EU-China Hub

Interview Series

# JACOB GUNTER

## IS THE BELT AND ROAD A GAME CHANGER FOR EUROPEAN COMPANIES?

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EU-China Hub

# About
# EU-CHINA HUB

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Given China's rapidly rising importance on the global stage, it is now more important than ever for EU-China relations to be better understood not only by an inner circle of professionals and enthusiasts, but also by politicians, business people, and the general public.

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# JACOB GUNTER

**The Policy and Communications Manager at the European Union Chamber of Commerce in China**

He is the lead author of their recent report: The Road Less Traveled: European Involvement in China's Belt and Road Initiative.

He has spent over eight years in China, as both a student and a professional, in Yuyao, in Zhejiang province; in Nanjing, where he studied at the prestigious Hopkins Nanjing Center; and in Beijing. Jacob has identified himself as an example of globalization in practice: an American working in China for the European Union. We talked during the European Chamber's visit to Brussels.

To get a fuller picture of today's topic—the EU's engagement with China's Belt and Road Initiative—be sure to read Jacob's report.

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# IS THE BELT AND ROAD A GAME CHANGER FOR EUROPEAN COMPANIES?

*Edited by Grzegorz Stec and Michael Durgin*

**The following interview, from February 2020, is based on a two-part episode of the podcast produced by the EU-China Hub as part of its on-going series. It has been edited for length and clarity.**

**Grzegorz Stec:** Before we discuss the findings of your report, let's discuss the Belt and Road Initiative itself. In essence, I see the BRI as a campaign launched by China's central government to mobilize a whole spectrum of domestic actors towards becoming more active outside of China, serving both the domestic and foreign policy goals of the party. In addition, the BRI campaign seems to be constantly evolving and shifting, so it's hard to tell what BRI actually is and who is really involved in it.

How does the European Chamber view BRI?

**Jacob Gunter:**: We see it in a very similar light. It's clearly meant to be able to achieve both domestic and foreign goals.

The domestic goal is to help shift some of China's overcapacity issues abroad. Nobody does infrastructure quite like the Chinese. A while back commands went out from the central government in Beijing to encourage local and provincial governments to invest more in infrastructure in order to drive up growth. But the political leader of Sichuan province said, "We don't have anything else to build." There are only so many projects within China now that would really be feasible, even if perhaps not profitable. But abroad there's a huge demand for the kinds of goods and services that Chinese companies, mostly state-owned enterprises, have been providing within China.

We also see BRI as an opportunity for the Chinese government to push Chinese companies to go more global and compete in other markets, using some of the techniques they already use domestically.

The EU Chamber of Commerce in China's President, Jörg Wuttke, likes to say that the most important BRI country is China. China still has tremendous growth potential.

Considering the size and heft of China's economy, it might seem strange that many Chinese companies had very small global footprints in the 2010s. In part, Chinese companies were not going abroad aggressively early on because they could enjoy a large, well-protected market at home, with one out of every five consumers in the world.

It's not that Chinese companies had never gone abroad, but BRI then became a platform for it. And BRI can help achieve a lot of the diplomatic goals of the government, securing tighter partnerships and different resources.

**GS:** Let's talk about your report. To measure anything related to BRI is challenging, so measuring the involvement of European companies must have been really hard. Can you share with us your perspective on running such a study?

**JG:** We sent the survey to our entire membership, 1700 member companies in China. Towards the end of the first week we had only heard from eight or nine companies that had bid on BRI projects, far too small a sample size to be useful. So we reached out to our chapters, our working groups, and companies that we knew or thought were likely to be involved in BRI. We ended up with 132 companies. Among those, only 20 had been on a BRI project.

We then did dozens of follow-up interviews—about a hundred stakeholders in all—mainly from the companies that we knew were involved in BRI. Oftentimes we spoke to different people within the same company because several of them have been involved in a large number of projects.

