Policy Brief, No. 01
2023

EIAS European Institute for Asian Studies

Building Bridges: Post-Pandemic Opportunities for Cooperating on Sino-EU Infrastructure Initiatives

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August 2023

Abstract

As the world recovers from the Covid-19 pandemic and the global order is shifting, new opportunities are arising for cooperation and enhanced coordination on international infrastructure development. This EIAS Briefing Paper examines the potential and risks for collaboration between China and Europe on their respective connectivity initiatives, and assesses potential challenges, pitfalls, as well as pathways to accomplish this. This is done by (1) illustrating the potential and risks of China's Belt and Road Initiative; (2) explaining the impacts and changes that have emerged since the pandemic; (3) examining the other actors' connectivity and infrastructure initiatives, including the EU's Global Gateway; (4) listing the modes for cooperation; and (5) recommending channels through which to overcome challenges associated with coordination on infrastructure initiatives.

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List of Abbreviations

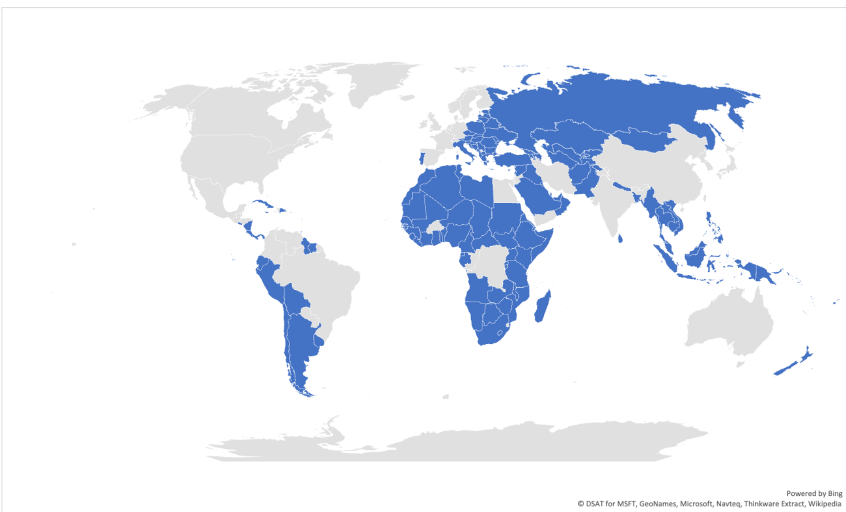
Africa-Asia Growth Corridor (AAGC)
Asian Development Bank (ADB)
Asian Infrastructure Investment Bank (AIIB)
Build Back Better World (B3W)
Blue Dot Network (BDN)
Belt and Road Forum for International Cooperation (BRFIC)
Belt and Road Initiative (BRI)
Belt and Road Initiative International Green Development Coalition (BRIGC)
Chinese Harbour Engineering Company (CEHC)
China-Pakistan Economic Corridor (CPEC)
Digital Silk Road (DSR)
Debt Service Suspension Initiative (DSSI)
European Bank for Reconstruction and Development (EBRD)
European Investment Bank (EIB)
Environmental Social Governance (ESG)
Free and Open Indo-Pacific (FOIP)
Health Silk Road (HSR)
United Nations (UN)
US International Development Finance Corporation (IDFC)
International Monetary Fund (IMF)
International Telecommunication Union (ITU)
Japanese International Cooperation Agency (JICA)
Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN)
Least Developed Country (LDC)
Multilateral Development Bank (MDB)
Memorandum of Understanding (MoU)
New Development Bank (NDB)
Overseas Development Institute (ODI)
Overseas Private Investment Corporation (OPIC)
Partner for Global Infrastructure and Investment (PGII)
Public-Private Partnership (PPP)
Shanghai Cooperation Organization (SCO)
Sustainable Development Goal (SDG)
Standard Gauge Railway (SGR)
State-Owned Enterprise (SOE)
United States Agency for International Development (USAID)

Building Bridges: Post-Pandemic Opportunities for Cooperating on Sino-EU Infrastructure Initiatives

In January 2023, China opened its borders for the first time since their closure in early 2020 due to the outbreak of the Covid-19 pandemic. Since then, the international order has changed significantly against the background of the war in Ukraine, growing US-China tensions, pandemic supply chain stagnation and its related global economic downturn. This leaves policymakers and investors wondering how all of this will affect China's long-term global initiatives such as the Belt and Road Initiative (BRI). United Nations (UN) countries, including China, are still working towards achieving the 17 Sustainable Development Goals (SDGs) and infrastructure initiatives, such as the BRI, can be vital instruments in helping the world achieve the targets set in the UN's 2030 Agenda, primarily towards SDG 9 (Industry, Innovation and Infrastructure).

The BRI, launched in 2013, is a Chinese initiative to increase globalisation and connectivity, mainly through infrastructure projects such as ports, railways, and roads. It calls back to China's ancient Silk Road, seeking to re-enter China on the global stage through investments, with a focus on supporting Least Developed Countries (LDCs). The launch of the BRI sparked global attention to the need for international infrastructure investment. An indirect, positive, impact of the BRI was the introduction of high amounts of global spending towards infrastructure projects around the world, specifically in LDCs. In 2021, amidst global lockdowns, the EU presented its Global Gateway strategy as a parallel initiative to the BRI and an expansion of the EU's original 2018 Connectivity Strategy for Asia. Additionally, other partners in the region, such as India, Australia, Japan, India, and the United States have launched infrastructure investment initiatives, often in collaboration with each other, emphasising the abundance of opportunities in cooperating on global connectivity. China is also expanding the scope of the BRI away from exclusively 'hard infrastructure' (ports, roads, railways, airports, etc.) to now incorporate 'soft infrastructure' (technical cooperation, education exchanges, and ICT development) and capacity-building in a "BRI 2.0". Additionally, some countries are renegotiating the terms of their debt to China, leaving an opportunity for the EU to increase collaboration on infrastructure projects. Enhanced coordination of global connectivity can help expand the financial scope of these infrastructure projects and expand the research and development resources available in their production.

