

# **China Going Global and Eurasia's Changing Economic Landscape**

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# Agenda

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- **Announcing BRI**
- **Economic roots**
- **Trade**
- **Transport corridors**
- **Investment**
- **The difficulties of being a global power**
- **Likely adjustment strategies**

# BRI, early on. Anyone knows what happened here?



[http://article.wn.com/view/2013/11/08/Europe and Central Asia Regional Consultations in Istanbul h/](http://article.wn.com/view/2013/11/08/Europe_and_Central_Asia_Regional_Consultations_in_Istanbul_h/)



<http://www.dw.com/en/chinas-view-of-europe/a-18671213>

Jean-Claude Juncker, President of the European Commission from 2014 to 2019,  
Li Keqiang, Prime Minister of the PRC  
Donald Tusk, President of the European Council from 2014 to 2019

# Hopes for win-win, at least on the Euro-Asian continent

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The European Commission and the Chinese government signed a **MoU on the EU-China Connectivity Platform** to enhance synergies between China's "**One Belt One Road**" initiative and the EU's connectivity initiatives such as the **Trans-European Transport Network policy**.

At the third China-Central Asia Co-operation Forum in June 2015, a **commitment to "jointly building the Silk Road Economic Belt" was signed by China and five Central Asian countries.**

# BRI, a first approximation

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The Belt and Road Initiative is a strategy that has  
**a transportation,**  
**a trade, and**  
**an investment component,**  
with an institutional superstructure on top.

It has two main components, the  
"**Silk Road Economic Belt**" and the "**Maritime Silk Road**".

It goes along with **China's push to take a bigger role in global affairs.**

# OBOR: five key areas of cooperation

## **Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road**

Issued by the National Development and Reform Commission,

Ministry of Foreign Affairs, and Ministry of

Commerce of the People's Republic of China,

with State Council authorization

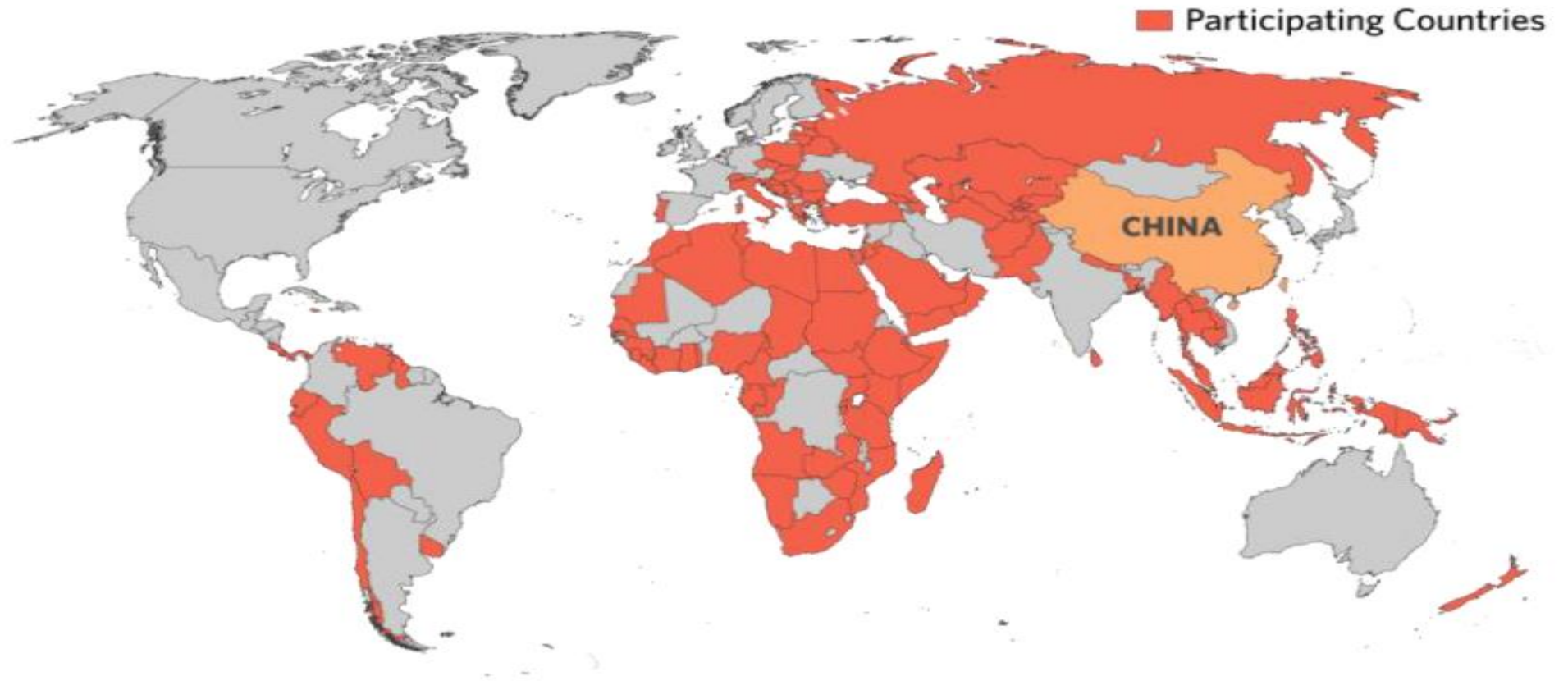
March 2015

- Coordinating development policies
- Forging infrastructure and facilities networks
- Strengthening investment and trade relations
- Enhancing financial cooperation and
- Deepening social and cultural exchanges.

Source: <https://www.beltandroad.gov.hk/visionandactions.html>

BRI covers a large part of the world,  
including Greece, Italy and Portugal

## China's Belt and Road Initiative



Source: China's Belt and Road Portal

Copyright Stratfor 2019

# Some results for BRI 6 years on: Agreements with 136 countries, major projects under way – and more since



## Cooperation Agreements

By late July 2019, the Chinese government had concluded **195** intergovernmental cooperation agreements with **136** countries and **30** international organizations.

- The scope of negotiation and conclusion has extended from Eurasia to African, Latin American, South Pacific and Western European countries.

## Major Projects

- Promote substantial progress in a number of symbolic projects under the framework of "six corridors, six ways, several countries, and several ports".

### Railway

The construction of China-Laos Railway, China-Thailand Railway, Jakarta-Bandung High-speed Railway, Hungary-Serbia Railway and other railways has been advanced steadily.

### Port

The construction of Gwadar Port, Hambantota Port, Port of Piraeus, Khalifa Port and other ports have progressed smoothly

### Aviation

The construction of the Air Silk Road has been sped up, and China has concluded bilateral intergovernmental air transport agreements with 126 countries and regions.

### Energy

The cooperation in energy and resources communication facilities has been intensified, China-Russia Crude Oil Pipeline and China-Central Asia Gas Pipeline have operated steadily, and China-Myanmar Oil & Gas Pipeline has been fully operated.

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# The PRC going global - economic roots: the development of Chinese companies

## Fortune Global 500 as of August 2020

Rank	Country	Companies
1	 <a href="#">China</a>	124
2	 <a href="#">United States</a>	121
3	 <a href="#">Japan</a>	53
4	 <a href="#">France</a>	31
5	 <a href="#">Germany</a>	27
6	 <a href="#">United Kingdom</a>	22
7	 <a href="#">South Korea</a>	14
8	 <a href="#">Switzerland</a>	14
9	 <a href="#">Canada</a>	13
10	 <a href="#">Netherlands</a>	13

### Theory behind this statement, among others:

“Foreign Investment and the Growth of the Firm,”  
by Edith Penrose,

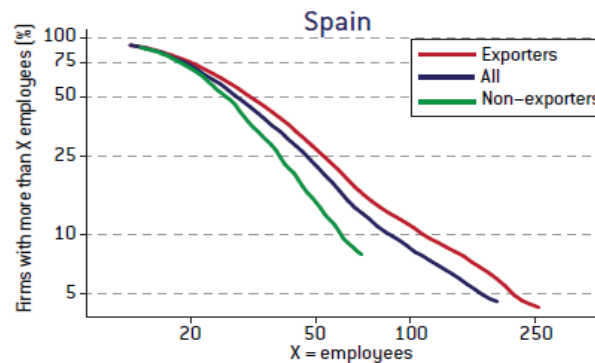
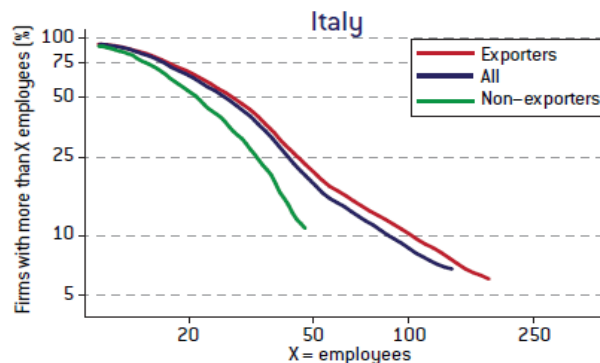
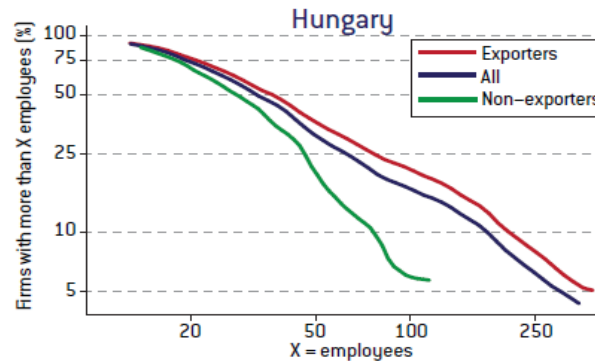
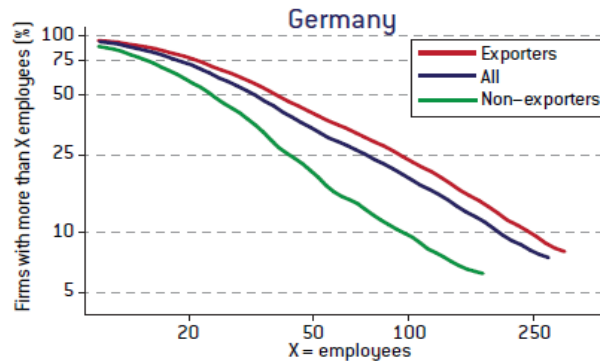
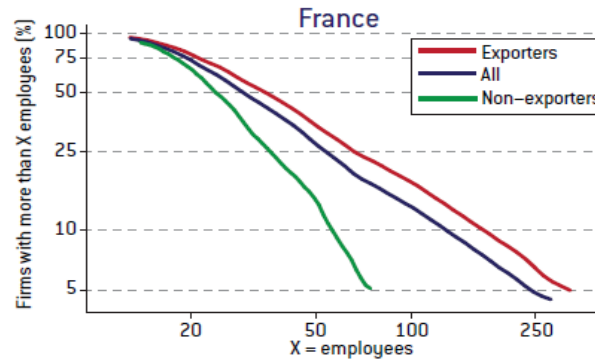
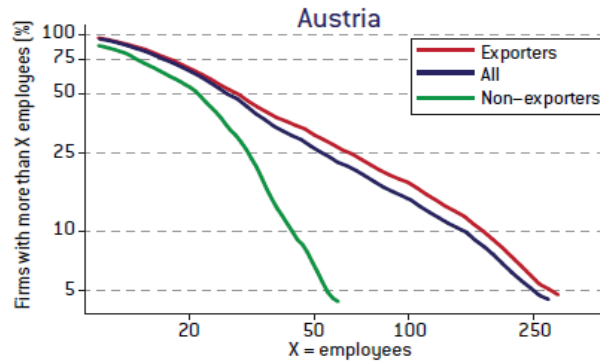
“The International Operations of National Firms: A  
Study of Foreign Direct Investment”  
by Stephen H. Hymer

“American Business Abroad”  
by Charles P. Kindleberger,

“A Theory of (the Growth of) the Transnational Firm”  
by Christos N. Pitelis

Source: [https://en.wikipedia.org/wiki/Fortune\\_Global\\_500](https://en.wikipedia.org/wiki/Fortune_Global_500)