For example, for logistics companies, we wanted to make sure that we weren't just speaking with staff in China but also those in Europe, those who had a more global perspective, and people at headquarters. For logistics, we needed to talk to people about the maritime story and others about the railway story and others about the impacts on macro-level logistics markets. We got incredible input from many of our members, which gave a deep qualitative side to the relatively thin quantitative side of the survey.

**GS:** Can you tell us more about how involved in BRI European companies actually are?

**JG:** Of the 20 Chamber members involved, 16 had actually managed to secure at least one contract. More importantly, three of them had won more than 50 BRI contracts, and two of them each had hundreds of contracts around the world. The companies that are involved tend to win a lot of these projects because they pursue them. The scope of their involvement, though, can be very limited.

We spoke with a lot of machinery companies and companies that produce inputs for power plants and railways. Generally speaking, they were pulled in to provide specific technological inputs that, essentially, a Chinese competitor wouldn't be able to provide to the same standard. So these companies are most commonly playing a niche role in these projects. The scope of involvement was only one or two pieces of equipment in a project.

There were a couple of interesting exceptions. Chinese shipping companies have the financing and scale to make investments in new port facilities, and European shipping companies bring a lot of technological and methodological expertise to these facilities. So this was a natural place for them to pair up. This is similar to how European companies already do business in China in many sectors. It's not a fully open opportunity to participate in an entire project or even to have the chance to bid for everything that you feel your company might have a chance at. Instead, companies are mainly brought in, almost exclusively by business partners (although occasionally by government officials), to provide those goods and services that fill niche roles.

Another quite interesting exception is with testing, inspection, and certification companies. They are the ones monitoring the entire process of these projects to make sure that everything is done to the standards agreed upon. We found that China's SOEs often have their own sort of in-house or partner TIC companies or teams to fulfill this role. The problem in a lot of BRI projects is that they go abroad and they don't know the local systems, standards, and requirements. They rely on local or foreign TIC companies. So in that realm, we actually saw greater opportunities for European TIC companies, which in many respects are world leaders on making sure things are done to standard. We saw them sometimes taking on the entire testing, inspection, and certification process, an interesting exception to the general trend of niche roles.

**GS:** Referring to those niche roles and the general low involvement, what are the biggest barriers for European companies to participate in BRI projects? Is it simply that they don't have access?

**JG:** Only two companies indicated they commonly found these projects through public information, public tendering, or public bidding opportunities in the procurement market of the recipient countries. Instead, the majority found them through their Chinese business partners or through the Chinese government. They were often pulled into these by their already-established Chinese business partners.

That's good news if you're a multinational company that has been in China for ten to thirty years. If you're a relative newcomer or a smaller company, it's much more difficult to have access to Chinese business partners.

Other major barriers are the transparency issue through the public procurement market. Also, there is no single Chinese list of BRI projects. Ironically, the best BRI project lists are from foreign think tanks. There is no BRI office in China and no single ministry is assigned to it. There's a lot of interest in participating in BRI projects, but companies have no idea where to begin. And that becomes a huge barrier if you don't have established links with Chinese companies.

One of the biggest barriers is the vertical integration that we see in China. You often have a one-stop shop offered by consortiums of Chinese companies, which are mostly state-owned enterprises. That becomes particularly challenging because if you're in the shipping industry, for example, you may look at your competition and say “I compete against COSCO” (China's main state-owned shipper). But you really need to look at the entire value chain, all the way back to the iron ore and coal that go into the steel foundries. Those are state-owned enterprises, as are steel plants and the ship builders, as are construction groups that construct the ports and the port authorities that service them. The shipper itself is state-owned and, on top of all that, the financing mechanisms for all of this are state-owned.

So, you're not competing with COSCO. In shipping, you're competing with the entirety of SASAC [State-owned Assets Supervision and Administration Commission], quite a leviathan to compete with. It's difficult enough to compete with state-owned enterprises in China, as in any third market, let alone competing with an entire value chain.