Countries that have signed a Memorandum of Understanding (MoU) with China on the BRI:



Source: Council on Foreign Relations

1. China's BRI Potential

The *infrastructure gap* refers to the gap between a country's needed infrastructure and what it actually has. Globally, it is estimated that by 2040 the global infrastructure gap will reach $15 trillion USD and that currently, to finance the infrastructure gap, $3 trillion USD is needed a year. While most countries could benefit from infrastructure investment, the advantages are particularly noticeable in LDCs. The LDCs are furthest behind in their targets for the SDGs, and with the current financing trends, the LDCs are not going to be able to meet them by the 2030 deadline. The Atlantic Council reports that this lack of infrastructure development can leave people without access to basic resources such as "electricity, drinking water, sanitation, internet, and broadband" and the Hoover Institution adds that "one billion people live more than 2 kilometres from an all-weather road, and 1.2 billion have no access to electricity". Economically, enhanced transport corridors can help facilitate commodity exports, a main source of income in many LDCs, while also increasing productivity and efficiency, and lowering global production costs. By facilitating easier, cheaper, and faster transport these economic benefits have the potential to reach the country importing the products as well. Therefore, it is also in the EU's best interest to support such infrastructure investment initiatives. For the last decade, the most prominent connectivity initiative of scale has been the BRI.

Ten years after its inception the BRI has made steady progress in its goals to increase global connectivity, with over 150 countries worldwide having signed an MoU with China on BRI projects. Global institutions, such as the World Bank, have praised the BRI for its expansive infrastructure megaprojects (defined as costing more than $1 billion USD). The World Bank expects that overall BRI corridor projects can decrease travel times by up to 12 per cent, increase trade by 9.7 per cent, increase income by up to 3.4 per cent and lift 7.6 million people from extreme poverty through integrating more countries into the global economy and facilitating transportation for both BRI and non-BRI countries. Countries like Serbia have even called BRI investment "life-saving". EU member states that have signed onto the BRI have also felt the effects of the initiative. For example, the BRI has grown Greece's economic activity with its investment in the Piraeus port, which has increased its throughput by 168 per cent since between 2007 and 2016 due to Chinese investment. The potential of the BRI produces a great incentive to support its connectivity projects, and with further coordination from global partners, it has the potential to increase its geographic, financial, and thematic scope.

Despite the wide reach of the BRI, the initiative has many critics, including major global superpowers. With European examples, France, Germany (while potentially engaging with the BRI on a local or private level), the UK, and Spain have abstained from the initiative. Italy is the only G7 country to have signed an MoU with China on the BRI, and current Prime Minister Giorgia Meloni is considering exiting the initiative after economic gains since its signing have not been realised and others have speculated that there has been pressure from the United States to withdraw, though Meloni has denied this. Most of the European countries that have signed onto the BRI in Europe are from the Central and Eastern bloc of the continent, 18 of which are EU Member States, with the most tangible impacts in Serbia, Hungary, and Greece. Although many of them are turning away from Chinese support following the PRC's stance on Russia's invasion of Ukraine. This follows the Baltic states Estonia, Latvia, Lithuania, and Czech Republic exiting the "17+1 Framework" that was established to support Chinese investment in CEEC. Also, Asian powers including Japan and India have not signed MoUs with China on the BRI, but instead hold on to their own regional and global infrastructure initiatives. The United States has also not engaged with the BRI, but it has recently created its own infrastructure initiatives multilaterally.

Aside from political reasons for not engaging with the initiative, states also have pragmatic reasons to abstain. For example, megaprojects are "easy to begin and difficult and expensive to stop"; those who cancel these projects often face backlash and fiscal losses even when countries and banks have been spending beyond their means. This leaves megaprojects at a high risk of an expensive "slow-fail". Additionally, especially at the early stages of the initiative, there have been criticisms of the environmental and financial sustainability of BRI projects, along with concerns about the quality of projects. These projects are also frequently cited as examples of controversial 'debt-trap diplomacy', in which countries will provide loans to developing countries that they cannot pay back, leaving them in a vulnerable position to their creditor. For example, Sri Lanka gave over control of its strategic Hambantota port to China on a 99-year lease after defaulting on its debt, raising fears that China is extending its political influence and economic leverage in the host countries through these debt traps. However, others see this as political rhetoric that is supported primarily by global leaders that are sceptical of China's growing global presence. Whether or not these megaprojects are vessels of 'debt-trap diplomacy', foreign leaders cannot ignore that they are happening and influencing the stage of global politics.

1.2 Pandemic Slowdowns

After the outbreak of Covid-19 in 2020 the global economy took a dive. China implemented strong policies against the virus, closing its borders in January 2020 which made the continuation of its infrastructure projects abroad difficult. Shipping companies reduced their number of ships, and when coupled with tough Covid restrictions, increase in sea freight rates and delayed cargo delivery led to increased port congestion. Additionally, China's zero-Covid policy included the closure of strategic ports and lockdowns in places like Shenzhen, Shanghai, and Beijing. The European Chamber of Commerce in China demonstrated the negative business impact this had on European corporations in a survey in which respondents stated respective negative impacts on logistics/warehousing (94 per cent), business travel (97 per cent), and the ability to conduct face-to-face meetings (94 per cent). The Chinese domestic economy also felt the toll of the Covid policies, reaching half (below 3 per cent) of the growth the government predicted they would reach for 2022 (5.5 per cent). However, as of 8 January 2023, China has reopened its borders and despite economic recovery taking shape, BRI projects seem to have a dim outlook in comparison to pre-pandemic levels.