# Company competitiveness is more important than size. However, size matters and reflects in part development.



***Exporting firms are larger than non-exporting firms.***

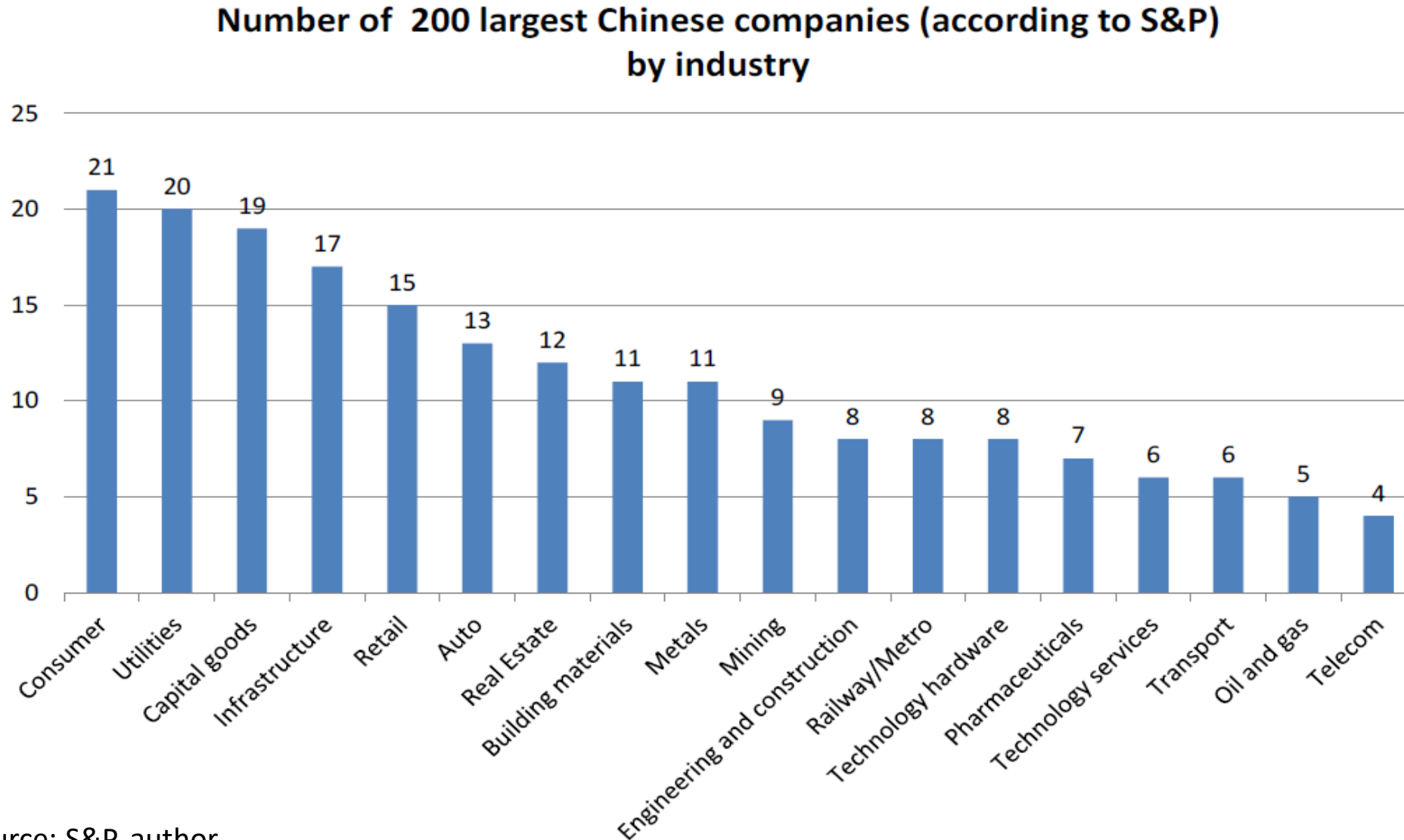
**Theory behind:**

“New new trade theory”  
(Mark Melitz)

“New trade theory”  
(Paul Krugman)

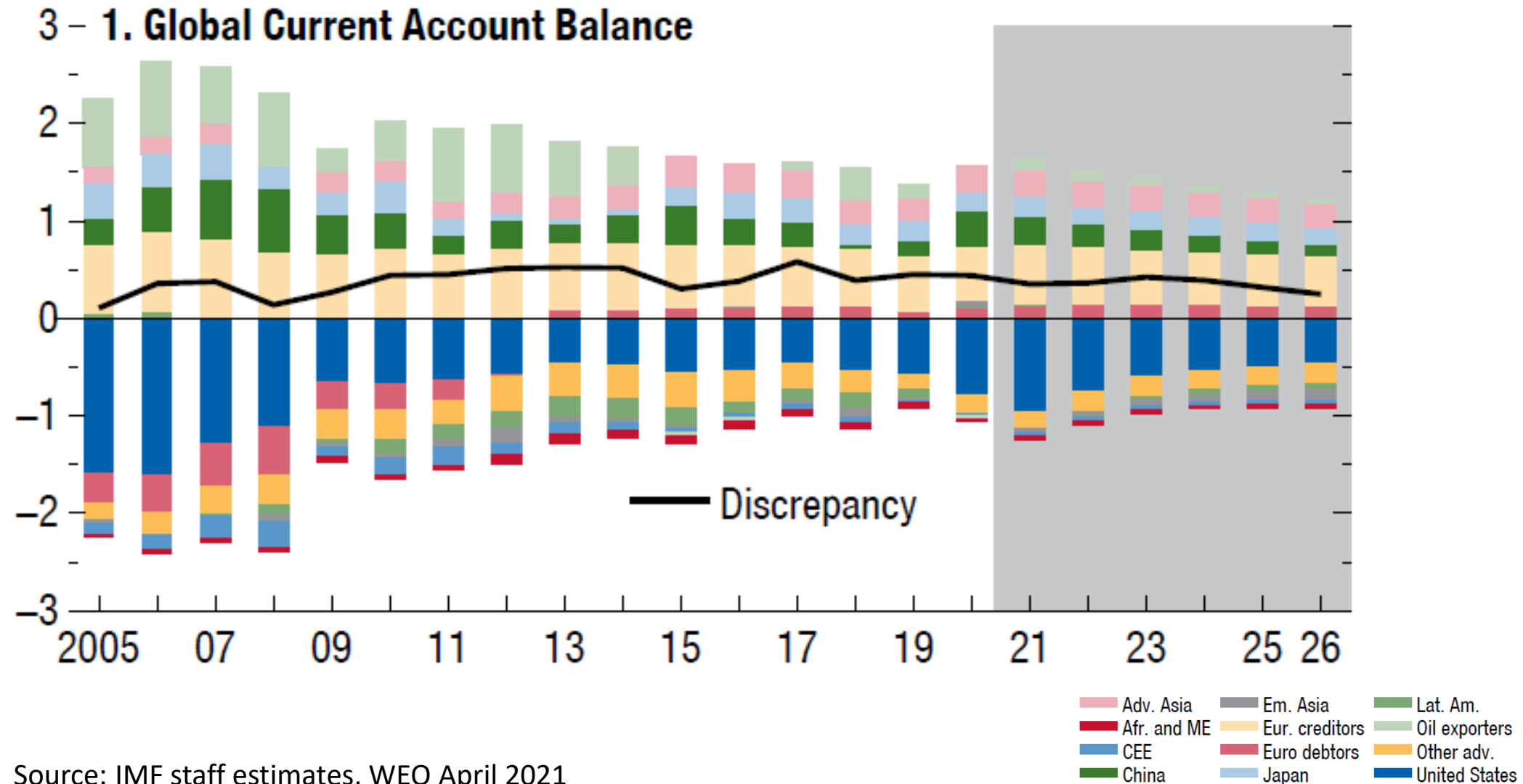
Source: EFIGE (European Firms In a Global Economy), “The global operations of European firms: the second EFIGE policy report”, Bruegel 2011

# Among the large PRC companies are many infrastructure SOEs, but also many other firms.



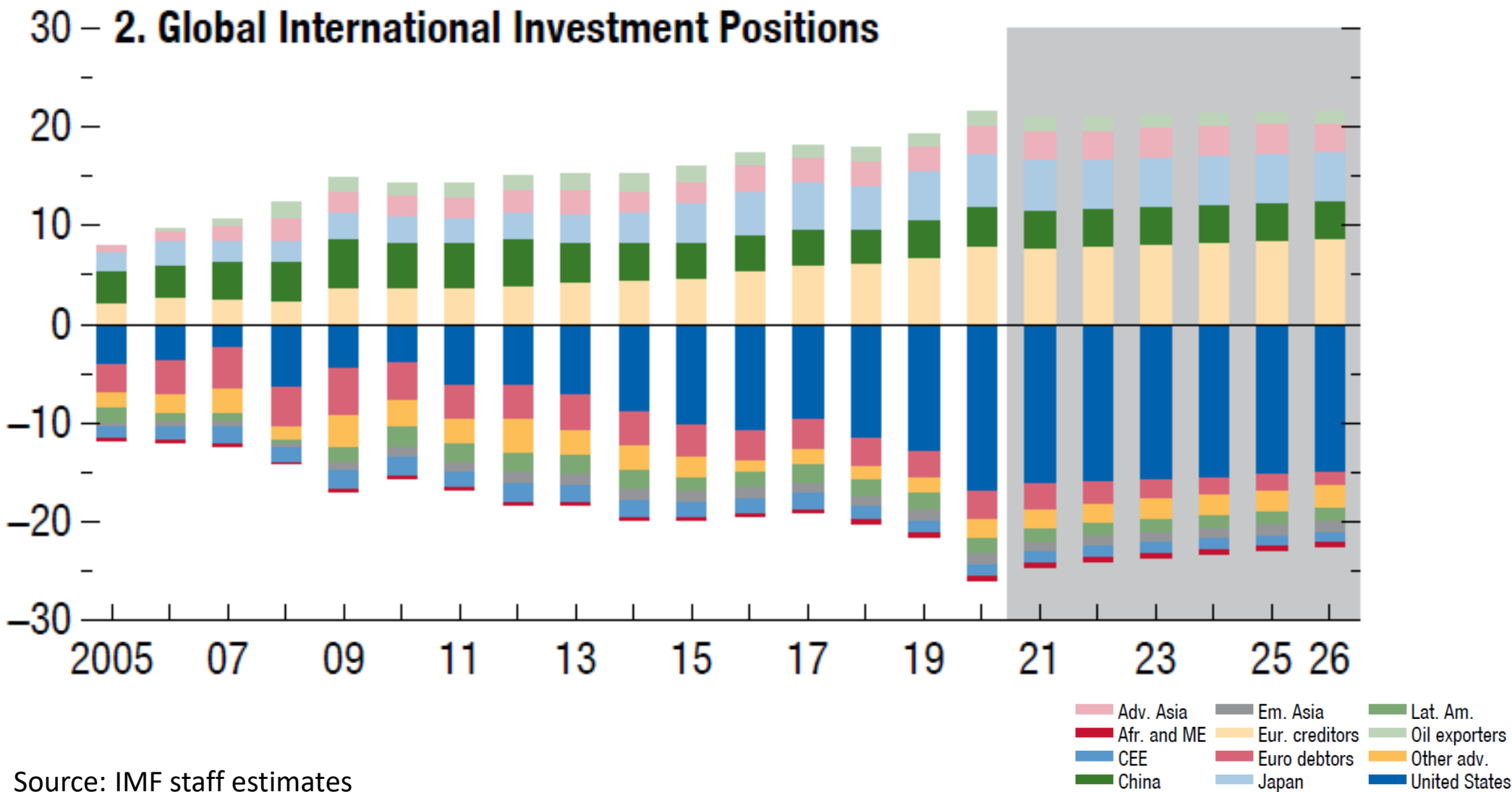
Source: S&P, author

The PRC going global - economic roots: Due to a high saving ratio the PRC is a current account surplus country.

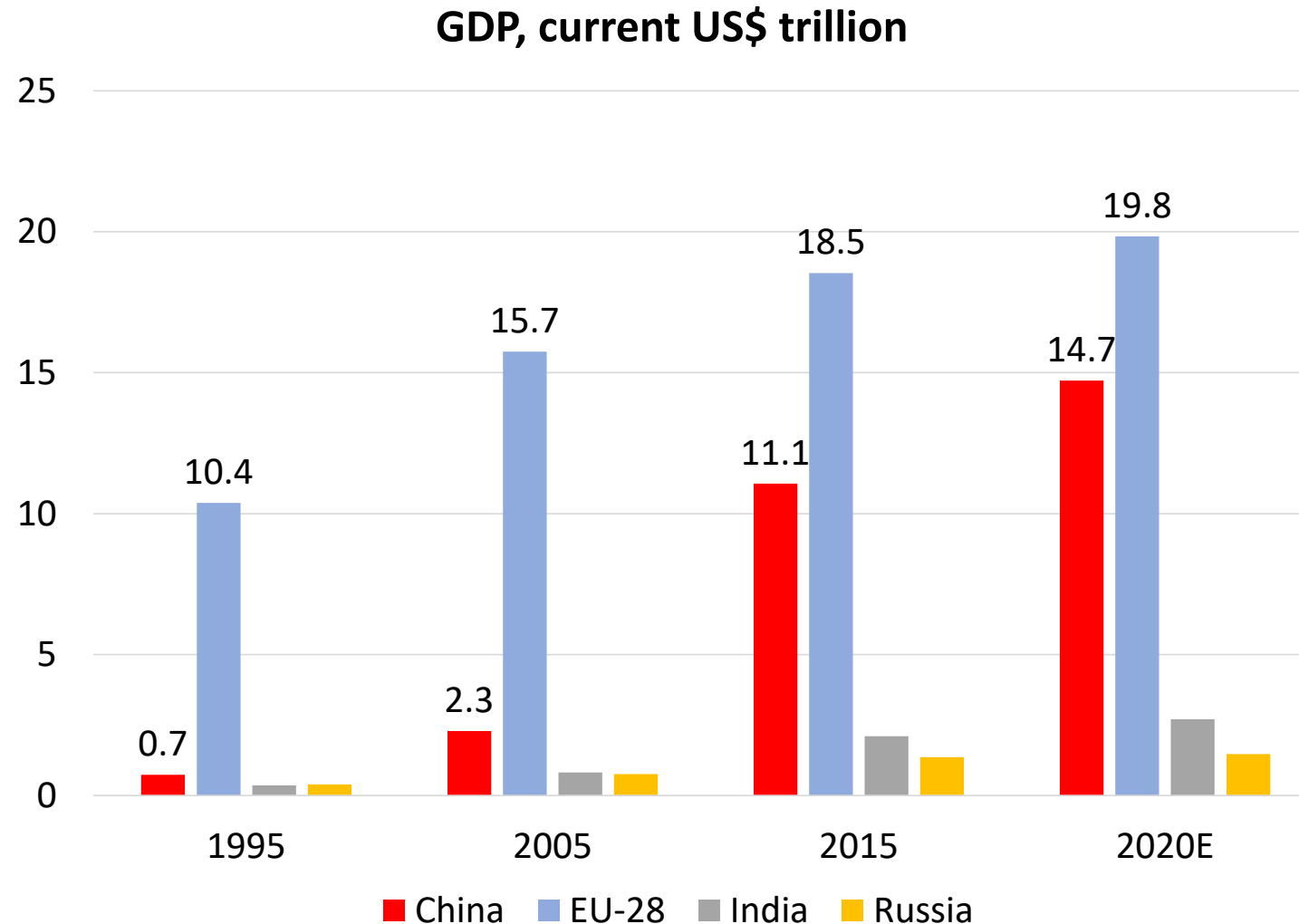


Source: IMF staff estimates, WEO April 2021

# China is a major international net creditor as a result.



# As result of the PRC's growth, the Euro-Asian continent has become largely East-West bipolar



Source: IMF, author's calculations

## Main conclusions from the first part

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- ❖ BRI is firmly rooted in the development of the PRC's economy and firms.
- ❖ Therefore, BRI is here to stay longtime, although probably with modifications and perhaps even under different names.
- ❖ BRI essentially is neither much of a program or a strategy, it basically means the PRC is going global.