Also, in the energy sector, a lot of the power plants being built along the Belt and Road Initiative use outdated technology, which may make it cheaper for less-developed countries to get power. European, American, Japanese, and South Korean energy companies have moved beyond that technology, which means they no longer produce the inputs that go into such traditional power plants. So, even if some of these plants were up for public bid and truly open and transparent, a lot of companies just don't make the components any more.

**GS:** Ok. Let’s look at the selected few companies that participate in BRI related projects. You mentioned they often tend to carve a niche for themselves, but is there anything else about them that makes them win?

**JG:** Power plants make for a good example. There are quite a few sources of power plant turbines in the world, in Europe, North America, East Asia, etc. What really makes a difference is not just whether you can make the specific kind of turbine needed, but whether you have an established relationship with the Chinese companies that are building it.

The most successful companies have entire teams dedicated to pursuing BRI projects. We have one example of a machinery producer that has a team back home in the EU. They have a much larger team based in Beijing and another one in Shanghai. Essentially, their job is to reach out to their normal business partners and to very directly ask about and seek out BRI projects. They also look at projects around the world that don't yet have financing, don't yet have groups that are ready to work on them, and they start making bids.

They'll find a project that they would like to participate in, bring their idea to their Chinese partners and say: “Hey, how about we find a way to make this a BRI project? We can work together.” This really speeds up a lot of the processes they would normally have to go through to get capital and resources out of China for these projects. In that way, they're taking a very active role.

Another example is in banking. One of our financial services members has a long history in China but also has very deep roots in sub-Saharan Africa. They created a program in which they take Chinese national employees of promise in their China operations, train them for various roles, then send them off to offices and operations in Africa. The point is to have experts from that bank that know the BRI inside and out, but also to have one foot in China and another in African countries. They then become the point of contact and they're able to easily facilitate a lot of BRI projects. They can easily provide cross-border services for the amount of capital that needs to come through, help find the right kind of business partners, and help facilitate deals with the government. In many ways, having a Chinese national who speaks the language fluently and has a foot in each of those places becomes a source of relaxation for the Chinese executives running the projects. Sometimes Chinese executives go into markets with zero experience of the local language, customs, governments, or standards. This bank took a very proactive role to find these opportunities.

In both of these examples, the companies were able to seek these out and get some good business, but both of them refer to it as not even a slice of the pie, just crumbs from the table. It's good business but it's not a particularly large share of the overall value of these projects.

**GS:** Referring to the first point that you made, about leveraging BRI as a brand. Back in 2018, I wrote a piece for the EU's SME Centre about exactly this, branding yourself as a BRI project, because this makes you attractive to your Chinese partners who can get benefits from the government, such as rapid approval. We've seen this kind of approach being taken by big companies, like DHL or Siemens.

How effective do you think such BRI branding would be for smaller players who may find it hard to set up a whole team. Would it be effective on a smaller scale?

**JG:** It might be. Even if you have great technology or services and you have a niche that you can fill better than a larger company, if you don't have an established relationship with the Chinese companies leading the BRI, it would be considerably more difficult. Those established relationships are key to accessing most of these projects.

That doesn't mean that smaller companies shouldn't seek that out. We have quite a few companies with the European Chamber that are SMEs and they've found a lot of success. Sometimes they spent several years courting China's bigger national champions. Once they were able to demonstrate their technological know-how and the specific services and ideas that they could bring to the table, they then had business for the foreseeable future. Once you can get your foot in the door, there's no reason that some of them couldn't get really meaningful opportunities. If you're talking about a big multinational, then crumbs from the table can still be pretty big, given the size and scope of a lot of the BRI projects. For a smaller company without the same global positioning, even just crumbs must be gigantic. There's certainly no reason why companies shouldn't look for those kinds of opportunities, but I wouldn't send them on a desperate wild goose chase thinking that all they have to do is go demonstrate something to get lots of contracts. It's an uphill battle, but maybe some companies feel it's worth pursuing.

