

THE NEW SILK ROAD: FROM EURASIAN CORRIDOR TO GLOBAL CHINESE FOREIGN POLICY INITIATIVE

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The New Silk Road, launched by Chinese President Xi Jinping in 2013, has had a variety of English names – “One Belt, One Road”, the “Belt and Road Initiative” and now “the BRI”. Initially, it was conceived as the development of a great Eurasian corridor that would help China extend its economic influence towards Central Asia, Europe, Southeast and South Asia, and some parts of Africa. Two routes were planned for the corridor: one, over land, more or less follows the old Silk Road from China to Europe via Central Asia and the Middle East; the other is a sea route from China to the Mediterranean, passing through South Asia and East Africa.

China had other complementary motivations, as well as opening up a Eurasian corridor. On the one hand, the New Silk Road offered a new means of export for its vast excess capacity in sectors like steel and cement. At the same time, China also sought to promote the development of its inland areas, which were more economically backward than the coastal regions.

The New Silk Road thus prompted great expectations. China planned to incentivise and promote the execution of projects by contributing abundant financing in the form of both investments and credits (which as of 2022 total nearly \$1 trillion).

But over time the BRI (the term we will use in this article, interchangeably with the Silk Road) has taken on global scope. In a geographical sense, it now stretches across large swathes of the planet, especially countries of the so-called Global South. Indeed, 147 countries have established collaboration agreements of various kinds with the BRI (Nedopil, 2022b), with 18 European Union member states having signed agreements of one kind or another in support of the initiative.

More recently, new extensions of the Silk Road have been spoken of, such as the Polar Silk Road (to develop maritime connection routes in the Arctic) and the Digital Silk Road.

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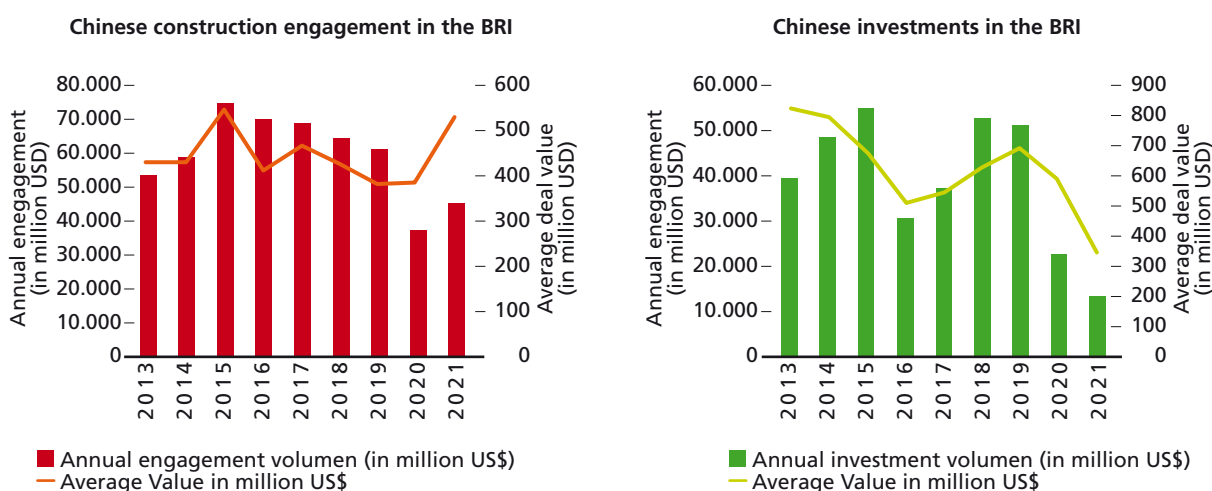
Having acquired dimensions that extend beyond the merely economic, the BRI has become a key part of Chinese foreign policy. Amid China's growing tensions with the United States (US) and other Western countries, the initiative is a way to seek allies among other countries, especially in the Global South. It is a tool for improving economic ties with other countries, creating interdependence, spreading its influence and taking a leadership role. Looking ahead, the BRI is likely to undergo significant changes, both for Chinese domestic reasons and due to the launch of competing initiatives by advanced countries, such as the European Union's Global Gateway and the Partnership for Global Infrastructure promoted by the US within the G7 framework.

1. Has the BRI lost momentum?

In recent years, the BRI has lost momentum. Figure 1 clearly shows this, using data from a study by Fudan University in Shanghai, the most recent work examining its progress (Nedopil, 2022a). The author identifies two types of BRI project: construction and investment. Although they are not precisely defined, it may be deduced that the construction projects are for exporting goods and services, and involve the construction or refurbishment of ports, railways, power plants and so on. These are not investments, and as such do not involve the acquisition of ownership rights over assets. On the other hand, there are investment projects, in which property rights to assets are acquired.

