, “Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities” p20-21

⁴⁸ www.businesstimes.com.sg/hub/futurechina-global-forum/from-silk-road-trade-to-belt-and-road-e-commerce

six fold.⁴⁹ Furthermore, the Chinese government and many outside observers, including the WHO, are very optimistic that the BRI provides a strong platform for international cooperation to achieve positive global health outcomes, with Xi Jinping even proposing the creating of a “Health Silk Road”⁵⁰. Moreover, in 2017 China announced the formation of an international biomedical alliance to promote cooperation in biomedicine and healthcare sectors between BRI countries.⁵¹ Opportunities are thus expected to increase in high-end medical equipment and medical information technology platforms, training of staff, as well as planning, construction and operation of medical facilities.

Tourism

As mentioned in the Provinces section, many Chinese provinces, such as Jiangsu and Gansu, are looking to benefit from their involvement in the BRI by improving their attractiveness as tourist destinations. An agreement between the Beijing-based World Tourism Cities Federation and the Shanghai Cooperation Organisation aims to promote tourism to cities along the Belt and Road, both inside and outside of China⁵². Improved connectivity and transport infrastructure between and within Belt and Road nations will also help to promote tourism as possible destinations become more easily accessible.

Creative and Culture

The Chinese Ministry of Culture has published a “Belt and Road Cultural Development Action Plan”, which includes proposals for promoting the growth of cultural industries in BRI countries, including through a BRI artistic creations initiative.⁵³ The Chinese government is also looking to coordinate with the culture ministries of BRI countries in order to promote greater mutual cultural understanding; so far it has signed over 300 agreements on exchanges with participating nations.⁵⁴ European cultural exports that have gained traction in China and on Chinese platforms may thus also reap benefits from increased cultural exchanges along the BRI.

5. Conclusion

While the business opportunities being created by the BRI are numerous, it is important to note that it is not only an economic initiative, but also a geopolitical one. The diversity and different economic and political situations of countries along the routes inevitably mean there are inherent risks, ranging from fundamental legal and financial challenges of accessing new foreign markets to political or social instability and regional disputes. EU SMEs should also remain live to the potential impact of territorial disputes along the BRI routes. Political instability in a range of countries may also lead to inconsistency in legal and financial policies, which could undermine business activities.

For EU SMEs who want to participate in and benefit from the development of the BRI, the key principle is to plan sufficiently by identifying the appropriate country, sector, project and Chinese partner. Careful planning and due diligence beforehand are strongly recommended.

⁴⁹ www.pwccn.com/en/research-and-insights/belt-and-road/publications/whitepaper-for-healthcare-industry-investment-one-belt-one-road.pdf

⁵⁰ www.who.int/dg/speeches/2017/health-silk-road/en/

⁵¹ www.chinadaily.com.cn/china/2017-09/15/content_32010094.htm

⁵² wap.chinadaily.com.cn/2017-05/23/content_29460543.htm

⁵³ www.china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/Ministry-of-Culture-s-Action-Plan-for-Belt-and-Road-Cultural-Development-2016-2020/obor/en/1/1X000000/1X0A9K2A.htm

⁵⁴ www.chinadaily.com.cn/china/19thpcnationalcongress/2017-10/20/content_33492115.htm

As the BRI's projects further progress and mature, the trickle-down effect mentioned in the previous section that will result in more small-to-medium sized projects is expected to be followed by the types of opportunities afforded by significantly improved logistics and increased access to new markets. EU SMEs should also be alert to these openings as they emerge.

6. Useful Reading

Useful Websites
The State Council of the People's Republic of China Website English: www.english.gov.cn/beltAndRoad/ Website Chinese: www.gov.cn/
Belt and Road Portal Website English: eng.yidaiyilu.gov.cn/ Website Chinese: www.yidaiyilu.gov.cn/
Hong Kong Trade and Development Council – Belt and Road Website English: www.business.hsbc.com/belt-and-road
OBOR Watch – Documenting China's One Belt One Road Initiative Website English: www.oborwatch.org/

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About CBBC

This report is compiled in partnership with the China-Britain Business Council (CBBC) and is an introduction to the medical devices market in China. It aims to help EU SMEs gain an understanding of China's medical devices market and to identify opportunities that EU SMEs could consider exploring. CBBC is the leading organisation helping UK companies grow and develop their business in China. CBBC delivers a range of practical services, including: advice and consultancy, market research, event management, an overseas market introduction service, trade missions and exhibitions, and setting up rep offices. For more information about what CBBC can do to help your business develop in China, please visit: www.cbcc.org

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