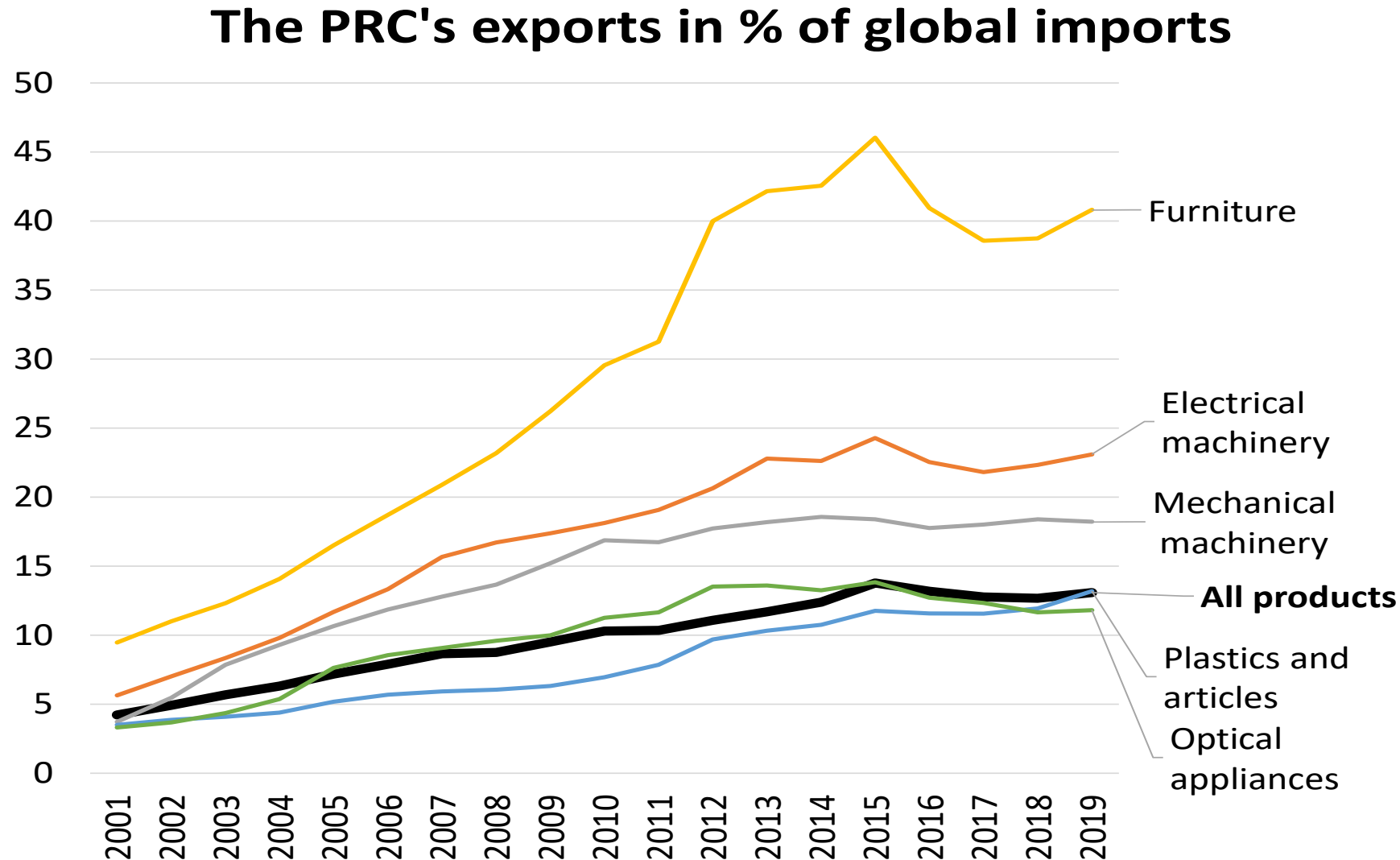
# Agenda

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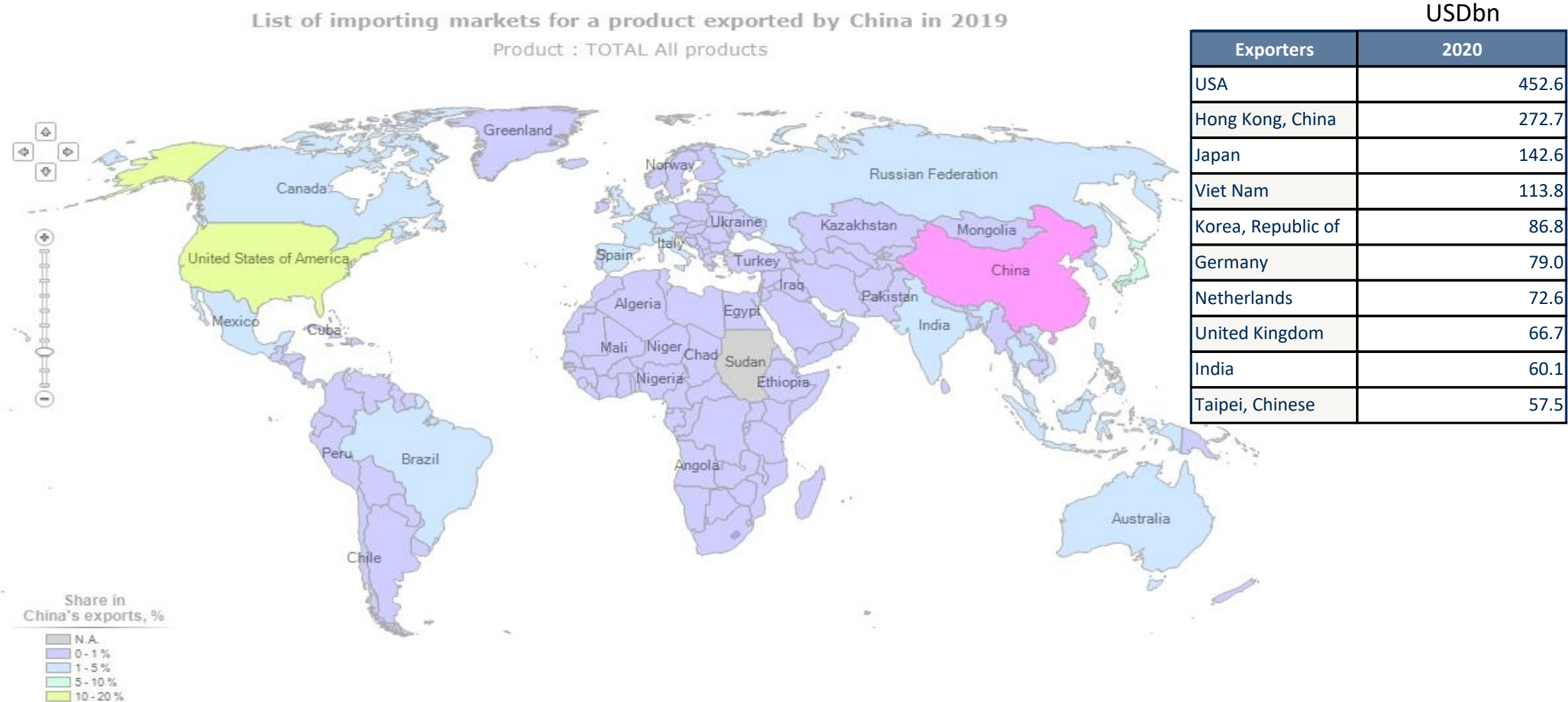
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# The PRC's supplies about 13% of the World's imports

## Was the year 2015 a turning point?

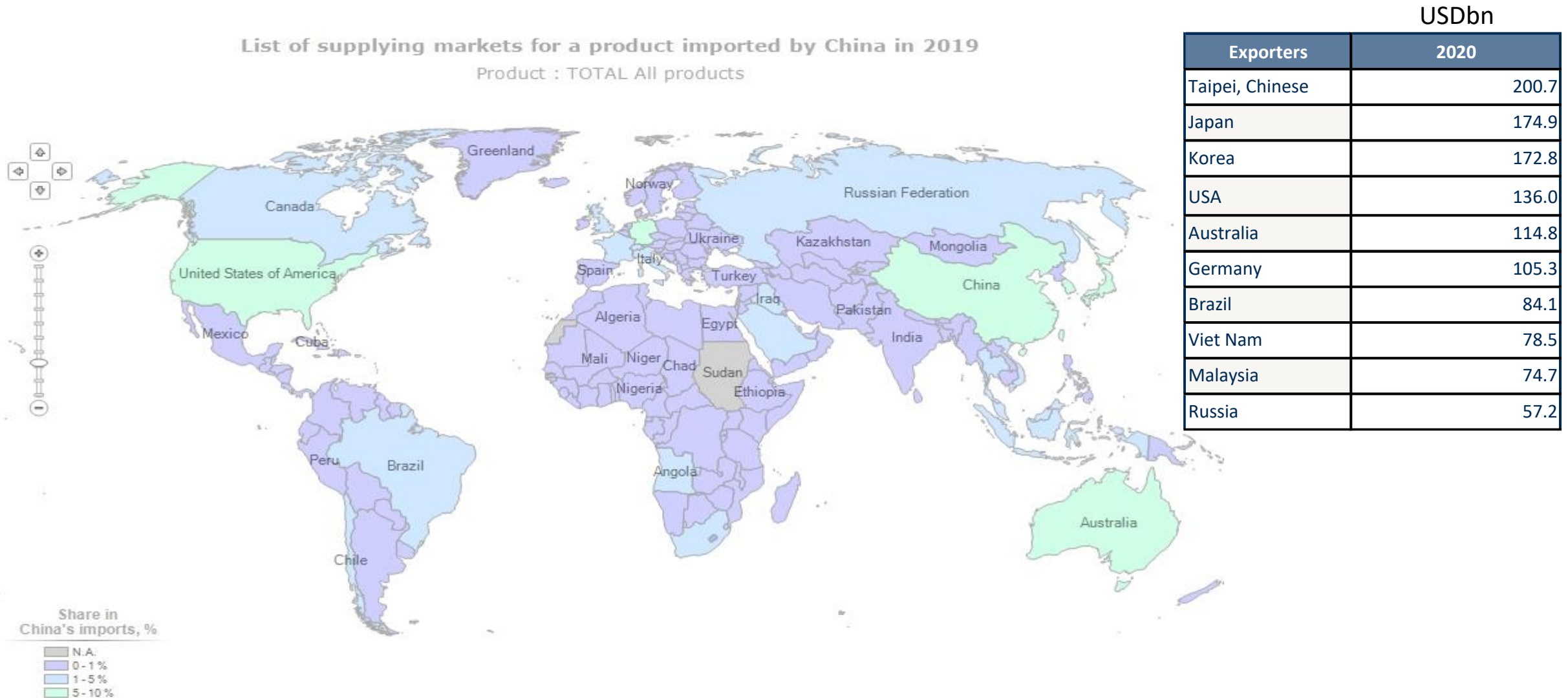


# To whom is the PRC exporting?



Source: TradeMap

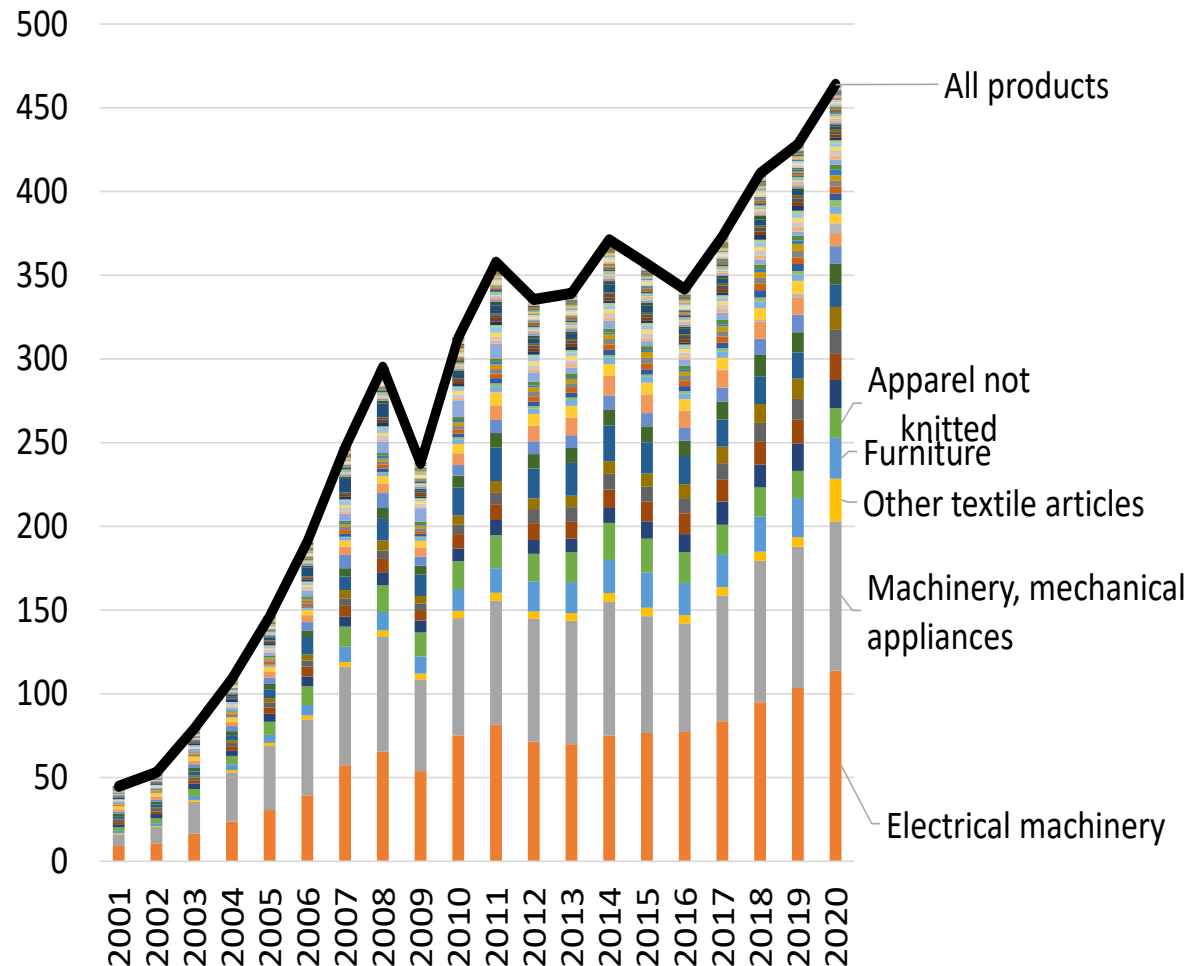
From whom is the PRC importing? Somewhat less US-focused than exports.