Between 2020 and 2022 investment in new BRI projects decreased gradually from 8.7 per cent to 4.3 per cent and the Overseas Development Institute (ODI) reports that fifteen countries, worth more than $2.4 billion USD, housing BRI projects were facing financial difficulties. This can also be attributed to the economic challenges that the debtors were facing, many of them being LDCs. For example, in 2010 only 5 per cent of China's debtors were in financial distress, compared to 60 per cent in 2022. Therefore, China and other global actors have taken measures to ensure that these projects are able to reach completion and bring their economic benefits, such as renegotiating debt agreements and having China join the G20's Debt Service Suspension Initiative (DSSI). China entering the DSSI allows them to renegotiate their bilateral debt deals with other members of the Paris Club, a group of 22 major international creditors. Their engagement with the DSSI at large has helped address some of the challenges with debt repayments, as China accounted for 30 per cent of the claims and 63 per cent of the debt service suspensions during the challenging pandemic economy. However, there are still critics of China's participation in the DSSI, seeing as unlike the Paris Club they do not provide the institution with "country-by-country" data, and American administrations have accused China's lending of being "predatory rather than cooperative". Therefore, reconciling the advantages that the BRI promises with its challenges leaves room for other actors to engage.

1.3 "BRI 2.0"

The pandemic-related slowdowns have led to a shifting focus away from expensive infrastructure projects and towards supporting Chinese exports and soft-power, referred to as BRI 2.0. BRI 2.0 was announced by Xi Jinping in 2019 at the Second Belt and Road Forum for International Cooperation (BRFIC), following already slowing investments. In this speech, he also calls for increased multilateralism in infrastructure projects, saying China "welcome[s] the participation of multilateral and national financial institutions in BRI investment and financing and encourage[s] third-market cooperation". In the first half of 2023, the average BRI deal size has fallen from $617 million in 2022 to $392 million, which is 48 per cent smaller than its 2018 peak. This contrasts with the previous focus on infrastructure megaprojects, or risky and expensive investments, opting instead for smaller, and safer, deals that also more closely align with international standards.

Three examples of priorities for the BRI 2.0 include the "Health Silk Road", "Digital Silk Road", and "Green Silk Road".

1.3.1 "Health Silk Road"

The "Health Silk Road" (HSR) refers to China creating infrastructure to share medical resources and exportation of health technology. This became central to the BRI 2.0 during the Covid-19 pandemic as China exported their vaccines and PPE across the globe, and assisted in medical training and medical capacity-building. Although since the pandemic the HSR is not as prominent in the public eye, the footprint of Chinese funded Centers of Disease Control in Ethiopia and other institutions for cooperation remain across Africa. Internationally, there are similar concerns about transparency along the HSR as there are with infrastructure projects as international organisations such as the World Health Organisation had concerns about China underreporting Covid deaths. However, during the pandemic it became evident how critical it was to improve global access to healthcare as severe inequalities in vaccine distribution became very visible. The HSR aims to reduce these inequalities, something that is ultimately in everyone's best interest, and therefore warrants collaboration.

1.3.2 "Digital Silk Road"

China's exportation of its technology, including products from Chinese multinational technology companies Alibaba, Tencent, and Huawei, has been referred to as the "Digital Silk Road" (DSR), and although the DSR was announced by Xi Jinping in 2015 it was not a major focus of the overall initiative until recently. The initiative fits alongside China's other national goals such as the Made in China 2025 Initiative which is China's ten-year plan to upgrade its high-tech manufacturing sectors. Overall, the DSR is seen as a way for China to challenge the US-dominated tech industry. This challenge to the United States has launched the 'tech-war' between the two powers. The West is increasing its investments in powerful semiconductors which are predominantly Chinese exports and China has retaliated by blocking any mergers that involve US firms. These tensions illustrate the challenges to questioning the status-quo, the rising focus on the DSR, and potential obstacles for cooperation on connectivity between Europe and China on digital connectivity.

While there are business incentives for Chinese tech companies to increase their share in the global tech market, an added benefit is a greater presence in global standard-setting in international organisations, such as the UN and International Telecommunication Union (ITU), that oversee the digital global norms and regulations. While there are political reasons to export Chinese technology, that does not detract from the benefit that it is bringing towards global development. One-third of the world population still does not have access to the internet and by abiding by international standards and utilising China's expansive access to technological advancements the world can move closer to its SDGs through digitalisation, specifically SDG 9 (industry, innovation and infrastructure) by facilitating technical innovation in "health care, education, finance, commerce, governance, agriculture, and other vital areas".

1.3.3 "Green Silk Road"

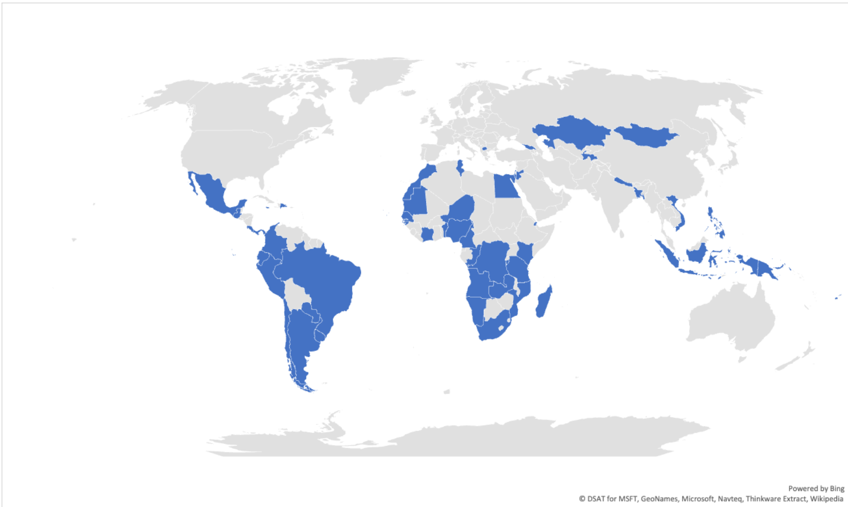
The "Green Silk Road" has emerged as some of the biggest critics of the BRI have come from the initiative's threats to environmental standards. Amid this criticism, China announced in 2019 that the BRI would recenter itself around sustainability. However, because of a lack of third-party monitoring, some are sceptical that China will actually adhere to these new standards. After the 2019 announcement, the Chinese Ministry of Ecology and Environment established the Belt and Road Initiative International Green Development Coalition (BRIGC) and in 2021, Xi Jinping announced China's commitment to end financing of coal plants abroad. So while the long-term implications are yet to be seen, this move towards sustainability can be seen as promising, particularly for partners who are looking to collaborate with China on infrastructure projects but are wary of its sustainability practices.