Figure 1. Evolution of BRI project

Deal size of chinese engagement in the BRI: left, for construction projects, right investments (Source: Green Finance & Development Center, FISF Fudan University, based on AEI)

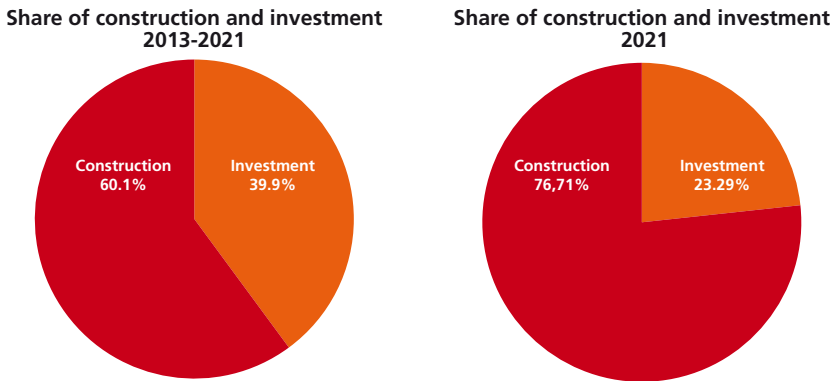


Source: Nedopil, 2022-A

According to studies published by Fudan University, as of 2022 the BRI has committed \$932 billion: \$561 billion to construction contracts, and \$371 billion to investments.

In Figure 1, the downward trend in construction projects since 2015 is clear, with the exception of a moderate rebound in 2021. As for investments, a sharply downward trend is visible since 2018.

Figure 2. Distribution by type



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The global economic slowdown has affected multiple countries where projects were planned, especially developing countries.

It is worth noting that, globally, in 2021 foreign investment flows rose by 64% (according to UNCTAD), while Chinese investments in the BRI framework decreased by 40.8%.

Compared to 2019, the year before the COVID-19 pandemic, the funds dedicated to BRI projects in 2021 fell by around \$53 billion (48%).

What factors explain this slowdown? First, the impact of COVID-19 and China's strict measures to fight it. China's zero-COVID policy has severely disrupted travel to and from the country. Unsurprisingly, this has affected international operations, which normally require a certain degree of personal contact.

Second, the pandemic and the zero-COVID policy caused a slowdown in the Chinese economy. The slump has been especially pronounced since the first half of 2022, when resurging infections led the authorities to adopt strict lockdown measures and quarantines, halting productive activity, disrupting maritime transport, and so on.

Third, the global economic slowdown has affected multiple countries where projects were planned, especially developing countries, whose lower foreign exchange earnings have made meeting their external debt commitments more difficult. This has led to a more prudent attitude among Chinese companies and banks when it comes to granting loans to finance projects. It has also led to a more prudent attitude among beneficiary countries when taking on new debt commitments.

The loans associated with the BRI projects have led to China's first foreign debt crisis, as a series of debtors are unable to meet the repayment commitments. China has been forced to carry out a major renegotiation of its loans. In total, \$52 billion of loans from Chinese financial institutions to projects in BRI countries had to be renegotiated in 2020 and 2021, according to data from the Rhodium Group. That is more than triple the \$16 billion renegotiated in the previous two years. The renegotiations involve loan cancellations, deferred payment schedules and interest rate reductions.

Chinese involvement in BRI projects shows strong regional variations. Asian countries continue to receive the largest share of investment (around 35% in 2021).

Finally, at the time of writing, the potential impact on the BRI must be mentioned of the war in Ukraine. In the short term, rail connections between China and Europe have been affected. According to some sources (Umbach, 2022), about half of the rail routes between China and Europe pass through Russia. While there were 40 cargo routes in 2017 there are 78 today. In 2021, \$75 billion-worth of Chinese goods were transported (up from \$8 billion in 2016), with 336,000 containers reaching 183 cities in 23 European countries. The number of trains rose from practically zero in 2011 to 15,000 in 2021.

But while rail transport showed strong growth, it still represents a small share of Chinese freight transport. And it is impossible, at the present time, to forecast how the disruptions to rail connections between China and Europe will evolve in the future. It will depend, among other factors, on the evolution of the war, the sanctions against Russia and how China's image deteriorates due to its stance of implicit support for Russia.

2. Geographical and sectoral trends

Chinese involvement in BRI projects shows strong regional variations. Asian countries continue to receive the largest share of investment (around 35% in 2021), although projects in Africa and the Middle East have recorded strong growth, rising from 8% in 2020 to around 38% in 2021. On the other hand, investments in European countries decreased by 84% compared to the first six months of 2020.