Source: TradeMap

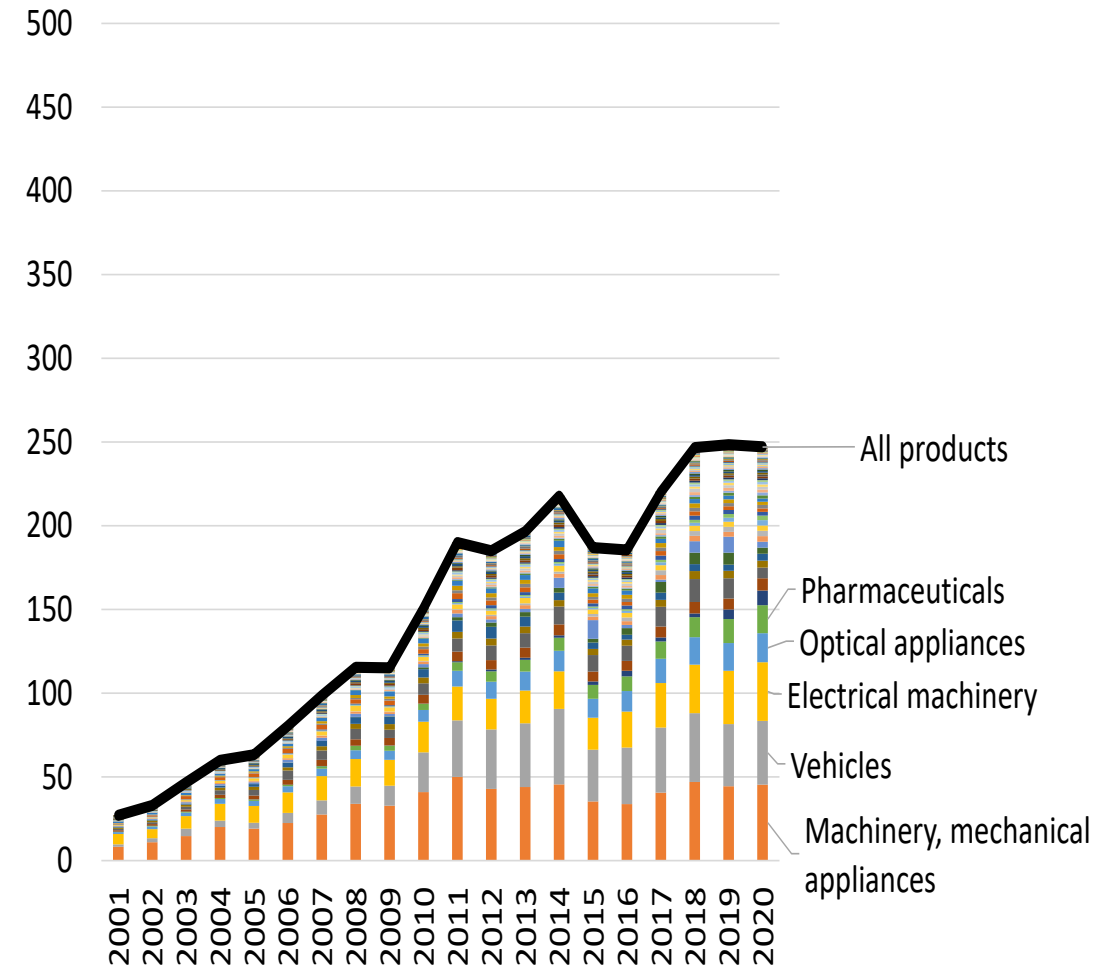
# The Euro-Asian continent is highly bipolar, but the PRC ships double as much goods to the EU than vice versa.

## PRC's exports to the EU-28, US\$ billion



Source: TradeMap

## EU-28's exports to the PRC, US\$ billion



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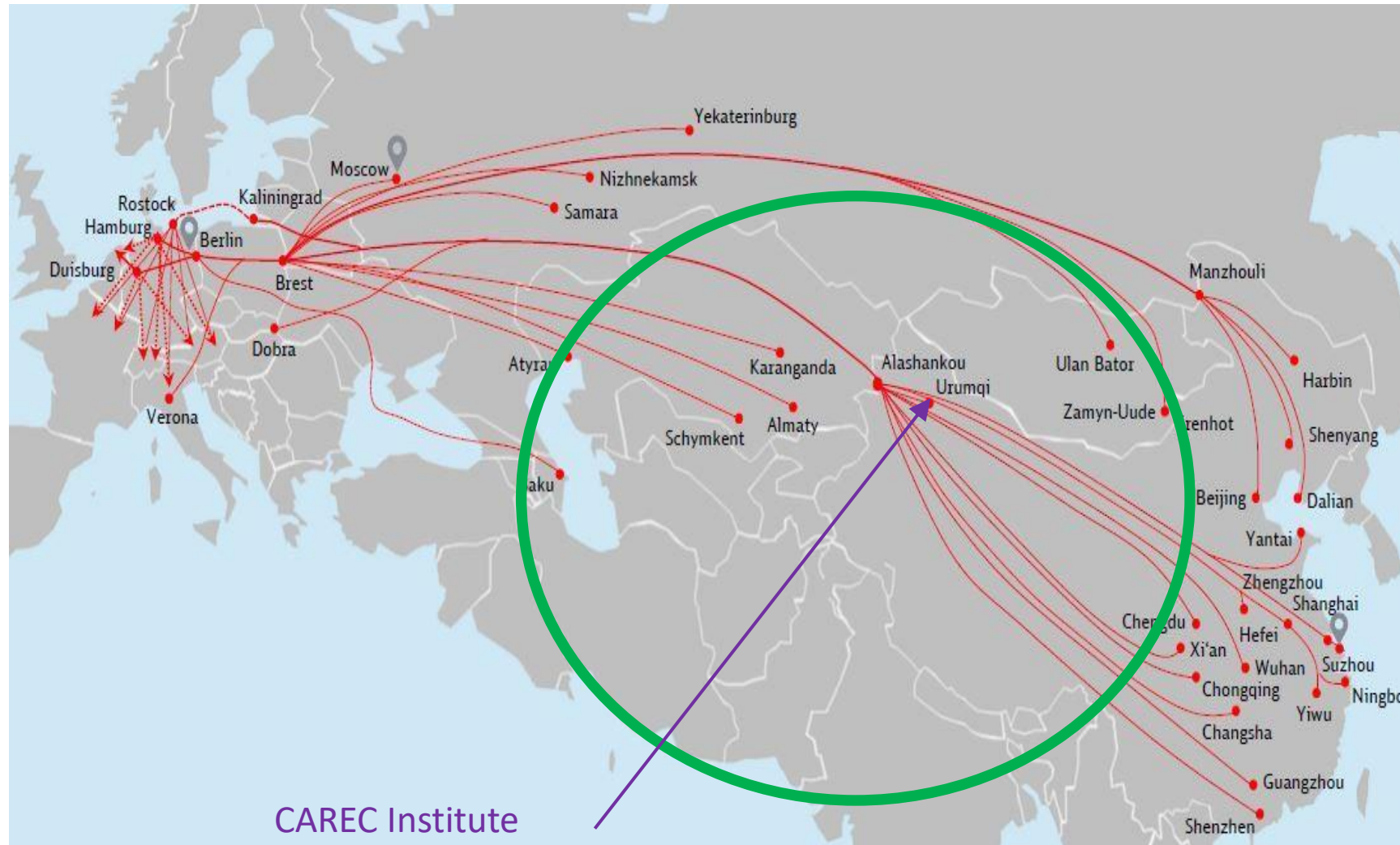
# BRI transportation corridor projects (October 2020)

## Definitely not only **one** road or belt.



- Several railways linking China and Europe were able to **reduce the number of days of shipment** to average **15 days**, compared with 30-40 days required by sea.
- The land route costs around **20-25% of airfreight**.
- **Concerns** include **political landscape**, **border** constraints and seasonality.
- To maximize the cost-efficiency, it would be also important to ensure there will be **enough shipment from Europe to China** as well.

# Railroad connections and **the strategic geographic position of the CAREC region** on the Euro-Asian continent



## CAREC:

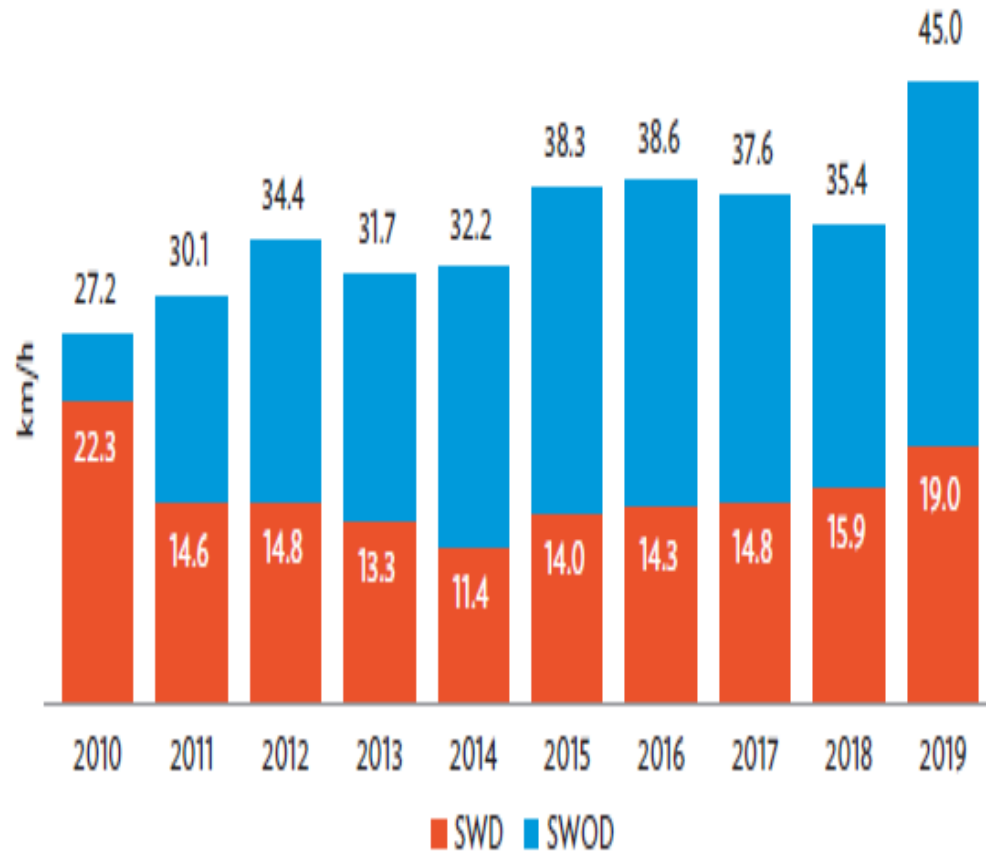
Afghanistan,  
Azerbaijan, PRC,  
Georgia,  
Kazakhstan,  
Kyrgyzstan,  
Mongolia,  
Pakistan,  
Tajikistan,  
Turkmenistan,  
Uzbekistan

Again a bit of history: 29 June 2015, The first container train from China arrived at the Khorgos Gateway dry-port.