2. The EU's Global Gateway

Since the BRI was announced, other countries have begun to create their own connectivity initiatives, sometimes referred to as 'mini-lateral' deals. Minilateralism as a whole has been rising to prominence as the globe shifts towards a more multipolar world, including in infrastructure initiatives. The EU, both as an institution and via the Member States, participates in these 'minilateral' connectivity initiatives which both align with, and support, the EU's own connectivity initiative, the Global Gateway.

Since 2015, the EU has been working more extensively with its partners around the globe to enhance connectivity through regional initiatives, but in 2021 the EU launched their Global Gateway project. The Global Gateway is largely seen as an expansion of the EU's 2018 Connectivity Strategy for Asia with a larger geographic scope and more concrete financial commitment. The Global Gateway allocates €300 billion by 2027 to comprehensive global connectivity, now also incorporating other connectivity commitments that the EU previously held. These now fall under the Global Gateway framework, with a list released in March 2023 of specific projects that will be implemented under this initiative. For example, they have built a fibre-optic cable that connects North Africa to Europe via Tunisia and France to improve the speed and security of North African internet access. Their projects also have a specific focus on sustainable development such as hydropower plants in Fiji and Vietnam. However, the Global Gateway has been criticised for its limited scope and fragmented/broad plans. For example, Politico says that the Global Gateway's funding is just a "drop in the bucket" compared to Beijing's $2.3 trillion, and the reliance on leveraging the private sector has led to concerns about how realistic the financial commitment truly is. Two years after its inception, Global Gateway has struggled to draw international attention. Therefore, a collaboration between existing connectivity initiatives could lead to a symbiotic relationship between the EU and their partners.

Announced "flagship" projects of the Global Gateway on a country level:



Source: European Commission

3. *Examples of Multilateral Infrastructure Initiatives and Deals*

By examining the ways that other actors are already working collaboratively on infrastructure initiatives, one can better understand how the EU and China can collaborate on their respective infrastructure initiatives.

3.1 Other Actors in the Region

While the BRI consists mostly of bilateral agreements between the PRC and its debtors, other countries have also created multilateral infrastructure investment initiatives to leverage alliances in the Indo-Pacific as an alternative source of funding for infrastructure projects. The BRI remains the most prominent voice in regards to infrastructure investing, but with increased multilateralisation, development bank cooperation, and goal-oriented infrastructure planning, the EU can assist the effort to bridge the infrastructure development gap.

In response to the heightened focus on connectivity and its strategic "pivot to Asia", the United States has gotten more involved in global infrastructure projects in conjunction with its alliances with the EU and its Member States. In 2018 the United States, through its BUILD Act, created a new agency within the federal government: the US International Development Finance Corporation (IDFC) by consolidating other government agencies primarily from Overseas Private Investment Corporation (OPIC) and U.S. Agency for International Development (USAID). In 2021, United States President Joe Biden launched his Build Back Better World Initiative (B3W) with G7 partners, which was eventually re-launched as the Partner for Global Infrastructure and Investment (PGII) in 2022. The PGII includes Global Gateway partnerships, with G7 countries committing $600 billion USD to infrastructure projects by 2027. Contrary to the BRI, the PGII seeks to gain its financing through the private sector, with support mentioned from executives at Citi, Global Infrastructure Partners, Japan Foreign Trade Council, and Nokia. This has led to certain countries worrying about the reliability of funding for the initiative. Similar criticisms have faced Europe's Global Gateway as it also relies on private funding without an institutionalised guarantee that it will be able to provide it.

This starkly contrasts with China's BRI which has the dimension of China's close public-private relations and funding. To address this, institutions such as the World Economic Forum and World Bank have been working to create an economic environment that supports private investment in infrastructure projects. Additionally, the PGII has focused largely on 'soft-infrastructure' and capacity-building so far. Both hard and soft infrastructure are needed, and the complementary focuses of the BRI and PGII initiatives have led institutions such as the Boston University Global Development Policy Center to recommend collaboration. Although the initiative is led by the United States, as a signatory on the initiative, the EU has the opportunity to facilitate such cooperation and de-polarise the environment between the two initiatives.

The United States has also entered into multilateral infrastructure commitments with EU Indo-Pacific allies such as the US-Japan-Australia Trilateral Partnership for Indo-Pacific Infrastructure Investment which has committed $4 billion USD to "expanding access to energy, education, and financial services and supporting local farmers". This initiative has invested in projects such as a subsea cable in Palau, connecting to Guam, to improve the region's digital connectivity.

Ultimately, the struggle for Western actors lies not in the size of their economies or the competency of their private sector, but in the institutional relationship between the two. China can offer a smooth, efficient, and reliable source of funding and construction because of the consolidation of public and private companies, referred to as "China Inc.". The close relationship between the federal government and State-Owned Enterprises (SOEs) means that the government can reduce barriers for cooperation for these SOEs, and when doing so stimulate China's economy by facilitating trade between China and the host country. For private corporations that are not state-owned there is no "export-enhancing" correlation with the BRI, pointing to the main barrier for Europe, and other Western partners, to mobilise the private sector in their international infrastructure agreements. Although European governments cannot depend solely on government loans in the way that China can, democratic societies can leverage their normative power in order to bring something unique to the infrastructure investment space.

3.2 Japan: FOIP and PQII

Since its colonial days, Japan has retained a strong presence in Asian development. They have launched, and participated in, numerous connectivity initiatives. The Free and Open Indo-Pacific (FOIP) initiative, announced in 2016, promotes a rules-based order, and increased connectivity in the Indo-Pacific, specifically in regards to Asia's connection to Africa. Japan's FOIP strategy has been embraced by Japan's partners, including India, Australia, and the USA, which also prioritised promoting the rule of law, free trade, economic prosperity, and peace and stability in the Indo-Pacific. Japan also announced in 2015 its Partnership for Quality Infrastructure Investment in collaboration with the Asian Development Bank. This initiative commits $110 billion USD to Asian development, and in 2016, the initiative also aligned with the World Bank and G20 to work towards infrastructure development goals. To finance these projects, Japan has also created a publicly funded, private, investment fund called Japan Overseas Infrastructure

Investment Corporation for Transport and Urban Development (JOIN). JOIN, while led by Japanese companies, has also entered into MoUs with international companies, including France, an EU Member State.