**GS:** But an uphill battle. That sounds very much like doing business in China in general.

**JG:** Exactly!

**GS:** Let's talk about the wider impact of BRI on the operations of European companies, even if they don't participate in the projects. Has BRI widened or narrowed their opportunities? And can BRI have a positive impact?

**JG:** From the perspective of European operations in China, it certainly widens opportunities if they're able to participate.

The “Belts” of the Belt and Road Initiative are train lines. Those need a lot of engines and train cars. Companies that provide a whole range of inputs into trains—whether axles or engine parts or carriage chassis—especially if they’re unique or higher-quality than Chinese competitors, are often able to secure part of a contract. So, that's widening the opportunities for European companies, business they wouldn't otherwise have. However, a lot of those same companies would normally put together the entire train value chain and then sell that to markets. So, it's very much narrowing the scope of business. These companies then have to make a decision. It's good for their China operations to secure parts for a BRI train, but it's bad for their headquarters operations, because they no longer get to sell the entire train.

When you look at the really big picture, there is objective value in enhancing connectivity through the Belt and Road Initiative. The Asian Development Bank had an interesting study a while back in which they estimated that by 2030 Asia is going to need about $25 trillion in infrastructure investment. Liberal estimates of the amount of investments and financing through the BRI are about $1 trillion. So, even if the BRI remained at its current pace, it wouldn't come anywhere close to filling this gap. That doesn't take into account everything that individual countries are doing through other schemes, by Japan or ASEAN or India. But all of that put together still isn't going to be enough to meet Asia’s demands for infrastructure and connectivity. In that sense, the BRI certainly has a lot of value.

There are a couple of cases of sustainability issues—financial and environmental—but I think in many ways the Chinese have learned their lesson, in Sri Lanka in particular. So that will have value for local communities, helping them connect to global markets. For European companies, that means better access to new markets. If you look at Central Asian countries, for example, or sub-saharan African countries, there has often been no value in trying to pursue business opportunities there. There were oftentimes complicated logistics to sell things in some parts of central Africa; it's a nightmare and extremely expensive. Even if you have a very competitive product, it's often simply too expensive to get it there. Helping to improve connectivity through infrastructure is a very positive thing. It means better access to consumers and to the productive potential of these countries.

China's own development story after the Maoist years is a good example. Deng Xiaoping started the development projects in special economic zones on the coast, where they could build very simple infrastructure and immediately connect those local populations. Once that's provided, the rest of the country could catch up through connections further inland.

Chengdu, smack dab in the center of China, is now a tech hub. It's stuck behind massive mountains and trapped behind part of the Yangtze River, not a terribly great location to drive economic development. But it’s made possible by the railways, highways, and port facilities they developed along the Yangtze River. Without those, Chengdu would probably still be isolated.

China is clearly trying to replicate that infrastructure story in other places. This is good for business as it drives more trade and better access, not just to consumers but also to productive power. Without those facilities, no European companies would be investing in that region, or in Sichuan or Chongqing. That area now has our fastest growing chapter, all because of the promise that connectivity has brought to that region. So, it's a good thing if BRI can make that happen in other parts of the world.

**GS:** But with those connectivity projects also come standards, which the European companies care about very much. Can you tell us how and whether BRI promotes Chinese standards? What does that mean for European businesses?

**JG:** We asked whether respondents, as a condition for participating in a BRI project, had ever been forced to use Chinese standards rather than international best practices and standards. Much to our surprise, everyone who responded said they had not been required to use Chinese standards. They said that sometimes there was a push from the Chinese side but the European companies would say, “No. We're uncomfortable not using the international standards that we use everywhere else.” Sometimes that meant that they didn't do a project, but usually it meant that the project just adopted international standards.

At first, we were surprised; we often hear concerns about China bringing its standards to the BRI. But we discovered that companies playing niche roles are brought in to provide specific technical expertise, so the Chinese partners are *seeking* international standards.