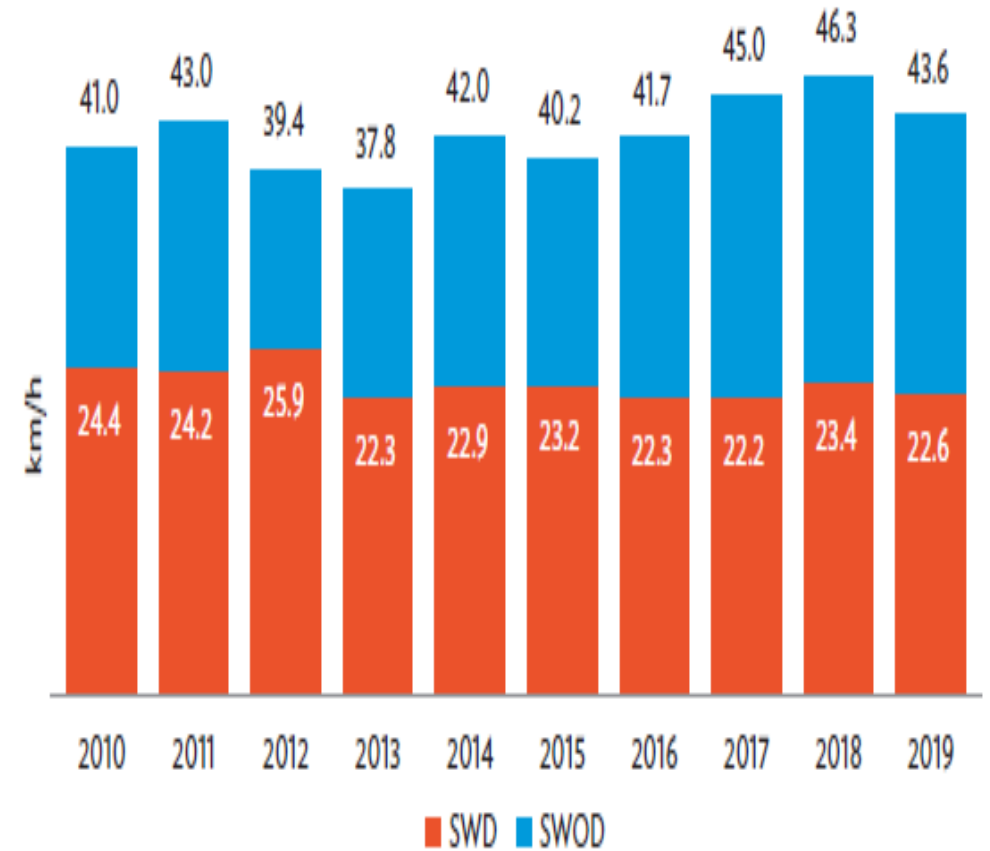


Source: <http://24.kz/ru/news/economy/item/76399-sukhoj-port-ktze-khorgos-gateway-prinyal-pervyj-kontejnernyj-poezd-iz-kitaya>

# Bottlenecks of overland trade remain: Speed for rail and road on the 6 CAREC corridors – SWD not much improved

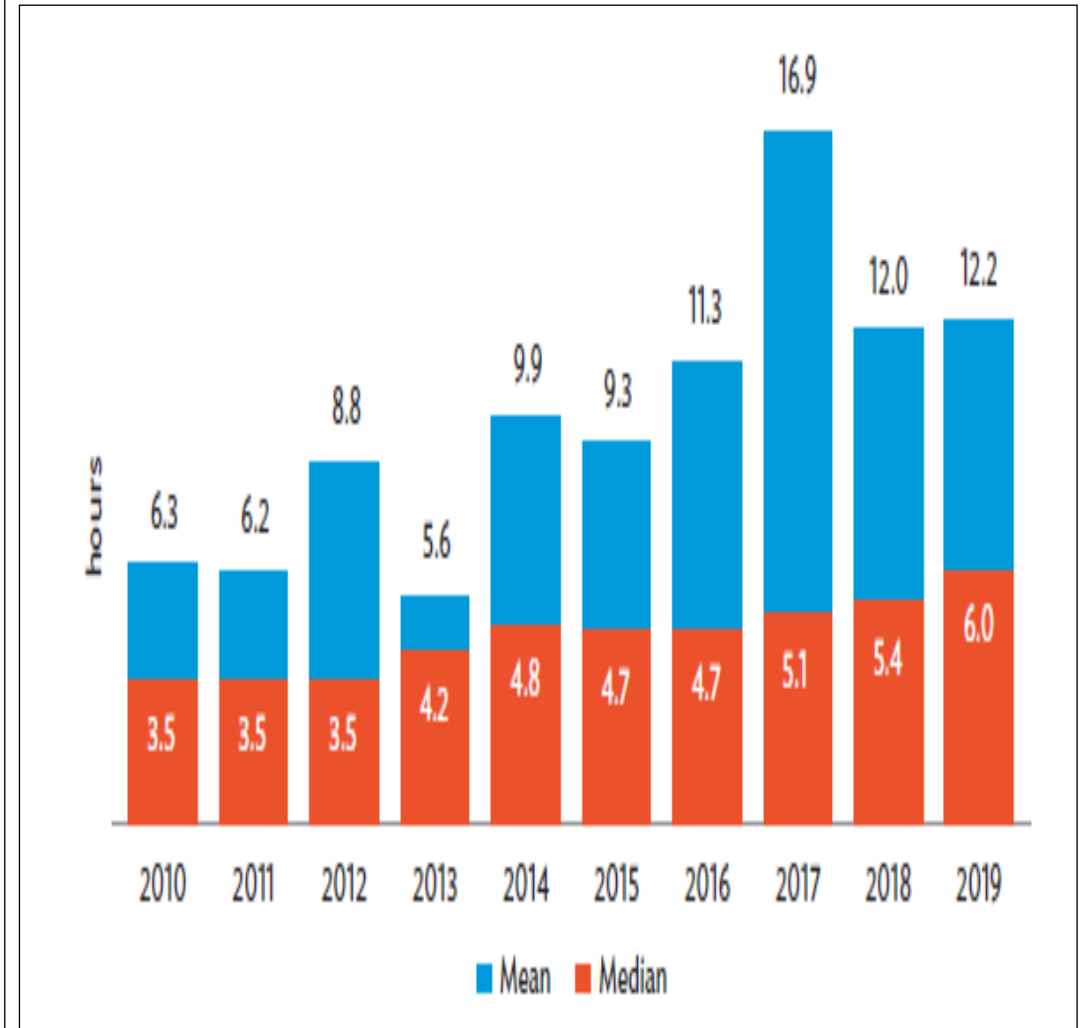
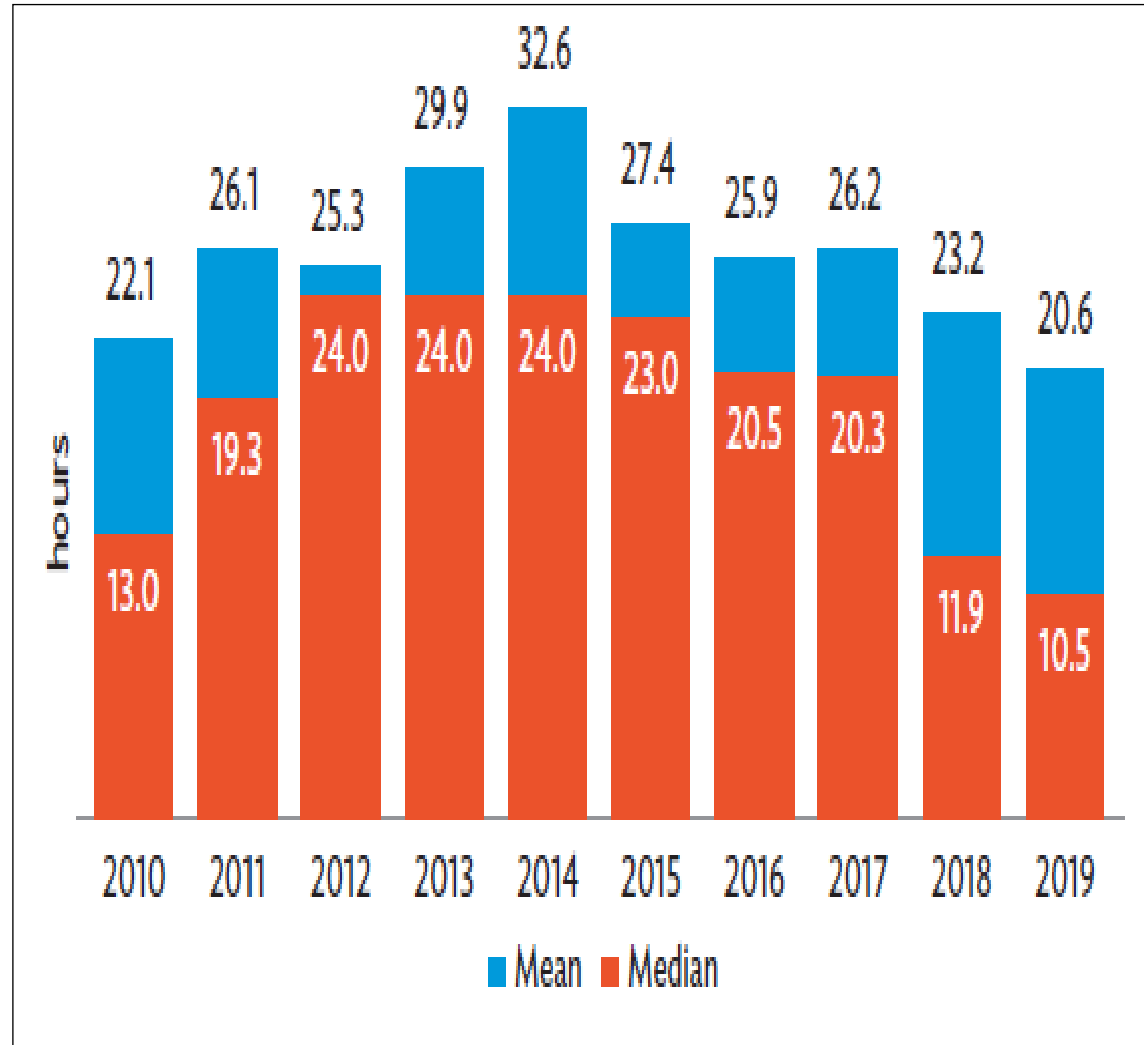


km/h = kilometer per hour, SWD = speed with delay, SWOD = speed without delay.



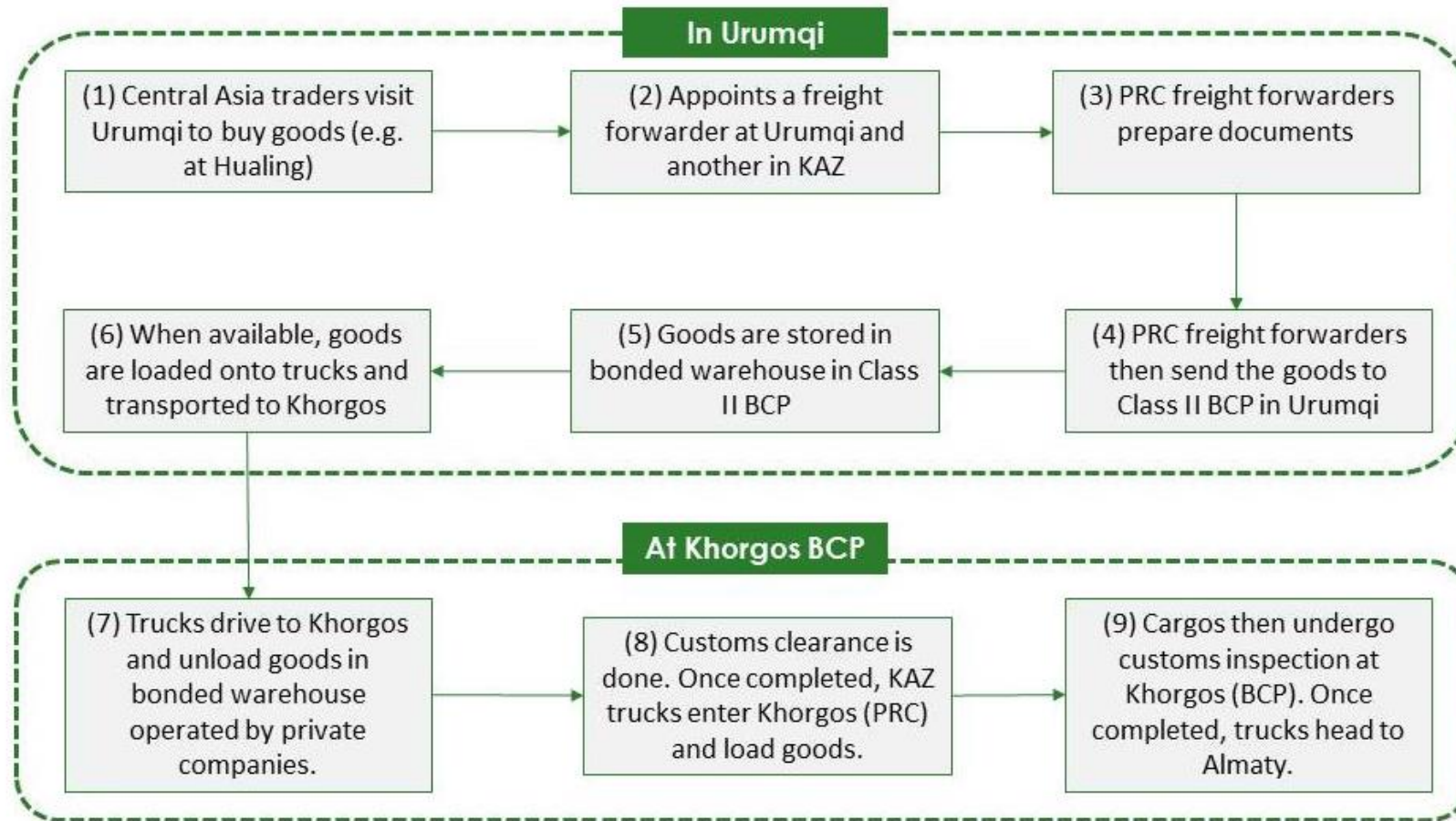
km/h = kilometer per hour, SWD = speed with delay, SWOD = speed without delay.