Despite rising investment from China, Japan remains the strongest infrastructure investor in Southeast Asia, and has been selected over Beijing for certain infrastructure investments, such as a fibre-optic cable to connect South America and Asia in Chile. Although Japan cannot match what Beijing promises in terms of absolute dollar amount, their emphasis on quality and sustainability, in conjunction with their historical legacy in the area, makes them an appealing partner and investor. Additionally, Japanese experience with natural disasters such as earthquakes and tsunamis gives host countries confidence in the resilience of their infrastructure.

Japanese collaboration with the EU and connectivity initiatives is not a new proposal. In 2019, the EU and Japan signed a Partnership on Sustainable Connectivity and Quality Infrastructure and then in December 2022, the EU and Japan hosted an EU-Japan Connectivity Seminar to further discuss how the two partners could align their connectivity initiatives, identifying areas in Europe and Asia for collaboration. The EU's Connectivity Partnerships with Japan have come alongside a 12 per cent budget increase for 2021-2027 towards their work in Asia from the previous budget cycle. There has also been an MoU between the European Investment Bank (EIB) and the Japan International Cooperation Agency (JICA) since 2019, which was renewed again in 2023. Synergies between Japan and the EU's infrastructure goals allow for smooth collaboration, as both projects emphasise a rules-based international order and aim to promote projects that support the UN's SDGs. The relationship between the two initiatives is already quite close, focusing not just on similar goals, but also on co-financing and co-investing projects. In 2021 the EU and Japan released a list of areas for potential infrastructure projects and synergies between the two initiatives. Therefore, the relationship between the EU and Japan exemplifies a starting point for multilateral collaboration of connectivity projects.

3.3 India

Following the Chinese BRI investment in South Asia, India enhanced its infrastructure FDI as well. In 2020, Brookings Institute reported that around half of India's FDI in neighbouring countries goes towards infrastructure projects. For example, as a response to increasing Chinese investment, India is increasing their FDI to Sri Lanka to $1.3 billion, despite a Sri Lankan economic crisis, with India's Adani group agreeing to build two wind power plants worth $442 million last year among other investments including a harbour at Trincomalee in the north of Sri Lanka. However, Adani himself is a close friend of the current Indian President, Narendra Modi, and has been accused of fraud and manipulation, losing billions within a week. This throws his investments in neighbouring countries into question and recenters China as a potential partner for South Asian countries.

India is one of the loudest opponents of the BRI. Modi has affirmed India's opposition to the initiative repeatedly, most recently at the Shanghai Cooperation Organisation (SCO) Summit in July 2023 and offering up parallel infrastructure projects, such as those in Sri Lanka. India claims that the biggest BRI project in the region, the China-Pakistan Economic Corridor (CPEC), violates India's territorial integrity and sovereignty as it passes through contested territory in Pakistan-occupied Kashmir. Regionally, India remains the most significant source of FDI for neighbouring countries Bhutan and Nepal, as well as investing in their hydro-power infrastructure. India's primary infrastructure investment focus has been on subregional connectivity (particularly between Bangladesh, Bhutan and Nepal), in alignment with its 'neighbourhood first policy'. They are investing in the region's trade and energy capacity-building and provide access for these countries to India's transmission lines and the use of Indian waterways and railways.

On a global level, in 2023 India obtained the presidency of the G20, taking over from Indonesia, thus allowing the country to oversee the implementation of the G20's Principles of Quality Infrastructure Investment for 2023. Under this presidency, the Second Infrastructure Working

Group was held, hosting significant multilateral development institutions to discuss the future of responsible infrastructure development including UNDP, OECD and Multilateral Development Banks (MDBs) such as the IMF, ADB and EBRD. India has retained strong alliances with its Western partners including the EU. In 2021 the EU released the EU-India Connectivity Partnership affirming the alliance between the two partners in regards to global connectivity and infrastructure development which includes aligning connectivity projects with the Paris Climate Agreement and the UN 2030 Agenda and its SDGs.

Additionally, India has entered into a strategic partnership with Japan to provide an alternative to the BRI in the Indo-Pacific with connections to Africa. Both India and Japan heavily rely on strategic shipping routes in the region for economic growth and stability, therefore a partnership to stimulate regional economic growth makes both political and economic sense for the two states. Not only are India and Japan co-investing in overseas connectivity, but Japan, among other partners, has also invested in infrastructure development within India. Their strategic partnership is evident in Japan's proposal for $1.27 billion USD in funding for infrastructure between Bangladesh and India, to the land-locked states of Nepal and Bhutan. One initiative, the Asia-Africa Growth Corridor (AAGC), announced in 2017, sought to increase connectivity between the Indo-Pacific and Africa through collaboration between both Indian and Japanese businesses. However, years have passed since the announcement of the initiative with little to show for it. Neither government has spoken about it at recent meetings, or released concrete plans for the project. The promise of the collaboration, however, has led some academics to encourage the two states to revisit the AAGC in the future and remain focused on African development. The goals of the Global Gateway align with the original AAGC goals and could be a channel to achieve some of its original aims through international collaboration.