Very importantly, none of the responses we got were from the more contentious sectors, like ICT and telecommunications. Things like 5G, block chain, cloud technology, and a lot of the other ICT, telecoms, and digital side of things are still very much in contention. Established international best standards don’t yet exist for many of these, so we see challenges. A lot of the recipient countries of BRI projects in the telecoms sector, mostly developing countries, don't necessarily have their own established standards or the capacity to be able to put them together. Not to poke at individual countries, but it's not very realistic to expect Togo or Benin or Uzbekistan to necessarily have the technical expertise to develop those. You could probably say the same about some of the member states in the EU that have small populations. Given that, you can't blame them for saying: “We want to build a new telecommunications network. We're happy to utilize the Belt and Road Initiative to finance this and, because we don't have our own standards about these things, we'll adopt those of the Chinese companies that are coming to provide it.” It's understandable why the recipient countries would make that decision.

The challenge is that the standards are then often quite different. The telecommunications standards that exist between the normal suspects—Europe, United States, Canada, Australia, Japan, and South Korea—provide an ease of interoperability between their different digital goods and services. This is based on the telecoms infrastructure following the standards as being built, whereas the Chinese infrastructure is often different enough that it would be much more challenging to show up and provide either competitive telecoms infrastructure or digital goods and services.

So, there is concern moving forward about China, through its national champions, being able to impose its standards. In many ways, though, there’s the lack of a real alternative. These countries need help developing their telecoms infrastructure and, if China is the only one willing to finance and build them, to provide assistance with those standards, these countries are going to accept it. Until there are European, North American, or other East Asian alternatives out there, it's a choice of either China doing it for you or not having it. And not having it is not really an acceptable choice for a lot of these countries.

**GS:** We’ve discussed the ways in which BRI affects the operations of European companies in third country markets, but what about the EU’s Connectivity Strategy? Many regard it as the EU’s response to BRI, a channel to promote the European way for connectivity. Not much has happened with it since it was announced in September 2018. We have seen cooperation with Japan on the issue. And with China there was the launch of a joint study in search of economically viable rail connections in Eurasia, by DG MOVE, but it took almost a year to agree on the definitions for the study.

What is your take on the EU’s Connectivity Strategy? And in what ways does it have an impact on European businesses abroad?

**JG:** I would start with the lack of awareness about the EU’s Connectivity Strategy and the connectivity plan. Since they were announced, as you said, there's been only a little progress. Frankly, not that many people are aware of the connectivity plan.

We found that more than half of our members were not aware of it and only about 12% of the rest said that they were engaged in it. Whereas everybody knows about the Belt and Road Initiative. Even my grandmother has heard about the Belt and Road Initiative.

I have family members in Colorado that generally don't pay that much attention to international business and politics, but they know there's a thing called the Belt and Road Initiative, that it's a big infrastructure development thing, and that it's a China project. That says a lot about the power of China’s marketing and its ability to build awareness. Whereas, many say about the EU’s plan: “Connectivity what”? So the first step is really clearly defining the vision of the connectivity plan, marketing it and, frankly, getting it going.

The Belt and Road Initiative came out of nowhere and wildly exploded onto the world stage. A lot of the more negative stories that came early about the BRI I would chalk up to a lack of experience of Chinese officials and companies in third markets. The port that was built in Sri Lanka, for example, looks like a big China port. It would fit perfectly somewhere along the coastline of China, which has a giant market of 1.4 billion people to consume goods and just as many workers to produce goods. There's demand in China for many big ports. That kind of demand doesn’t exist in Sri Lanka but, for a Chinese official, diplomat, or business person, everything that you've ever done with infrastructure has been China-big. If Sri Lanka is identified as an important BRI country, you might think: “This'll work just like it did in China.” Then you realize that there aren’t nearly as many people there and conditions are not the same. In that way, the explosive debut of the BRI was initially a challenge and the Chinese learned very well from it.