# Soft infra-structure an issue: Time for border-crossing clearance for rail has improved, for road not much.



# Cabotage rules are a problem too - Delivery scheme from Urumqi, China, to Almaty, Kazakhstan

Figure 11: Supply Chain of Goods of PRC Exports via Khorgos



# Is it worth it?

- “The week our train left, it **cost slightly more than US\$1,500 to ship a 40ft container by sea from Europe to China**. The **cost of sending the same container by rail was quoted at US\$2,500**, two-thirds more expensive. The cost differential between westbound services was even wider, with sending containers from China to Europe by rail two and a half times more expensive than by sea.
- Yes, rail is quicker, taking roughly half the time of the sea journey. But it is hard to think of any goods for which it would be worth paying such a hefty premium to get them to their destination in 18 days rather than 35. **High-value products** – expensive pharmaceuticals, perishable foods, valuable electronic components which must arrive on schedule to comply with strict just-in-time inventory management strategies – **go by plane**, especially given the additional control of environmental conditions that air transport offers.
- Pretty much **everything else loses little or nothing by taking the slow boat**. Certainly Scotch whisky, which has typically spent 10 years or more maturing in dark Highland cellars, has no great need to reach the market a couple of weeks sooner. Nor do the shoes and socks that made up much of the cargo of the first westbound rail service from China to the UK earlier this year gain anything by arriving a few days earlier at twice the cost.
- Neither can the rail service be scaled up to the extent that it would rival seaborne freight for economy. **A single large container ship can carry 10,000 40ft boxes** between Europe and China in five weeks. **To shift as many boxes by rail would require 294 of the trains** that left London two weeks ago. And to get them all to their destination within five weeks, they would have to leave at intervals of no more than 80 minutes apart constantly for 17 days.”

# China-Europe (subsidized) rail rates fall as freight volumes rise.



Source: [https://www.joc.com/rail-intermodal/international-rail/new-china-europe-rail-routes-opening-volumes-rise\\_20190912.html?destination=node/3616386](https://www.joc.com/rail-intermodal/international-rail/new-china-europe-rail-routes-opening-volumes-rise_20190912.html?destination=node/3616386)

- **“Container volumes** on the four main China-Europe rail routes **jumped almost 30 percent year over year to 324,700 TEU\* in 2018**, according to data from Belarusian Railway.
- That number could climb to 742,000 TEU by 2027, equating to more than 20 trains a day each hauling 82 TEU, the European Commission said.
- Almost **77 percent** of container traffic between China and Europe in 2018 **used the Central Corridor linking China, Kazakhstan, Russia, Belarus**, and the European Union, mainly via the Alashankou-Dostyk crossing on the China-Kazakhstan border, according to the European Commission report.
- The **average price to transport a 40-ft. high-cube container from China to Poland or Germany is now about \$4,000 with a transit time of 15 to 18 days**. That compares with about \$9,000 to ship the same container from Shanghai to Warsaw in 2010, according to a United Nations comparative study on Europe-Asian transport links.
- Despite the decline in intermodal rail prices, **freight rates are still subsidized by China**, although those subsidies have also diminished over time.” (Subsidies range from \$1,000 to \$5,000 per FEU\*\*, according to the Center for Strategic and International Studies (CSIS) in Washington, DC).

\* TEU: twenty-foot equivalent unit; FEU: forty-foot equivalent unit

# Pipelines play a role as well, e.g. the Central Asia–China Gas pipeline.



**Central Asia oil and natural gas reserves**  
(2014 Estimates)

Oil (billion barrels)		Gas (trillion cubic feet)
30	Kazakhstan	85
0.6	Turkmenistan	265
0.59	Uzbekistan	65
0.04	Kyrgyzstan	0.2
0.01	Tajikistan	0.2

The Central Asia–China Gas Pipeline (USD 7.3bn) is a natural gas pipeline system developed as an extension of an earlier pipeline begun by the Soviets. The first of these pipelines was completed in 2009 the second followed a year later. The third pipeline became operational in 2014, after taking two years to build. Construction of a fourth pipeline, Line D, is currently underway. It will provide China with an additional 15 billion cubic metres on top of the 55 billion it already imports from Turkmenistan.

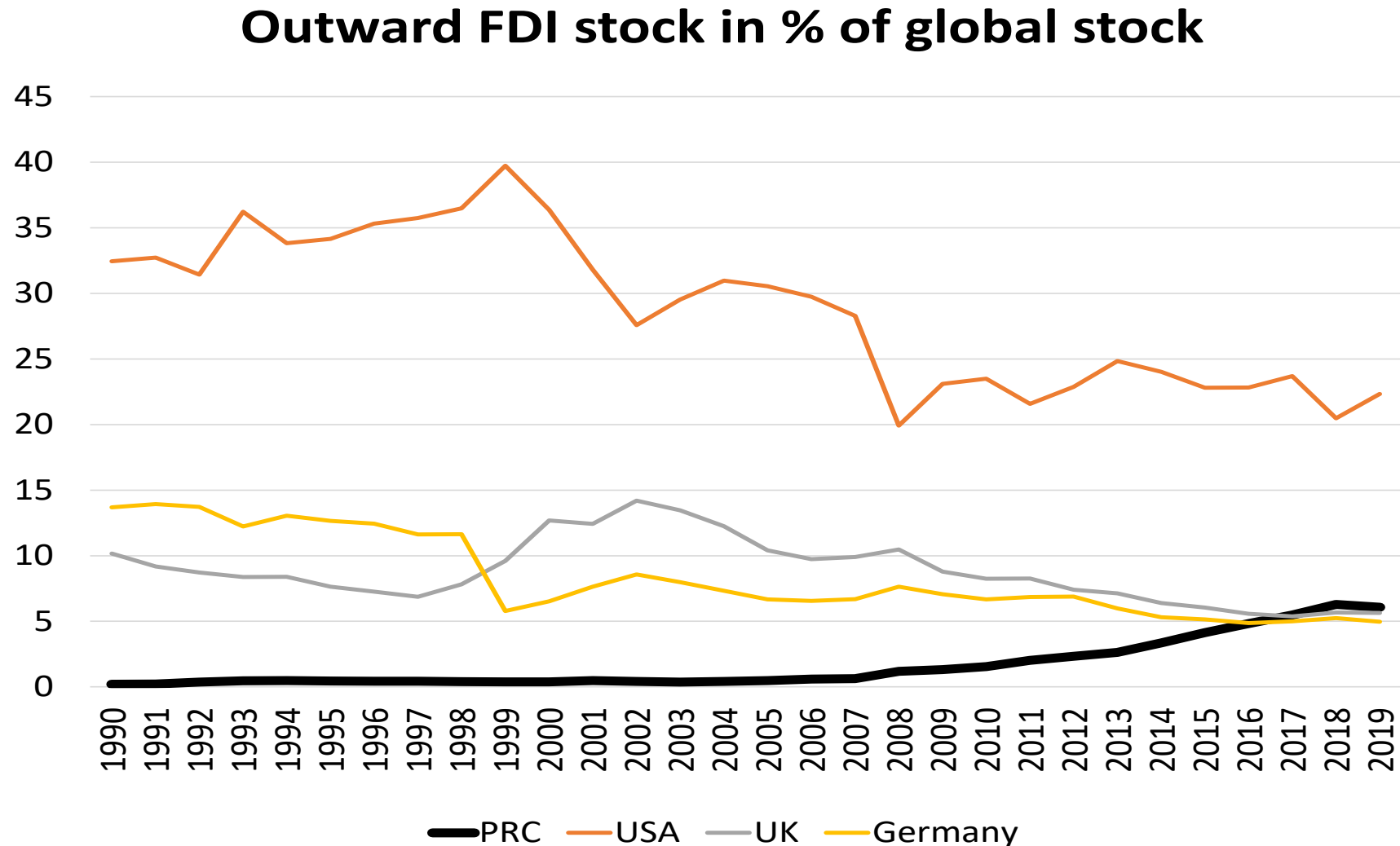
Source: <http://www.europe-china.kz/links>

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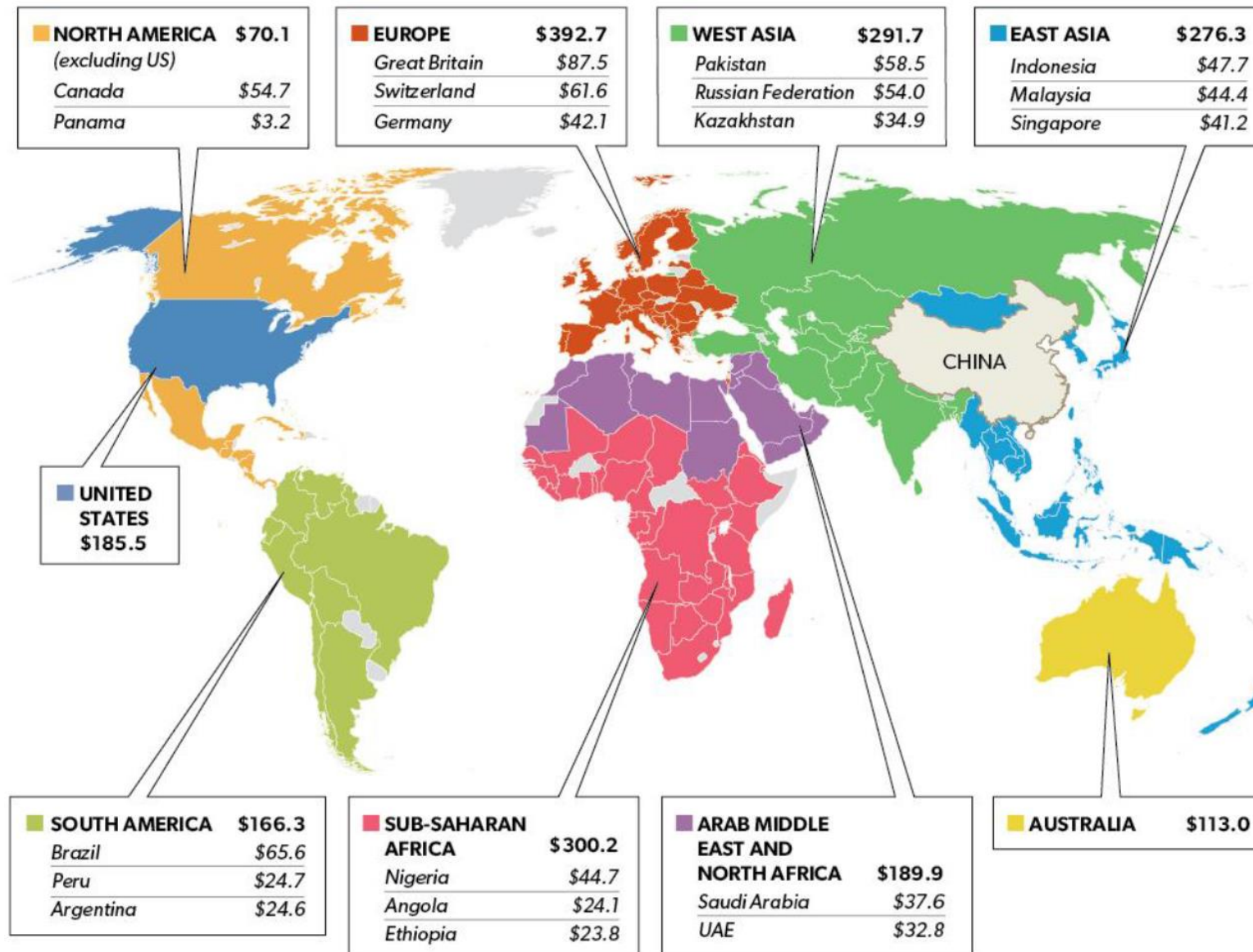
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The PRC's outward foreign direct investment stock grew from 0.2% of the global stock in 1990 to 6.1% in 2019.