3.4 Examples of Benefits to Competitive Bidding: The Case of Turkey and China in Uganda's SGR

We can already see examples of connectivity initiatives engaging multiple international partners to address some of the concerns relating to BRI projects, while still striving to achieve its outlined goals. For example, Uganda entered into a contract with the Chinese Harbour Engineering Company (CEHC) in 2015 to build the Standard Gauge Railway (SGR) from Mombasa to Kenya, where it will join with a Kenyan SGR and reach the Indian Ocean. The project aims to increase the efficiency of exporting Ugandan goods, which currently rely on an old colonial British railway. Despite the project's promise, the Kenyan court ruled in 2020 that the contract awarded to the China Export-Import Bank (China Exim Bank) was illegal, due to the lack of competition. Kenya wound up defaulting on their loans after China Exim Bank refused to offer an additional extension to their debt payments, leading to a $10.8 million USD fine. However, due to the proposed support to the Ugandan and overall East African economy, in line with the general Pan-African project, the Ugandan government turned towards a Turkish firm, Yapi Merkezi, to finance the completion of the project.

While nothing is final, the Ugandan Director of Transport in the Ministry of Works, Benon Kajuna, has released a statement indicating their pivot towards both Turkey and other undisclosed European lenders. This change was based on the success of other Turkish projects on the continent. Yapi Merkezi has championed Turkey's infrastructure in Africa, with projects in Algeria, Ethiopia, Morocco, Senegal, Sudan, and Tanzania. John Kibego, a Ugandan journalist, reported to DW that they are confident in Turkey's capabilities to complete the project on time and with good quality. The use of both Chinese and Turkish resources to complete the project to the highest quality shows the need for collaboration and enhanced coordination on these projects. Additionally, with the increasing presence of Turkish firms seeking for infrastructure contracts, through MDBs, Turkey was able to outbid some Chinese corporations for contracts in Africa. This shows that with the introduction of alternative partners host countries will be able to work towards their SDGs on terms that are more favourable to them, whether it be financial conditions of the contract or on environmental/quality standards.

4. Multilateralising of the BRI and its Potential

Enhanced coordination and potential collaboration with China and other partners on BRI and other infrastructure projects, specifically with the EU's Global Gateway, can mitigate supply chain risk. For example, initiatives that cover the interests of both entities could procure financing and contracts from both European and Asian firms to address recent financial hardships. Additionally, this could be a channel through which the EU could advance their goals, such as environmental sustainability, through the financing of sustainable infrastructure projects in collaboration with China and other partners. Introducing new partners to connectivity projects can also prevent specific actors from engaging in too many projects at once, leading to unrealistic lending and unfinished projects. Therefore, it is in all parties' best interests to multilateralise infrastructure initiatives, including the BRI. Although the BRI has been mainly enacted through a series of bilateral loans and agreements, when asked about the United States' B3W, Han Wenxiu, a senior official of the Chinese Communist Party said "there is a huge gap in infrastructure investment in the world, especially in developing countries, and BRI will not be a solo act for China but a real chorus for all countries to get involved".

While EU engagement in the BRI initiatives directly would be new, collaboration among the BRI is not an entirely novel concept. The United Nations has released a report detailing the synergies between the 2030 Agenda for its SDGs and the BRI. The report outlines the ways in which BRI projects have the potential to fill financing gaps for SDGs, along with examples of ways that UN entities have already been engaging with the BRI through undertaking activities such as facilitating trainings, publications, meetings, capacity-building projects, etc. In order to achieve this collaboration, the UN calls upon BRI partners to inform the UN on the moves of the BRI and cooperate with other international partners. Some channels that the UN suggests to facilitate this cooperation is through dialogues such as the Euro-Asia Economic Forum and the BRFIC. The Second BRFIC in 2019 featured heads of international organisations including the International Monetary Fund (IMF) Managing Director, Christine Lagarde, who outlined the ways that the IMF could be a partner in achieving the goals of the BRI 2.0 through international cooperation.

Through these dialogues, China can align with its partners on the mechanisms to enhance cooperation along the BRI.

Additionally, China has indicated its intention to contribute to the Investment Plan for Europe among other proposed collaborations between the EU and China, including a list of proposed infrastructure projects that would benefit from co-financing between European and Chinese contractors. If partnered with the EU, China can continue to work towards their connectivity goals while also gaining access to Global Gateway resources.

4.1 Pathways to Coordinate

Even if the EU or its Member States were not to work directly with China on infrastructure projects, creating alternative or parallel projects can have benefits towards reaching the SDGs and closing the international infrastructure gap. This allows the Global Gateway to help introduce competitive bidding into the international market of lending and borrowing. For example, if there was an infrastructure project that both the BRI and the Global Gateway wanted to finance, there might be a competitive bidding contest for the project. This would benefit the debtor by forcing down interest rates or increasing the quality or price of the projects from creditors to make their loans more appealing to debtors. Therefore this "race to the top" has the potential to benefit the states that are housing these infrastructure projects. Although this scenario may increase conditions for host countries, it does not necessarily mean that the borrowing country will always choose the most sustainable or highest quality option, if there is another, cheaper, option. Therefore, this scenario entails many of the currently existing problems that are facing these initiatives. With each initiative only able to access its own resources, the scope and potential of the projects remains limited specifically after facing the pandemic slowdowns. This also has the potential to foster rivalry and competition between initiatives, further exacerbating global polarisation. Therefore, through better coordination or working together, either as bilateral partners or through international organisations can foster collaboration.

5. *Collaborative Projects*

This leads to the second scenario of collaborative projects. Here, the two initiatives would directly collaborate on projects that align with both of their infrastructure goals towards global connectivity and achieving the SDGs instead of working in competition with each other. Here there are four general areas that the initiatives can collaborate on: planning, financing, constructing, and follow-up oversight.

5.1 Planning

China has been criticised for their opacity in determining the viability of its infrastructure projects. Often due to the time pressure of the projects there have been worries that corners are being cut in viability and sustainability reports, potentially leading to problems later on in construction. By pooling together resources for these viability reports and planning of the projects, some of the quality issues of the projects have potential for resolution. China is already taking steps to increase cooperation in the planning stage, by increasing collaboration with BRI partners on "optimising top-level design and cooperation mechanisms, overcoming external disturbances such as conflicts, the social and economic gap among BRI nations, and the lack of professionals and funding to deepen cooperation". The EU's Global Gateway has committed to high transparency standards in its infrastructure projects, seeking to address the concerns associated with the BRI. Therefore, through collaboration with the Global Gateway or other international initiatives, planning of investments in infrastructure projects can help deter investors from high-risk or unsustainable projects and direct them towards 'bankable' projects.