Fortunately, the EU doesn't have to go through that experience, because the EU has a very long history with connectivity, both within Europe and outside it. The story of the European project is one of connectivity, breaking down barriers, for people, for capital, for goods, and for ideas. Nobody has done connectivity better than the EU, almost by definition. In addition, Europe has been deeply engaged with a lot of countries worldwide in infrastructure development for a very long time. It has the capacity and experience to build on.

There are many unique things that the EU connectivity plan can bring to the table, such as world-class standards and quality. There are strong protections for environmental and financial sustainability, for the feasibility of these projects, all of the things that make these projects work so well (albeit sometimes, unfortunately, too slowly).

Europe also has the ability to provide not just hardware but software, which is a big weakness in the BRI, such as with railways connecting China and the EU. Nobody can build a railway quite like the Chinese and it's a potentially valuable logistics option for some companies. The problem is that there hasn't been much focus beyond the hardware, such as looking at how to align customs or safety standards in the countries that the railway passes through. Such alignment could really expedite the trip. Right now it takes fourteen to sixteen days, about half the time that maritime shipping takes. Several of the people we interviewed indicated that if China was able to align standards along the entire railway and move more smoothly across these borders, they could cut off two to four more days. Suddenly, rail shipping becomes an option that takes a third of the time of maritime shipping. It also becomes valuable because if you're shipping from an inland place in China to an inland place in Europe, it becomes considerably faster than the maritime option. But, again, without that software approach, it limits the value of the railway and decreases demand, hence the need for subsidies.

This is something that the EU can really bring as a competitive advantage, because it has already done it elsewhere. Helping build that capacity and align those standards seems like something that really increases the value proposition of the EU connectivity plan.

**GS:** Sure, but there is also the wider question of the value proposition of the European side. Those projects that apply European software, that apply European standards, pretty often involve a lot of procedures and paperwork, and high standards. These, quite frankly, very often mean high prices. So, it's also a question of how attractive such an offer is for developing countries that want to get projects done quickly and in a cost-effective way. Is the connectivity plan an attractive alternative to the BRI from the perspective of developing countries?

**JG:** This is a core question about the ability of the EU connectivity plan to compete with the BRI. EU standards are incredibly important in making sure that projects are going to last and provide necessary quality. But I think you're right that if they drive prices too high they will scare away countries that would otherwise be ready to take on some debt for financing or to do the work to get multilateral development banks and European financing involved. China, meanwhile, already offers a one-stop shop, through the vertical integration of its state-owned enterprises. Also, China is building railways and bridges in one or two years. I don't think Europe can be China-fast, but it needs to not be Europe-slow in order to have a competitive edge.

A sub-Saharan African country might have a strong enough economy to be able to take out the financing through the connectivity plan or development banks. Even if that is ready to go with confidence, if you're a politician in a democratic country, you need to be able to deliver results in a timely manner. If the European choice would take ten years to complete and the Chinese can do it in two years, it's a pretty natural choice. Even if you prefer the standards, it doesn't matter; if you're going to be going through an election in a few years, then it's probably not great to take on debt to finance something ten years down the road. And Europe needs to mitigate that gap.

The standardisation process itself needs standardising and streamlining. Can we do feasibility studies, environmental impact studies, and sustainability studies quickly, without several years passing before you can even break ground on projects? What are ways to streamline those efforts?

Sometimes there are also limitations to the capacity of local officials. If you look at the mountains of paperwork to be done and the amount of oversight, many smaller countries just don't have the manpower, the resources, or the expertise. Even if they do, if the BRI is a credible alternative, with a more simplified, streamlined process, that enhances the value proposition of the BRI. The EU needs to look at ways to help build capacity and simplify the application procedures, especially for the least-developed countries. Perhaps European diplomats or officials from the EU could facilitate that. We see plenty of relatively inexpensive, non-resource intensive opportunities to help make sure that can happen.