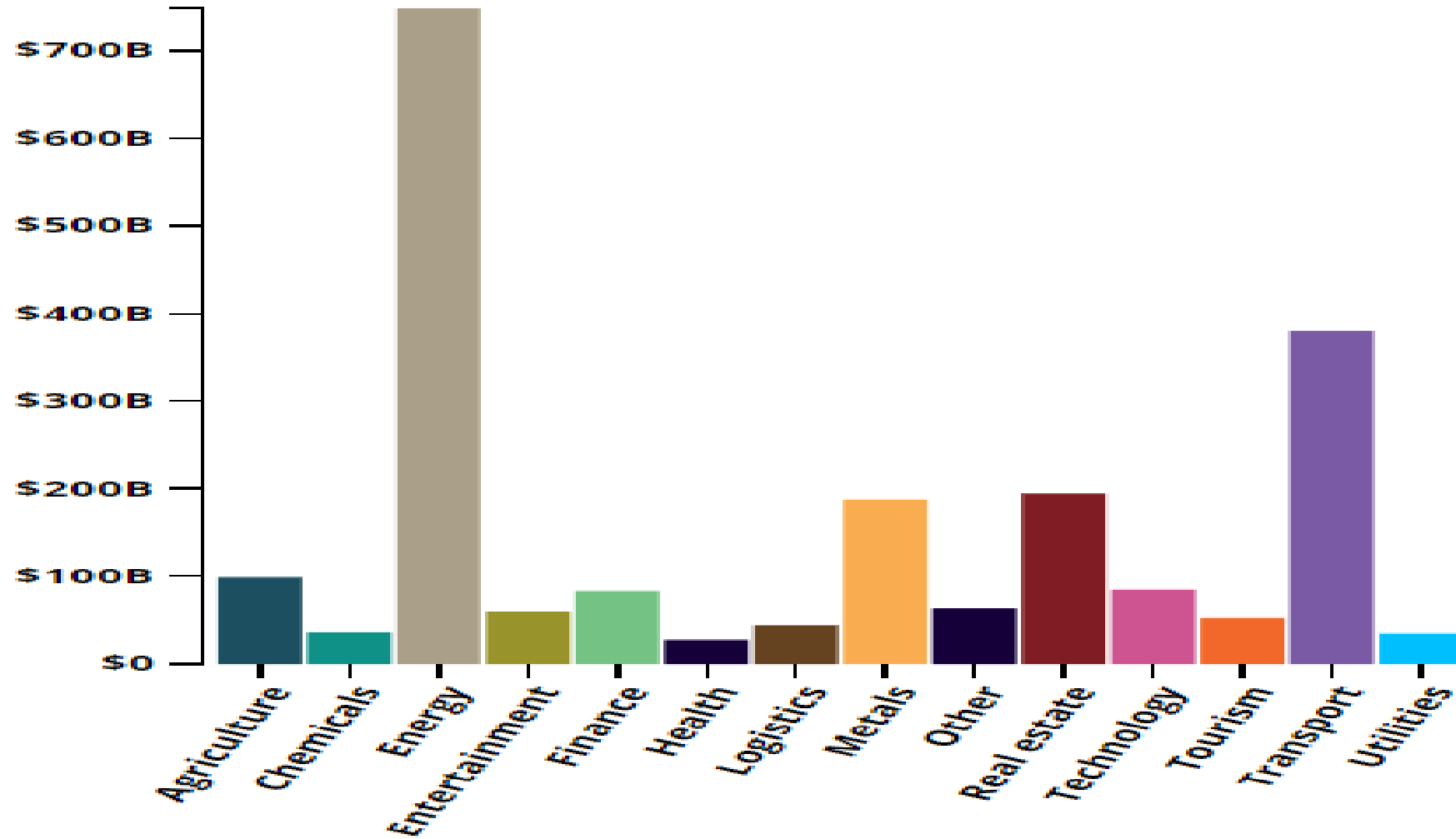


# The PRC's investment/construction financing: everywhere, developing countries see the bulk of construction projects.



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

# Most investment goes to energy and transportation. Yet?



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

# Some decline in the outward FDI flow in 2020, not so for energy and ITC services, however

**Table 13: Total Value and Growth Rates of Non-financial Outbound Direct Investment in 2020**

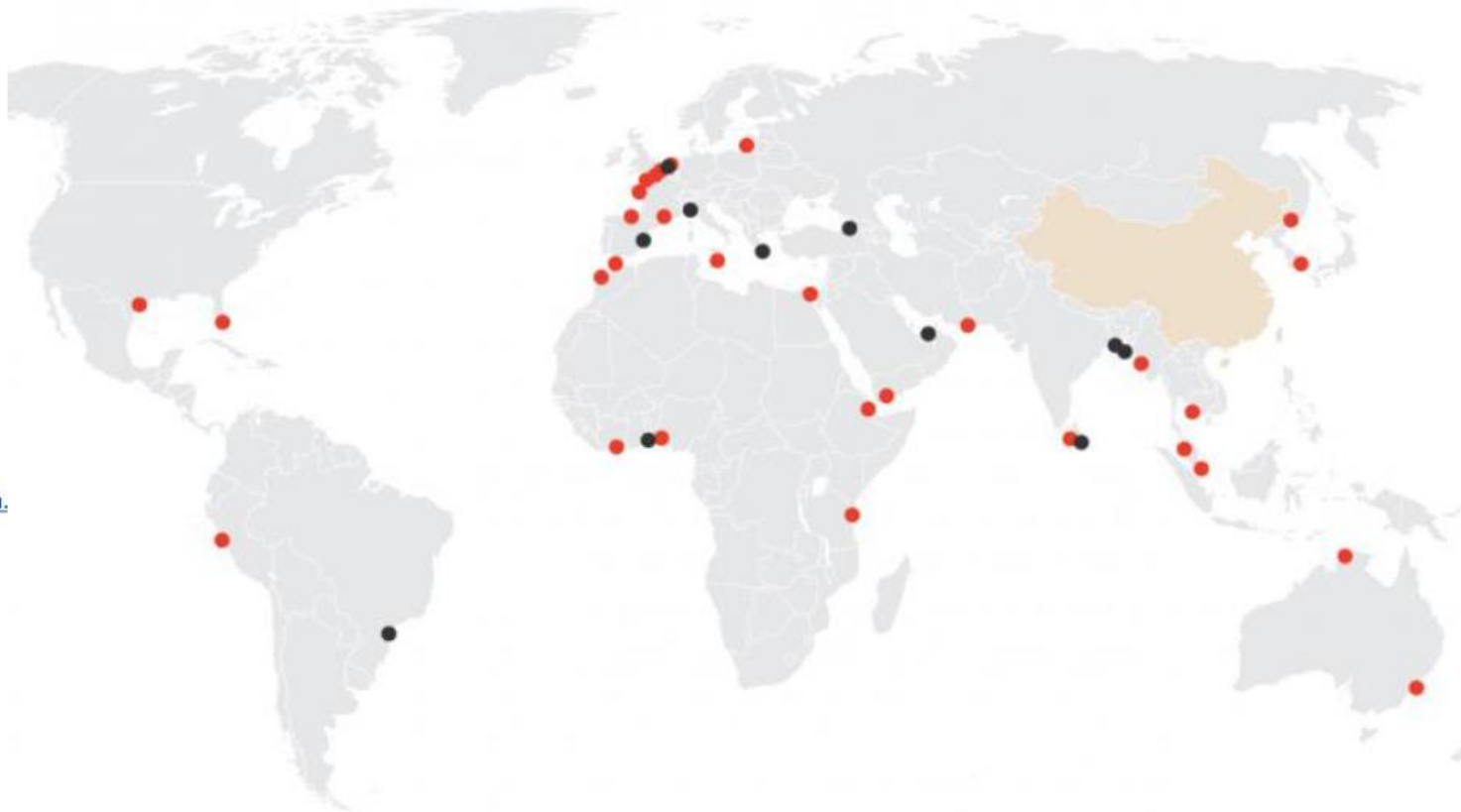
Sector		Value (100 million US dollars)	Increase over 2019 (%)
Total		1101.5	-0.4
Of which:	Agriculture, Forestry, Animal Husbandry and Fishery	13.9	-9.7
	Mining	50.9	-32.3
	Manufacturing	199.7	-0.5
	Production and Supply of Electricity, Heat Power, Gas and Water	27.8	10.3
	Construction	51.6	-39.4
	Wholesale and Retail	160.7	27.8
	Transport, Storage and Post	26.5	-52.3
	Information Transmission, Software and Information Technology Services	67.1	9.6
	Real Estate	27.3	-43.4
	Leasing and Business Services	417.9	17.5

# A major focus: The PRC's port investments

Driven by the need to secure its lines of trade and its burgeoning economic interests abroad, China has stepped up its investment in port projects.

## Port investment

- Less than 50% or n/a
- 50% or more



Source: <http://euap.hkbu>.

Sources: NPR; COSCO; CMPort

Copyright Stratfor 2018

Source: <https://worldview.stratfor.com/article/china-changes-gears-belt-and-road-initiative>

## Main conclusions from the second part

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- ❖ Trade on the Euro-Asian continent is strongly bipolar East-West (PRC and EU), although North-South also matters.
- ❖ Regions in between have to a) cope with the difficulties of overland transportation and b) work to become more than just transit routes.
- ❖ Developing countries need more Chinese FDI other than energy and infra-structure, and it should go along with technology/skills transfer.

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# Political risks + increasing commercial risks for Chinese companies?

More than 71% of Chinese companies said **political risk** topped their concerns about investing abroad, according to a survey of 300 Chinese companies published in November 2017 by the Center for China and Globalization, a Beijing-based research institution. They cited "policy changes," "political unrest" and "government expropriation" as top worries.

Source:

<http://www.chinaeconomicreview.com/chinas-soes-wary-belt-road-political-risk>

Table 2. Sector Patterns, 2005–19H1 (\$ Billion)

Sector	Investment	Construction	Troubled
Energy and Power	379.0	333.9	136.2
Transport	118.9	250.4	52.6
Metals	141.6	36.0	76.1
Real Estate	100.8	85.2	20.4
Finance	80.5	—	42.8
Agriculture	82.1	17.7	11.0
Technology	62.0	16.3	28.5
Tourism	42.8	9.0	7.4
Entertainment	47.9	2.7	2.4
Logistics	33.1	5.1	1.8
Health	21.2	3.4	0.5
Other	61.2	55.2	7.9
<b>Total</b>	<b>1,171.1</b>	<b>814.8</b>	<b>388.9</b>

Note: In other investment, the lead sector is consumer goods; in other construction, it is utilities.

Table 5. Most Troublesome Countries, 2005–19H1 (\$ Billion)

Country	Troubled Transactions
United States	71.7
Australia	59.5
Iran	25.2
Germany	22.3
Russian Federation	14.3
Libya	12.7
Nigeria	11.5
Venezuela	9.8
<b>Subtotal for Top Eight</b>	<b>227.1</b>
<b>Total for All Countries</b>	<b>388.9</b>

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

# BRI from recipients' perspective - Potential benefits

(Eurasia Emerging Markets Forum)

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- **Lower transportation costs through increased connectivity**
- **Accelerated growth of the natural resource, manufacturing, agriculture and tourism sectors**
- **Enhanced fiscal revenues, royalties and transit fees**
- **Increased technology transfer**
- **More human capital development**

Source: <http://www.emergingmarketsforum.org/wp-content/uploads/2019/10/Policy-Paper-for-SNB-2019-09-23-Color-without-Marks-.pdf> ; selected and shortened by the author

# BRI from recipients' perspective - Potential risks

(Eurasia Emerging Markets Forum)

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- **Higher fiscal vulnerabilities and unsustainable debt accumulation**
- **Unfair benefit sharing between producers/exporters (host countries) and investors/importers (China)**
- **Inadvertent environmental degradation caused by some BRI projects**
- **Underestimation of potentially significant longterm operations and maintenance (O&M) costs**
- **Little to domestic job creation due to excessive use of imported Chinese labor**
- **Loss of domestic productive capacity as connectivity improves and foreign competition becomes more of a threat**

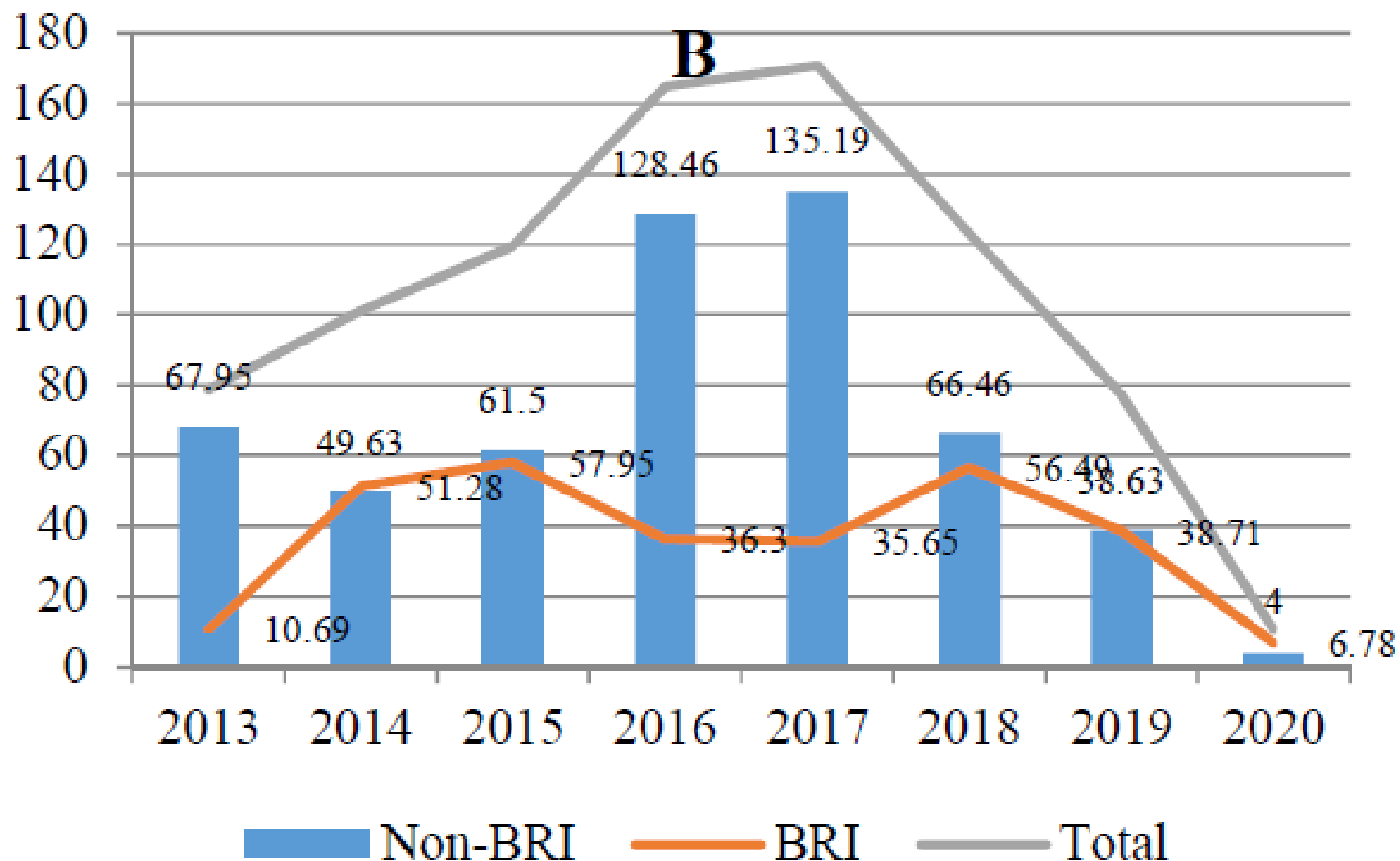
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# BRI, non-BRI, 2017-18 a turning point?