5.2 Financing

The next area that the initiatives can collaborate on is financing. By diversifying sources of loans, the banks will be taking on less risk at the same time and therefore reducing the risk of one particular loan. Multiple sources of financing can also increase the budget for some infrastructure projects, leading to enhanced quality. Projects that involve collaboration with European banks or initiatives can also help increase the transparency of these loans and conditionalities that have been criticised for their opacity. A recent crisis in Montenegro showcases the need for multiple sources of funding. Montenegro is struggling to repay its Chinese debt for a highway, leading it to turn to the EU for refinancing of the loan. The European Commission has made it clear that they are not paying the loan for them, but rather incorporating the highway project into the preexisting 9 billion euro Economic and Investment Plan for the Western Balkans. In order to prevent this from happening in the future, the EU and China could finance loans more collaboratively and coordinated in a way that might be more realistic, or sustainable, for the receiving country, rather than having to turn towards another partner in an emergency.

While not every project will align with the standards or interests of both partners, through thorough examinations of the price, impacts, and feasibility of the project ahead of time through a third-party, projects can be identified that would fall under the umbrellas of both EU and Chinese initiatives. This can lead to co-financing and potentially avoid more financing crises.

5.3 Construction

The third area for potential collaboration is construction. Collaboration on construction and diversification of companies that are conducting the construction can also address some of the financial and quality strains. For example, we can see collaborative construction in the Pelješac Bridge. This bridge between Croatia and Bosnia and Herzegovina, was built by a Chinese company, but largely funded by the EU and is heralded as the largest EU infrastructure project in Croatia, and serves to increase the speed and efficiency through which people and goods can travel between Dubrovnik and mainland Croatia. This project shows one way that the two partners can collaborate on construction, but it is not the only way. Ernst & Young has identified two different methods for collaboration on infrastructure construction: two-stage contracting models and relationship contracting models. The former involves a tradeoff between contractors between the pre-construction and construction of the project, and the former involves contractors working collaboratively throughout the whole process. International infrastructure group, Balfour Beatty, notes that historically 21 per cent of construction costs come from waste, and collaboration can not only reduce this number, but also increase the efficiency of the project, improve business performance, and improve client satisfaction. This collaboration can take place between the contracted construction groups from participating countries or initiatives, leading to a more streamlined process for international infrastructure development.

5.4 Maintenance and Oversight

The fourth area for collaboration is maintenance and oversight. Maintenance of the infrastructure projects can help keep the infrastructure resilient to climate-change related natural disasters, man-made threats, and general ageing. The Think20 Italian Summit has published a report that argues that redirected governmental resources away from infrastructure oversight, and towards Covid-19, have left lasting, and expensive, damages to infrastructure from natural disasters. Additionally, the OECD suggests that each additional 1 USD spent on road maintenance saves 1.5 USD in new investments. The Think20 report suggests implementing a Global Maintenance Framework to successfully address the costs of infrastructure maintenance and to create a global infrastructure standard with a multinational rating and guarantee agency. This can be achieved with the preexisting funding and regulating capacities through development banks and multinational institutions. Multilateralisation of maintenance and oversight can also address some of the political concerns associated with influence and debt. By collaborating on individual projects, especially with the EU, the host country of the project would not be accountable to a specific political party or state. This can help China counter the narrative that the goal of the BRI is to expand Chinese influence.

6. Overcoming Cooperation Challenges

6.1 International Standard Setting: The Blue Dot Network

The biggest challenge for enhanced coordination and collaboration between the EU and China may be determining which projects can be collaborative and how. Chinese banks have been willing to take on high-risk projects that many of the European banks have been hesitant to take on. To address this problem, while increasing and encouraging private sector investment in international connectivity projects, the United States created the Blue Dot Network (BDN) through the OECD, supported by the governments of the United States, Australia, Japan, and the United Kingdom to assess where there is potential for infrastructure investment in accordance with high environmental, social, and governance (ESG) standards. The BDN, while not a financial commitment, is a means through which to set standards for international connectivity projects. In order to encourage investment in these infrastructure projects there needs to be the promise of return on investment for private investors, and the BDN seeks to identify where these opportunities may lie, and can help overcome the coordination problem presented by the differing standards between the BRI and other international infrastructure initiatives.

6.2 How to Finance the Projects

Evaluating the viability of infrastructure projects based on a shared standard would help identify where collaboration on planning, financing, construction, or maintenance would be realistic. However, another difference between the initiatives is the structural relationship between the Chinese government and business, the companies that are investing in these projects are SOEs. Therefore, by collaborating with a large Chinese company, the Global Gateway would have to be collaborating with the Chinese government in a way that would not be true in reverse. This has been identified as an impediment to international actors that want to engage with the BRI. However, in the EU's statement on the Global Gateway, they mention both the American and Japanese use of Public-Private Partnerships (PPPs) with infrastructure projects, leaving room for European private investors to also get involved with the initiative. The use of PPPs is also highlighted by the EIB via the European PPP Exercise Centre, where they indicate that PPPs can provide "significant benefits" to both the public and private sectors when "properly prepared". This shows the emerging relations between the public and private sectors for investment in riskier infrastructure projects that might have longer-term payoffs.

6.3 Multilateral Development Banks (MDBs) as a Channel for Cooperation

To facilitate cooperation between the EU and China on their infrastructure initiatives, they can co-finance, or finance multilaterally, through MDBs. Typically, shareholders in MDBs are states, and their primary mandate is to assist in global development, however, they often also engage the private sector for investment and technical expertise. Due to their multilateral nature and involvement with corporations, they are not directly state actors, but they also cannot be separated from politics and are therefore typically classed in a grey area between state and non-state actors. Most MDBs are associated with one primary stakeholder. For example, the most prominent MDB, the World Bank, is typically affiliated with the interests of the United States, whereas other MDBs such as the Asian Development Bank (ADB) and Asian Infrastructure Investment Bank (AIIB) are affiliated with Japan and China respectively. However, it is worth noting that before the AIIB, these international organisations and MDBs were all led by G7 partners, often associated with the geopolitics of the United States and its allies.