**GS:** So it seems like the EU’s standards are a superpower but, at the same time, they’re kryptonite.

**JG:** That’s a good way to put it.

**GS:** Let's talk about the recommendations in your report. First: the Belt and Road initiative seems to be facing something of an image issue globally, with a lot of questions raised about its sustainability and visibility. What do you think would help BRI have a more positive image among international businesses, especially European businesses?

**JG:** A lot of the most negative perspectives on the BRI, particularly political and geopolitical ones—calling it a debt trap or a way to build vassal states, or likening it to the imperial tributary system of the Ming dynasty—is driven, in many ways, by the lack of participation from the international community, not just from companies, but from multilateral development banks, the UN, and other multilateral groups. That involvement and having important roles to help them bring their expertise to the table could really help drive away sceptical perspectives. But there must also be opportunities for non-Chinese companies, including, of course, local companies, to make sure that they have an equal chance to participate.

We were actually recently called out about this by the Chinese mission to the EU. I believe the wording they used was that European companies “cannot expect to receive windfalls” from the BRI; they instead need to actually put effort into getting these projects. They're not wrong. European companies can't just expect BRI projects to magically land in their laps or expect a percentage of involvement from foreign players.

European companies are competitive and they're ready to win some of those competitions, although we would expect Chinese companies to continue to be very strong. But the profound lack of current involvement by EU companies is strange and drives concerns and suspicions. The best company should win.

You don't really often hear Europeans saying: “Oh, we can’t get involved in these Southeast Asian projects that the Japanese run. It’s debt-trap diplomacy.” That’s because Japanese ODA programs are very much open to foreign participation and there is open competition. Everyone's open to participating in everyone else's competitions. You win some here, you lose some there; that's the norm and European companies aren't afraid of that kind of competition. They do it in competitive markets in North America, in East Asia, and everywhere else. We're eager to add the BRI to that list of fields of competition.

**GS:** What about the report’s recommendations for the EU? BRI is very often linked with the increased activity of Chinese businesses in Europe, with a flurry of activity, with FDI (which kicked in around 2016), with 17+1. This causes a lot of anxiety, especially in Western Europe and in Brussels. How should the EU respond to BRI and, generally speaking, to Chinese companies going out to the EU’s domestic market? I hear about the potential impact of market distortions and the Huawei case recently sparked a lot of discussion about security concerns, especially in sensitive sectors. How do you think the EU should respond to these challenges?

**JG:** First and foremost, the EU needs to look at the kind of toolkit it needs, because the last thing we want is for the EU to start looking more like China by building a protected market for the commanding heights of the economy. Whatever tools we put into this tool kit ought to be precise and targeted.

We often say that we don't want a wall, we want a shield. A wall stops everything from coming in; a shield you put in front of the things that you are worried about and you let everything else go by. There are so many private Chinese companies that are eager to invest in Europe, to build factories, to provide jobs and services, and to bring a lot of new technology that Europe doesn't have and that European consumers would love, that would enhance people's quality of life. That should always be encouraged.

But we should always be skeptical of the potential for state-backed, state-directed financing, even in private companies. We should make sure that investments that follow market forces and that bring good things to Europe are always welcome. So, maybe we set up a shield that is focused on where the state-directed financing and state-owned enterprises are coming in and bringing their distortions. For a long time, China's big SOEs were a China problem. They're now becoming a third market problem and even a Europe problem.

Now that the EU has gone through the process of intensely reforming its own SOEs, we don't want the market distortions brought by the behemoths coming out of China (we've referred to them as "industrial hegemons"). They can bring these distortions into the EU because of the EU's openness, which now calls for shields. So Europe should tighten investment screening further and give a better toolkit to the authorities. This would need to follow due process and the rule of law. We should look at both ensuring these market distortions do not come into the EU and mitigating distortions in third markets.