Source:

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

Quoted from Ashwani Bishnoi,  
Pravakar Sahoo,  
BELT AND ROAD INITIATIVE:  
Developments, Economic and  
Strategic Implications

# Is the PRC slimming down the Belt and Road Initiative?

## The overseas construction boom is fading

Chinese engineering projects abroad



- “The data maintained by China’s Ministry of Commerce on engineering contracts abroad show a **turning point in 2018**.

- The value of new contracts signed worldwide fell** for the first time in 25 years, declining 8.8% to US\$242bn after an 8.7% rise in 2017.

- Growth in revenues from existing projects**, which had grown about 5% annually since 2014, slid to a **marginal 0.3%**.

- A narrower measure tracking projects in 61 Belt-and-Road member countries also fell 13% to US\$126bn in 2018.

- That **weakness has continue in 2019**, with the value of new contracts down 6.7% YTD through August, and existing contracts down 4.2%.”

# Has BRI become softer?

At the **First Belt and Road Forum for International Cooperation in 2017**, President Xi announced that China would:

- provide assistance worth RMB60 billion to launch more projects to **improve people's wellbeing** in the following three years;
- provide **emergency food aid** worth RMB2 billion;
- make an additional contribution of US\$1 billion to the **South-South Cooperation Assistance Fund**;
- launch 100 “**happy home**” projects, 100 **poverty alleviation** projects, and 100 **health care** and rehabilitation projects; and
- provide **relevant international organizations** with US\$1 billion.

At the **Second Belt and Road Forum for International Cooperation in 2019**, President Xi announced that China would:

- implement the Belt and Road **South-South Cooperation Initiative on Climate Change**;
- expand **cooperation in agriculture, health, disaster mitigation and water resources**;
- invite 10,000 representatives to visit China;
- encourage and support extensive cooperation on public wellbeing projects among **social organizations** of participating countries; and
- continue to run the Chinese government **scholarship Silk Road Program**.

# Development aid within BRI (from the White-book: China's International Development Cooperation in the New Era)

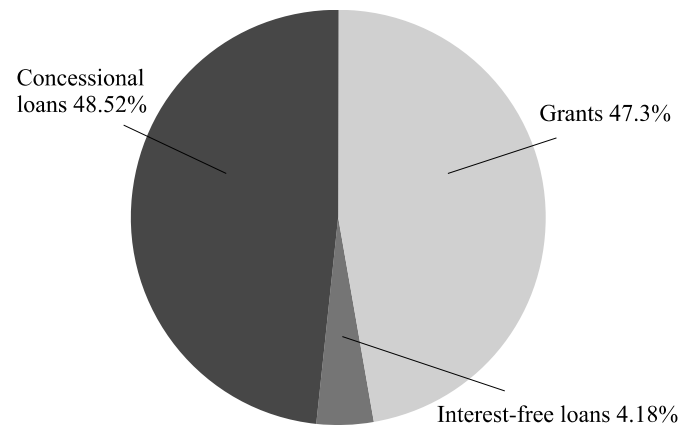


Chart 1: China's Foreign Aid in Three Categories, 2013-2018

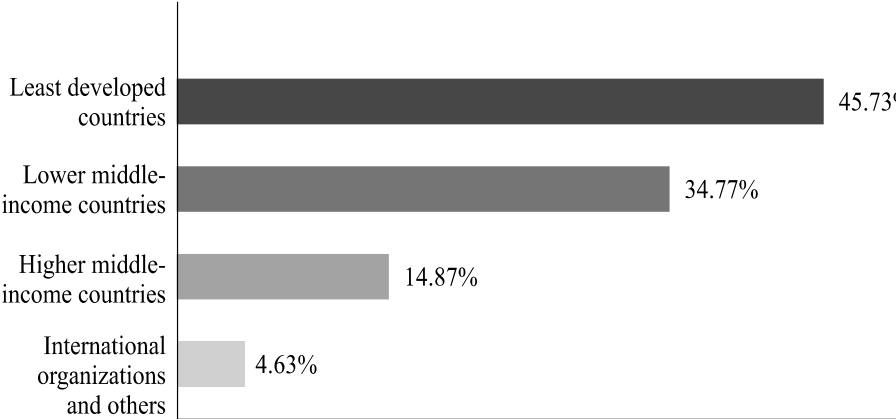


Chart 2: China's Foreign Aid Recipients by Income Group, 2013-2018

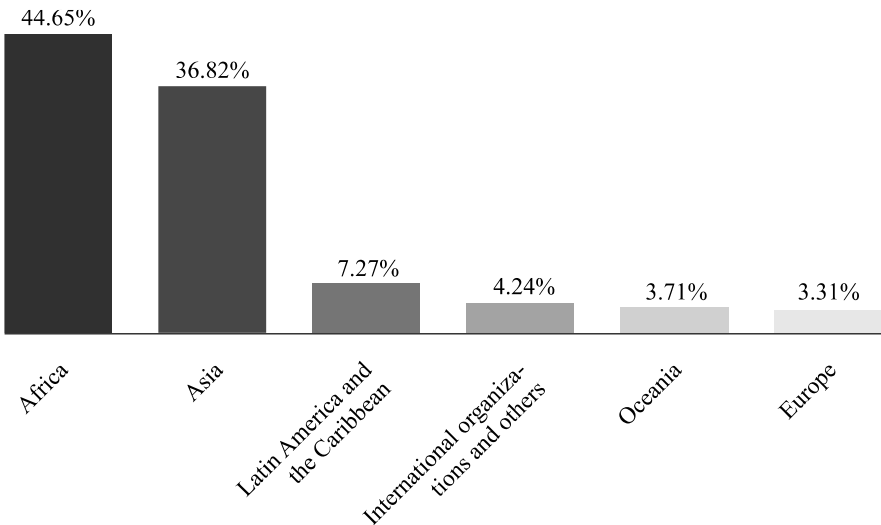


Chart 3: Distribution of China's Foreign Aid by Region, 2013-2018

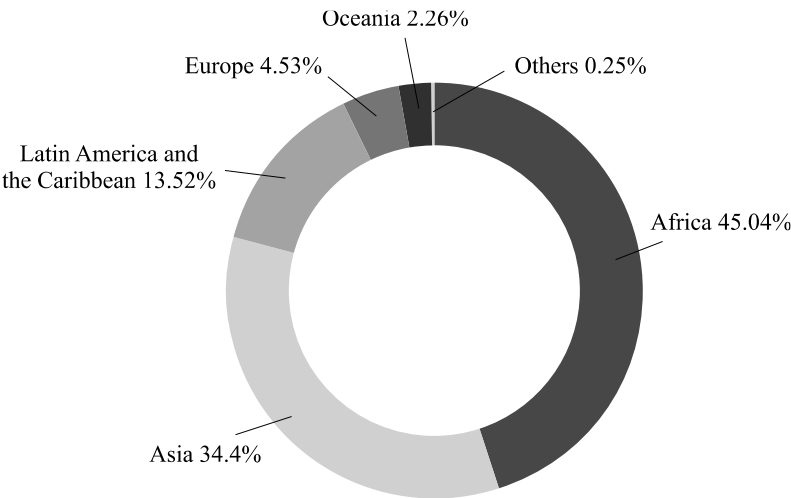


Chart 4: Cooperation in Human Resources Development by Region, 2013-2018

# The PRC has begun to more carefully mitigate financial risks.

## Financial Guarantee

- With a focus on promoting the building of a long-standing, stable, sustained and risk-controllable diversified financing system, Chinese financial institutions have provided adequate and secure financial support for Belt and Road construction projects.



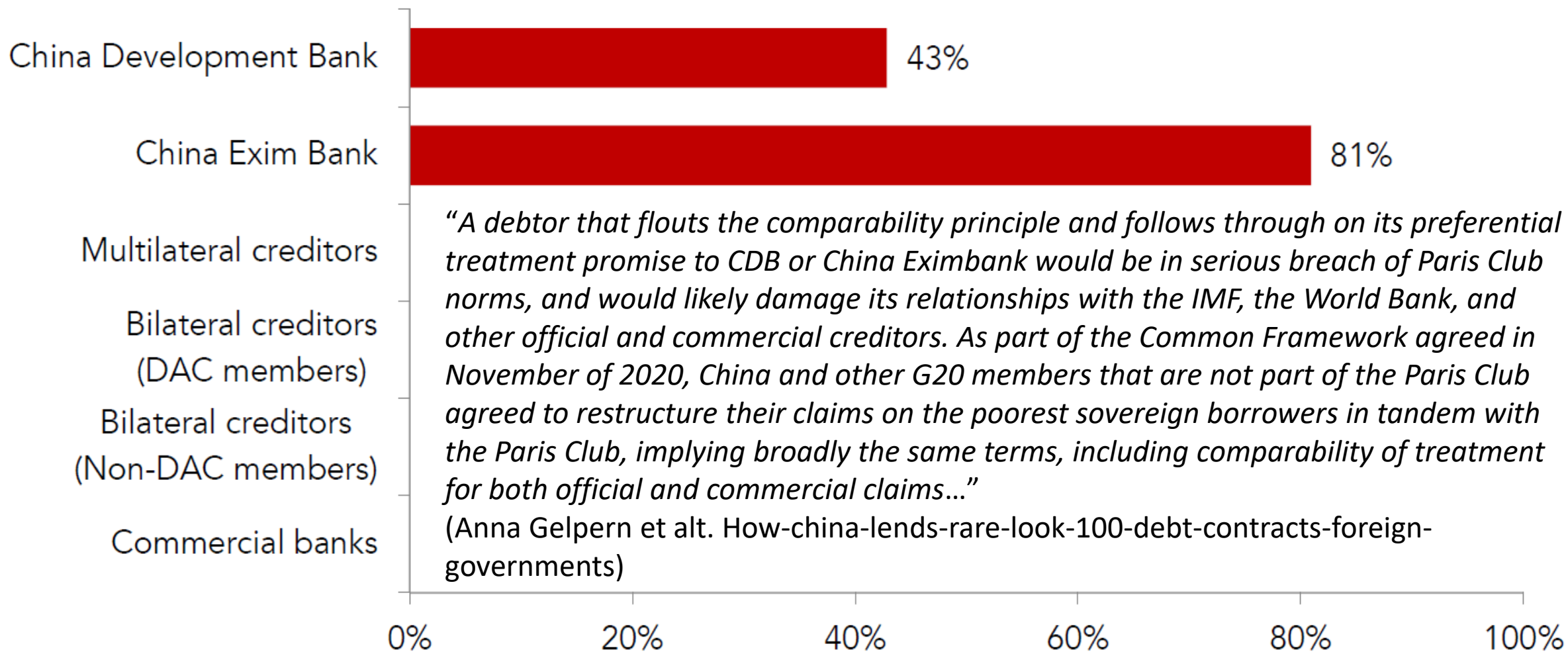
China has released the *Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative* and established the Multilateral Cooperation Center for Development Finance.

China has set up the Silk Road Fund, initiated Asian Infrastructure Investment Bank, and driven banks and insurance institutions to provide financial support for Belt and Road construction projects.



By late June 2019, **China Export & Credit Insurance Corporation** had achieved an insured sum of some **770.4 billion** U.S. dollars in Belt and Road countries, and paid insurance indemnities of some **2.87 billion** U.S. dollars; the Silk Road Fund actually contributed a sum of nearly **10 billion** U.S. dollars.

# Will the PRC modify its contract practice? Example: “No Paris Club” clause: China versus benchmark set



# More comprehensive cooperation under the BRI?

(from the White-book: China's International Development Cooperation in the New Era)

## 1. Enhancing Policy Coordination

- Building platforms for the Belt and Road Initiative to dovetail with the development strategies of participating countries
- Creating opportunities for regional economic and trade integration

## 2. Strengthening Infrastructure Connectivity

- Connecting the six corridors and six routes
- Building logistics corridor on the 21st Century Maritime Silk Road
- Building air transport hubs

## 3. Promoting Unimpeded Trade

- Facilitating trade
- Improving trade capacity

Related: **China's Foreign Assistance for Combating Covid-19**

## 4. Deepening Financial Integration

- Supporting the improvement of financial systems
- Building multilateral cooperation platforms for financing

## 5. Fostering Closer People-to-People Ties

- Improving people's lives
- Furthering people-to-people exchanges
- Strengthening cultural cooperation

# BRI from recipients' perspective – How to benefit most while reducing risks (Eurasia Emerging Markets Forum)

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- **Integrate BRI projects into national plans and priorities**
- **Conduct rigorous cost-benefit analysis**
- **Upgrade secondary and tertiary infrastructure that allows local businesses to take advantage of BRI-supported corridor infrastructure**
- **Accelerate soft infrastructure reforms**
- **Ensure competitive procurement and construction contracting**
- **Accelerate regional cooperation and integration**
- **Leverage the support of international financial institutions**

## Main conclusions from the third part

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- ❖ Both the PRC and the recipient countries need better elaborated risk mitigation mechanisms.
- ❖ BRI projects have to be well-aligned with national and regional development plans.
- ❖ Procurement and contracting should become more transparent and in line with international procedure standards.
- ❖ The development aid part of the BRI should be well-aligned with the international development cooperation.



**Thank you for your attention!**

Questions? (We love 'em)