Iraq was the site of the largest volume of construction contracts in 2021, with around \$10.5 billion, followed by Serbia (about \$6.8 billion), Indonesia (about \$2.4 bn), Tanzania, Egypt, the Russian Federation and Singapore.

In terms of investments, Indonesia and Zimbabwe were the main recipient countries in 2021, followed by Vietnam and Chile. Meanwhile, investments in Laos, Sri Lanka and Singapore fell.

By sector, energy stands out. In 2021, total participation in this sector reached \$22.3 billion, a significant reduction compared to previous years (\$26.1 billion in 2020 and almost \$44.8 billion in 2019).

3. Criticism and controversy

The BRI has attracted controversy since soon after its launch. One criticism, mentioned above, is that it is a means of exporting excess Chinese industrial capacity in certain sectors.

Over time, criticism of the initiative has grown. A notable example is the study published in 2020 by the European Union Chamber of Commerce in China, eloquently titled *The Road Less Travelled: European Involvement in China's Belt and Road Initiative* (European Union Chamber of Commerce in China, 2020).

Based on the opinions of companies that belong to the European Union Chamber of Commerce, the report highlights the marginal role European

companies play in the initiative. “Only 20 of 132 survey respondents report having bid on a BRI-related project. Most cite the lack of transparent bidding and procurement processes as a major barrier to participation, with only two having found projects through publicly available information. Of those that have participated, most have done so after being pulled in by business partners or local governments. All but a scant few have played niche roles, like providing certain technology or experience in the recipient country, which, given the scale of the BRI, saw most respondents refer to their level of involvement as “crumbs from the table”

Among the other negative aspects mentioned are:

- Chinese lending conditions, which frequently lack transparency, and which may include very onerous conditions for recipient countries if they cannot meet their obligations;
- The lack of transparency in the project award processes, which in many cases do not follow the procedures that are standard in international markets;
- The lack of quality of some of the projects, which have been little studied and started up without adequate feasibility studies. There have also been accusations of corruption and political interference in the award processes, which have distorted their technical requirements.

Recently, criticism of BRI projects has increased notably. One example is the strong presence of the relationship with China in the Kenyan presidential elections of summer 2022. The two main candidates, former Vice President William Ruto and former Prime Minister Raila Odinga, both stated their intention to adopt a more firm stance towards China, which owns a substantial part of Kenya’s external debt (around 30%). Vice President William Ruto, who went on to win the election, ran on a strongly anti-China platform, vowing to deport Chinese nationals doing jobs he said should be reserved for Kenyans. He also pledged to make government contracts with China public.

The flagship BRI project in Kenya has been the development of the Standard Gauge Railway (SGR) connecting Mombasa, the country’s largest port city, with the capital Nairobi. The Export-Import Bank of China financed 90% of the SGR project with a \$5 billion loan, while the Kenyan government provided the other 10%. A Chinese construction company, the China Road and Bridge Corporation, was responsible for implementing the project. In autumn 2022, the Kenyan government announced its intention to request a renegotiation of the credit in order to extend the repayment period.

4. Spanish companies in the BRI

Spanish companies have had almost no involvement in developing projects, something that aligns with the more general scant participation of non-Chinese companies.

In principle, a number of factors could have favoured Spanish companies’ involvement.

First, Spanish companies have competitive advantages in engineering and construction, as shown by their experience building large-scale

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infrastructure, with the Panama Canal and the Mecca high-speed railway good examples.

Second, Spain and China have maintained good political relations.

Third, while China has vast amounts of financing available, New Silk Road projects required significant contributions from other sources, which Spain could provide.

However, from the start there was notable scepticism in the business world, not only in Spain but around the world, about the chances of participating in BRI projects due to the dominant position of Chinese companies in them.

That dominance seems to be confirmed by the first published estimates. In January 2018, a study was published by the US-based Reconnecting Asia project, which keeps a database of BRI projects (Center for Strategic & International Studies, 2018). At the time, 89% of participating companies were Chinese, 7.6% were local companies and only 3.4% were foreign (companies that are neither Chinese nor from the countries where the projects are carried out).

By comparison, it should be noted that in the projects financed by multilateral development banks 29% of companies are Chinese, 40.8% are local and 30.2% are foreign.

At any rate, the result is that no known projects under the BRI banner include the participation of Spanish companies. There have, however, been cases of Spanish and Chinese companies collaborating on projects in third countries. In 2015, Técnicas Reunidas entered into an agreement with the Chinese company Sinopec and the Korean company Hanwha Construction for a refinery project in Kuwait. In 2018, ACS and the China Three Gorges Corporation were awarded a contract to build a dam in the Democratic Republic of the Congo. In 2019, Telefónica awarded Huawei a significant chunk of its 4G network in Brazil. To promote the cooperation, an agreement was signed during Chinese President Xi Jinping's 2018 visit to Spain.