While many MDBs have played a role in financing infrastructure and connectivity projects, the AIIB was established for this specific purpose. The AIIB and the BRI share a close relationship, as they were launched by the Chinese government with the aim of improving the state of global infrastructure, and China's role in its implementation. However, most BRI projects are funded bilaterally through institutions such as China Exim Bank or Silk Road Fund, not the AIIB. AIIB loans, in contrast with these other institutions, have not suffered from the pandemic the same way other BRI loans have, as they still retain a near-zero non-performing loan ratio. More than half of EU Member States are members of the AIIB and some countries, such as India, that have objected to the BRI are nevertheless members of the AIIB. Upon the European countries joining, the AIIB committed to upholding international standards. While BRI projects are financed primarily through bilateral loans between Chinese owned financial institutions or SOEs, the Chinese-led multilateral AIIB and New Development Bank (NDB) have also played a part in financing these projects. A channel to increase international cooperation on infrastructure projects can be through refocusing the financial mechanisms of financing BRI projects through MDBs.

Europe, through their own MDBs the European Bank for Reconstruction and Development (EBRD) and EIB have been key players in financing the Global Gateway, showing the promise of MDBs to finance international infrastructure projects. China is also a shareholder in the EBRD, and the EBRD and AIIB collaborated on the financing of the Dushanbe-Uzbekistan Border Road Improvement Project. While traditionally Western observers are critical of the transparency and lending standards of BRI projects, the AIIB's norm adoption in alignment with international standards, following their commitment, shows the promise of further collaboration between the banks. Additionally, despite Beijing's refusal to condemn the Russian invasion of Ukraine, the AIIB has frozen lending to both Russia and Belarus, showing that the bank is willing to cooperate with its members outside of the actions of the CCP. The AIIB also followed the EBRD standards for impact evaluation, conducting a third-party study, and consistent monitoring and reporting on the project afterwards. Collaboration between institutions is already increasing, as the AIIB and the World Bank struck a deal in July 2023 to increase its lending capacity, as up until now it has only used around 43 per cent of its capital base, showing the potential for infrastructure financing through the institution in the future.

The International Institute of Green Finance has also claimed that MDBs are a channel to further infrastructure cooperation because (1) MDBs are less vulnerable than state-owned or national banks because of the devolution to many states as shareholders (2) MDBs can often counteract the fluctuations in the presence of other states by either increasing or decreasing their engagement with the host country (3) MDBs were created with the understanding that they would be able to take on riskier projects, so therefore they can offer lower interest rates and overall better debt contracts than traditional donors. This makes the projects overall more 'bankable' (4) MDBs often have extensive technical knowledge owing to their long history of development projects (5) MDBs are often better able to mobilise the private sector to help finance infrastructure initiatives because of the specific policy mechanisms.

However, MDBs have not gone without their own share of criticism. For example, the US-led International Monetary Fund (IMF) is known for implementing strong neoliberal conditionalities along with its loans and bailouts. While in countries such as Greece and Mexico, the bailouts have been an economic success, these conditionalities have been shown to have a strong negative impact on the countries' most vulnerable populations. This is because the strong austerity measures, and their associated decrease in public spending, can fuel economic inequality and dampen economic growth. Specifically following the pandemic, critics have shown that IMF bailouts have furthered health inequity, while further supporting the upper-class. However, until the introduction of the AIIB, there were no real other alternatives for LDCs to receive international support. The absence of the US and Japan from the AIIB makes the MDB another option for LDCs that are looking for support outside of the G7. Additionally, EU Member States, as members of the AIIB, have the opportunity to support the bank's projects and ensure the bank's commitment to upholding international standards from within. This makes the AIIB a potentially promising channel for further cooperation between the EU Member States and China on infrastructure development.

7. Moving Forward

Understanding how Covid-19 has changed the stage for FDI and infrastructure investment leaves both the EU and China in a place to re-evaluate the potential for enhanced coordination and collaboration on their respective initiatives, specifically with the re-centering of the BRI towards the “BRI 2.0” and the launching of the EU’s Global Gateway. During the pandemic, the geopolitical stage has shifted towards a more multipolar world with increased Sino-US tensions and global financial de-risking. This leaves an opportunity for multilateralisation of both global governance and FDI initiatives such as the Global Gateway and the BRI. The criticism that both initiatives have been facing could be partly addressed if they worked with each other and also with other partners to better identify, coordinate and monitor infrastructure projects. China’s BRI has been fast acting, large in scope, and focused on necessary infrastructure; whereas the Global Gateway has been more values-driven, highly focused on sustainability and soft infrastructure segments, emphasising commendable transparency and quality mechanisms. This comes at a time when many European partners have been launching their own infrastructure initiatives, both bilaterally and multilaterally. Working together on infrastructure projects could help increase the scope and resources available to these projects and help address the critical global infrastructure gap.

Overall, a multilateralisation of the BRI can drive prices down for LDCs hosting infrastructure projects and drive the quality and sustainability of the projects up. Therefore, whether the BRI and the Global Gateway are able to join forces through collaborative projects, the countries that house these infrastructure projects will be better poised to participate in global trade. To facilitate such collaboration, the EU and China would need to work together through international channels to align their interests and connectivity strategies. For example, through MDBs such as the EBRD, EIB, or AIIB the two partners can better coordinate, align their efforts, and collaborate on the financing of projects. Additionally, through international organisations, such as the WHO and UN, China and EU Member States can engage not only with each other but with the rest of the global community on connectivity initiatives. Finally, through bilateral dialogues, similar to the EU-Japan dialogues on connectivity, the EU and China can find synergies between the two initiatives and identify specific projects that could benefit from a more coordinated, collaborative approach. By viewing the ways that other partners have been able to engage with each other in infrastructure projects, EU policymakers can utilise pre-existing means for collaboration with their Chinese partners and not only support the European economy, but lead the world towards attaining its SDGs.

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