Can European companies compete with the scale that China's national champions bring into these third markets? The International Procurement Instrument is a very valuable tool to try to mitigate distortions in both markets. It's great because it takes selective negative reciprocity to push for positive reciprocity in third markets. It's not a tariff, it's not a quota, it's not a blunt instrument that is only meant to protect the local market. It's meant to be a tool for leverage to open up other markets, so that the tool is then no longer needed.

A lot of rules and regulations within the EU specifically regard competition law, making it perhaps the strongest in the world. That's good for Europe and Europeans. Unfortunately, not everyone in the world is playing by these same rules, and I don't just mean China. I'm frustrated that my own country, America, has forgotten what antitrust rules mean regarding some of our national champions. Within Europe, the competition law framework is precious and should be upheld and protected. But we can't be naive about how it limits the ability for European companies to compete in third markets. We don't have a great solution to this. But we are thankful that we have very competent people running competition. If anyone is well-suited for that job, it's Margrethe Vestager.

We're eager to see competition policy protected within Europe as much as possible, with its benefits, while also recognizing the very real concerns that come with non-competitive practices coming out of both China and, sometimes, the United States. By far the biggest step, though, is getting the EU connectivity plan moving.

On top of all of that, the connectivity plan ought to be open to looking at how it can interact with not just the BRI but Japanese ODA, the American/Japanese/Australian Blue Dot Network, all of the different schemes of the multilateral development banks, ASEAN, India, and everyone else. There's no reason that we can't look for overlap between these but it needs to be conditional.

The EU can provide great leverage, such as European software enhancing hardware built by other countries. What a great tool of leverage to be able to say: “We're quite eager to work together between the BRI or the ODA or whatever on these connectivity-related issues. We have something unique that we can bring to the table, but we're only going to be involved if you make sure that our companies have a fair chance and a level playing field to participate.” Everyone benefits from that kind of situation.

**GS:** What’s your best guess about the future relationship between the BRI and the EU’s Connectivity Strategy?

**JG:** It really depends on whether the EU can get the Connectivity Strategy and plan up and moving. Broadly speaking, the Connectivity Strategy already has a lot of moving pieces. Maybe the EU should look at how China retroactively called a number of infrastructure projects around the world “BRI projects”, which suddenly enhanced the lure of the BRI. The same thing could be done with the connectivity plan, not through an attempt to deceive, but by saying: “The first thing we're going to do with the connectivity plan is to look at everything related to it that we already do and put it into one big basket, so that we can better understand what else needs to be done.”

Then the relationship between BRI and the connectivity plan becomes a question about what China is willing to do. If you look at and compare the first Belt and Road forum to the second one, you see two very different perspectives. President Xi Jinping's first speech was all: ‘Hurrah! Hurrah! Look at all the great things that we've done. Look at all the money, look at all these incredible ports and railways and bridges and such,’ looking back at how big and great and wonderful the BRI was. His speech at the second Belt and Road forum was much more focused on the future: ‘The BRI needs to become more open. It needs to become more transparent. There needs to be more of a focus on sustainability, both environmental and financial.’ So there was a big shift in rhetoric. Whether that shift actually produces different results remains a question, one that we won't know the answer to for a few years, because we don't know the outcomes of these types of projects until they're finished.

The biggest metric will be how involved European and other foreign companies can be. If China allows that, I see a very positive relationship between the BRI and the connectivity plan. If it doesn't, then, at best, we would want competition in the areas that are not contentious: straight head-to-head competition on railways, on port facilities, and things like that.

And maybe—especially with something like 17+1 and some of the BRI projects within the EU and its neighbourhood, in more contentious areas like telecoms—if we can't see a convergence between these two plans, it then becomes more of a confrontation. This, of course, would be terrible news for business and bad news for everybody. So, I hope the messaging we heard from President Xi at the last Belt and Road forum indicates a shift. We hope to see similar changes at the next forum, ultimately leading to opportunities for European companies.

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