5. Future prospects

What are the future prospects for the BRI? In the short term, a key determining factor is China's pandemic policy. As long as its borders remain semi-closed and international travel highly restricted, Chinese investment abroad will be severely limited, as will the financing of projects through loans.

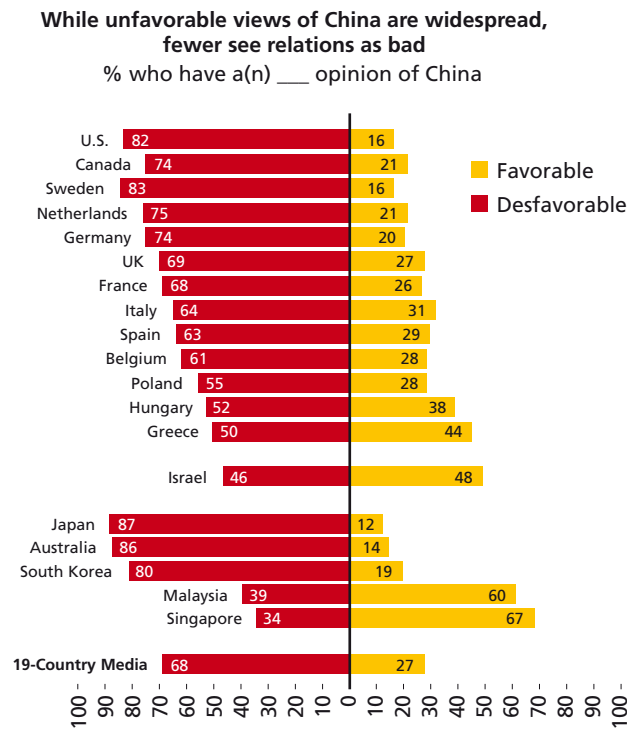
As for the longer-term future, several factors will affect the BRI for good and bad. It is difficult, if not impossible, to anticipate at present what the consequences of these different conditions may be.

On the one hand, the international community's opinion of China has deteriorated sharply and in a very short period of time, especially among developing countries and certain Asian states. Figure 3 shows the results

of a Pew Research Center survey conducted in 2022 on the perception of China in 19 countries around the world. The results are clearly negative. In the 19 countries as a whole, 68% of those surveyed said they viewed China unfavourably, with 27% holding favourable views. In Spain, 63% expressed unfavourable opinions.

Opinions in the so-called Global South were less negative, although, as mentioned, misgivings have risen about Chinese credits and investments.

Figure 3. Perceptions of China



Note: Those who did not answer not shown. Source: Spring 2022 Global Attitudes Survey. Q5b. "Negative Views of China Tied to Critical Views of Its Policies on Human Rights" PEW RESEARCH CENTER

In 2022, China's strategy in Europe suffered a blow when Estonia and Latvia announced their withdrawal from the 16+1 cooperation forum China had established with a number of European countries. This followed the withdrawal of Lithuania the previous year. The Estonian foreign minister said China's refusal to condemn Russia's invasion of Ukraine "was definitely a factor" in the decision. Estonia and Latvia mentioned the importance of China upholding the "rules-based international order", which Russia had violated with its invasion of Ukraine, even as China continued its "no limits" partnership with Russia.

Nevertheless, even as they withdrew Estonia and Latvia made clear that they remained open to cooperation with China. However, both countries preferred to use the platform provided by the European Union as the basis for their relations with China, and to strengthen their ties with the United States, especially on security, given the threat posed by Russia and China's implicit support for the invasion of Ukraine.

As well as widening the BRI's scope, China is launching new projects to strengthen its international influence. In recent months it has launched the so-called Global Development Initiative, which is economic in nature, and the Global Security Initiative (GSI), on international security. These are recent proposals, and it remains to be seen how they coordinate and overlap with the BRI – especially when it comes to the GSI. Either way, they are another reflection of China's desire to play a key role in the international order.

The BRI will have to “compete” with the various reactions of Western countries, which are offering their own alternatives. At the recent G7 summit, the launch of the Partnership for Global Infrastructure was announced, which seeks to mobilise \$600 billion for infrastructure projects. Meanwhile, the European Union has launched the Global Gateway, with the aim of mobilising €300 billion by 2027 in projects relating to digital infrastructure, energy, transport, health and education. To a large extent, these initiatives are responses to the BRI, and seek to counteract Chinese influence in the international community.

The New Silk Road, already losing steam over recent years, faces a series of uncertainties: from the slowdown of the Chinese economy to the problems many debtor countries face meeting their debt commitments and the launch of alternatives by advanced democratic countries and China itself. All of this in a geopolitical context that has become highly complex, and in which unease about and clashes with the Asian giant have increased sharply. How these factors affect the Silk Road remains to be seen.

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